

The Impact of Debt Burden on the Well-being & Quality of Life of Citizens

The case for Zambia

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Introduction

Zambia faces a fiscal challenge common to many other underdeveloped nations in Africa: high, unsustainable debt burdens, fiscal mismanagement and undisciplined borrowing, poor resource allocation, government graft and corruption, trade revenue net outflows, volatile commodity markets of key exports—all of which impede economic growth and development. This paper analyses the relationship between debt burden and the well-being and quality of life of citizens.





The paper offers two perspectives



→ **Perspective 1**

There is a significant relationship between debt burden and the well-being and quality of citizens



→ **Perspective 2**

There is no significant relationship between debt burden and the well-being and quality of citizens

Perspective 1



There is a
significant
relationship
between debt
burden and the
well-being and
quality of citizens

1.1

This view suggests that debt burden increases direct risks to the fiscal, exchange rate, incomes and monetary policies as well as risks to aggregate consumption and investments. These risks depress national output leading to high inflationary pressures and erosion of household real incomes and decreasing real wages and real incomes for other factors of production.



1.2

Further, debt burden restricts allocation of resources to priority sectors such as health education and Social Protection in (social safety nets) programs because of debt service obligations. Diminished social sector spending affect the well-being and quality of citizens.



1.3


Thus, this view postulates that there are both direct and indirect transmission mechanisms from the debt burden to the well-being and quality of life of citizens, especially in the developing world.

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Perspective 2



There is no
significant
relationship
between debt
burden and the
well-being and
quality of citizens

2.1

This view suggests that the well-being and quality of life is largely a national income problem, especially unemployment and underemployment, climate change and pandemics problems affecting production factors.



2.2

The national income is affected by cost-push factors such as high inflation and rapidly depreciating currencies. These two factors, as well as the climate change and pandemics, contribute to the erosion of incomes of citizens and reduction in the well-being of citizens and their quality of life.



2.3

According to this view, debt burden is the lack of a long-term debt financing tool that reduces the repayment amounts as compared to the national income levels. Debt burden is lack of sustainable domestic production systems and their interlinkages to generate national wealth.



2.4

It is very unlikely that a country's debt is going to affect the well-being and quality of life of its citizens if there is a meaningful and sustainable generation of national wealth (growth accompanied by lower poverty and less inequality).

For instance, Japan with the debt to GDP ratio of 261.3% is able to support its citizens' well-being with high quality of life.



Zambia: **98.5%** debt to GDP ratio



Japan: **251.3%** debt to GDP ratio

Conclusion

3.1

External debt burden in developing world leads to capital outflows negatively impeding inclusive economic growth and leading to high poverty levels and inequality.

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External debt burden in developing world leads to capital outflows negatively impeding inclusive economic growth and leading to high poverty levels and inequality.

3.2

Apart from external debt, we also need to address the problem of illicit financial flows which affect welfare negatively because it complicates the effort of governments in stabilizing the domestic macroeconomy and providing good governance, quality institutions and service to the ordinary people that will improve their welfare.

Conclusion.. *contd'*

3.3

We also need to address issues around governance, accountability and corruption. Advocates and researchers have argued that the welfare of the people will not improve until the issues of accountability and corruption are addressed.

Conclusion.. *contd'*

3.3

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3.4

In the final analysis, Zambia needs legal reforms (policies and laws) that support sustainable domestic production systems and their interlinkages (domestic national income accumulation that effectively address poverty and inequality) to improve the citizens' well-being and quality of life.



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