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Greece

“You can cancel the debt”

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Despina Papageorgiou interviewed Eric Toussaint for the Greek magazine *Crash* in May. The comments of the magazine appear in italics.

He stood alone in front of the crowd; he loosened his tie and opened his shirt. “Here I am, if you want to kill me. Kill your president if you are so dissatisfied, if you are so brave!” The dark-haired, strong-featured man shouted these words, unafraid of the angry crowd. He was the president of Ecuador, Rafael Correa, and facing him were the policemen who, on the pretext of protesting against wage cuts, were actually attempting a coup to overthrow him. Behind this move was the oligarchy of the country, which today still opposes a president who brought his country out of the IMF-World Bank driven “long neoliberal night” and who currently enjoys a popularity of around 70%.

Three years earlier, in 2007, a group of experts entered their respective hotel rooms and were struck speechless: entire boxes of documents from the Ministry of the Economy, pertaining to the period before Correa’s presidency, had simply disappeared. These experts were members of Ecuador’s Debt Audit Committee, which had been set up after Correa’s election. The Committee was composed of twelve experts from Ecuador and six from abroad. The Belgian political scientist and historian Eric Toussaint was one of them. Eric Toussaint is speaking today at “Crash” magazine and he describes how the myth of David conquering Goliath once again materialized in Ecuador, despite the expected difficulties. After 14 months of hard work, the Debt Audit Committee produced the first findings, declaring a large part of the debt illegitimate. The government then cancelled this part, paying creditors only 35 cents to the dollar. Washington had a stroke ...

A decade before, Ecuador was being characterized as a “banana democracy”. Now, according to the British “Guardian” newspaper, it may be “the most radical and enthusiastic place to live”. There are more social benefits, the poor receive allowances and health care is completely free. Public spending has also risen. The percentage of people living below the poverty line has fallen to 28.6% (2011) – from 37.6% (2006).

Eric Toussaint is a professor at the University of Liège (Belgium), the founder and president of the Committee for the Abolition of Third World Debt (CADTM, www.cadtm.org) and the author of many books. He worked voluntarily for Ecuador’s Debt Audit Commission. He has the knowledge and the experience to certify that there is an alternative way. Provided that there is the political will.

We contacted Eric Toussaint via e-mail (“you won’t find him at any specific phone number, he travels all the time”, I was informed). He was obviously interested in the Greek case: “Is it confirmed that you will have elections again?” he asked me. I called him the next day in his hotel in Croatia, where he was to take part in an international forum for the future of Europe.

Eric Toussaint declares categorically to “Crash” that the debt created because of the Memorandum is definitely illegitimate and/or odious. He also publicly states through our magazine that his organisation and he will support any effort in Greece for a Debt Audit Commission. “It is easier for you to analyse your debt than it was for Ecuador”, he says. “So do it!”

Will the new Greek government - after the elections of 17 June - hear the professor’s call? An earlier warning to another Greek government fell on deaf ears. “We had warned George Papandreou in time! Before Greece went to the IMF, the ex-Greek Prime Minister asked Rafael Correa for his advice - based on his own experience - on how to handle the debt issue”, recounted Ecuador’s Minister of Foreign Affairs Ricardo Patinio in a speech in Quito (as quoted by L. Vatikiotis). “The Greek Prime Minister was talking a lot”, Patino continued. “Look”, Correa said. “There is something you must not do and something you definitely must do, in order not to pay. You must not go to the IMF.

And you must create a Debt Audit Committee.” Then Papandreou did exactly the opposite”...

My conversation with Eric Toussaint started with the issue of Greek elections. I remarked that the proposal for the constitution of a Greek Debt Audit Commission came up again in the election period.

It is indicative, though”, I said, “that the proposal was rejected by the two parties that governed Greece for decades. Why do you think they may not want to analyze the debt, and why would they undermine such efforts for its cancellation?

It is clear that PASOK and New Democracy are not interested in supporting an audit, because an audit will show up their responsibility in the country’s debt. They have a huge share of responsibility for the debt in the years 1990 to 2000, and the new debt with the Memorandum. For me this is an illegitimate debt.

It should be mentioned here that illegitimate debt is a debt a) which has been agreed without the consent of the nation, b) the money of which was spent contrary to the nation’s interests and c) the lender of which was aware of the above facts. The term is attributed to the Russian law professor Alexander Sacks, who in fact changed the leading question from “if the country can pay its debt” to “if a country should pay its debt”.

How do you explain that the debt is illegitimate?” I asked Eric Toussaint.

Maybe we should begin with the new debt, from May 2010 until today.

The rules laid down by the Troika are a violation of the economic and social rights of Greek citizens, as illustrated by reduced wages, reduced pensions, the violation of the economic and social rights of the Greek people. For instance, the first Memorandum was not properly deliberated by the Greek parliament; the procedure for the Memorandum was not democratic. The Troika says you must accept. If you do not accept the rules, you will not receive help. All this in total disrespect for the principle of democracy in the governing country. So for me this new debt in 2013 will represent the major part of Greece’s external public debt. This new debt is illegitimate and should be cancelled.

We also have to analyse the debt of the years 1990 to 2000, the debt linked to the preparation of the Olympic Games, and also the debt under whose conditions Greece entered the Eurozone. A great deal of money came from German and private banks of the core countries of the EU. It is clear that a lot of money entered Greece in the form of private or public debt. The private banks of Germany, France, Belgium, the Netherlands and Luxembourg granted these loans because they were profitable for them. And they knew that if any problem occurred, they would be bailed out by the European Central Bank. So we can also discuss, we can question, the legitimacy of this type of loan.

Indeed, the banks were bailed out by the ECB at 1% interest...

The ECB granted loans (in December 2011 and February 2012) for an amount of 1.000 billion euros (1 000 000 000 000 €, -) with 1% interest over three years to help the European banks. The major banks of Germany, France, Belgium, Luxembourg, the Netherlands, Austria, and also the Greek and Italian banks took the money.

And now countries borrow from the banks at high interest...

They receive the money at a 1% interest rate and after that they lend this money to the peripheral countries at 4, 5, 6 or 7% interest. In commercial law, when you finance these loans through credit granted at 1%, it contravenes

commercial rights. These lenders make themselves rich in an abusive way.

So, is debt just a tool used by the financial and political elite to patronize and control the population and impose certain policies?

It is clear that the Troika is using the Greek debt as an instrument, as a tool, to impose a policy which violates the human rights of the Greek people. Greece is being used as an example to blackmail other countries - like Portugal, Ireland, Italy, Spain - and to impose the same type of policy to other countries. Greece is not an exception. Greece is a laboratory where the new shock therapy is being applied.

This brings me to the next question. In one of your recent articles, you wrote “Europe gets shock therapy like Latin America in the 80s and 90s”.

Do you think that Europe, too, has now entered a “long neoliberal night”?

Certainly. The parallel is evident. In the 80s and 90s, the IMF, together with the World Bank and the Paris Club, imposed such a therapy on the Latin American countries, and also on other countries in the Third World, in Asia - for example Indonesia, the Philippines, South Korea - after the Asian crisis in 1997. So it was not only in Latin America, but in all parts of the Third World. We could draw a comparison with the shock therapy applied in Russia, Poland, Hungary and East Germany during reunification in the 90s. So, what are the policies? Privatization, as is the case in Greece right now, increased VAT, indirect taxes on the majority of the population, lay-offs in the civil service, reduced wages, etc.

The classic IMF recipe...

Exactly. What they are doing in Greece was implemented 20 or 30 years ago in Latin America, Asian and African countries and ex-Soviet block countries.

And the results are obvious...

It failed because it didn't create growth, or employment. But the real motivation is not the growth of the economy; the real motivation of the IMF and the other elements of the Troika, the ECB and the European Commission, is to NOT provide growth. They know perfectly that with this type of policy, Greece will not recover at the economic level. They know that perfectly well. They are not stupid. They are clever. They are using the crisis strategically to reduce the wages and the living standards of the population, because they want a country and a world of ever-increasing profits for the big corporations. That's really the motivation. They want to help and strengthen big financial corporations like Goldman Sachs, Deutsche Bank, JP Morgan and all the big private banks in Europe and the US.

Someone who is not a leftist economist, Joseph Stiglitz, the 2001 Nobel prize winner, wrote in his book “Globalization and its Discontents” that if you analyze superficially the policies of the IMF, they could seem absurd and headed for failure, but if you consider that the IMF is helping and servicing the interests of financial capital, you will realize that its policies are really coherent and clever.

And they are trying to persuade Greece that this is the only way to go, but, as you very well know, we have examples of countries that cancelled parts of the illegitimate debt. One such example is of course Ecuador, where you participated in the Debt Audit Commission. Could you tell us briefly how this effort evolved, how it bore fruit?

First, we have to say it was 100% successful. And with no retaliation. What Ecuador did: it elected a new president in November 2006, who by presidential decree, created a Debt Audit Commission in July 2007 to analyze the debt for the period 1976 to 2006. He selected 18 experts, 12 from Ecuador, 6 from abroad. I was one of the six persons from outside the country. He also asked for organs of the State to be part of the Commission, the Anti-Corruption Commission, the General Office of Accountability, the Ministry of Justice, the Ministry of Finance.

So, the government fully supported the effort.

We worked during 14 months and, at the end of the 14 months, in September 2008, we gave our conclusion and recommendation to the government. After two months of deliberation, they decided to suspend the payment of debt in form of bonds.

That’s amazing, it took you only 16 months, 14 for the work plus two for the government to act...

It took 14 months to analyze and two months to discuss within the government what had to be done. We had several meetings with the government during those 14 months and after our conclusion, but the government took the final decision to suspend payments of the bonds. After eight months of not paying, they succeeded in forcing bond holders to accept a 65% reduction in value. The State, Ecuador, bought the bonds at a discount. For a bond valued at 1.000 dollars they paid 350 dollars.

But I guess you faced difficulties. I mean, you stood up to the international creditors, the banks and the system. It was reported in an article that boxes with documents from the Ministry of the Economy disappeared from your rooms.

It is evident that while we were at work, those in power before the election of the new president and who had bribed, or signed illegal contracts contributing to the indebtedness of the country, didn’t want to give us all the documentation we needed for our work. In some regard it was difficult, but at the end we got all the documentation we need.

In the case of Greece, I think in some ways it is easier because more information is available. We know the conditions imposed by the Troika for instance; there is no secret about these conditions. We can analyze exactly what the Troika has done with Greece in the last two years. So we don’t have to really gain access to secrets of State.

The debt of Ecuador had risen from 1.174 billion dollars in 1970 to 14.25 billion dollars in 2006. It was smaller than the Greek debt, though. So I asked Eric Toussaint:

Given that Greece is in the Eurozone and its debt is larger than that of Ecuador, do you think it would be more difficult for Greece to erase the illegal part of its debt?

I believe it is easier to analyze the Greek debt than the debt of Ecuador, because the latter was more complicated and concerned many more contracts than is the case in Greece. In the case of Ecuador, we had to analyze one by one the contracts of the country with the World Bank, the IMF, the Inter-American Development Bank, the 20 countries of the Paris Club, but also its debt (bonds) to the markets.

In the case of Greece, the largest part of the debt is in the form of bonds or loans from the Troika. So I think it’s easier. In the case of Ecuador, the debt might have been relatively smaller, but there were more than 100 contracts. So it was more difficult to analyze.

I remember what the Correa government declared via the then Minister of Finance Ricardo Patino – and it abided by this declaration: “We do not accept what other governments accepted. That is, for our economic policy to be dictated by the IMF. We consider this unacceptable.” Will the Greeks dare to do the same? I asked Eric Toussaint:

The Greek people are afraid that if they analyze and then cancel the illegitimate debt, there could be retaliation from the markets and that they may not even be able to eat. In the case of Ecuador, there was no retaliation. Is there a possibility of retaliation in the case of Greece?

We have to be clear. I said there was no retaliation, but we have to remember that Ecuador no longer goes to the markets to finance its policies. So there was no retaliation, but it is clear that if you stop paying the debt to the private banks, it will be some years before the banks agree to finance you again.

The thing is, though, that Greece, under the present conditions, should find alternative methods of financing its policies and development. Greece should combine a suspension of debt payments and an analysis of the debt, and reform its fiscal policy. It should develop a tax policy that abides by the rule of equality. I should mention, for example, that in Greece, the Church, as well as the defense sector and the shipping sector, are tax-exempt. The various institutions and sectors of the country should contribute to taxation.

You have to draw up a budget based not only on money from abroad, but from inside the country also. And, of course, I don't mean by imposing higher VAT on the poor. I am just saying that sectors which do not contribute to the budget should contribute to it».

Meanwhile, would the Greek people be able to survive?

The answer leaves me speechless:

If you stop paying, you will have the money! If you don't use the money to pay the banks, you could use this money to pay the wages, raise the pensions, pay the public servants, create jobs, stimulate the economy. It is exactly what Argentina did after it stopped paying its debt in 2001. Since 2001, they have not applied for financing from private banks and markets. And Argentina is doing very well. What Argentina and Ecuador did was that they recovered by imposing bigger taxes on big corporations. I insist: it does not mean that Greece should ask the majority of the people, the poor, to pay more taxes. I say that the big private corporations should contribute.

It is indicative that despite the fact that Ecuador is an oil exporter, the country received small revenues from these exports, since the multinational oil companies were getting the lion's share of the profits. This changed when, in July 2010, through a law passed by the Correa government, the State's share in oil exports rose from 13% to 87% on gross oil revenues. 7 out of the 16 oil companies fled the country, and were replaced by State-owned companies. The rest stayed. The increase in State oil revenues was 870 million dollars in 2010.

Moreover, the immediate taxes, imposed mainly on companies, rose from 35% in 2006 to more than 40% in 2011. The project required strong political will in its clash with big interests. There was also a collision with the domestic elite. This leads me to the next issue:

We would also have to open the bank accounts of people that handled the debt. You did that in Ecuador, too.

If we want to show up the cases of bribery, etc. it is clear that the law should initiate the procedure and that the Finance Ministry should call on certain people to answer concrete questions about the wealth, how they got wealthy,

from what sources they received the money they have and the fortune they have accumulated. An Audit Commission would need the help of those in charge of controlling taxes and also the justice department.

You talked about bribes. So you are certain there are bribes.

In some cases. Yes. That may be not the major problem, but it is clear that there were contracts financed by loans, contracts to buy equipment from Siemens etc. Already the justice department in Greece has shown that, in the case of Siemens HELLAS there was a huge amount of bribes to politicians in Greece to approve the contract with Siemens. So it is not a secret. It is well known».

In Ecuador, you also discovered bribes made by multinational companies and banks. Could you give us a couple of examples, besides Siemens?

People in government during the 90s and up to the year 2000 received money to sign contracts with the banks, to accept conditions favourable to the bankers.

Do you mean that bribes were offered so that officials would accept conditions favourable to companies and not to the citizens of the country?

Exactly.

Do you remember some cases?

Citigroup, but also JP Morgan was involved. JP Morgan is well known now because they lost 2 billion dollars ten days ago with CDS.

And there was also the participation of lawyers in New York who specialized in advising banks and government and who also received their intermediaries in corruption.

It is clear that Correa? brought about - at least to a degree - the “Citizen’s Revolution”, which he had declared when he came to power. The president of Ecuador is the West’s “goal against itself”: despite being educated in European and American universities - some of them fortresses of the Chicago School - when he came to power, he practised the exact opposite of what he had been taught. Today, though, he gets criticism even from the left, with the accusation that he has not gone all the way.

Have you had an update from president Correa on the abolition of illegitimate debt?”

In the case of Ecuador, it was 100% successful. I met the president of Ecuador in January 2011, two years after the work of the Audit Commission. He told me it was a 100% success because there was absolutely no retaliation against Ecuador. And he was thinking about suspending other parts of the external debt payment. We will see what he does.

There are critics that say Ecuador didn’t go all the way, that it didn’t continue with the debt audit based on the more recent findings of the Committee...

At the time they were isolated, so it is natural. But they could have done more and they know that. So they are still thinking about other parts of the debt payment.

Meanwhile, however, Ecuador borrows from China at high interest rates.

There are certain agreements between Ecuador and China, for petrol and oil exploration and exploitation and they borrow some money from China’s corporations”.

Eric Toussaint says that he is not a representative of the presidency of Ecuador and that he simply approves the positive political moves and criticizes the negative ones.

China has been the number one lender to Ecuador after the default in 2008. The State agreed on a 2 billion dollar loan in 2011 with the China Development Bank. The conditions of the loan, though, do not seem to have reduced social spending: Ecuador has the highest percentage –in relation to its GDP- in social spending (10%) of all of Latin America and the Caribbean.

Under what conditions can Greece follow the example of Ecuador?

There are two scenarios. If, after the elections, a conservative government follows the Troika policy, it is impossible to imagine such a government supporting an honest audit. That’s the first scenario. The other scenario is if the next election elects a progressive left government. And on condition that it is a progressive, democratic and sovereign government, it will abrogate the agreement with the Troika and should then begin an audit of the debt. So, yes, in this case it will be very positive. Such a government will know how to reveal what really happened with the Greek debt. And, in the first scenario, if you still have a government to uphold the agreement with the Troika, what should be undertaken is a Citizen Audit, totally independent from the government. I would express publicly that in the two cases, if the people want to launch a real citizen audit of the debt, we could support this option. It would be possible in the first scenario, and in the second scenario, where a progressive government suspends the Troika agreement and wants to audit the debt, we would support this initiative with enthusiasm.

Suppose Greece cancels a part of the illegitimate debt. Could this trigger a European “revolution” against debt?

If Greece does that, there will be a lot of people in Portugal and Spain and hopefully in Ireland and Italy, who will support this decision. And they will also have support in countries like France, Germany, Belgium, the UK. We are active in these countries and we have a campaign of solidarity with Greece. Our campaign receives significant support. I would not say, in fact it would not be realistic to say, that people in all these countries already understand what is really happening. But there is a significant portion of public opinion that does understand that the conditions imposed on the Greek population are totally unacceptable, while many people in other European countries are hoping to see the Greek people emerge as an example of a country that has regained its sovereignty and thus be an inspiration to an alternative force in Europe

With this insight to another, democratic Europe, we concluded our conversation with Eric Toussaint. His last phrases lingered long in my mind: Greece could lead the way out of Europe’s “long neoliberal night”.

“I will make you an offer you can’t refuse” was the memorable phrase of “Godfather” Marlon Brando in the well-known movie. In a similar way, Greece seems to be blackmailed into abiding by the Memorandum. But the key to understanding the international elite’s stance against the country lies in the words of the judge towards the Mafia members in this very same movie: “The rotten apple may spoil the barrel”...

...According to the “rotten apple” example (which Noam Chomsky has often used), the reason the US were punishing Cuba was not that Fidel Castro was a real threat to them. Their main fear was that the “rotten apple” - the Cuban leader - might inspire others and create a domino effect that would turn the whole barrel “rotten”. Indeed, as Latin America rode the “red tide” of leaders bent on terminating the “Washington Consensus”, Washington experienced its biggest nightmare.

In the case of Greece, if the “guinea pig occupies the lab” – as Costas Douzinas puts it - if Greece renders the policy of the Troika void and proves that democracies have no dead ends and no unique solutions, Europe can ride towards democracy. In this case, of course, the “apples” will not be rotten. They will just be ripe...

The English version of this interview was prepared with the collaboration of Judith Harris.