Resisting the rule of debt

The documentary *Debtocracy* has brought the idea of peoples’ debt audits to a mass audience in Europe for the first time.

This special collection of articles from Red Pepper, guest edited by Nick Dearden of Jubilee Debt Campaign, gets you up to speed on this crucial tool of resistance for debt justice movements around the world.

Jubilee Debt Campaign is part of a global movement demanding 100% cancellation of illegitimate and unpayable developing country debts, and a new financial system which puts people first. [www.jubileedebtcampaign.org.uk](http://www.jubileedebtcampaign.org.uk)

Red Pepper is an independent bi-monthly magazine of left politics and culture. With news and analysis on international and domestic issues, we seek to strengthen diverse movements for social justice and provide a space for debate on how we build a world based on solidarity, sustainability and freedom. [www.redpepper.org.uk](http://www.redpepper.org.uk)
The economic crisis has led activists in countries such as Greece and Ireland to look to developing countries for models of how to fight an all-powerful, self-serving financial system that forces ordinary people to pay the price for its failures. From Dublin to Harare, the call for 'debt audits' is being taken up as a vital first step towards educating and mobilising people against an unjust financial system that benefits the few at the expense of the many.

NICK DEARDEN introduces the history and significance of the campaign for debt audits. ALAN CIBILS from Argentina, MARIA LUCIA FATTORELLI from Brazil and ANDY STOREY from Ireland discuss their own experiences of debt audits and debt defaults, and examine the lessons for economic justice activists.

Sakorafa is clear that this is a battle for different values: 'Beyond speculating market games, there are more valuable concepts. There are people, there is history, there is culture, there is decency.' The crisis will not be solved by the odd piece of legislation but by a transformation of how individuals and communities relate to power.

The history of the debt audit
The idea of debt audits arose from Southern campaigners with decades of experience in fighting against the capture of their societies by Northern financial interests. After all, the problems of Europe today are a repetition of an old story. Controlling the financial system at national and international levels was a key concern of John Maynard Keynes after he observed the impact of the 'rule of the banks' in the Great Depression in the 1930s. Keynes believed in policies that would encourage the 'euthanasia of the rentiers' through government intervention and control of finance.

As that system of control broke down in the 1970s, the world economy has experienced crisis upon crisis, from the Latin American debt crisis of the 1980s to the currency collapse in Indonesia and Thailand in 1997 and Argentina’s economic crisis in the early 2000s. For the financial institutions based in the North, debt has provided a means of extending the control of the financial sector. People have responded to each instance of crisis by fighting back - usually not with specific policy proposals for a softer form of financial control, but by calls for repudiation of their country's debts and kicking out those international institutions imposing austerity.

On one level the argument for a debt audit is simply a call for transparency. If these debts are 'ours' then the least we can expect is to know what we are paying. But their impact goes much deeper. In the words of Irish activist Andy Storey, an audit can 'remove the mask of financial power which pulls the strings over our economy and therefore our society'. It is particularly important in a country that has been through dictatorial rule, in unveiling how international lenders propped up the illegitimate regime. But even in European societies, it digs deep into the connections between power and finance, unveiling how and in whose interests an economy works.

Most debt audits have been done on a shoestring budget, using what information can be gleaned from freedom of information and other research. The Brazilian Citizen Debt Audit was the first such initiative in 2001. In 2006, President Correa made Ecuador the first country to hold an official audit, declaring 'my only debt is to the people'. Despite the presidential backing, the audit was a mammoth task, which encountered constant resistance from civil servants unwilling to disclose the secrets of former regimes.

In 2008, the audit commission reported that debt had done 'incalculable damage' to Ecuador's society. It uncovered numerous illegal, useless and extortionate loans that had bled the country
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Argentinian government to build on this by creating a different form of economic development. In spite of rapid growth, poverty remains at 30 per cent, inequality is high and the majority continue to suffer from a debt-led form of ‘development’.

Audits in Europe
Clearly debt in Europe has many differences from debt in the global South. Little European debt today was run up by dictatorial regimes, and the payment of that debt will not lead to the levels of hardship experienced by truly impoverished countries. But issues of wealth and power redistribution, of who controls our society and who foots the bill for that accumulation of power, are the same everywhere.

What does the Greek audit hope to uncover? Greek academic and activist Costas Lapavitsas has said he is not certain that the bulk of Greek public debt is legal, given especially that it has been contracted in direct contravention of EU treaties which state that public debt must not exceed 60 per cent of GDP – something the creditors were fully aware of. Some Greek debt was managed by Goldman Sachs to hide the true extent of Greece’s liabilities. According to Lapavitsas, the bailout package itself was not contracted in accordance with normal parliamentary oversight.

We in Europe are living in a society in which financial interests have captured our governments, control our economies and eat into every aspect of our lives. They have even captured our very notion of democracy – overruining the fact that true democracy cannot really exist in a society of vastly growing wealth differentials, where bankers pull all the strings. Struggles for political democracy cannot hope to succeed separate from struggles for economic democracy. Debt audits are means of seeing democracy in a more holistic way. Their adoption could help pave the way for a genuine break with the failed economic policies of the past.

More information:
- www.puebloedebtcampaign.org.uk
- www.dividai-auditoriaiddade.org.br
  (Spanish)
- www.elpigr.gr (Greek)
- www.sadim.org
Life after default

ALAN B CIBILS looks at some lessons from Argentina on dealing with debt default

The current crisis in the eurozone periphery has many of the same ingredients that led to the Argentine debacle of 2001-2002: repeated bailouts making already unsustainable debt loads even more unsustainable, the IMF's mistaken prescriptions for spending reductions, and financial market intransigence. So it may be helpful to look at the lessons from Argentina's debt crisis – and eventual default in 2001 – to see what worked and what should be avoided.

1 Default is a viable option
Argentina's experience shows that defaulting was not the disaster many predicted. Indeed, the default stopped the economy's four-year free fall and helped put an end to unviable exchange rate and monetary policies, freeing up resources for more socially productive uses. Whether Argentina then made the best use of these resources is debatable. However, it is unquestionable that default was the correct and most efficient option given the circumstances.

2 The IMF does not possess the know-how or the theoretical framework to deal with financial crises
The IMF's 'one size fits all' approach to economic policy and crisis resolution has failed repeatedly and catastrophically around the world, as it is failing in Greece, Portugal, Ireland and Spain. IMF-promoted public spending cuts only deepen the recession, as any introductory macroeconomics student knows. Asian and Latin American nations have learned this lesson well. Their massive foreign reserve accumulation serves as insurance against ever having to follow IMF advice again. While reserve accumulation can be costly, it is less costly than following the IMF's advice.

3 Default should be approached holistically and not exclusively as a financial issue
Ideally, the opportunity of debt restructurings will be used to perform a thorough debt audit and establish what portion, if any, of accumulated debt society should have to pay. Despite well-documented irregularities and fraud, which greatly contributed to debt build-up, Argentine officials chose not to perform a debt audit, therefore legitimising the corrupt dealings of the military dictatorship and the Menem and De la Rúa administrations. Indeed, President Cristina Fernández de Kirchner stated in 2010 that there is 'no such thing as illegitimate debt', thwarting efforts by activists and opposition politicians to conduct a much-needed debt audit.

4 Debt restructuring should not be geared to pleasing financial markets
For a debt-restructuring process to result in a sustainable debt load, it must be based on an economy that grows thanks to strong internal markets. For this to take place, it is fundamental to have productive investment and an equitable distribution of income. This is the opposite of 'Washington consensus' (neoliberal economic) prescriptions.

5 Recovering the ability to conduct independent exchange rate and monetary policies is key to economic recovery
In the Argentinean case, replacing the fixed exchange rate regime with a more flexible arrangement and regaining control over the national currency resulted in six years of record economic growth. The current European rules, designed according to orthodox economic prescriptions, allow no room for the expansionary policies needed in a recession. If these rules persist, there will be no option but to exit the arrangement and return to a national, sovereign currency.

The good news is that there is life after default. Indeed, life emerges after default. However, it is crucial to break with neoliberal economic constraints if sustainability and a better distribution of the fruits of society's efforts are the objectives.

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Lifting the lid on the loan sharks

Nick Dearden interviews Brazilian activist MARIA LUCIA FATTORELLI about debt audits in Brazil and Ecuador

What progress have you made with debt audits?
Since 1988 the Brazilian constitution has included an obligation to hold an official debt audit, but it has never been carried out. In 2000 we organised a popular plebiscite and more than six million people voted to stop paying the debt until the audit was held. We took matters into our own hands and set up Citizen Debt Audit, which aims to conduct research, educate, mobilise and examine legal arguments.

In 2009 we achieved the creation of an official commission for investigation of the debt. We were also invited to take part in Ecuador’s debt audit commissioned by President Correa in 2007.

What did the citizen audit and parliamentarian investigation find in Brazil?
The parliamentary commission found that the international ‘debt system’ continuously generates new debt to pay previous debts. New debt is always much bigger, despite the huge servicing payments. Our research proved that the main component of Brazil’s large debt has been high interest rates, which means that it hasn’t represented a real benefit to the country.

The government transformed Brazil’s ‘external’ debt into ‘internal’ debt, but it is still owed mainly to foreign banks. It is growing fast and the repayments accounted for 45 per cent of the national budget in 2010. That’s why, despite being the seventh largest world economy, Brazil still has more than half of its population living in poverty.

Despite its severe diagnosis, the commission didn’t recommend a full debt audit. However, eight parliamentarians joined with activists to present an alternative report, which went much further in exposing the illegal and detrimental impact of Brazil’s debts – even finding that some clauses in the debt contracts breached the constitution.

What did the audit find in Ecuador?
The audit exposed the manifold problems of Ecuador’s debt history. In particular, much of the debt was run up by a small group of large international banks aggressively pushing debts onto Ecuador in the 1970s, then restructuring those debts in the 1980s, under pressure from a cartel of creditors comprising the largest banks, the IMF and Northern governments. Debts that were worth very little were restructured at their full value, with abusive interest rates and illegal terms.

The proof of so many illegalities allowed President Correa to suspend interest payments and then agree to pay only 30 per cent of the face value of its ‘bond debt’. It demonstrated that a country can suspend payments and achieve positive results when backed by a properly documented audit report.

How were the results used by government and civil society groups?
In Ecuador civil society is well organised and the audit has led activists into campaigns for greater economic justice – pushing for new financial architecture such as the Bank of the South, control of capital flows and popular tribunals to adjudicate on economic justice and ecological debt.

In Brazil, the government has not taken advantage of the investigations and continues to ignore the call for a debt audit partly because the electoral campaigns of the major candidates are funded by financiers and partly because of the power of financial markets to blackmail governments.

The campaign against debt became more difficult after Lula became president. For 20 years he had opposed the debt but as president he retained the privileges of the ‘debtor system’. In fact, things became even worse after Brazil repaid its IMF debt in 2005. Most people took this to be the end of the matter, when in fact it was a very small part – only 2 per cent – of Brazil’s debt.

Besides, our debt simply changed hands. To pay off this debt in advance to the IMF, Brazil took on new and more expensive debt. While IMF interest was 4 per cent, the new debt bonds carried interest of 7.5–12 per cent for external bonds and 19 per cent for domestic bonds. Once again this damaged the country to the great profit of creditors.

It seems that there is a big risk that the state can co-opt the auditing process. How can these lessons be built on in future audits, especially in Europe?
The only remedy I see to prevent it is to empower civil society. That’s why it is so important to start right away on a citizens’ audit, involving as many organisations as possible – because debt problems affect the lives of everyone. As people begin to understand the ‘debt system’ and the results of the audit, it is more difficult for governments to co-opt the process.

Very similar means to those now being employed in Europe have been used to create ‘public debt’ in Latin America since the 1970s. The experiences of audit debts in Ecuador and Brazil have proved that in the last 40 years this kind of debt in bonds has been used as a mechanism to transfer public resources into the private financial sector.

Everywhere public finances have been usurped. We can’t keep paying illegal debt with our jobs and our lives.

Maria Lucia Fattorelli was a member of Ecuador’s debt audit commission, an advisor to the commission of public debt in Brazil and coordinator of Citizen Debt Audit: www.divida-auditoria-cidadada.org.br
The tiger that didn’t roar

Ireland has undergone one of the largest fiscal adjustments in the rich world since the start of the economic crisis, with €20 billion in tax increases and spending cuts. But the public response has been muted. ANDY STOREY reports

On an Easter Monday 2011, the Irish justice and human rights group Action from Ireland (Afri) launched a satirical version of the 1916 proclamation of Irish independence at Arbour Hill cemetery in Dublin, where the leaders of the Easter Rising are buried. Actor and writer Donal O’Kelly read out the new proclamation on behalf of the bondholders to whom Irish people’s money has been pledged through the 2008 bank guarantee that obliged the Irish government to pick up the tab for the losses of Irish banks:

‘We declare the right of senior bondholders to the ownership of Ireland, and to the unchallenged control of Irish destinies, to be sovereign and indefeasible... the senior bondholders are entitled to, and hereby claim, the allegiance of every Irishman and Irishwoman.’

The proclamation was signed by ‘financial speculators unknown to you’ and O’Kelly’s wearing of a face mask symbolized the shadowy, opaque nature of the creditors to whose upkeep Ireland’s future has been mortgaged.

Remarkably, there has been limited public outrage in Ireland over this scandalous socialisation of private debt. This is despite the fact that more than €20 billion of ‘fiscal adjustment’ (tax increases and spending cuts) has taken place since the crisis broke. In the words of the Irish economist Karl Whelan, this is ‘the equivalent of... €4,600 per person... the largest budgetary adjustments seen anywhere in the advanced economic world in modern times’. There will be an estimated €6 billion in further spending cuts and tax increases in 2011, and an average annual of approximately €3 billion for each of the next three years.

Unemployment is in excess of 14 per cent (446,800 people), with more than two fifths of it long term in nature. Emigration is estimated at some 60,000 per annum. And the economy, not surprisingly, is mired in recession, with investment down from more than €48 billion in each of 2006 and 2007 to a little over €18 billion in 2010. Capital, as Irish sociologist Kieran Allen puts it, has gone on strike.

So why are the people not out on the streets in revolt? A key role has been played by the absence of leadership from most of the trade unions, whose long history of cooperation and dialogue with the government has blunted whatever appetite for struggle they once possessed. A hegemonic media insists that ‘there is no alternative’, amidst fear generated by the threat of unemployment and even homelessness – one in five households suffers from ‘negative equity’ (their house is worth less than the mortgage). Moreover, many people vested their hopes in the February 2011 election, when the government that oversaw the crisis was ousted, only for its successor to pursue exactly the same policies of debt repayment and austerity.

How can the necessary outrage be generated? One contribution would be to lift the mask behind which the financial speculators are hiding and to unveil the reality of their scams and predations. The central point is to untangle the web of secrecy around the debt and work out who lent what to whom, and for what purpose. There is an expectation that at least some of the debt would be found to be ‘illegitimate’ and could, therefore, be repudiated.

Afri and some other organisations (the Debt and Development Coalition Ireland and the trade union Unite) have launched a debt audit in Ireland. A small team of independent academics – with expertise in economics, finance and related disciplines – is trawling through the books to see if they can answer various questions. The most basic is: to whom is the bank debt (for which the state has assumed responsibility) owed?

We already have our suspicions. One estimate is that a 50 per cent write-down on the debt of the EU peripheral states would wipe out €850 billion of capital in German and French banks alone. To stop that happening, money is being channelled from European taxpayers and the European Central Bank through Ireland, Portugal and Greece to the financial institutions of Germany, France and elsewhere. This is the logic of the so-called bailouts.

Andy Storey is a lecturer in the school of politics and international relations, University College Dublin. For more information on Afri’s work on the Irish debt audit, see: www.afri.ie

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