

Solution to the Debt Crisis in the European Union: Outstanding Debts are Illegitimate. They Must be Cancelled

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Eric Toussaint in Tunis: "The creditor's must be disobeyed and their demands for reimbursement of illegitimate debt refused !"

This is a historical moment. On 23 and 24 March 2013, a coalition of left secular Tunisian political parties (in which there are 11 political formations) organised a meeting of Mediterranean region progressive parties to call for the abolition of the odious and illegitimate debts of Northern and Southern Mediterranean countries. Two half-days of debate produced a final declaration and were followed by a grand public conference bringing together over one thousand people and all the strength of the left-wing groups united for a common cause. [\[1\]](#)

Below are highlights of Eric Toussaint's speech at this first Mediterranean coordination meeting against debt, austerity policies, and foreign domination, and for a free, united, democratic, social, solidarity-based, feminist, and environmentally responsible Mediterranean region.

Eric Toussaint, President of CADTM Belgium stressed that this budding political alliance is the continuation of the struggle initiated by Thomas Sankara, President of Burkina Faso, who was assassinated on the 15 October 1987, after he called on the people of Africa and the rest of the World to unite in a common combat for the non-payment of the illegitimate debt. It also extends the struggle of the martyrs of the Arab Spring, including Chokry Belaid, assassinated on 6 February 2013, not to forget Ahmed Ben Bella, the first President of independent Algeria, who died in April 2012, [\[2\]](#) and who, towards the end of his life, had made the abolition of illegitimate debt one of his principal struggles.

This new coordination is facing another major challenge. All too often, left-wing parties limit their engagement to a radical denouncement of illegitimate debt without giving the question further importance in their day to day public activities. Once they start to approach positions of power, some of them abandon their promises to put an end to illegitimate debt, and end up agreeing with the terms of repayment.

Eric Toussaint presented the initial definition of odious debt as debt taken on by a dictatorial regime such as that of Ben Ali. According to international law, when such a regime falls, the part of the debt that is odious falls with it, and therefore should not in any case be repaid. Of course, we must often fight for international law to be respected. To achieve this goal, only a strong social movement can convince a government to suspend payments and repudiate

odious debt. It is therefore essential to create a favourable balance of power in order to defy the creditors.

Marie Dufaux

Introduction

Today, international law defines odious debt in terms of three criteria: [\[3\]](#)

- the non-consent of the people in the indebted state;
- the lack of advantages for the people in the indebted state;
- the creditors were aware that the loans they consented were not in the interest of the people and were not approved by them.

The debt “owed” to the Troika (European Central Bank, European Commission and the IMF) by countries like Greece, Ireland, and Portugal should be denounced because it corresponds to these criteria:

1. The people in the countries concerned did not give their consent, and many governments elected on anti-austerity programmes bend to the will of the Troika once they are in power;
2. This debt is not favourable to the people, on the contrary, it is linked to violations of their economic, social, and civil rights (reductions in social services and wages, large scale lay-offs, difficulty in gaining access to health services and education, repeal of collective bargaining agreements, disregard for the democratic choices made by electors, legislative power that bows down to the executive);
3. The creditors (the Troika and bankers), know perfectly well that the loans they advance are not in the interest of the people, because they are made in order to pay off the debt and in exchange for drastic austerity measures. It is the Troika itself that imposes these violations of human rights and dictates its conditions to governments and parliaments of indebted countries.

As for the governments that have come into power since 2011 after the dictators Ben Ali and Mubarak, they have themselves taken on new debt, which is much more to the advantage of the creditors than to the people. This is done to pay back the odious debts inherited from the previous dictatorial regimes and to pursue policies weakening their countries. Therefore, this new debt is also odious.

Tunisia and Egypt are currently negotiating new arrangements with the IMF. [\[4\]](#) This is a fruitless process. If these loans are granted, they will be illegitimate for at least two reasons: they will be used to continue making repayments on inherited odious debt, and they will be linked to policies that are contrary to the interests of the people in these countries.

Other elements that may make a debt illegitimate

On the one hand, the debt may be the consequence of unjust fiscal policies. In real terms, states accord fiscal advantages to big (national and international) companies and the wealthiest households, this reduces tax revenues and deepens public budget deficits. These practices increase public debt, because the governments must again borrow in order to

finance their budget. Debt taken on in these conditions is illegitimate to begin with because it is socially unjust.

On the other hand, it may derive from bank bail-outs. Since 2007, governments of the most industrialised countries have flown to the assistance of private banks, that are responsible for the crisis, injecting billions of euros into their capital and/or providing other guarantees. Any debt taken on to finance these bail-outs is equally illegitimate.

Creditors and governments maintain that debt must always be repaid without questioning its origins, even if they are illegitimate. Then they justify the imposition of anti-social austerity policies by insisting on the effort necessary to balance the budget. It is within this context that a growing percentage of the people in Mediterranean countries (and beyond) are rejecting the repayment of illegitimate debt. In some countries (Tunisia, Greece, Portugal, Spain, and France) citizens audits have been called for in order to identify the illegitimate part of public debt. They are seeking to establish how, why, and by whom the debt was taken on, and if it has really been used in the interest of the people. These citizens audit committees are seeking to convince as many people as possible that illegitimate debt must be repudiated.

Saying “NO” to the Creditors

It is possible and necessary to defy the International Financial Institutions and the Troika, to refuse the diktats of the private creditors in order to create leeway for improving the situation of a country and its people. As we can see in the following examples of several countries that have dared to say “No” to their creditors, it is worth being adamant.

Argentina’s suspension of debt repayments

At the end of December 2001, after three years of economic recession (1999 – 2001) and pressure from a massive popular rebellion that caused the fall of President De La Rúa, Argentina decided to suspend payments, amounting to about \$90 billion. This represented an important portion of its commercial debt.

Part of the money freed up was reinvested in the social sector, particularly in benefits paid to unemployed ‘Piqueteros’. Some would claim that the real reason why Argentina recovered as of 2003-2004 is only because of the increase in the prices of its exports.

This affirmation is, however, false, because if Argentina had not suspended its debt repayments, the revenue from exports would have been swallowed up by them. The government would not have had the means necessary to stimulate economic activity. In addition, thanks to this suspension of payments that lasted until March 2005, Argentina was able to impose a 50% reduction of this debt on its creditors.

The CADTM, as well as numerous social movements and leftist parties proposed to Argentina to abolish, not only the debt that concerned private creditors, but also the IMF and other public creditors. The Argentine government did not follow this recommendation.

It is important to note that Argentina has also suspended payment of \$6.5 billion to the Paris Club since 2001. So we see that twelve years later Argentina is still holding out against the Paris Club. In spite of the 44 law suits brought before the World Bank and recent threats of expulsion from the IMF, Buenos Aires maintains its position. Argentina has not borrowed on the financial markets since 2001, but the country continues to function!

The Argentine experience must not be misinterpreted. It is not to be taken as an example, and we always need to adopt a frankly critical point of view. The Argentine government has maintained Argentina within the bounds of capitalism, no structural reforms have been undertaken, Argentine economic growth is largely based on the extraction and the exportation of primary products (genetically modified soya beans, ores,...). Nevertheless, what Argentina has demonstrated is that saying “No” to the creditors is possible. Elsewhere, an authentic left-wing government could go much further on the basis of this precedent.

Ecuador: audit and suspension of payment

Ecuador gives us another example. In July 2007, seven months after his election, the Ecuadorian President Raphael Correa decided to instigate an audit of the country’s debt and the conditions in which it was contracted. An audit commission, made up of 18 experts including the CADTM, was created for this purpose. Its final report was presented after 14 months of investigation. It showed in particular that numerous loans had been contracted in violation of basic rules. In November 2008, the new administration, on the basis of this report decided to suspend the repayment of bonds payable in 2012 and 2030. Finally, the government of this small country came out on top in the tussle with North American bankers and those holding Ecuadorian securities. It repurchased bonds for less than \$1 billion, which had a nominal value of \$3.2 billion. Public finance thus saved \$2.2 billion dollars of debt stock to which must be added \$200 million a year (between 2008 and 2030) in interest payments. This allowed the government to allocate more means to social projects in health, education, social assistance, and communication infrastructure development. The Ecuadorian constitution now prohibits private debt from being transformed into public debt and illegitimate debt from being contracted. [\[5\]](#)

In addition, Ecuador no longer recognises the World Bank’s jurisdiction in international disputes court. It has rejected free trade treaty propositions from the US and UE. The Ecuadorian President has announced his intention to audit the current bi-lateral investment treaties. Finally, the Quito authorities have put an end to the US military presence on its territory.

In the case of Ecuador, we must again be careful not to hold up this ongoing experience as a model to be emulated. Critical analysis remains indispensable. Nonetheless, the Ecuadorian audit and unilateral suspension of payments experience shows that saying “No” to creditors is perfectly possible, and there are advantages to be gained in terms of making more means available for public health, education, and other sectors.

Iceland’: refusal to pay the demands made by the Netherlands and the UK

After its banking system collapsed in 2008, Iceland refused to compensate the British and Dutch savers who had put deposits amounting to €3.9 billion into subsidiaries of Iceland’s failed private banks. The British and Dutch authorities covered the losses to their citizens and presented the bill to Iceland. Under popular pressure (demonstrations, occupations, and referendums), the Reykjavik authorities refused to pay. Britain put Iceland on its terrorist list, froze its assets and, in conjunction with the Netherlands, sued Iceland the EFTA court. [\[6\]](#) Meanwhile, Iceland has completely blocked the outflow of capital. In the end, Iceland is faring better than the other European countries that accepted the conditions imposed by creditors. Here again we must not present Iceland as a model to be imitated, but learn from its experience.

These examples demonstrate that saying “NO” to creditors leads neither to catastrophe nor to the collapse of a country.

We must also recall that these experiences were preceded or accompanied by a popular movement that put pressure on the governments concerned. It is therefore important, as Eric Toussaint reminded us, that knowledge of this at times, complex question must be conveyed to the whole of the population. The task of a public audit is to raise public awareness. The illegitimacy of public debt must become visible to the majority of people.

To conclude this workshop, Eric Toussaint repeated that the above examples are not to be taken to as political models to be followed, but that these experiences are a source of important political lessons!

Translation : Mike Krolikowski and Charles La Via

notes

[1] See Pauline Imbach, “Tunis: Birth of a Common Front of Political Organisations Against Debt”, <http://cadtm.org/Tunis-Birth-of-a-C...>, published 25 March 2013.

[2] See Eric Toussaint, “Remembering Ahmed Ben Bella, first President of independent Algeria who passed away on the 11th April, 2012 at 96”, <http://cadtm.org/Remembering-Ahmed-...>, 12 April 2012.

[3] See CADTM, <http://cadtm.org/Droits-devant>, and in particular Stéphanie Jacquemont, “Que retenir du rapport de l’expert de l’ONU sur la dette et les droits humains ?”, <http://cadtm.org/Que-retenir-du-rap...>, 25 January 2013 (articles in French only).

[4] <http://www.imf.org/external/np/sec/...>

[5] See Eric Toussaint, “La Constitution équatorienne : un modèle en matière d’endettement public”, <http://cadtm.org/La-constitution-eq...>, 27 December, 2010 (in French only).

[6] The EFTA (European Free Trade Association) court, which is in no way a progressive organisation, has judged in favour of Iceland’s position. See CADTM, “EFTA court dismisses ‘Icesave’ claims against Iceland and its people”, <http://cadtm.org/EFTA-court-dismiss...>, 29 January 2013.

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