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Hunger, debt and interest rates

The awful choice between feeding the hungry or paying creditors isn't just one faced by indebted households. Countries are in similar straits. Hunger is both a fiscal issue and a monetary one. In this current moment of fiscal and monetary crisis, the post-COVID-19 food crisis is proving far greater than the policy tools currently applied to meet it. Consider, first, the exception that proves the rule: the United States. Under COVID-19, the Trump administration chose to expand welfare programmes dramatically, funding widespread access to nutrition programmes and unemployment benefits. Food insecurity in the United States declined under COVID-19, because the country both could afford to print money and decided to respond to the crisis in ways unbound by neoliberal orthodoxy[1].

Particularly for governments in the Global South, no such course of action was possible. Far from increasing spending on fiscal priorities such as feeding the hungry, countries in the Global South were constrained by the imperatives of debt repayment. In the instant that COVID-19 shut down the economy, the possibility of paying debts evaporated, and the number of hungry soared.

The G20's Debt Service Suspension Initiative suspended debt repayments from April 2020 to December 2021. Interest continued to accrue, and only one private lender joined the G20 in the suspension initiative, which had an estimated value of US$12.9 billion. By the time it expired, both food prices and interest rates had started to rise. With those rises came calls to meet both the needs of the hungry – whose income invariably had not kept pace with the cost of eating – and the demands of creditors.

To some extent, the international aid community stepped up. In 2022, the latest year for which figures are available, the Organisation for Economic Co-operation and Development reports that its members gave US$211 billion in overseas development aid. This number includes US$31 billion spent on housing refugees within those member countries, but nonetheless represents a 17% real increase on the previous year. In the same year, low- and middle-income countries paid US$1,227 trillion to service their debt. Total external debt stocks were US$8,966 trillion[2], with interest payments alone at US$210 billion, just a little less than the overseas development aid they received.

High interest rates will have a harsh impact on the hungry in the Global South. The United States' choice to adopt a strong dollar means higher interest rates on international loans. Countries in the Global South depreciate their currencies as a result. Food producers within those countries who are involved in the export industry will see higher real returns in local currency units, but those selling into local markets – usually smaller-scale producers – will not. When food prices rise in local currency units, those dependent on the local economy for their income – usually the poorest groups in society – are doubly hit, by stagnant income and higher food costs. This, as James Galbraith has long noted, is how monetary policy drives inequality[3].

An export-oriented food system is, however, the only way to repay the debt. Cash crops for export earn foreign exchange, which can be used to repay loans. Food grown for domestic consumption is not dollar denominated. A further consequence is an increased dependency on food imports. If land is used to grow high-value export crops, food must come from abroad, denominated in dollars. When dollars are expensive, global price rises are magnified by a depreciated local currency. Indebted food-exporting countries are desperately vulnerable to import-induced food price shocks.

This problem is systemic, widespread and, under the United States' strong dollar policy, acute. One in four developing countries is today priced out of the global debt market, 18 have defaulted, with 11 in debt distress and another 28 at high risk of it[2]. The peak of defaults may yet be ahead. With food price inflation persistently high[4], hunger is likely to follow.

Climate change will only exacerbate the hunger crisis, through its impact on countries' ability to repay their debts[5]. Extreme weather events have already impacted agricultural exports from the Global South to their creditors, and the trend is likely to worsen[6].

What might be done? Subsidies targeted at the poor can help, but the International Monetary Fund (IMF) continues to impose conditions that restrict the range of government policies. This conditionality, in service of enabling the private sector, has had deleterious long-term effects on the Global South despite the fact that such conditions do not, according to the IMF itself, reduce ratios of debt to gross domestic product.

In the short term, there are relatively simple policy responses. Under US leadership, the IMF might reverse its objections to fiscal stimulus for the poor, and issue credits to distressed economies. This bandage needs longer-term fixes. Democratizing the institutions of international credit will be a part of that solution[7]. And, ultimately, the Global North ought to be prepared to engage not simply in debt forgiveness, but in reparations for the damage wrought by climate change and by a food system that will – unchecked – result in the undernourishment of hundreds of millions for many years to come.

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Competing interests

The author declares no competing interests.