Europe Gets Shock Therapy like Latin America in the 1980s and 1990s

EU Crisis

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Eric Toussaint, Doctor of Political Science and President of the Committee for the Abolition of Third World Debt (CADTM), is a member of the Commission for an Integral Auditing of Public Debt in Ecuador (CAIC) whose findings resulted in Ecuador stopping its repayment of part of its debt. He claims that Greece must stop paying its debt and must rise up against the Troika (the European Central Bank, the IMF and the European Commission) otherwise it will sink into the doldrums of permanent recession.

How would you define the predicament of those EU countries which, like Greece, have huge public debts?

Their situation can be compared to that in Latin America during the latter 1980s.

In what ways?

The debt crisis in Latin America erupted in 1982. The crisis of the private banking sector started in the US and in Europe in 2007-2008 and by 2010 had turned into a crisis of the sovereign debt triggered (among other things) by the socializing of private banks' losses[The cost of rescuing banks has been taken on by European governments. Countries in which the debt impact has been most acute are Ireland, the UK, Spain, Belgium, and the Netherlands. Other bailouts are in the offing.] and by lower tax revenues as a consequence of the crisis. In Europe, as in Latin America, several years after the beginning of the crisis private creditors and their representatives have managed to impose conditionalities onto all governments. They force them to implement brutal adjustment policies that result in cuts in public expenditure and a fall in purchasing power for most people. This in turn means that economies sink into permanent recession.

And yet, even at the worst moments of the crisis, Latin America never reached levels of indebtedness comparable to what we are now seeing in most eurozone countries (over 100% of their GDP). The levels European debt has reached are indeed impressive. In Greece it amounts to 160% of its GDP and several other countries in the European Union face public debt that amounts to or exceeds 100% of their production. Clearly there are differences between the two crises but they are not fundamental to my comparison.

You mean that your comparison focuses on the political consequences of the two crises?

Yes, indeed. When I compare the current situation in Europe with the situation in Latin America in the second half of the 1980s, I wish to point out that creditors &mdash; in the case of Europe, European banks and the Troika &mdash; impose measures on Greece (and no doubt on other countries soon) that are strongly reminiscent of the Brady Plan in Latin America at the end of the 1980s.

Could you explain in more detail?

At the end of the 1980s the creditors of Latin America, i.e. the World Bank, the IMF and the Paris Club as well as the US Treasury and the London Club for bankers, succeeded in imposing their agenda and their conditions. Private creditors transferred part of their loans to the multilateral institutions and to the States via securitization, i.e. through turning bank loans into securities. Other bank loans were downgraded and were turned into new fixed-rate securities. So the Brady Plan played a significant role, both in defending bankers' interests and in imposing permanent austerity. The rescue plan for Greece does the same thing: it reduces the value of debt stocks, which will then be swapped for...
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new bonds, as in the Brady Plan. Private banks thus reduce their exposure to Greece (Portugal, Ireland...) as they did with Latin America. Gradually but massively, public creditors take over and exert enormous pressure to ensure that the new bonds held by banks be fully repaid (interest and capital). Every cent of the loans to Greece will be used to repay its debts. Meanwhile its public creditors (the Troika) demand permanent austerity in terms of social expenditure cuts, massive privatizations, regression in terms of economic and social rights, the like of which has not been seen since the end of the Second World War 65 years ago, and a significant surrender of sovereignty in those countries unfortunate enough to have recourse to their loans. In Latin America this period was called "the long neoliberal night".

Creditors also forced Latin American countries to reduce wages, retirement benefits and social spending, and to comply with the absolute demand that debts had to be repaid.

This is why I am saying that we are in a similar situation. Not all European countries are yet involved; only the weaker links such as Greece, Portugal, Ireland, Italy, Spain, Hungary, Romania, the Baltic Republics and Bulgaria are. However, these countries together account for about 170 million inhabitants out of the total EU population of 500 million. Most other European countries also implement conservative social policies, though in a less brutal way: the United Kingdom (62 million inhabitants), Germany (82 million inhab.), Belgium (10 million inhab.) and France (65 million inhab.), for example.

The political consequence of the debt crisis in Latin America was the creation of the neoliberal state. Is this what we are heading towards in Europe?

This is nothing new. For the past three decades neoliberal policies have been implemented in Europe. It is obvious that the response to the crisis that is formulated by the IMF, governments that defend the interests of the ruling classes, big banks and large companies, consists in implementing a shock therapy of the kind described by Naomi Klein. Their aim is to finalize the neoliberal project as it was launched by Margaret Thatcher in the UK in 1979-1980 and spread through the rest of Europe in the 1980s. For Central and East European countries that used to be part of the Soviet block, it is actually the second shock therapy in 25 years.

But in Europe there is still some social welfare.

As I've just said, governments have started destroying the Social Pact and doing away with social rights acquired between 1945 and 1970. This is what Thatcher started. After the Second World War, and for thirty to thirty-five years, peoples had won a number of victories and obtained a fairly solid system of social protection: collective conventions, labour laws, etc. that protected workers and prevented the abuse of casual labour. Thatcher wanted to do away with it all, but after thirty years of neoliberal policies they still haven't completed the destructive work they set out to do: some things remain.

And the debt crisis provides the opportunity to consolidate what Thatcher had started.

The crisis allows for a shock therapy of the kind creditors and the ruling classes enforced in Latin America in the 1980s and 1990s.

In Peru it was implemented in August 1990.

We have entered a stage of new privatizations of public companies. In Europe they intend to privatize the significant public companies that still subsist.
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Will Europe also have to face the security doctrine that was implemented in Latin America, where the trade unions were defined as terrorist?

A trend towards more authoritarian forms of power is clearly present in Europe. Over the past decade, anti-terrorist laws that criminalize social movements have been voted in. Repression is on the increase but does not involve the physical elimination of activists as was the case in Latin America at the end of the 1970s and in the early 1980s. In this, too, the European situation is similar to that of Latin America countries. After the bloody dictatorships (Argentina, Chile, Uruguay, Brazil), transition regimes (Chile, Brazil) or democracies implementing harsh neoliberal policies were set up. In Europe we are going through a period when legislative power is pushed aside, business people become heads of state as in Italy, social dialogue is abandoned while the right to go on strike is restricted, picketing forbidden and demonstrations repressed.

How do European national parliaments respond to these austerity measures?

They are pushed aside, since the Troika tells governments: 'If you want to get loans, you have to implement adjustment measures and there is no time for parliamentary debate'. Some plans have to be adopted within a few days, sometimes even within 24 hours.

As can be seen in Greece.

Yes, this is what has just happened in Greece. The Troika demanded a new plan. It eventually received the parliament's assent on Sunday 12 February late at night. But on the next day the European Commissioner for Economic Affairs said that 325 million euros of additional cuts were needed which were to be decided by the Greek government within the next 48 hours. This shows that the Greek parliament has no power to decide and the government is actually run by the Troika.

This led to huge demonstrations.

Not only in Greece actually, but also in Portugal, Spain, France and Italy, with less intensity so far, but they are bound to become more massive. There are mobilizations in several European countries, including in the UK. In Belgium we had the first general strike for 18 years at the end of January 2012. It paralyzed the Belgian economy and transport for 24 hours.

What should Greece do to get out of this quandary?

Greece must stop obeying the diktats of the Troika by unilaterally suspending repayment of its debts, to force its creditors to negotiate in unfavourable conditions. If Greece stops repaying as Ecuador did in November 2008, all bondholders will sell them off at 30% (at most) of their face value. This will jeopardize the position of security holders and give more purchasing power to the Greek government, even in this precarious predicament.

Ecuador stopped paying for securities in November 2008 after an audit of its debt, though it was not as badly off as Greece today. Argentina stopped paying in 2001 in a situation that was similar to that of Greece. Indeed the comparison works better with Argentina which was short of money to pay. It suspended payment and did not resume paying for three years (from December 2001 to March 2005) as regards financial markets; as for the Paris club (i.e. over 10 years) it hasn't started repaying yet. As it did that it relaunched economic growth and imposed on creditors a debt rescheduling at 60% below its initial value.
The consequence of which is that Argentina has been excluded from financial markets up to this day.

This is correct, but Argentina, while excluded from the financial markets for the past ten years and not repaying anything to the Paris Club over the same period, enjoys an average yearly growth rate of 8%. It shows that a country can find alternative financing sources outside the financial markets. Ecuador does not float any new securities on the markets either and its growth rate was 6% in 2011, while Greece's GDP fell by 7%.

But Ecuador borrows from China at very high rates

True. It will have to find a way of protecting its sovereignty as regards these new financing sources. This is why it is so urgent to get the Bank of the South functioning.

Let us get back to Greece. Many analysts, including yourself, claim that most of the Greek debt is illegitimate.

Of course.

But surely, this can only be determined through an audit.

Part of the European social movement has drawn the lessons of the Latin American experience. Our proposal to set up a citizens' audit of the debt has been widely taken up. Citizens' audits are either currently under way, or about to be, in seven European countries (Greece, France, Portugal, Spain, Ireland, Italy, and Belgium), without any government backing.

Do you think this will lead to an official audit of the debt, particularly in Greece?

We shall see. This would require a change of government, which means that the social movement needs to be strong enough to put an end to governmental solutions that favour creditors and to bring an alternative government to power. Latin America needed 20 years to begin to achieve this.

A lot still needs to be done, then, before we see a change in the orientation of European governments such as that of Greece.

Indeed the current crisis may last for ten to fifteen years. This is only the first stage of resistance. It is going to be a long hard struggle. It is of the utmost urgency for European social movements to join forces to express their active solidarity with the Greek people and to set up a common European platform of resistance to austerity so as to get illegitimate debts cancelled.

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