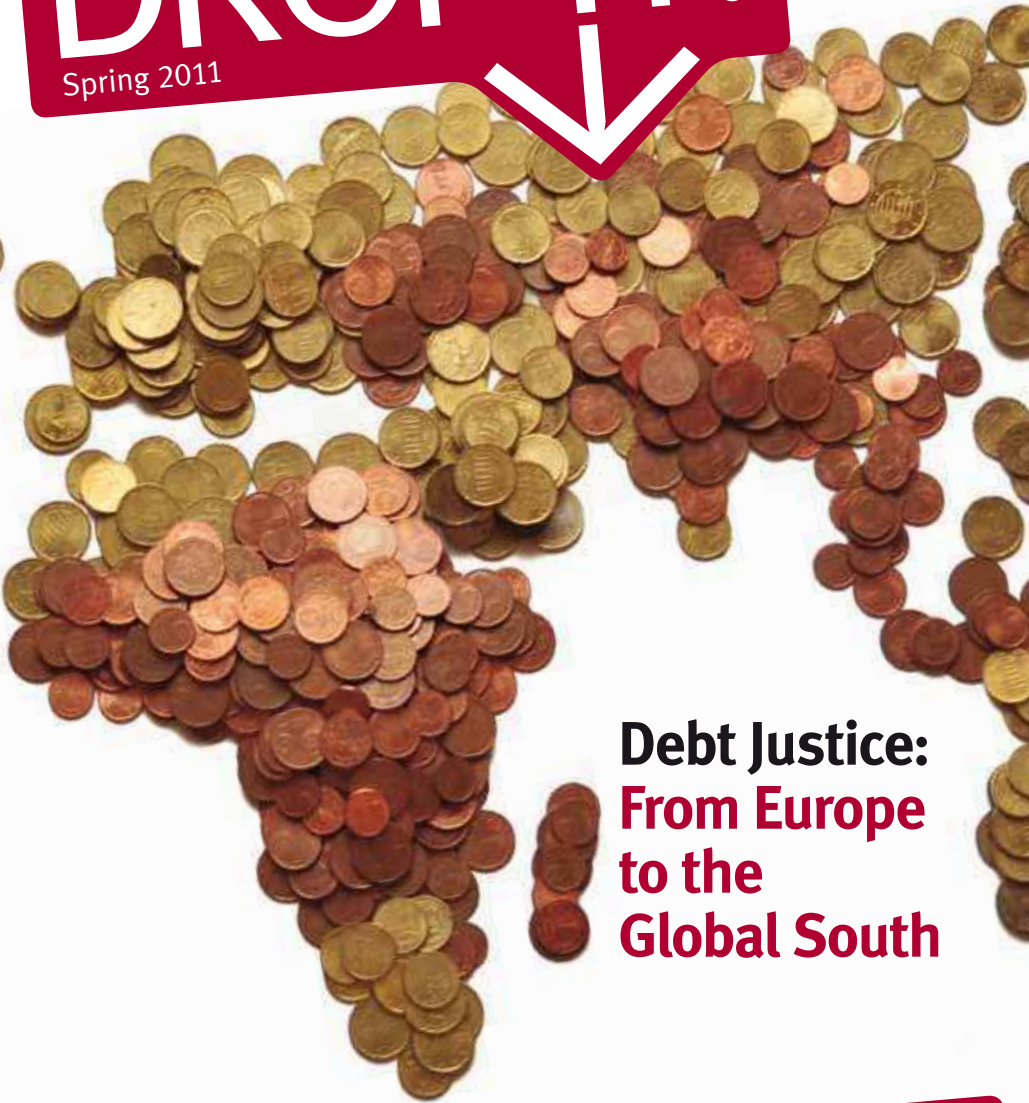


A CAMPAIGNER'S GUIDE

DROP IT!

Spring 2011



Debt Justice: From Europe to the Global South

“You have to wonder what it will take for serious people to realize that punishing the populace for the bankers’ sins is worse than a crime; it’s a mistake”

Paul Krugman,

Nobel prize-winning economist, 2010


**JUBILEE DEBT
CAMPAIGN**

DEFUSING THE DEBT CRISIS

Thirty years ago, many countries in the global South went through a financial crisis.

Binge lending by private banks had created mountains of debt which couldn't be repaid. The International Monetary Fund bailed out the banks, and imposed 'austerity measures' across Africa and Latin America to balance the books. Private debt became public pain.

But it didn't work. Countries were forced into a debt trap which lasted for decades and for many countries continues today. Only debt cancellation has begun to set some free – temporarily – from the slavery of debt.

As governments around Europe impose public spending cuts on ordinary people in response to their own bank bailouts, once again private debt is becoming public pain. The ripple effects of the crisis are being felt across the global South, with 64 million more people pushed below the poverty line, and debt levels ballooning.

History is repeating itself. But the lessons of the earlier crisis have not been learnt. As long as we continue to allow banks – both public and private – to lend recklessly and get away with it, dangerous debts will continue to blow apart economies and people's lives.

**It's time to defuse the debt crisis.
It's time for debt justice.**



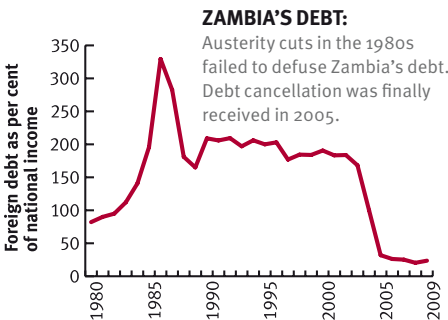
1. THE ORIGINAL BANK BAILOUTS

In the early 1980s Zambia, like many countries in the global South, suffered from a financial crisis. A decade of unrestrained lending by foreign banks – which saw lending to countries as ‘safe’ since they couldn’t go bankrupt – had seen debts multiply. Yet a sudden increase in US interest rates in the face of recession meant that debt repayments became much more expensive.

The International Monetary Fund responded to Zambia’s crisis by lending more money to the country, which in turn was used to pay back the banks that had lent to Zambia in the first place. In return, cuts in government spending and liberalisation were foisted on the Zambian economy by the IMF.

Debt payments and cuts, along with falling prices for its exports, contributed to Zambia suffering from a severe recession for much of the 1980s and 1990s. **Yet the cuts in spending failed to reduce Zambia’s debt – in fact it doubled.** At the same time Zambia reduced government expenditure at a rate “virtually unmatched in Africa” and was praised by the IMF and World Bank for doing so.

The total debt of the Zambian economy to the rest of the world ended up far larger as a share of their economy than that of Ireland or Portugal today. **Yet only since a significant amount of Zambia’s debt was cancelled in 2004 and 2005 has the economy begun to recover.** Then, as now, the first priority of Western governments was to ensure the banks got bailed out, regardless of the impact on poverty or inequality.



2. THE EFFECTS OF AUSTERITY

‘Austerity programmes’ promoted by the powerful through institutions such as the IMF, tend to include common elements like cuts in government spending, increasing sales taxes like VAT and lower taxes and regulations on multinational companies.

After years of campaigning, some countries have had their debts cancelled over the last 10 years. This has helped them withstand the financial crisis. However, even these countries are now facing austerity cuts – for a crisis which they did nothing to create – threatening further financial problems for them in the years ahead.

Sierra Leone had 80 per cent of its foreign debts cancelled in 2007, but **its debt to the rest of the world has doubled during the financial crisis.** In 2011, 10 per cent of the government’s revenue will be spent on debt repayments, more than is spent on healthcare (8 per cent). In 2007 and 2008, in the years immediately following debt cancellation, it spent just 1 per cent on debt repayments.

At the start of 2010 prices for basic goods shot up across the West African country after a new IMF-inspired standard sales tax (like VAT) was introduced. The tax was meant to simplify a range of different sales taxes, whilst increasing revenues. The IMF responded to higher inflation by telling Sierra Leone to increase interest rates, a move which risks further holding back the economy by restricting investment.

The World Bank estimates the financial crisis will leave 64 million more people in extreme poverty than would have otherwise been the case.



Jamaica's financial debt to the rest of the world has increased by a third during the financial crisis, and now stands at more than £1,800 per person. The Jamaican government spends more in debt repayments each year than it spends on education and health combined. With an annual income per person of £2,900, Jamaica has never been considered for debt cancellation because it is 'not poor enough'.



Jamaica is now borrowing more money from the IMF to stay afloat. One of the IMF's conditions is a three-year wage freeze for public sector workers. Given current and predicted inflation in the Caribbean island, the freeze is likely to amount to an effective 25 per cent cut in incomes. Public spending overall is to be cut by 20 per cent by 2012 on levels before the financial crisis.

Now developed countries like Ireland, Portugal and Greece are living through the same 'debt and austerity' trap. Ireland's large debt to the rest of the world comes from lending to Irish banks by overseas banks. For example, Royal Bank of Scotland has lent Irish banks £38 billion (\$60 billion). When the financial crisis began, the Irish government effectively guaranteed the loans owed by private Irish banks to the rest of the world, turning private debt into public debt.

For the last three years, the Irish government has sought to escape from this huge debt burden through cutting spending and living standards. Now new loans from the IMF, EU and UK ensure the private lenders such as RBS get repaid, but in return for severe cuts in public spending and increases in taxes such as VAT. The lessons of past financial crises have not been learnt – the same medicine is being applied.

“The plight of Portuguese nurses or Irish homeowners can hardly be compared to the grinding poverty of Africa's indebted millions, but the stark logic of the situation is the same. [Austerity] sucks the life out of already fragile economies, and that makes repayment even tougher.”

*Heather Stewart,
Economics Editor, The Observer*

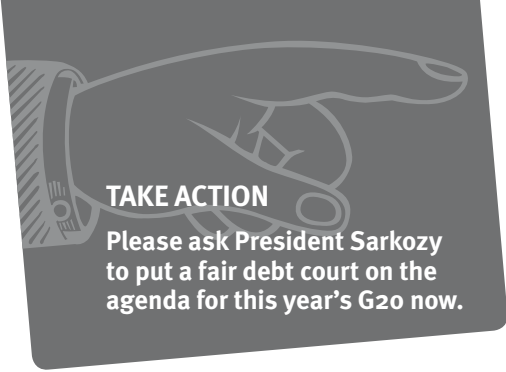
3. BANKS MUST TAKE A HIT

With a large foreign debt it is difficult for a country to grow sustainably and reduce poverty. The standard response of 'austerity and new loans' to bail out lenders causes great social harm, whilst often doing little to reduce the size of the debt. But alternatives exist.

The public should not have to bail out the financial sector for their mistakes. In 2001, **Argentina stood up to the banks and the IMF, and won.** It put development first. In the late 1990s Argentina entered a recession due to its over-valued currency, a policy which the IMF had urged it to take. Poverty and unemployment increased dramatically along with foreign debt. Initially, taking the IMF's advice, the Argentinian government cut spending and increased taxes, yet the debt, poverty and unemployment kept rising.



LEFT: PROTESTERS AT THE G20 IN SOUTH KOREA LAST YEAR CALL ON WORLD LEADERS TO STOP MAKING PEOPLE PAY FOR THE CRISIS.



TAKE ACTION

Please ask President Sarkozy to put a fair debt court on the agenda for this year's G20 now.

At the end of 2001 Argentina stopped paying its foreign debts, devalued its currency and introduced controls to limit how easily money could leave the country. The economy began to grow rapidly. In 2005, Argentina reached a deal with its creditors where it paid 35p in every pound that was owed – the rest being written off. For once, **lenders also bore some of the costs of the crisis.**

“Bank debt simply cannot be public debt. If bank debt is to be such debt, bankers should be viewed as civil servants and banks as government departments. Surely, creditors must take the hit, instead.”

Martin Wolf, Chief economics commentator, Financial Times

4. A FAIR DEBT COURT

The reason why more countries don't follow Argentina's path is that it's highly risky. At present, while lenders negotiate in groups like the 'Paris Club' of 19 rich nations, borrowing countries are called in one by one on their own. That's why **debt campaigners are calling for an international body to provide a fair way to judge debt disputes.** A 'debt court', independent of borrowers and lenders, could adjudicate on unjust debts, cancel debt which prevents governments from providing basic services and ensure lenders take responsibility for reckless lending. It could force banks to take a hit for their mistakes.

A debt court could also link how much debt a country repays to its future economic success – a useful mechanism which means lenders themselves lose out if they try to impose austerity measures on countries in recession. Countries also need to be able to collect fair levels of tax so that governments have the resources to meet needs without resorting to external borrowing.

DEFUSE THE DEBT CRISIS

The financial crisis has shown that debt has the power to blow apart economies and people's lives in the global North as well as the South. Yet when this happens to countries, lenders have full control of what happens next, however foolish or unjust their lending has been.

We've joined with debt groups from around the world to demand a fair debt court to defuse the crisis, for countries North and South. You can start by sending this postcard to President Sarkozy, urging him to put a debt court on the agenda for this year's G20 summit in France in November.

For more about the campaign visit the global website at www.defusethebtcrisis.org

**President Sarkozy:
Defuse the Debt Crisis**



**DEFUSE
THE DEBT
CRISIS**



Dear President Sarkozy,

I am writing to ask you to put the need for a fair debt court on the agenda of the G20 summit of major economies in France in November.

The financial crisis has shown that dangerous debts can wreck economies across the world. Yet today, as with the Third World debt crisis, it is ordinary people who are suffering the consequences of years of reckless lending, not the irresponsible lenders behind the crisis. The present system of allowing lenders to demand full repayment, however foolish or irresponsible their lending has been, cannot continue.

Countries in debt crisis need a fair, fast and independent debt court to defuse the risks of dangerous debt. Such a court should be neutral – it should not be controlled by lenders or borrowers. It should be empowered to arbitrate on all debts held by foreign lenders. It should be able to cancel or reduce debts that are unjust or prevent a country from providing essential services like health and education to its people.

A fair debt court is an essential step towards a more just and sustainable global economy. Please put it on the agenda of the G20 this November.

Yours sincerely,

Name _____

Address _____

Postcode _____

Affix stamp here

President Nicolas Sarkozy

c/o French Embassy in the United Kingdom

58 Knightsbridge

London

SW1X 7JT

DONATE

I enclose a donation of _____

(Please make cheques payable to 'Jubilee Debt Campaign', and sign the Gift Aid declaration, if applicable)

ORDER CAMPAIGN MATERIALS

I'd like to:

↘ order more copies of this issue of *Drop It*

↘ order more copies of the last issue of *Drop It* (Dodgy Deals)

↘ order Dodgy Deals postcards to Vince Cable, Business Secretary

Name _____

Address _____

Postcode _____

Email address _____

Supporter Number (if known) _____

Tick here if you do NOT want to receive further information about Jubilee Debt Campaign's work.

giftaid it

If you're a UK taxpayer, we can reclaim an extra 25% in tax on your donations. Please tick the box, then sign and date. Declaration invalid without all three.

I would like JDC to treat this and any future donations as Gift Aid donations. I declare that I am a UK taxpayer and will pay tax of at least the amount to be claimed on this donation in the current tax year. I will notify JDC if I stop paying enough tax.

Signature _____

Date _____

We like to acknowledge donations received. Please tick if you do **not** require this.

Please return to: Jubilee Debt Campaign, The Grayston Centre, 28 Charles Square, London N1 6HT.

If you're not making a donation, you can also email this information to info@jubileedebtcampaign.org.uk or phone 020 7324 4722.

5. DEBT JUSTICE: A PEOPLE-FIRST ECONOMY

The global financial system causes immense poverty and suffering around the world. Without people having control over their own economy, they cannot have real control over their own society, or even their own lives.

In 2006, President Correa of Ecuador created a Debt Commission to audit Ecuador's debts – to open them to the public and find out how many of them had been beneficial to Ecuador's people.

The audit found the debts had done 'incalculable damage' to Ecuador. In some years nearly 70% of the budget had been devoted to paying debts, yet from the 1980s onwards 86% of new loans were taken out simply to pay old debts. The audit helped Ecuador to cancel \$2 billion of debt. But the audit was also a starting point for Ecuador's people to regain some power over their own economy.

Campaigners in Greece, Zimbabwe and Tunisia are now calling for debt audits too, whilst in the UK we want an audit of the debts owed to the Department for Dodgy Deals (see Debt Update).

"A significant portion of Tunisia's external public debt is actually dictator Ben Ali's private debt, a debt that did not benefit the Tunisian people. During the suspension of payments, an audit of Tunisia's entire public debt (domestic and external) should be undertaken to determine what portion was illegitimate."

Tunisian debt campaigners' statement calling for a suspension of payments, 23 February 2011

KEY STEPS FOR DEBT JUSTICE

- 1 Debt audits:** Debt audits in all countries experiencing a debt crisis to allow people to hold their governments and international lenders to account for reckless lending.
- 2 Debt court:** The establishment of a neutral international debt court so borrowers are able to challenge and renegotiate their debts in a forum not controlled by rich countries.
- 3 Tax sovereignty:** The creation of new international rules to allow countries to collect progressive taxes and challenge transnational companies which evade their taxes.

"The Greek people have been kept in the dark regarding the composition and terms of public debt. The lack of information represents a fundamental failure of the democratic process. An Audit Commission can begin to redress this deficiency."

Call for an audit of Greece's debt signed by 200 economists and public figures, 3 March 2011

SUPPORT JUBILEE DEBT CAMPAIGN

If you can make a donation towards our work, or you would like more copies of our campaign materials, please return this postcard to us in a stamped envelope.

DEBT UPDATE

VULTURE FUNDS VICTORY

We had a major success in March when the UK government announced that the Vulture Funds law clamping down on Third World Debt profiteering would become permanent. The law was passed in the last few minutes before the 2010 general election, but a 'sunset clause' meant it needed to be renewed within a year or would expire. However Vulture Funds – private traders who buy up cheap developing country debts and then sue for huge profits – are still free to operate in UK Overseas Territories like Jersey, as well as the US and other countries.

- ✓ Please send the enclosed postcard to the Chief Minister of Jersey, or send an email at:
www.jubileedebtcampaign.org.uk/vulturesaction

“Bravo! We’ve been waiting for a parliament or an assembly to take this kind of hard decision to be able to bring these funds into reason. Maybe the US Congress ... will pick up this gauntlet and will follow the example of Britain – because it’s just so unfair to poor countries.”

President Ellen Johnson Sirlief of Liberia on last year's vultures law

DODGY DEALS UNDER FIRE

With your help we've been mounting pressure on the Government to clean up its department for dodgy deals (officially known as the 'Export Credits Guarantee Department'). This secretive department currently acts as a debt-magnet: a whopping 95% of developing world debt today 'owed' to the UK stems from this department.

In February we held an event for MPs in the Houses of Parliament where we launched our new report, *The Department for Dodgy Deals: Ending the UK's support for toxic debt*. Over 8,000 of you have written to Vince Cable and your MP calling for reform of the ECGD, with the campaign attracting coverage in the *Guardian*, *Observer*, *Independent* and the *Ecologist*. In response, over 100 MPs have so far signed Early Day Motion 662 to show their support.

But we need to do more. The Government is so far resisting calls for reform, including refusing the simple demand for an audit of what the debts are owed for. So over the coming months we'll be ramping up the pressure. Stay tuned for more actions, protests and parliamentary events!

- ✓ Order more materials using the attached postcard. Read the report online at:
www.jubileedebtcampaign.org.uk/dodgydealsreport



Steven Woodward/Jubilee Debt Campaign



LEFT: JDC AND WDM CAMPAIGNERS PROTEST OUTSIDE THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT FOLLOWING ANDREW MITCHELL'S REFUSAL TO ACCEPT OUR POUND COINS.

IMF CASHING IN ON THE CRISIS

The International Monetary Fund has done well out of the financial crisis, despite cheerleading the deregulation which helped to create it. Interest from increased loans since the crisis, and from selling gold at a high price, have left the IMF with over \$3 billion in windfall 'profits' this year. Jubilee Debt Campaign has joined with over 50 organisations from around the world to call for this windfall to be used to cancel the debts of developing countries affected by the financial crisis and other disasters.

- ✓ Sign the global petition to the IMF at: www.jubileedebtcampaign.org.uk/imfaction

CLIMATE DONATIONS REFUSED

In the run up to December's Cancun climate summit in Mexico over 1,500 people sent £1 coins to Andrew Mitchell, the International Development Secretary. We were calling on him to pass them on to the UN Climate Adaptation Fund for developing countries, along with the UK government's own contribution towards meeting challenges like flooding and drought. He refused – on grounds later shown to be spurious by a Freedom of Information request. Instead, our partners the World Development Movement delivered the pound coins directly to the UN Fund in Cancun.

Meanwhile, the UK approved the first of its unjust climate loans – including \$100 million to Bangladesh. In 2011 campaigners in Bangladesh and Nepal have been calling on their governments not to accept unjust climate loans from the World Bank but instead to demand grants from rich countries – which are responsible for the vast majority of greenhouse gas emissions in the atmosphere.

- ✓ Read more at: www.jubileedebtcampaign.org.uk/sendapound

Jubilee Debt Campaign is part of a global movement calling for 100% cancellation of unjust developing country debts, and a new financial system which puts people first.

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