

## Social Studies - World Topics

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# INTERNATIONAL DEBT

By Harry Jivenmukta

# WHAT IS INTERNATIONAL DEBT?

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International debt is the amount of money owed by nations to the large banking organisations. In 1970 this amounted to \$100 Million. By 1980 it was \$600 Million. Today the total amount owed is \$2 Trillion. That is written in numbers as \$2,000,000,000,000.

International borrowing came about because of three main reasons:

**International banking organisations** had large reserves of money which they needed to lend in order to make profit from interest. This came about because the oil producing countries mainly in the Middle East, were banking their oil profits in large amounts in the mid 1970s. The banks were not really concerned why the borrowing was taking place and no real checks were made on the viability of projects for which the borrowing took place.

Many poorer and usually undemocratically run countries saw foreign borrowing as an easy and quick way to **solve the problems** of their nations. Unfortunately, some of the money was always used to line the pockets of the leaders themselves. Corruption of this sort is still rife in many developing countries.

**Dictators** especially saw the prospect of borrowing as attractive and they instigated great schemes which they would otherwise not be able to afford. In this way some small poor nations borrowed large amounts but remained poor because the money was either wasted or used on grand schemes to glorify the dictatorships or governments of these nations.

Today there are at least 50 countries which are very poor but owe large amounts of money, so much so that they owe per head almost as much as they earn per head each year. Some of these countries owe more than they earn! The example below shows that Mozambique owes more than 3.5 times the amount it earns each year, calculated as an average per head figure.

## Questions...

1. What is international debt?
2. How did so many nations get into debt?
3. What does GNP mean? Explain the table above.

Countries are still borrowing today, but for poorer countries the new borrowing may include money which is used to repay existing debts. The majority of money repaid by developing countries is paid as interest on the original debts. In this way the money owed not only remains but is increasing because some nations cannot even afford to pay back the interest.

In the 1980s and 1990s banks became more 'responsible'. They started laying down conditions for the repayment of debts. The banks probably knew that some countries would have difficulty making repayments so they stipulated that the country in question should implement certain changes if it wanted to borrow more money. These changes were usually about reducing government spending so there would be more money free for repayments. Developing countries were in effect told to cut spending on healthcare and education and other public related spending. The effect of this has been to deny poor people in developing countries a good system of public services.



Today, the **World Bank** and the **International Monetary Fund**, the two main multilateral institutions, have a significant say in how some developing nations are run. These organisations are, in effect, run by Western nations or institutions who make up the largest part of these organisations. Reformers argue that it is not in the interest of these people to see poverty or dependency lifted in developing countries because it would affect their profit margins. Meanwhile many nations are sympathetic to the predicament that many developing nations find themselves in.

For the developing nations themselves the practical implications of owing more than they earn means that much of the produce of these nations has to be sold to raise money for debt repayments. Undernourishment and malnutrition are often commonplace in these nations. The standard of healthcare and education is very low, and life expectancy is also reduced.

## Questions...

1. Should developing nations continue to borrow once they are in debt?
2. Why do they continue to borrow?
3. Are the banks right in setting conditions on the loans they give out?
4. How can developing nations escape the debt trap?

# WORLD MAP

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Refer to page two; The top 30 indebted nations. Find the countries on the world map below. What does this tell you about the indebted nations?

Select one of these indebted nations and find out about the country. Consider:

- z Its political history since 1945,
- z Its main exports and imports,
- z How it became indebted,
- z Its history of war, conflict or peace since 1945,
- z Its position in the next 20 years.



International debt accumulated by developing nations has a knock on effect on every aspect of life of that nation. For every \$100 earned by these nations, a large part is allocated for debt or interest repayment. In addition, many developing nations also have very large amounts of money earmarked for projects like defence or war. After all of these expenses are taken into account, these nations do not have enough to feed themselves properly let alone develop health and education initiatives. The debt cycle leaves little hope for the ordinary people of these nations.

In order to raise money effectively to pay debts, often the developing nations have to sell the food they need themselves. If there were no debt to repay, many of these nations would have surplus food and raw materials.

The debt cycle has an immediate impact on all areas of life including:

- z healthcare,
- z education,
- z housing,
- z development of modern technology,
- z transport,
- z international relations,
- z likelihood of conflict or war,
- z political stability.

## Questions...

1. How does the debt cycle affect political stability?
2. What effect does debt have on international relations with;
  - z neighbouring countries,
  - z lending nations,
  - z other debtor nations?

# THE ENVIRONMENT AND DEBT

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Sustainable development requires the conservation of natural resources. One way of doing this is to make them more expensive. In fact they are getting very much cheaper. World market prices for raw materials, commodities like oil, timber, sugar, coffee or copper - have fallen to their lowest levels in living memory. This is partly because there is less 'demand' in times of economic recession and partly because of technological change. But it is mostly because of debt. Structural-adjustment policies imposed by the IMF and World Bank mean that poor countries have to earn foreign currency to 'service' their foreign debts, before they are allowed to do anything else. This means exporting the only things they can sell on world markets - raw materials. Because all poor countries have to increase their exports at once, there is a glut on world markets and prices fall - sometimes by as much as a half, so that twice as much has to be exported to earn the same amount of foreign currency. The beneficiaries are the rich countries. They not only get their debts serviced but cheap commodities keep prices down, profits up and inflation under control. The losers are the people of the developing countries - and the global environment.



## Questions...

1. How does the environment suffer because of debt?
2. Who is responsible for the deterioration of the environment; the nations who produce or the nations who demand more?

# BORROWING BY THE RICH NATIONS

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The country with the largest public debt is the USA; its total debt is now over \$6 Trillion. This is more than three times the debt of all the developing nations put together. The annual income of the USA, however, is also very high; more than \$7 trillion every year. This is about one quarter of total world income.

In the West, every nation except Finland and Norway owe more money than they are owed by others. This means that almost every nation on Earth is in debt in some way or other. The difference, however, between the borrowing of the developing nations and the borrowing of the West is that the annual income in Western nations exceeds the amount which is owed by them.

The debts of Western nations have been accumulated in many ways including:

- z **War** - Nations borrow to fight wars; British borrowing jumped from £610 million in 1900 to £7.8 billion in 1920. Similar jumps were recorded by other nations both in the first and second world wars.
- z **Defence** - During the cold war nations like the USA, Britain, and France spent huge amounts of money on defence against possible attacks from the then USSR. The USA still spends more on defence technology than most developing nations spend in total every year.

The amount of debt of nearly all nations of the world is increasing and often has never reduced. The rich nations find it as difficult as the poorer nations to repay their debts, and find it easy to keep borrowing more. The only difference is that the rich nations are getting richer and usually earn more than they owe.

One of the very real threats to the world's financial stability is if one or more of the rich nations were to go into terminal decline, leaving huge debts which they were unable to repay. The effects would be to plunge the whole world into crisis. The financial dealings of all nations are intertwined with others. A problem with one nation necessarily has a knock on effect around the world. One example of this is when the Dow Jones share index shows a fall in the USA, shares in the UK tend to fall also, and then so do the Tokyo stock markets.

## Questions...

1. Why do rich nations need to borrow?
2. If almost all nations are increasing their borrowing, what effect do you think this will have on all nations in the future?
3. Why are all nations dependent on others for their own financial stability?

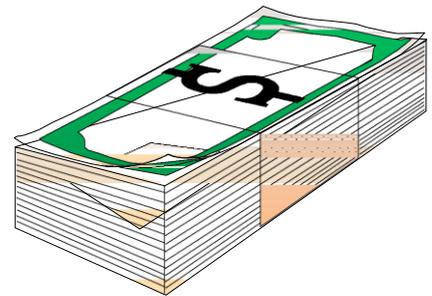
*I do not see why any nation should be let off from repaying their international debts because when they borrowed the money they must have known the commitment they were taking on. Borrowing is a serious business and everyone thinks or should think about it first. Everyone knows that once you have borrowed, you have to pay the money back with interest.*

*If an individual borrows money then he or she has to 'tighten their belt' and do without other things until the money is paid off. I agree that the lenders could have been a bit more curious when they lent the money, but don't we all put on a show when we need to borrow, to impress the lender that they should lend us the money? In the end, surely, it is not the fault of the lender if the borrower cannot pay back the money.*

*If the banks hadn't have lent the money to these nations there would have been an international outcry that the banks were denying these nations the opportunity to better themselves. Everyone would have been up in arms about it. But now that the nations cannot pay back the money the same people are shouting that the banks shouldn't have lent the money in the first place.*

*I think it is reasonable that banks should lay down conditions when they lend money because it highlights to the government of the day what it has to do in order to get the money. It takes away the grey areas of the deal and makes it clear what is required. If the conditions are too strict, the nation can decide not to borrow.*

*Life is about responsibility. I do feel sorry for the ordinary people who lose out because of the decisions of the government. Consider, though, what might happen if the debts are cancelled. The same governments would have no sense of responsibility and would have learned nothing. They would probably end up borrowing again and we would be in the same position in another 20 years time.*



## Questions...

1. What do you think of the viewpoint made above?
2. Are the borrowers irresponsible or should the lenders 'know better'?
3. Why should ordinary people suffer for the decisions of political leaders, many of whom were not democratically elected?

The main problem with international debt today is that there is no independent regulation. The lenders want to lend the money they have and the borrowers want to get their hands on it. There is no-one in the middle to step in and ask both parties to think again. The World Bank and International Monetary Fund, the two regulating bodies, are not neutral parties. They have their own agendas, often siding with the rich nations they represent.

The lenders are simply like any other lender, they want to make as much money in interest payments from the money they currently hold. Their interest is simply financial.

The borrowers are politicians who are elected to, (or by force), represent their people. Politicians have a short term view of most things because they are likely to be in power for only a short time. Even ten years is a long time in politics. There are very few politicians who remain in power for several decades and even those are usually there by force rather than the choice of the electorate. The politician has to leave his or her mark on the nation in a very short time; hence the often grand schemes they dream up.

The real losers are the ordinary people who hope to live a full life but who are lumbered with the successive borrowing of governments.

The solution would be to have an independent body which would oversee the whole process. The body would need to have real power to influence the process. Every individual in the UK is vetted before he or she is allowed to borrow money;

- z how much is required,
- z how much the person earns,
- z how much the person can afford to repay,
- z the credit rating of the person.

The problem with such a body is working out who would run it. Whichever way the membership turns out, it would seem that either the lenders or the borrowers had more leverage. Supporters argue that even some little intervention by a neutral body would be better than the system in place today. Critics argue that greed is more powerful than any body which could be set up, and greedy politicians and even greedier lenders would find a way to carry on because both have short term interests.

## Questions...

1. Who would run an independent regulatory body?
2. Is it possible to get lenders and politicians to think on a longer term basis?
3. What is your solution to irresponsible lending and borrowing?

## We should cancel all international debt....

*It is clear that the debtor nations cannot afford to pay back all the money they have borrowed. It is also clear that the rich nations do not depend on the money for their own survival. Really, this whole thing is a paper exercise. If the debts were written off it would make no real difference to the rich nations, but it would alleviate the poverty in many developing countries.*

*Maybe, behind all the good intentions, the rich nations do not want the poorer ones to catch up. Maybe, they really want the poor to remain dependent so that the rich can continue to take advantage of the world's resources for themselves.*

*I say, cancel the debt and start again. Let the borrowers and lenders be responsible in the future. Make a five point plan of how we can get out of this debt hole, without anyone losing out, and ensuring that nations don't fall into the same trap again.*



### MY FIVE POINT PLAN

- 1.
- 2.
- 3.
- 4.
- 5.