The Political Economy of Debt in Africa

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Background

A. Salutation and appreciation for the honour to deliver this keynote address

B. The **conference theme** of "**From Recovery to Reform: *Sisi Ndio Tuko* – Stop the Bleeding"** is spot-on in terms of seeking to address the critical issues that matter most on the subject of debt in Africa.

C. The **Concept Note** prepared for the conference provides a rich contextualisation of the problem at hand. It draws our attention to these critical realities, among others:

1. **African economies are very weak and vulnerable to internal and external shocks**, as illustrated by how they have been adversely impacted on by COVID-19 (despite SSA only accounting for 3% of cases and 4% of deaths; (Senbet, 2021) and the war in Europe. **These vulnerabilities are inherent** in the structures of these economies, and climate-induced shocks give the continent frequent reminders.

2. **The continent's capacity to recover from these shocks is also very weak**, hence the shocks deepen the continent's persistent economic challenges: weak fiscal positions, weak trade positions, macroeconomic instabilities, poverty and social insecurity.

3. The structures of African economies make **it impossible for them to respond to and recover from such shocks quickly and sufficiently** without the need for external assistance.

4. Africa faces a **persistent need for more debt**, because the global debt architecture is structured to **perpetuate the dependence** of African economies on it, even when terms for contracting debt are becoming increasingly unfavourable for most of the countries.
    a. A **new spiral of unsustainable debt** is emerging after HIPC/MRDI.
    b. **Rising debt servicing costs** mean that African countries lack adequate fiscal space to **finance development.**

5. It is, therefore, **necessary to interrogate and champion a reform of the global debt architecture,** in order to reverse it from being one that unduly favours creditors without due regard for the effects on debtors.

D. Against this background, I would like to contribute to the reform discourse by focusing on **The Political Economy of Debt in Africa**. I do so by making four propositions.

Proposition 1:
Debt is inevitable, but its use, sources and terms matter

A. Standard theory:

a. Households are saving surplus units.
b. Governments and firms are Saving deficit units.

B. **Developmental state theories** ((Keynes, 1936; Lerner, 1943; Domar, 1957; Armstrong, 2019):

a. There is nothing characteristically bad about government borrowing;
b. Macroeconomic policies must reflect pragmatism rather than consistency with some traditional doctrine;
c. Excessive aversion to public debt may lead to bad policies;
d. Inflation reflects a deficiency of output relative to demand;
e. Increased government borrowing may stabilise the economy by stimulating growth, so the government may run a deficit budget to address inflation;
f. Emphasis is, however, placed on the productive use of extra government resources through an increase in the capital budget rather than the current budget. In fact, the theory generally advocates for a current budget that is at least balanced;
g. Criticism against deficit-budgeting by orthodox economists is a worrisome limitation on the government's ability to pursue public purpose

C. **Public debt plays a significant role** even in developed economies

a. US national debt: 105% of GDP in 2018; 124% in 2021 ($30 tn);
b. UK national debt: 83.5% of GDP in 2018; 96% in 2022 (£2.3 tn);
c. SSA average: 47% of GDP in 2018; 57% in 2021.

All governments borrow, but debt only burdens developing countries

D. Inappropriate and forced borrowing is common in Africa

a. Some debt is contracted for consumption rather than investment;
b. HIPC countries contract more unplanned debt than non-HIPC countries (Lemma, 2021);
c. National capacities for debt analysis are too weak.

E. **Terms are generally more favourable to creditors** than debtors.

Proposition 2:
Debt is a key instrument for the perpetuation of colonialism in Africa

A. The **main clients** of the Bretton Woods Institutions (BWIs) **at their inception** were the industrialised countries that founded them;

B. These initial clients **scarcely needed** the advice of and loans from the IMF and the World Bank following the end of the dollar-gold peg in 1973 and the complete reconstruction of Europe, a development that created a **'crisis of purpose'** for the organizations (Pastor,1987a, 14; de Vries, 1986, 222, in Przeworski, J.R. Vreeland, 2000). The IMF's loan to the United Kingdom, extended in 1976, was the last to a Western country until 2008 when Iceland borrowed;

C. **Africa's debt** to Western creditor countries rose steadily following the global recession of the 1970s, **reaching 500% of the continent's export earning capacity** by the late 1980s (Watkins, 1995: 74);

D. Following the debt crisis of the 1970s and 1980s, the BWIs almost exclusively **redirected** their focus to developing countries. Acting as collection agencies for their founding Western creditor countries, they began to look for new ways to make developing countries repay back its creditors (George, 1993: 63);

E. The lynch-pin of the work of BWIs in Africa was the Berg Report (1981) which:

   a. attributed the economic problems of Africa to the countries' failure to manage their economies effectively, and;
   b. set out the need for the 'structural adjustment' of these economies;
   c. was a very consequential entrenchment of neoliberalism in Africa.

F. The newfound relevance of BWI's made them the **most dominant voice in shaping** Africa's economic management and development policies since the early 1980s. The neoliberal model is premised on reversing the developmental role of the state to enhance the free operation of market institutions.
   a. The stated goals are 'getting prices right' (Williamson, 1990), and, 'getting institutions right' (Springer et al.,2016);
   b. The ultimate goal is to serve the interests of Western transnational corporations: investor-friendly environments, a declining social wages, removal of capital controls (such as profit/dividend repatriation), export-oriented growth strategies.

G. Developing countries' debt got worse with BWIs
   a. Scheme culminated into a bailout of Northern commercial banks by Northern taxpayers, via the BWIs;
   b. Northern commercial banks had received their loans in full by the early 1990s, but Africa continued to pay back;

c. By 1997, developing countries still had more than $2 trillion in foreign debt to repay (up from $1.3 trillion during the early 1980s when the debt crisis broke out);
d. In 1997 alone, the debtor countries paid the North $270 billion in debt service, up from $160 billion in 1990;
e. African countries paid $162 billion more than they received in new loans in 1997, up from $60 billion in 1990 (Jubilee 2000, 1997);
f. Debt has led to more debt (Moyo, 2010.

H. BWI have become a vehicle for ensuring that Africa remains stagnant, perpetually debt-ridden, vulnerable and incapable of making its own decisions.
    a. HIPC was a mask; the real motive was to keep developing countries in a state of indebtedness, as a means of keeping them under the perpetual macroeconomic and microeconomic control of the BWIs;
    b. Loans from the IMF and World Bank are, to date, made conditional upon the adoption of usually disruptive and punitive reforms;
    c. Limitations are imposed on use of domestic capital and public investment; foreign capital has been the biggest beneficiary;
    d. There is increasing evidence of adverse effects on growth, formal sector employment, public service delivery ((Weisbrot et al, 2000; Easterly, 2005);
    e. Adverse effects are masked by programmes directly targeting the poor but perpetuate dependence, such as unsustainable social cash transfers;
    f. Export-led growth strategies drastically reduced Africa's market share of world commodity trade (UNCTAD, 1991);
I. Given the real motives of neoliberalism, a truly African solution to debt will be hard to earn and sustain. The challenge is probably bigger than the attainment of political independence.

Proposition 3: Africa can never avoid the debt crisis without a growth focus

A. The neoliberal machinations systematically led to the rejection of and subsequent despise for development economics in the 1970s and the 1980s (Mkandawire, T. (2001): The Need to Rethink Development Economics):
    a. Diverting the attention of African academics and policy-makers from focusing on development;
    b. Macroeconomic stability has become a perpetual short-term objective
    c. Growth has been relegated to the long-term;
    d. Recent African central bank reforms have included a move towards complete prioritisation of price stability, even at the expense of growth;
    e. But contractionary monetary policy creates a vicious cycle where growth then becomes perpetually unattainable;
    f. Slow growth = weak tax bases = borrowing.

B. The orthodox conduct of monetary policy positions domestic capital as bad (excess liquidity) and foreign capital (FDI) as good.
   a. Relegates domestic citizens to the supply of labour;
   b. Worsens illicit financial flows perpetrated by TNCs (i.e., FDI);
   c. Africa losing $88.6 billion through IFFs each year (UNCTAD 2020);
   d. Africa's loss generally higher than ODI and official aid;
   e. Rising extractive industry activity and globalisation worsening IFF picture;
   f. High IFFs = tax base erosion = low domestic revenues = borrowing;
   g. High IFFs = low investment capital = slow growth = low taxes = borrowing.

C. Production of final consumer goods and services is a necessary and sufficient condition for addressing economic challenges:
   a. Doomed is economy that cannot produce

Proposition 4:
It's time for a Lagos-type of approach to African Debt

A. The neoliberal model is tired, but survives only because of strong vested interest
   a. The focus of the neoliberal policy reforms is inappropriate for Africa, because the initial arguments for a mixed economy and an economically active state remain valid (Zaman, 1995);
   b. The underlying behavioural relationships upon which liberal economic reforms depend are non-existent in most SSA countries (e.g. fiscally sound treasuries, strong regulators). Therefore, liberal policies simply transfer economic rents from public to private enterprises that have limited regard for sustainable growth considerations (Khan and Aftab, 1994);
   c. It is one of the most powerful concepts to have emerged within the social sciences in recent times (Springer et al., 2016) which endures despite being ideologically exhausted (Bruff, 2014; Aalbers, 2013).

B. The World Bank's "Berg Report" of 1981 thwarted Africa's opportunity for attaining self-sufficiency through earnest implementation of the OAU's Lagos Plan of Action for the Economic Development of Africa 1980 – 2020.
   a. The Lagos Plan correctly predicted the adverse effects of neoliberalism on Africa;
   b. The Lagos plan offered comprehensive solutions to Africa's debt crisis which the continent disregarded at its own doom;
   c. For abandoning a timely home-grown solution, African must burry its head in the sand as it seeks an equally structured home-grown solution.

C. monetary and fiscal policies must be redirected to recognise that macroeconomic instability (inflation, external imbalances) reflects deficient aggregate demand.

D. There is now unequivocal evidence that the solutions to African challenges reside in Africa, not outside
    a. No less than the type of continental revolutionary wave that led to the independence of Africa States in the 1950 – 1960 is required;
    b. Need a forceful continental “coalition of the willing” to create a continental critical juncture.

E. A lot of talking is being done on the continent, but the evolution of a necessary collective political leadership and will to address these massive challenges is hard to foresee. The evolution of multiparty democracy, albeit all its positive attributes, will continue to worsen prospects for such an evolution.
    a. MPs and CSOs are now championing the discourse on a quest for a different debt deportment;
    b. Following the talking with action is very limited, except in isolated cases;
    c. But development is always and everywhere a leadership-driven process.

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