

Extrait du CADTM

<http://cadtm.org/Alternative-ways-out-of-crisis>

In the eye of the storm: the debt crisis in the European
Union (7/7)

Alternative ways out of crisis

- English -

Date de mise en ligne : Monday 26 September 2011

CADTM

In July-September 2011 the stock markets were again shaken at international level. The crisis has become deeper in the EU, particularly with respect to debts. The CADTM interviewed Eric Toussaint about various facets of this new stage in the crisis.

Part 7: Alternative ways out of crisis [1](#)

CADTM: During this talk, you have claimed that Greece is forced to choose between two options:

- ▶ either to eat humble pie, resigning itself to turning to the Troika;
- ▶ or to refuse the dictates of the markets and the Troika by suspending repayment and calling an audit in order to be able to repudiate the illegitimate part of the debt. You have described the first option. Could you now explain the second in more detail?

Eric Toussaint: We talked about the case of Greece. It is important to mention that other countries are now being confronted with the same choices - Ireland, Portugal, not forgetting Hungary, Bulgaria, Romania, or even Latvia - to mention ones in the European Union. There is every reason to believe that tomorrow it will be the turn of Italy and Spain. And we should not be surprised to see yet other EU countries in a similar predicament the day after tomorrow, because the crisis is accelerating rapidly. Outside the EU, Iceland is another high risk case.

The best thing would be for these countries, subject to blackmail by speculators, the IMF and other organizations such as the European Commission, to resort to a unilateral moratorium on public debt payments. Commitment to such a unilateral sovereign act would completely transform the balance of power to the detriment of the creditors. Whether they are banks, insurance companies or pension funds, they would be in such haste to sell off their bonds that interest rates would plummet to almost nothing. As for the Troika, it would be obliged to seek to negotiate concessions. Russia in 1998, Argentina in 2001 and Ecuador in 2008 all declared unilateral moratoria on their debt payments, and they all came out of it very well. [2](#)

It is important to take stock of these recent experiences and to see how to apply the best strategy so that the population can see improvements in their living conditions and make a tangible break with the capitalist system.

CADTM: What other immediate measures are needed alongside a unilateral suspension (moratorium) of debt payments?

Eric Toussaint: A unilateral moratorium should be combined with an audit of public loans (with the participation of civil society). The audit must allow the necessary proofs and arguments to be brought before the government and popular opinion to justify the cancellation/repudiation of the part of the debt identified as illegitimate. International law and each country's domestic laws offer a legal basis for the sovereign unilateral act of cancellation/repudiation. [3](#)

For countries who resort to suspension of payments, there needs to be a moratorium without delay interest on the part not paid.

In other countries, such as France, Belgium, Great Britain, it is not necessarily imperative to decree a unilateral moratorium while the audit is made. The audit is required to determine the extent of cancellation/repudiation to be

effected. Should the international conjuncture deteriorate, suspension of payments could become a necessity, even for countries that claim to be safe from the blackmail of private creditors.

CADTM: And how can civil society participate?

Eric Toussaint: The participation of civil society is imperative to guarantee that the audit is carried out both efficiently and transparently. The audit commission should be composed of, for example, different bodies of the State concerned, so that they can report on its work. In any case, it is the participation of the social movements, of grassroots civil society, that will be the key to the audit's success. Social movements can designate their own experts in public finance auditing, economists, jurists and constitutionalists. Obviously the different social movements affected by the debt crisis must also be represented. The audit ought to help determine the different responsibilities in the indebtedness process and demand that those responsible, nationally and internationally, be brought to justice.

CADTM: In most cases, the ruling class has no interest in seeing an authentic audit carried out under the auspices of civil society. In other cases, it may resign itself to the idea in order to circumvent the problem.

Eric Toussaint: That is quite true. The case I mentioned earlier corresponds to a situation where strong popular mobilization brings left-wing forces into government who will adopt policies in the interests of the people or go even further. I am reminded of something Arthur Scargill, one of the main leaders of the Miners' Strike in Britain in the mid-eighties, said. Basically he said that they needed a government as true to the interests of the workers as Margaret Thatcher was to the interests of the capitalist class. In the present situation in Europe, we are still far from achieving that. We are confronted with governments who are hostile to the idea of an audit and unwilling to call debt repayment into question. That is why we need to constitute proper citizens' audit commissions without government participation.

CADTM: Who will have to foot the bill of debt cancellation?

Eric Toussaint: Whatever happens, it is only right and proper that the private institutions and high-earning individuals who hold the debt paper should bear the brunt of cancelling illegitimate sovereign debt since they are largely responsible for the crisis, and furthermore, they have largely profited from it. Making them bear the cost of cancellation is only fair, if there is to be a return to greater social justice.

CADTM: Will small stock-holders or salaried workers who hold public debt paper through pension savings also have to pay up?

Eric Toussaint: A proper survey of debt-stock holders needs to be drawn up so that citizens of modest or middling means among them can be indemnified.

CADTM: What will happen to those responsible for illegitimate or odious debt?

Eric Toussaint: If the audit proves the existence of offences linked to illegitimate indebtedness, the offenders will be severely condemned to make reparation and should not escape prison sentences in accordance with the seriousness of their felony. As for government authorities that have instigated illegitimate borrowing, they must be held accountable.

CADTM: What about the part of the debt that cannot be declared illegitimate, illegal and/or odious?

Eric Toussaint: For debts that are not deemed illegitimate, creditors should be made to contribute through reduction of stock and interest rates, as well as by rescheduling payments over a longer period. Here too, positive discrimination should be adopted in favour of small public debt holders, allowing them to be repaid on normal terms. Moreover, the amount of funds in the State budget earmarked for debt repayment should be limited as befits the state of the economy, the government's capacity to repay and the incompressible nature of social spending. Such practices will emulate what was done for Germany after the Second World War. The 1953 London Agreement on the German debt, which consisted, for example, of reducing the debt stock by 62%, stipulated that the ratio of debt service to export revenues should not exceed 5%. [4] A ratio of the following type might be defined: the sum allocated to debt repayment may not exceed 5% of State revenues. A legal framework is also required to avoid a repetition of the crisis that started in 2007-2008: socializing private debts should be prohibited; a permanent audit of public debt policy with citizens' participation should be mandatory; there should be no prescription for offences linked to illegitimate indebtedness; illegitimate debts should be ruled null and void... and so on.

CADTM: Debts can be cancelled, but what could be done about the rest?

Eric Toussaint: A whole panoply of further measures are needed. Austerity programmes must be stopped; banks should be transferred to the public sector; radical tax reforms are required ; sectors privatized during the neoliberal era should be socialized there must be a radical reduction of working hours. [5] All these measures have to be implemented, as debt cancellation, however necessary, will not suffice if the logic of the system remains intact.

End of the seventh part and of the series

Translated by Christine Pagnouille and Vicki Briault in collaboration with Judith Harris

Post-scriptum :

Éric Toussaint, doctor in political sciences (University of Liège and University of Paris 8), president of CADTM Belgium, member of the president's commission for auditing the debt in Ecuador (CAIC), member of the scientific council of ATTAC France, coauthor of "[La Dette ou la Vie](#)". Aden-CADTM, 2011, contributor to ATTAC's book "[Le piège de la dette publique. Comment s'en sortir](#)", published by Les liens qui libèrent, Paris, 2011.

[1] See the first part "[Greece](#)", the second part "[The great Greek bond bazaar](#)" the third part "[The ECB, ever loyal to private interests](#)", the fourth part "[A European Brady deal: austerity for life](#)", the fifth part "[CDS and rating agencies: factor\(ie\)s of risk and destabilization](#)" and the sixth part "[Has the crisis peaked yet?](#)"

[2] See Damien Millet, Éric Toussaint (eds), [La dette ou la vie](#), Aden-CADTM, 2011, chapter 19. On 19 July 2011, the *Financial Times* (p.7) devoted a whole page to the relative success Argentina had had after refusing to repay a substantial part of her debt. Referring to Argentina and Russia, Joseph Stiglitz, winner of the Bank of Sweden's prize for economics in memory of Alfred Nobel in 2001, who presided President Bill Clinton's council of economists from 1995-1997 and was Chief Economist and Vice-President of the World Bank from 1997 to 2000, argues strongly in favour of suspending repayment of public debt. In a collection of essays published in 2010 by Oxford University Press (Barry Herman, José Antonio Ocampo, Shari Spiegel, *Overcoming Developing Country Debt Crises*, OUP Oxford), he claims Russia in 1998 and Argentina in the 2000s demonstrated that unilateral suspension of debt payment could be beneficial for countries who decide to take that course of action. "*Both theory and practice suggest that the threat to turn off the credit tap has probably been exaggerated*" (p.48). In an article published in the Journal of Development Economics entitled "*The elusive costs of sovereign defaults*", Eduardo Levy Yeyati and Ugo Panizza, two economists who have worked for the InterAmerican Development Bank, present the results of their meticulous research into cases of default of payment in about forty countries. One of their main conclusions was: "*Periods of default of payment mark the end of economic recovery*" (in Journal of Development Economics 94, 2011, p. 95-105). For more on Russia and Argentina, see also: C. Lapavistas, A. Kaltenbrunner, G. Lambrinidis, D. Lindo, J. Meadway, J. Michell, J.P. Painceira, E. Pires, J. Powell, A. Stenfors, N. Teles: "The Eurozone between Austerity and Default", September 2010, <http://www.researchonmoneyandfinanc...> About lessons for Greece from Argentina , see Claudio Katz : <http://www.cadtm.org/IMG/pdf/Leccio...>

Alternative ways out of crisis

[3] See Damien Millet, Éric Toussaint (eds.), [La dette ou la vie](#), Aden-CADTM, 2011, chapters 20 and 21.

[4] See Éric Toussaint, *The World Bank : the Never-ending coup d'état*, Mumbai: Vikas Adhyayan Kendra; (2007), Chapter 4.

[5] See [Eight Key Proposals for Another Europe](#)