Finance capital sucking the lifeblood out of impoverished countries

Nick Beams
28 August 2024

The International Monetary Fund has published a series of blogs showing the crippling effects of debt repayments on a wide range of lower-income and developing countries which have significantly worsened over the past four years, not least because of the impact of the COVID crisis.

In a post at the beginning of this month, it noted that low-income countries have been hit the hardest by the "economic scarring of the pandemic, conflicts around the world and the abrupt rise in global interest rates."

But there is another side to the poverty, hunger and misery this is causing. Finance capital is reaping benefits as it sucks in money like a giant vacuum cleaner.

According to the IMF, "The median low-income country is spending over twice as much on debt service to foreign creditors as a share of revenue than it did 10 years ago—roughly 14 percent at the end of 2023 from 6 percent 10 years earlier."

For some countries the proportion is much higher, ranging up to 25 percent. At the start of this year, the World Bank reported that the total debt service for low-income countries and certain middle-income nations was estimated to be $185 billion when combined with domestic debt repayments.

"This figure is higher, on average, than their combined public spending on health, education and infrastructure," it said.

Last December, the World Bank issued a report showing the devastating impact on developing countries of interest rate hikes, lifted to their highest levels in four decades. In 2022 they spent a record $443.5 billion to service their debts. It found that about 60 percent of all low-income countries were at high-risk debt distress or close to it.

In the previous three years, there had been 18 sovereign debt defaults in developing countries, more than the number recorded over the previous two decades.

In a report last October, the international aid agency Oxfam reported that some 57 percent of the world's poorest countries, home to 2.4 billion people, would have to cut public spending by a combined $229 billion over the next five years.

Low- and middle-income countries would be forced to pay $500 million dollars every day to meet debt and interest payments between the present and 2029, "with the poorest countries now spending four times more repaying debts to rich creditors than on health care."

In their reports on the debt crisis, the IMF and World Bank point to the initiatives which supposedly are aimed at alleviating it and call for them to be stepped up. In its latest blog, the IMF said that now was the time to help countries faced with liquidity challenges.

Such calls have been made in the past, but the IMF never explains why the crisis in getting worse and why its various initiatives are so limited.

In fact, as Oxfam has pointed out, rather than providing a solution to the crisis, both the IMF and the World Bank work to exacerbate it.

In a comment on the report, issued on the eve of a meeting of the two organisations last year in Marrakech, Morocco, international interim executive director Amitabh Behar said: "The World Bank and the IMF are returning to Africa for the first time in decades with the same old failed message: cut your spending, sack public service workers, and pay your debts despite the huge human costs."

Oxfam analysis found that 27 loan programs negotiated with low-income countries, supposedly to provide a floor for debt payments, were actually a smokescreen for more austerity. This was because "for every $1 the IMF encouraged governments to spend on public services, it has told them to cut six times more than that through austerity measures.

"The IMF is forcing poorer countries into a starvation diet of spending cuts, driving up inequality and suffering," Behar said.

However, while condemning the global institutions—they are more a financial vampire than aid agencies—he revealed the bankrupt reformist Oxfam perspective by appealing to them to "show they can genuinely change to reverse the tide of widening inequality and between countries."

This bromide is offered not because of any lack of knowledge—all the reports of Oxfam and other such organisations make that clear—but because of their class standpoint grounded on the defence, in the final analysis, of capitalist property relations.

Oxfam has also provided some significant data on the refugee crisis that is exploited by Donald Trump to build his fascist movement, claiming that refugees are "poisoning" the blood of America.

It noted that the top ten countries, from which asylum seekers to New York City originate, pay a staggering $82 billion a year in public debt and interest payments to foreign creditors. Many of these are US banks, hedge funds and other financial institutions of which Trump, together with the Democrats, is a political representative.

Any notion that the debt and hunger crisis cannot be resolved because "there is no money" is nothing short of a big lie.

In analysis published on the eve of the G7 meeting of the major powers in June, Oxfam said that just 3 percent of G7 military spending would help solve the deepening global food and debt crisis.

Eradicating global hunger would require $31.7 billion annually, plus an additional $4 billion a year. Such spending would amount to just 2.9 percent of the total military budgets of the G7 powers.

The head of Oxfam's inequality policy, Max Lawson, said: "Governments are finding their pockets run deep to fund war today, but when it comes to stopping starvation they are suddenly broke."

Appealing to the major powers to divert some of their war spending to social and humanitarian needs is as futile as appealing to the institutions of global capitalism, such as the IMF and the World Bank, to change course.

This is because these drives are rooted in the objective crisis of the capitalist system as it hurtles into a breakdown. This objective fact of political and economic life must be recognised and acted on.

The same financial powers that are sucking the blood of the peoples of poorer countries are driving the attacks on the working class in the advanced countries—the never-ending offensive against social conditions and the demand that the working class pay for military spending.

The crisis of capitalism cannot be resolved by the powers that be, but only by the unification of the working class—in advanced and poorer countries alike—in the united struggle for international socialism.