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European Crisis

“All the loans accorded by the Troika are illegitimate”

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In this interview first published in Croatian on the portal net.hr and taken up by several websites in Croatia, Eric Toussaint develops ways out of the debt crisis which are very useful for different countries in Europe and beyond. He comments on the situation in Greece after the elections of May 6, 2012. He tackles the issue of the accession to the EU and the Eurozone that some countries like Croatia, Bosnia, and Serbia are seeking. He also answers to more general questions.

Ana Bena?i? : Mr. Eric Toussaint, you are a political scientist and historian. PhD in Political Science from the University of Liege (Belgium) and Paris VIII (France), Senior lecturer at the University of Liege, President of the Committee for the Abolition of Third World Debt (an international network based in Liege) CADTM, member of the International Council of the World Social Forum since it was founded in 2001, member of the CAIC (Presidential Commission of Integral Audit of Public Credit) in Ecuador, member of the scientific Committee of Attac France[1] and of the scientific network of Attac Belgium as well as the International Committee of the Fourth International.

Having taken part in Ecuador's presidential audit committee, which provided the basis for the non-payment of \$3.2 billion, could you tell us how this was set up and how it worked?

Eric ToussaintÂ : The Ecuadorian government took the independent and sovereign decision to suspend the repayment of thirty percent of their foreign debt, accumulated over thirty years to 2006, following the results of a public debt audit. I was one of 18 members of the Audit Committee created by the new presidency of Ecuador in July 2007. Twelve members were Ecuadorian, and six from other countries, selected among public debt experts. There were also four state organs involved: Anticorruption Commission, Government Accountability Office, Ministry of Finance and Ministry of Justice. For fourteen months we analysed all the contracts concerning the country's public debt - to the World Bank, International Monetary Fund - bilateral debts to France, Spain, Japan, USA and Ecuadorian government bonds traded on Wall Street. After four months, we had identified a huge amount of illegitimate debt.

Ana Bena?i? : Thirty percent of the debt?

Eric ToussaintÂ : No, no. There was more. But the government decided to suspend only a part (thirty percent of the total amount) of what we considered illegitimate. They feared that suspending the totality would unify the creditors. So the suspension was concentrated on the Wall Street bonds.

Of course the creditors angered and put on a lot of pressure, Raphael Correa held good for six months then offered a thirty-five percent deal: for every thousand dollars of bonds, the offer was three hundred and fifty dollars. Ninety-one percent of bondholders accepted. The government saved seven billion dollars that could then be used on public expenditure such as education, public health, infrastructures and job creation, etc.

Ana Bena?i? : This resulted in an embargo by the financial markets, but there were no catastrophic consequences – the economy grew by 3.7% in 2010 and by an estimated 5% in 2011 (final figures are not yet available).

Eric ToussaintÂ : Absolutely nothing! No retaliation. No more than creditor's rhetoric, there was absolutely no retaliation.

Ana Bena?i? : What about the credit rating agencies? Did they penalise Ecuador in any way?

Eric ToussaintÂ : Yes, but without incidence. If a country decides to suspend payments, notations from agencies don't mean anything. They only have an impact if you want to finance repayments, but if you don't, there is no impact.

Ana Bena?i? : We are told that if a country defaults, foreign capital will flee, thus devastating our GNP, unemployment rate and general situation.

Eric ToussaintÂ : That did not happen in Ecuador, nor Argentina. Argentina suspended repayment of 100 billion dollars at the end of 2001, - much more than Ecuador. There was no retaliation. Argentina increased its growth rates to eight percent per year. Doom foretelling prophecies about capital flight, retaliation, etc., did not materialize.

Ana Bena?i? : Iceland also chose bankruptcy over paying their debts.

Eric ToussaintÂ : This is what happened in Iceland.

Private banks went bankrupt in 2008. The governments of Great Britain and Netherlands compensated their residents, to the tune of 3,5 billion Euros, who had lost deposits in the Icesave bank. They then turned to the Icelandic government for reimbursement. The Icelandic government agreed. However, under pressure of mobilisation in the streets and in the presence of a constitutionally established petition against repayment, the president was obliged to convoke a referendum, ninety-two percent of the votes went against repayment. After negotiation between the three governments a new agreement was put to the people who once again voted against repayment by a sixty-three percent majority.

The Icelandic authorities proceeded with the liquidation of Landsbanki, the bank concerned in the Icesave affair. The assets to be liquidated will cover the claims of the secured creditors which include the British and Dutch governments. This is the demonstration that if the people mobilise against the collectivisation of a private debt, other outcomes are possible. It is also important to observe that in the face of the threat of capital flight, Iceland restricted its free movement making such a flight impossible.

Ana Bena?i? : Really?

Eric ToussaintÂ : Really. If they hadn't done so, Landsbanki assets would have left the country in a few days or a week. What is more: surprisingly, the IMF, which is, in theory, totally opposed to the control of capital, accepted this decision. This was passed under silence by the medias.

Ana Bena?i? : How is that possible?

Eric ToussaintÂ : They absolutely wanted to be accepted in Iceland. They had to make concessions to the people and to the government.

Ana Bena?i? : Croatia is not yet in the same situation as Greece. However, over a six-year period one whole year's budget is absorbed by the repayments of loans which have covered deficits, and their interest. This could mean it is impossible to entirely reimburse the public debt. The Croatian minister of finance says that a default would be "a tragedy", unfair to creditors who accorded loan after loan, which were spent rather than invested for development. Is this true? Is this the whole story?

Eric ToussaintÂ : No. There are a lot of cases that show that default is not so tragic. After the Second World War, there were one hundred and sixty-nine defaults on external debts. Rather than a tragedy, it's more or less a current

event in capitalism. It's very important to convince the population of Croatia to proceed to a citizen's audit so as to understand who the creditors are and why the country got into debt, also to identify, through the audit, the illegitimate part of that debt.

Ana Bena?i? : OK, for example : our ex-prime minister is facing trial for corruption. The ruling party's ex-treasurer admits receiving bribes from several firms that won the public tenders for huge construction contracts. Could that be an example of...

Eric Toussaint : Illegitimate debt? It's very clear, yes.

Ana Bena?i? : And we should seek cases of this kind? ?

Eric Toussaint : Not only that. I'm convinced that large parts of the debts of Belgium and Ireland or Spain are illegitimate, for several reasons. For instance, the bailouts of private banks. From 2008 until now, more than 26 billions Euros have been injected into Belgian private banks.

Ana Bena?i? : When our state-owned banks failed during the nineties, the government provided them with a lot of public money. They were then sold under priced to foreign investors.

Eric Toussaint : We consider all bailouts of private banks illegitimate. The Croatian banks were sold to private investors?

Ana Bena?i? : Yes, very quickly after the bailouts. They failed during the war (1992-1995) for several reasons - part of the money was spent on weapons, the people no longer put their money in the banks, so the banks ran out of capital, some of the savings disappeared during the dislocation of Yugoslavia, the state assumed those missing deposits as public debt. A lot of money went astray because of loans that were never repaid to banks that lent to firms and individuals close to the ruling party. A similar thing happened in the last decade, now some of the bankers that were involved are under investigation.

Eric Toussaint : That should also be a subject of an audit, of course.

Ana Bena?i? : Most of these events happened 15 years ago. Does that have an impact on the audit?

Eric Toussaint : Yes. A present debt is illegitimate if it is repaying loans which were contracted to bailout banks. In general, this type of 10 or 15 year refinancing is done by roll-over loans that inherit the illegitimacy of their original loan. An audit must also clearly demonstrate to the population that a debt is illegitimate. To be a success an audit must mobilise the people to put pressure on the government to suspend payments.

Ana Bena?i? : This is one of the great griefs of our recent history. We bailed those banks out, they were then sold to mostly Austrian and Italian investors who nowadays offer loans with incredibly high interest rates. We are one of their favourite markets.

Eric Toussaint : I am sure that the audit is possible. But you must have a social movement that includes jurists, lawyers, expert accountants, but also artists, who claim that illegitimate debt can not and must not be paid. A citizen's audit is a collective endeavour, you have to convince public opinion. It is not easy, but it is perfectly possible.

Ana Bena?i? : How do you explain what happens in Greece? There are initiatives to pronounce a great part of their debt illegitimate, but their creditors are not letting hold and their debts still grow.

Eric Toussaint : On May 6, 2012, in the recent Greek election the people voted most favourably for three parties. The second placed Syriza, a radically left coalition, got 17 percent of the votes. Their campaign was based on the suspension of all external debt payment for three to five years, audits of public debt and the private banks, the cancellation of the illegitimate debt and the application of the Troika (IMF, EU and ECB) austerity plans, elimination of immunity for those responsible for the indebtedness of the country. That was a good score. The polls now indicate that Syriza will win 30 percent of the votes in the next election convoked for June 17, 2012. In my opinion, the campaign for the citizen's audit was not sufficiently strong. I hope the results of this new election will permit the Greek people to relaunch that campaign.

Ana Bena?i? : In your opinion what part of this debt is illegitimate? The Troika is trying to reduce it to the level of four years ago, when the crisis broke out.

Eric Toussaint : All the new debt, all the loans accorded by the Troika are illegitimate because these loans violate social and economic rights, and the Greek Constitution. Now the majority of external Greek debt is owned by the IMF, ECB and the EU. Private French and German banks are still among the main creditors, these debts are also illegitimate, so the greater part of the Greek debt is illegitimate.

Ana Bena?i? : Do you think Croatia should join the Eurozone?

Eric Toussaint : No! Croatia, like Portugal, even Spain, Ireland and Greece, is certainly not able to compete with Germany, Netherlands or Austria within the same currency. Entering the Eurozone will suppress the leeway that accompanies an independent national currency. The UK, which is much more in debt than Spain does not have such problems. Nor does Poland. These countries have their own money. They are in a much better position than Greece or than Hungary, Spain and Ireland who have also experienced a very harsh real estate bubble. No, I don't think Croatia should enter the Eurozone.

Ana Bena?i? : What about the fiscal union? We saw that Hungary was punished by the EU for not reducing their deficit (to 3% of their GDP), causing big street demonstrations. Is that a realistic scenario for Croatia, considering our deficit now revolves around five percent of the GDP and the spring prognosis of the European Commission tells us it will stay at that level in 2013?

Eric Toussaint : I don't think that integration of Croatia into the European Union right now would be any better than entering the Eurozone. I would not have said that three years ago, but the EU has been evolving very badly. The crisis is very hard inside the EU and the policies of fiscal austerity adopted by the governments of the EU, not only the German government, but also the French, Austrian and Belgian governments, make this crisis worse.

Ana Bena?i? : That makes the recession even deeper?

Eric Toussaint : Yes, it has provoked a major recession in the majority of the EU countries. So, it wouldn't be good for a country like Croatia. It would be better to look for regional and bilateral agreements and to maintain the maximum of sovereignty. Not only by an independent currency, but also with independent trade relationships.

Ana Bena?i? : It is said that the GNP of the forty-one Heavily Indebted Poor Countries (combined population: 567 million) is less than the combined wealth of the world's seven richest people. Would you confirm this?

Eric Toussaint : Yes, yes, sure. There have never been such levels of inequality in all the history of humanity - between countries, but also between the citizens within the same country. The question of redistribution of wealth on a worldwide scale, but also on the national scale, to reduce the disparities and the inequalities is a central problem. We must invest a lot of energy to change this situation, it is totally unjust and absurd. If you look at what is going on, for example, in the US, the situation is tremendous. The richest one percent have greater wealth than the poorest 40 percent of the population.

Ana Bena?i? : Less than one percent of what the world spends each year on armaments could have put every child into school by the year 2000 and yet it didn't happen. The malnutrition of more than 100 million people could be relieved with 3 billion dollars a year. NATO is investing one billion more than that to modify one hundred and eighty "stupid" free fall nuclear bombs - into "smart nukes". Would you comment on this?

Eric Toussaint : Global military expenditure has reached more than one thousand billion dollars per year, fifty percent of which is spent by the United States alone, NATO representing a large part of this. Russian and Chinese military budgets are much lower. All in all there is sufficient investment in armament to destroy our planet - seven times. That's a lot of money causing a lot of problems for humanity, we have to mobilise ourselves on this, to refute the propaganda that presents military expenditure as necessary for the defence of the civilized world, protection of democracy and the populations. It is the exact opposite. Military expenses are very dangerous for the survival of humanity.

Ana Bena?i? : What about the theories that our world is overpopulated? Are they racist? They put the accent on the natality of developing countries, as opposed to the relative demographic stability of the developed countries.

Eric Toussaint : There are racist roots to this, but also a lot of exaggeration. There are seven billion human inhabitants on Earth and we know we can nourish 12 billion people without any problem, if the food is correctly distributed. We don't have a problem of overpopulation. The problem of humanity is inequality and the fact that one billion people suffer hunger and malnutrition and that the other part of humanity uses food to produce ethanol, biofuels, etc. It's not only the inequality, but also the absurdity of the productive model.

Ana Bena?i? : What impact does education and women's emancipation have on lower birth rates?

Eric Toussaint : If living conditions were better for the people of the Third World countries demographic increases would slow down. The people are very poor and don't have the protection they need, it is rational to produce sufficient children so that enough of them will survive to take care of their parents in old age. There are no pensions in the poorest countries. If there were organised social protection and pensions, the families would be less numerous. This is the most efficient solution to this problem.

Ana Bena?i? : In conclusion, what can a small country like Croatia do to turn around some of these horrific world trends and make the world more humane? Everything we and our diplomacy did in the last twenty years was, pardon my language, 'sucking up to the big organisations like EU or NATO'. Is Croatia so small that it can make no difference?

Eric Toussaint : A country like Croatia should try to maintain its sovereignty, strengthen the social movements and improve the integration and solidarity between the European forces. When I speak about Croatia not entering the EU, it is not in the nationalistic view. You can be internationalists, you could develop solidarity and collaboration with other people and countries as a sovereign state, without being a member of EU or NATO, etc. It is possible. It is important to understand that it makes no sense to wait for the governments to do what we want. We have to organise

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ourselves, as citizens, to promote alternative solutions and to change the balance of power. After that, we may impose a government that really is the expression of the people's will.

Ana Bena?i? : Eric Toussaint, thank you.

Eric Toussaint : Thank you too.

English version prepared in collaboration with Stephanie Jacquemont and Mike Krolikowski