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Why don’t powerful militaries like their sovereign to default?

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Public debt vulnerabilities in Africa have reached alarming heights. As news of debt crises break again, the ultimate decision for or against a default hinges on a complex set of economic and political variables. With the resurgence of autocrats and militaries in Africa, it is key to examine their peculiar stake in debt default and how default avoidance and debt service contributes to autocrats’ economic survival. The author wishes to remain anonymous.

As debt ratios peak, rising interest rates and food prices continue to drain public budgets in Africa. More than half the economies on the continent are currently in or at high risk of debt distress. This has led to debates about public debt and questions of when and why states default.

Conventional wisdom suggests that states default if they run large deficits and lack the liquidity to settle outstanding obligations. Many argue that sovereign defaults are solely an economic matter, yet to understand Africa’s debt crises of the 1980s and the likely crises ahead, we must factor in politics.

Indeed, defaults are highly political, as they affect a government’s allocation of public resources. Therefore, some assign democracies lower default prospects because their leaderships are more accountable to the public and rely on credit mainly for productive purposes and to supply voters with public goods.

For autocrats, too, non-default is imperative as they need credit to supply private goods to their allies. Sometimes, however, autocrats respond to their populace and favour defaulting on their debt to prioritise other expenditures like sustaining food subsidies. The 1980s bread riots exemplify instances when non-democratic leaderships considered defaulting to survive political unrest.

Interestingly, some of these countries defaulted once, but not again. After the 1984 default, autocrats ruled Egypt continuously. Subsidised food imports served to avoid popular uprisings, and in 2015, Egypt resolved severe budget problems through an International Monetary Fund (IMF) loan and imposing harsh internal adjustments. This was a remarkable decision since peaking food prices triggered the 2011 regime-changing uprisings.

Military interests intersect with default decisions

As military regimes resurge across Northern Africa, a look at their interest in sovereign default helps to address the dynamics of default decisions. If a country's armed forces become powerful enough, their vested interest in the state directly impact the distributional consequences of public debt.

Dominant militaries hold the monopoly of force, create and amend institutions, steer domestic politics and appropriate public resources. Hence, they enter new commercial endeavours, transforming public money into private goods.

This crucial observation links militaries to a sovereign's default behaviour. Officers love fresh credit. Their enterprises depend on foreign lending to keep the production of private goods running. This contrasts with equitable growth, and refinance primarily through productive tax revenue-generating activities.

Appropriated by officers, governments reinforce their non-default preference through interactions with private and bilateral creditors or international financial institutions (IFIs), who prefer their credit serviced. The non-default inclination manifests because it matches international creditors' preferences which guarantees a major source of credit and military financial reproduction.

In Egypt, the post-2011 military gained domestic supremacy. The military's increased institutional embeddedness and commercial interests were opposed to defaulting. Egypt's ex-general and now President embarked on a mega project-induced growth model that hinges on credit access. Indeed, recognising Egypt's centrality in the Middle East, the international audience condoned the status-quo and kept the credit lines open.

Why this is relevant

The Egyptian case shows that the credit needs of the military can motivate ongoing repayment at the expense of a subsidy-dependent population. Military autocrats sustain debt service if their interests indicate so, as long as popular discontent can be contained, if necessary, by force.

Mandated to safeguard global financial stability and facilitate development finance, IFIs' focus is on avoiding defaults and enabling continuous debt service. This focus should be expanded to the hitherto disregarded question preceding financial distress: How is credit spent?

Considering the international public debt architecture, possible channels exist to reduce debt distress and improve autocrats' transparency, accountability and public goods supply. These include countries' debt sustainability analyses (DSAs) and conditionality attached to financing support.

Here, IMF-World Bank DSAs could be steered more towards requiring governments to reconcile debt sustainability and development. DSAs must account for various sustainability risks and assess the need for and quality of long-term debt spending. Since all spending is not the same, DSAs should rate different types of debt usage. IFIs would soon realise that, as in Egypt, civilians don't benefit from military spending.

Lastly, much-criticised IFI conditionality could improve debt transparency by focusing more on debt management. The IMF could, for instance, integrate into future programs more systematically and comprehensively, provisions requiring adequate national debt management legislation and monitor compliance. Legislation should define the borrowing authority, debt management office's role and accompanying advisory. Subsequently, accountability improvements materialise when borrowing objectives are institutionally embedded, coordinated with macroeconomic policy and sanctioned if inadequate.

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