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ROSA LUXEMBURG STIFTUNG (RLS) BRUSSELS
EUROPEAN NETWORK ON DEBT AND DEVELOPMENT (EURODAD)

ALTERNATIVE SOLUTIONS TO THE DEBT CRISIS

CONFERENCE
REPORT

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Bodo Ellmers from Eurodad compiled this report based on notes taken at the Alternative Solutions to the Debt Crisis conference in March 2014 in Brussels. Whilst the author has taken every care to reflect the presentations and discussions accurately, any inadvertent omissions or inaccuracies are the author's own.

Additional information on the conference, including interviews with some of the speakers and their powerpoint presentations, can be found on the organizer's websites:

Eurodad www.eurodad.org
Rosa-Luxemburg-Stiftung, Brussels Office www.rosalux-europa.info

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INTRODUCTION

In March 2014, Eurodad and the Brussels office of the Rosa-Luxemburg-Stiftung brought together politicians, academics and civil society activists from Europe and other regions to discuss alternative solutions to the debt crisis. The conference was scheduled to take place in Brussels in the run up to May's European Parliament elections – the first European elections since the global financial crisis turned into the European debt crisis, and a key opportunity to change the path of European debt policies.

In an age of austerity, in which public spending cuts and structural adjustment programmes are the default answer for governments and international institutions to surging sovereign debt levels, this conference aimed to find more effective and just ways out of the crisis. It aimed to promote the debate about alternative solutions to the austerity policies, bank bail-outs and creditor domination that crisis-hit countries in Europe and beyond have had to endure over the past few years. The ultimate goal was to develop a compendium of alternative solutions and to mobilise the political pressure for their implementation.

Experts and affected citizens from different crisis countries in Europe and the Middle East and Northern African (MENA) region made presentations about how the debt crisis had affected their countries. They described which policy options they expect their parliaments and governments to take, but also the many ways in which citizens are resisting attempts to solve their crisis through adjustments on their costs. The idea was to learn from each other and to connect social movements and activists. Debt crises are not new, although (Western) Europe has largely managed to avoid them since the Great Depression of the 1930s. Many developing countries have more recently experienced how debt crises are used to impose neoliberal transformation processes on them. Some countries have managed to escape. Experienced activists from countries such as Argentina and Ecuador presented case studies where alternative solutions were applied. The idea was to see if these solutions can be introduced in the currently affected countries too.

Last but not least, the conference also aimed to develop a concrete position about the role of the European institutions in solving debt crises. This was a timely question, as the European Parliament had just released a report on the role and operations of the Troika of the European Central Bank (ECB), European Commission and the International Monetary Fund (IMF) with regard to the Euro area programme countries. This report pointed out that there was no appropriate legal basis for setting up the Troika, and that the programme conditions did not respect the Charter of Fundamental Rights of the European Union. For EU citizens and their elected representatives, it is now time to decide who else should make the decisions about managing the debt crisis, and on what basis.

The importance and urgency of searching for alternative solutions is illustrated by the fact that the debt crisis is far from over, as Eurodad's latest research report on 'The new debt vulnerabilities' which was a background document for the conference pointed out. The debt vulnerabilities may differ in different country groupings but no country is immune.

The relatively rich countries have reached sovereign levels that had never been seen before in times of peace. The emerging economies are struggling from volatile capital flows, and the risks of a new debt crisis in this country group are increasing. Debt levels in the poorest countries are rising again, also in part because rich countries prefer to give financial assistance in the form of loans rather than grants nowadays.

In all the countries we looked at, citizens – and often the weakest and poorest citizens – are paying a high price for unresolved debt problems, because governments are using public resources to pay public debt owed mainly to the rich, instead of financing public services. And beyond sovereign debt, there is also the endemic private debt crisis that affects citizens on a daily basis: student debt, mortgages and consumer credit that hold many people in a state of dependency to the debt regime.

This report provides a summary of the conference. It is based on the presentations that experts gave at the conference, and the interventions of conference participants. It concludes with a menu of options, the alternative solutions to debt crises. It does not prescribe or prioritise any of these solutions. It is intended to inform citizens and decision-makers that there are indeed many alternatives, and that their implementation is simply a question of political will.

POLITICS IN TIMES OF DEBT CRISIS

Gabi Zimmer, Member of the European Parliament for Germany's largest opposition party Die Linke and Chair of the Confederal Group of the European United Left/Nordic Green Left (GUE-NGL), opened the conference by questioning the legitimacy of the Troika as lead manager of the debt crisis in the EU. She pointed to the disastrous outcomes of the austerity and adjustment policies that were implemented across Europe. She called for a new and alternative policy that puts an end to austerity and puts people first. Zimmer hoped for a change in EU powers after the European elections in May 2014, to create transnational political cooperation, including social movements as well.

She was joined by the Ecuadorian economist and former minister **Alberto Acosta**, who came to Brussels to return the solidarity that European activists showed to Latin America in the continent's hour of need. Acosta has been an activist in the Latin American debt justice movement for decades, and as a minister, he was one of the policy-makers who designed Ecuador's alternative solution. His government suspected that much of the nation's debt was indeed illegitimate, so Ecuador set up a Debt Audit Commission made up of national and international experts. The report found abusive clauses, usury interest rates and other reasons to declare a large part of Ecuador's debt illegal and even illegitimate. This Audit Report paved the way for a debt moratorium and ultimately a cut in repayments, substantially reducing Ecuador's debt burden. This was ground-breaking in the sense that the ability to repay debt played no role. Ecuador refused to repay on basis of the illegitimacy of creditor claims.

(Eric Toussaint, who was a member of the above-mentioned Debt Audit Commission, shared the process in more detail in the session on alternative solutions.)

Acosta stressed that countries should not be afraid of the consequences of defaulting, as the consequences of continuing to pay are often worse. He was also the first of many experts to positively cite the 1953 London Debt Accord. This was the debt workout of Germany that saw the nation's payments cut by half, and conditioned Germany's debt service upon trade surpluses in order to mitigate the negative impact on growth. He and others questioned why this example is not being followed today and called for debt resolutions that promote rather than hinder development and social welfare.

The panel turned next to the debt problems of post-revolutionary Tunisia, presented by **Mabrouka Mbarek**, a member of the Constituent Assembly and advisor on debt and transparency to the country's president. She criticised the EU's intention of making a proposed macro-financial assistance programme to Tunisia conditional on compliance with a harsh IMF adjustment programme. She described how she is promoting a debt audit bill in Tunisia in order to identify the origins of the debts of the autocratic regime of Ben Ali that were taken out before the revolution, and where embezzled money ended up. She also flagged that other nations refuse to return assets that were stolen by the former oligarchy to Tunisia until there is better evidence that it was originally public money.

The situation in Greece was explored by **Yiannis Milios**, Professor at the National Technical University of Athens and one of the intellectuals behind the Greek left-wing party SYRIZA's economic programme. He stressed that austerity is no solution for a debt overhang country such as Greece because the reduced growth that naturally comes with austerity policies makes it ever more difficult to pay off a given stock of debt. "*A serious solution to the debt problem should necessarily come from debt restructuring,*" said Milios. However, he said that powerful economic interests need to be overcome,

as the neoliberal elites in Europe use the debt crisis to impose a neoliberal transformation on the whole continent.

Milios joined Acosta in pointing to a London Debt Accord type conference and restructuring as one way out of the debt crisis, at least for Greece. However, he added that there are two limitations. First, actual debt cancellation is politically difficult to implement. Second, several European countries are in urgent need of reducing their debt burden, including such heavyweights as Italy. In total, several trillion Euros in debt should be cancelled across Europe, which might have severe consequences for the financial system, as well as the pension system.

A second proposal is to reform the European Central Bank (ECB) and expand its mandate. The ECB could purchase government bonds of distressed countries and convert them into zero interest bonds. These bonds would at some point in the future be bought back by the governments. For taxpayers in creditor countries, this option has no costs, which makes it politically attractive. And the ECB would come closer to becoming a real 'lender of last resort' central bank, which has the power to protect sovereigns from the fashions of financial markets.

German Member of Parliament **Axel Troost**, the spokesperson for economic policy of Die Linke, was the final speaker in the opening session and gave another new take on the crisis. He joined in calling for an immediate end to austerity measures and neoliberal restructuring of national economies. However, he argued that the volume of public debt does not matter so much. It is the cost of paying and thus the interest rates that matter most. The key challenge is to bring interest rates down.

One solution is the introduction of Euro bonds because they would do away with the high-risk premiums that 'peripheral' countries in Europe currently have to pay when they borrow on financial markets.

Troost also flagged the role of falling real wages as a cause of the crisis. In particular, Germany's real wages fell in the decade between 2000 and 2010, contributing decisively to the macroeconomic imbalances that triggered the Euro crisis. Generally, the lack of economic policy coordination in areas such as taxation or wages is not compatible with a currency union, according to Troost.

He pointed to the risks associated with debt restructuring and debt audit. A restructuring in one EU country could increase borrowing costs in other countries, he warned, and a debt audit might be a subjective exercise. He emphasised that, in order to address its debt problems, the EU needs to do more to raise public revenues, for example, through the introduction of a financial transaction tax, a bank levy and wealth taxes.

The panelists generally agreed that the existing institutions – such as the IMF, the EU and even the UN – have failed to prevent the crisis or manage it well. In fact, their policies had in many cases reinforced the crisis, they concluded. The importance of new international as well as national institutions, or totally different mandates for the existing ones, became a recurring topic for the conference. Before governance reform was dealt with in more detail, however, the debate turned to the political economy of debt and debt crisis.

WHO PROFITS FROM DEBT AND DEBT CRISES?

Following the panelists' presentations, the first session of the conference dealt with the most basic and at the same time most important question of political economy: *Cui bono – Who profits from debt and debt crises?*

Eurodad's **Bodo Ellmers** kicked off the debate by stating that debt and debt service always have a distributional impact. At the moment of borrowing, money flows from the lender to the borrower. At the time of repayment, more money flows back from the borrower to the lender, the principal plus the interest. Depending on the magnitude of the interest rate, debt becomes an exploitative drain on the borrower's resources. In the case of public debt, money is redistributed from citizens and taxpayers to mostly private lenders who use their capital that way. In the case of external debt, the money used for debt service leaves the country.

The question 'who pays for a debt crisis?' is a highly political one too. Burdens can be placed mainly on the debtor side, imposing a harsh adjustment and austerity programme on them. Or on the creditor side: making creditors take a haircut (i.e. writing off a substantial share of outstanding loans). Even in the latter case, the distribution of burdens between different categories of lenders (e.g. domestic or foreign, private or public) is subject to a political negotiation process in which power imbalances manifest themselves.

Lidy Nacpil, the coordinator of Jubilee South Asia Pacific and former Secretary General of Freedom from Debt Coalition Philippines, presented the picture from the global south's perspective. Developing countries are mostly in a net debtor position and the debt repayments on non-concessional and moderately concessional loans deprive them of scarce resources.

A large share of developing country debts should be considered illegitimate. This includes loans taken out by autocratic regimes – such as those of the former dictator Marcos in the Philippines. He borrowed without having the legitimacy to do so by the citizens who ultimately have to foot the bill, and used the borrowed monies for his own rather than the public benefit. The Western powers – and the international financial institutions (IFIs) that they control – were eager to make loans available to autocrats in return for political favours, and continue to do so.

Among the profiteers are big corporations whose exports to developing countries are often funded by export credits agencies. Western nations and corporations tend to dump defunct and overpriced products on developing countries, funded by tied loans. Nacpil cited the Norwegian ship exports to Indonesia as one example. Norway was, however, one of the few countries that accepted the illegitimacy of such loans – following public outrage and civil society pressure – and cancelled them. Other lender countries and the IFIs are yet to follow this example. Private corporations also profit increasingly from public guarantees such as those implicit in public-private partnership agreements, which offer risk-free investment opportunities for the private side. For the public side, these are *de facto* debts – so-called contingent liabilities.

Nacpil also pointed out the fact that the creditor picture is changing: Countries in the global south are increasingly turning their back on development banks from the global north and are borrowing from private investors on financial markets. In the case of the Philippines, the share of concessional multilateral lenders such as the World Bank fell to 18 per cent, while 70 per cent of public debt now has its origins on financial markets.

**WHO PROFITS
FROM DEBT AND
DEBT CRISES?**

Ironically, the relief of official debt that was granted to many poor countries over the past decade has made them into attractive investment locations for private capital.

But there is a non-financial dimension to who profits from debt. Debt puts debtor countries in a state of dependency. It gives creditor countries and IFIs the power to dictate reforms by attaching intrusive conditions to loans. Structural adjustment programmes imposed by those creditors have led to a deep transformation of the social and economic fabric of developing countries, along the lines of the neoliberal Washington Consensus.

Such a creditor-imposed neoliberal transformation is nowadays also evident in Euro crisis countries, highlighted [Leonidas Vatikiotis](#) in his presentation. Vatikiotis, a Greek journalist and debt justice activist, outlined who the winners and losers of the Greek debt crisis are.

Private banks have been clearly on the winning side of the chosen way of debt crisis management. The long delay until the debt restructuring finally took place in 2012 implied that banks could reduce their exposure to the Greek state. According to the Bank of International Settlement, they had invested €120 billion in Greek sovereign bonds at the outset of the crisis. This has been reduced to €65 billion two years later. Consequently, the huge amounts of money that the Troika creditors lent to Greece has not benefitted the local economy or population. It has mainly been used to bail out banks and other private investors who left the country. While in 2009, Greece's sovereign debt had been 129 per cent of gross domestic product (GDP) and 75 per cent privately held, it is now at a staggering 175 per cent of GDP and 76 per cent of the loans are from official creditors, mainly the Troika.

While the banks have been compensated, the social security systems have been hard hit. Their investments were reduced by €14 billion due to the debt restructuring, meaning lower pensions for Greek citizens.

Ordinary citizens have also suffered from the debt crises and the austerity and neoliberal adjustment programmes that the Troika imposed on Greece. Workers have been particularly hard hit. The minimum wage has been cut by 22 per cent and the collective bargaining system dismantled. The debt crisis was "*the last nail in the coffin of the Unions*", said Vatikiotis. The Troika conditions also included privatisations and reductions of the public sector wage bill. Furthermore, regressive tax reforms hit the poor hardest, including an increase in sales taxes. As was the case for developing countries, the debt crisis has led to a loss in national sovereignty. New EU regulations such as the six-pack and the two-pack regulations that the EU introduced to reduce public deficits and address macroeconomic imbalances are increasingly intervening in national policy-making. According to Vatikiotis, the EU institutions are imposing a neoliberal 'Berlin Consensus' on the debtor countries, similar to the 'Washington Consensus' that used to be imposed on the global south by the IFIs.

Vatikiotis called for the "*imminent and unilateral cessation of payments of public debt*". He argued that Greece's debt falls into the illegitimate category too: the Greek governments of Papandreou and Papademos, who signed the deals with the Troika, had no legitimacy to do so, and the borrowed money has been used for creditor bail-outs rather than for the benefit of the Greek population.

**WHO PROFITS
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Torben Schenk from the trade union UNI Europa, presented a different view on government borrowing. He stressed that public debt is not always a tool of capitalist exploitation. Borrowing can help as an instrument of countercyclical stimulation of the economy in times of economic downturns, when governments need to increase or at least maintain public spending but cannot increase taxes without constraining economic activities even further.

The current debt crisis, however, had its origins in excessive private borrowing and lending. Private borrowing was partly related to the fact that real wages for ordinary workers stagnated or even decreased in many parts of the world, while prices continued to increase and public services were increasingly privatised. Consequently, many individuals had to start borrowing in order to maintain a certain standard of living. Loans replaced labour income as an instrument to finance houses or cars, but even recurrent expenses through credit card debt.

"At the heart of the problem is the declining share of wages," concluded Schenk. Consequently, the Troika institutions' approach to fighting the crisis by further reducing wages and workers' rights is going in precisely the wrong direction. The solution would rather be to work towards a more equal distribution of wealth and income across society.

Equipped with these inputs on the political economy of debt and debt restructuring, the conference took a closer look at specific country crises, starting with those in the Middle East and Northern Africa region.

DEBT AND THE ARAB UPRISINGS

As the Middle East and Northern Africa (MENA) region is the other hardest hit region in terms of debt crises besides Europe, the conference had a regional focus on MENA countries. During the third session, debt issues were said to be contributing factors to the Arab uprisings on the one hand. On the other hand, the political turmoil and its economic consequences contributed to further increasing debt levels.

Zahra Bazzi from the Arab NGO Network for Development explained that before the uprisings, the IMF imposed adjustment programmes on many MENA countries, making governments cut spending and liberalise interest rates. Algeria, Jordan and Tunisia implemented such programmes in the 1980s and 1990s and the IMF was applauding their compliance. The structural adjustment programmes, however, led to a decline in the manufacturing sector's productivity in these countries. It weakened the economy overall and thus both the potential to rely on domestic production to satisfy consumption, and to mobilise domestic resources to finance public goods. Thus, MENA countries increasingly relied on loans to finance imports and public expenses, which inevitably led to a surge in debt levels.

The Arab uprisings have now led to a new wave of IMF influence in the MENA region. In recent years, however, the public has increasingly contested the conditions that governments negotiated with the IMF, especially when it comes to energy subsidy cuts in Tunisia, Sudan and Jordan. An alternative strategy for the MENA region that addresses the roots of the debt crisis would be to pursue a home-grown vision to strengthen the productive sectors of the economy, said Bazzi. There is an urgent need to reform taxation policies, and to achieve a fairer and more equitable distribution of resources.

CASE STUDY: TUNISIA

Fathi Chamki of RAID Attac Tunisia explained that Tunisia's debt surged under the dictatorship of Ben Ali – a trend that has not stopped since the revolution. The debt situation in Tunisia is now worse than before and Tunisian citizens are increasingly angry about the generally desperate economic situation with high unemployment and low purchasing power.

The issue of indebtedness in Tunisia is an issue of power. The best answer to the debt is the same answer as to the revolution: "*Chase it away like we chased away Ben Ali.*" However, the Tunisian people would need the left wing in European states to support them. He stresses that Tunisia needs a government that turns its back on foreign investors and focuses on the needs of its people instead. The Tunisian state has to look for new sources of income to replace borrowing. Higher taxation of wealth and foreign corporations are two areas that offer space for tax increases, said Chamki.

Mabrouka Mbarek, who is a member of the Tunisian Constituent Assembly, highlighted that Tunisia tried to diversify its sources of external funding, including by approaching other countries in the region such as Turkey. But this was unsuccessful, so borrowing from the IMF seemed to be the only alternative for the new government. She is critical, however, of the fact that the EU is ganging up with the IMF. A new €300 million macrofinancial assistance loan from the EU comes with the strings attached of complying with the harsh conditions set by the IMF. She wished that the UN had played a more active role in supporting the Arab transformation countries, as these have little chance to influence the conditions of the EU or IMF. There has been a total lack of transparency in negotiations with the IFIs.

She said that Tunisia wants to transform itself from a consumer country to an export country in order to reduce the dependency on foreign loans, but it takes time to achieve this. The conditions set by the IMF and EU are not helpful in terms of reaching these aims, as they further open up Tunisia's domestic markets for foreign multinational corporations and the import of luxury goods, rather than protecting and promoting domestic industries. Foreign technical assistance is a second channel with which IFIs undermine Tunisia's sovereignty. Consultants appointed by foreign creditors have even been drafting laws in Tunisia, sidelining the people's elected representatives.

Renegotiating the debt and cancelling a substantial share of it would provide necessary breathing space. Mbarek was a key actor in promoting the debt audit bill in the Tunisian parliament but foreign creditor institutions intervened massively, she said. They are concerned that a Tunisian debt audit could cause a domino effect in the region as other debtor countries could question the legitimacy. As the debt audit is directly linked to debt recovery, Tunisia received threats that the rate of recovery would be decreased if a debt audit was conducted.

An alternative way to the stalled government audit would be to conduct an independent citizen audit. At the very least, the post-revolutionary regime in Tunisia has managed to pass better laws for transparency, which facilitates accountability work by citizens.

CASE STUDY: EGYPT

The case of Egypt was presented by **Mohammed Mossallem** from the Popular Campaign to Drop Egypt's Debt. Mossallem explained that the Mubarak government contracted debt without the consent of the people, and often used it to finance arms deals and projects that involved a great deal of corruption. The economic policies after the revolution have further worsened the country's financial predicament. The new government borrowed money to maintain the old regime's economic model. The military that ruled Egypt for one year accumulated an additional US\$6 billion in debt. There is little budget transparency in Egypt, so citizens do not know what their money is being spent on. The military budget is estimated to account for anywhere between 3 and 40 per cent of the total budget.

Egypt has secured a major new loan package from the wealthy Gulf countries and thus avoided an IMF programme. Agreeing to an IMF loan was not a viable alternative due to the austerity conditions attached. Austerity does not make sense, says Mossallem, when 90 per cent of the economy is dependent on consumption, so decreasing consumption is a strategy that will backfire.

Forty per cent of Egypt's public budget is currently transferred to creditors through debt service. Therefore, Egyptian citizens want to conduct a debt audit to assess how the money has been and is being used, and how debts are being raised. Mossallem said that \$80 billion in debt service were paid from 1981, Egypt still owes \$45 billion. The debt service is a "*redistribution from Egypt's poor to the global rich ... 45 billion dollars in debt is problematic when 40 per cent of the people are below the poverty line.*"

The campaign in Egypt also sees a need for the state to promote fairer distribution of resources, for instance through a progressive tax systems. Currently, the tax rate for the highest incomes is 25 per cent, which is very low compared to other countries.

Many of the challenges that the MENA region is now facing are not so different from those on the Northern shore of the Mediterranean, it transpired when the discussion went on to cover the cases in Europe.

But before this happened, the conference went on to a dimension of the debt crisis that is usually neglected by the great political events.

THE PRIVATE DEBT CRISIS IN EUROPE AND OTHER WORLD REGIONS

Private debt is a topic that tends to receive too little attention in mainstream debt discourse, which often focuses on sovereign debt. Private debt has a clear link to sovereign debt crises, however, as much of the sovereign debt built up over the past few years was caused by taking over private debts on public balance sheets, in particular those of private financial institutions. A key issue to explore during the fourth session of the conference was the debt of private individuals: the how and why do people fall into the debt trap of mortgages, student debt and consumer credits, and how can they escape.

Susanne Soederberg, Professor at the University of Ottawa in Canada, focused on student debts. She explained how cuts in spending for public education and a steep rise in tuition fees have led to mushrooming levels of student debt in the USA. Currently standing at \$1.52 trillion, the amount of outstanding student loans doubled over the last decade. It now exceeds the total amount of all other forms of unsecured consumer debt. Student debt is also the larger component of defaulted debt of private individuals in the USA. A deteriorating labour market and rising employment are key reasons why more and more young people are falling into a debt trap from which there is no escape. Student debt cannot be legally discharged in the USA. All social risks are transferred to the student.

An official report commissioned by the US government put the blame squarely on the lack of financial education on the side of student borrowers, and irresponsible 'sub-prime' lending on the side of creditors. But Soederberg argued that the state cannot be absolved of responsibility. The continuous retreat of the state from public education and the policy choice to use public monies to subsidise a private education system has contributed decisively to the problem, she said.

She also described how the commodification of student debt works. The expansion of loans was facilitated through student loan asset-backed securitisation (SLABS), which linked students with investors on financial markets. This methodology transforms illiquid 'assets' (student loans) into tradeable securities through a Special Purpose Vehicle, a legally created entity called 'Sallie Mae' in the case of US student loans. Sallie Mae, privatised in 1996, is now the main provider of federal student loans.

Soederberg argued that, while debt obligations are an essential feature of capitalism, the fear and respect of the rules of the credit system are not natural, but are continually reproduced, depoliticised and legitimised by the state, including through the legal system. The US Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, for instance, made sure that private loans are no longer dischargeable, i.e. a private insolvency procedure is nearly impossible. At the same time it empowered the creditors by granting them 'super-creditor' status, which gave them limitless powers to garnish student debtors' wages, tax refunds and even social security payments.

Addressing these problems would require curtailing the power of educational lenders by subjecting them to legally binding laws, and to move from loans to grant-based aid for poor students. Or, more fundamentally, it would require a reorientation towards a public education system.

Emma Bryn-Jones from the NGO Zero Credit presented the troubles with private debt from a mainly British perspective. She provided additional evidence that recent legislation reforms favour lenders over borrowers. In the case of mortgages, for instance, new UK legislation permits that borrowers lose their home if they default on debts.

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In the UK, 8.8 million people are overindebted. This private debt crisis is closely related to a second problem – the cost of living crisis. The prices that families have to pay to reach or maintain a certain standard of living rise faster than wages, so loans fill the gap between income and expenses. Even left-wing politicians in the UK demand easy access to credit as one way to cover living costs, and credit agencies try to persuade people to take out loans through media campaigns.

People are affected by a consumer optimism bias, said Bryn-Jones. They expect their circumstances to be positive, which facilitates overborrowing, including in years of higher earnings and by groups that yield relatively high incomes.

While 80 per cent of overindebted adults wish to solve their problem, only 20 per cent of them seek advice. The framework conditions are unfavourable. As well as the legal constraints, the fees for insolvency procedures have been raised. There is also a gender dimension to private debt and debt collection: *“Women are more likely to experience debt collection than men,”* said Bryn-Jones.

The perspective of private debt from the global south was presented again by **Lidy Nacpil** from the Philippines. Developing countries are currently experiencing a major transformation, from informal lending to access to formal financial institutions and products, including microcredit. This transformation process is driven by the World Bank and other IFIs that are promoting financial sector development, including in rural areas.

Microcredit programmes often target women specifically. One key reason is that women tend to have a higher repayment rate than men. The economic benefits that are expected from micro-lending often do not materialise, so the repayment of loans drives poor people into even more severe poverty. *“Microcredits are contributing to the feminisation of poverty in many regions in Asia,”* said Nacpil.

The borrowing needs of the poor have been boosted by the IFIs’ structural adjustment programmes. These included removing subsidies for farmers, for instance for fertilizers, with the implication that the rural poor had to take out loans. In the rural areas of Asia, overindebtedness became one of the leading causes of suicide.

The debate focused on possible solutions for the private debt crisis and debt trap. These included putting pressure on governments to change the legislative system and shift the power balance (back) to the borrower side. They could do this, for instance, by strengthening insolvency laws and easing insolvency procedures for private debtors, but also by (re-)implementing usuary laws and legally capping interest rates.

In the absence of state support, participants argued, there is a need for citizen action. One is collective default by a larger group of debtors, or repudiation of unjust debts in a collective manner. Existing examples include a group of Moroccan women who refuse to repay as they were not adequately informed about their loans’ conditions. Both in Spain and in Asia there are increasingly strong movements against evictions and foreclosures, in case mortgage holders have to default.

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However, a prerequisite is to work on borrowers' attitudes: "*We are intrinsically motivated to repay,*" said Bryn-Jones, so there is a need to empower the debtor collective and promote the view that debt does not always have to be repaid at any cost, including through educational campaigns. Creditors have to accept their co-responsibility, in particular since a certain default rate is considered in the risk premium on the interest rate that creditors charge to poorer people.

More fundamentally, of course, the private debt crisis can only be solved if the reasons for the high borrowing needs of ordinary citizens are addressed. This includes paying living wages to workers, redistributing resources more fairly through tax justice, and scaling up the provision of public services in essential areas such as education, health and housing.

While there is an urgent need to solve the private debt crisis in order to help those who are directly affected by it, a second reason is that the Euro crisis has proved once again that uncontrolled private lending and borrowing, particularly by the financial industry, can quickly turn whole nations into economic disaster areas.

DEBT, TROIKA AND THE EUROCRISIS

With the European elections right around the corner, for conference participants it was obvious that the way in which the European elites had designed Europe's institutions first caused the crisis and eventually intensified it.

Andy Storey of Debt Justice Ireland described the implications of the European Monetary Union (EMU) in the absence of other coordinated policies. EMU member states cannot devalue their currency, or use accommodative monetary policies to boost their economies. Instead, they turn to 'internal devaluations' such as cutting wages, or indirect costs. Of the EMU countries, Germany pursued the strategy of gaining competitiveness on workers' costs most effectively over the decade that led to the crisis. Nominal unit labour costs increased only marginally (real wages fell), much less than in the countries that would later become the Euro crisis countries.

In the EU environment of unconstrained trade and capital flows, the 'peripheral' countries financed the balance-of-payments problems that resulted through debt, through borrowing from the core zone's banks. This led to increasingly high debt levels in the 'periphery', and to the massive overexposure of 'core' countries' banks. "*The Euro crisis was logical, it was not an accident,*" concluded Storey. "*It is not broken, it was built this way.*" The crisis is the predictable outcome of the rules and institutional setting of the EU where unregulated cross-border flows of goods and capital meet uncoordinated policies elsewhere. The crisis management prioritised costly bank bail-outs because "*one of the principal aims of the centres' authorities was to get their money back.*"

The Irish and Spanish debt crises are distinct from the Greek debt crisis, in the sense that private debt was at the centre. Public debt was negligible. In 2007, at the outset of the debt crises, the Irish public net

debt to GDP ratio was 12 per cent. Spain's was 26 per cent, while Germany's amounted to 50 per cent. Irish private debt primarily resulted from the housing bubble. Quadrupling real estate prices from 1996 to 2007 led to surging levels of household debt. Irish banks financed their operations through borrowing from abroad. The six main Irish banks had borrowed €15 billion from abroad in 2003. The figure had risen to €100 billion by 2007. Early in 2010, the exposure of Eurozone banks to Spain was €727 billion, to Ireland €402 billion and to Greece €206 billion.

The crisis that was caused by neoliberal policies in Europe gave regressive political forces in Europe the opportunity to impose a harsh structural adjustment programme, in particular on the most affected countries but essentially on the whole of the EU. While in the beginning, many proclaimed it as the death of neoliberalism, instead the effect has been to entrench neoliberalism instead. Democratic decision-making processes have been replaced by 'technocratic' dictates that included cuts in public spending, full-scale liberalisation of the economy and comprehensive privatisation of former public enterprises and goods. The crisis also led to distrust of EU citizens towards European institutions, Storey cited Eurobarometer surveys that show particularly low levels of trust in the European Central Bank and the European Council.

Portugal's experience, presented by **Nuno Teles**, is not so different from the Irish experience. The local currency was pegged to the Euro long before the Euro was actually introduced. This peg worsened the real exchange rate and led to a loss of competitiveness. The limited mandate of the European Central Bank, whose sole policy goal is the inflation target, implied that monetary policies could not be used to stimulate the economy. The Maastricht criteria constrained the use of fiscal policy. That left only the labour costs as key 'variable' for economic policy adjustments.

Portugal ended up as the world's second most highly indebted nation. Its external debt was second only to the Seychelles. In August 2009, even before the Euro crisis actually started, total debt to GDP had reached 480 per cent. The public debt played the minor share at less than 80 per cent of GDP. The lion's share was private debt, mainly corporate debt and the debt of financial institutions but also household debt.

The harsh adjustment programme that the Troika imposed on Portugal when the bail-out loan was received included a 20 per cent wage cut for public sector workers, tax hikes, labour market reforms and the privatisation of energy, transport and postal services. In a similar way to other countries, the adjustment programme failed to revive the economy. Instead, it caused a double-dip recession, surging unemployment levels, massive immigration especially of highly educated young people, and last but not least, rising levels of debt to GDP, due to the falling GDP in the recession.

Teles suggested two alternative ways to get out. The first is the 'federal' option with strengthened European institutions. This would include a larger EU budget and the mandate to make net transfers to peripheral countries. It would also include the joint issuance of debt instruments for EU Member States ('Euro bonds'), and better coordinated labour market policies, including much higher wages in those EU member states that currently run larger balance of payment surpluses. This should be accompanied by expansionary monetary policies by the ECB.

The second option would be the 'unilateral' option of default and exit. Crisis countries could default on their sovereign debt and exit at least the EMU, if not the EU. This exit strategy, however, needs to be accompanied by capital controls and public control over the banking sector. It would open the way to more targeted monetary, tax and industrial policies.

COUNTRY STUDIES THE DEBT REGIME IN ACTION

Beyond the crises of Portugal and Ireland, the conference went on to investigate the debt situation of Greece and Poland more thoroughly. The country cases somewhat represent two extremes. Greece was the European country that was evidently hardest hit by the debt crisis. Poland, at the other end of the scale, was the only EU country that avoided a recessionary period during the global financial crisis. However, the debt regime is affecting such countries too, as the analysis showed.

CASE STUDY GREECE

Theodoros Paraskevopoulos, a member of the SYRIZA Foreign Policies Steering Committee, presented the case of Greece. Public debt that resulted from chronic budget deficits played a more important role in Greece than in other Euro countries. According to Paraskevopoulos, the reason for the deficits are to be found in the income, not on the expenses side of the public balance sheet. It was largely due to the lack of an effective tax system. In the 1980s and 1990s, the Greek government had reduced the budget deficit through a first wave of austerity, but it did not fight tax evasion or reform the tax system. The highest income tax rates were reduced, including reduced corporate tax rates. Tax evasion was a major factor contributing to the budget deficit, with a massive loss of funds. Until 2007, Greece benefitted from high economic growth, and should have used that opportunity to tax the wealthy and large companies, concluded Paraskevopoulos. However, at the same time, the Greek economy failed to modernise and increase its productivity because corporations rather relied on increasing profitability through cheap labour, facilitated by exploitatively low wages for migrants, and high labour flexibility. The private sector did not invest sufficiently, and the government did not promote

research and development, causing a low speed of innovation and falling competitiveness compared to their European peers.

Greek banks largely refrained from investing in toxic assets. However, before the crisis hit, there was a large expansion of credit to individuals and the private sector. When the crisis hit, many corporations and unemployed debtors defaulted on their loans. This was the key reason for the Greek banking crisis. The bank bail-outs that followed when the state injected large amounts of money to save the banks further increased public debt levels.

The Troika programme, he argued, imposed a policy of structural adjustment but did not address the roots of the problem. The austerity policies made Greece's debt situation even worse. It was not a programme of the Greek government, it was a programme of the EU.

One solution backed by SYRIZA is debt relief, not just for Greece but at a European level, following the example of the debt reduction for Germany in 1953. In the Greek case, this will lead to a certain burden for the European taxpayers because, due to the private creditor bail-out, the major share of sovereign debt is now official debt held by the Troika.

In this context, Paraskevopoulos also highlighted that debt remission implies write-offs for the social security and insurance systems in the EU, as many insurance companies and pension funds hold government bonds whose value would diminish. It has been a mistake to partly replace the pay-as-you-go pension systems through capital based systems, as it was the previous system that stabilised the financial and social systems in Europe. The Greek welfare system suffered massively from losses incurred through the debt restructuring in 2011.

A second solution would be to make the ECB use the instruments that are available to a central bank. The solution can come from central banks, as Paraskevopoulos' colleague Yiannos Milios explained earlier in the conference. Paraskevopoulos also positively pointed to a third proposal, which was put forward by Germany's Die Linke, among others: raise more tax income by imposing a wealth tax on big fortunes.

All solutions require political change, and action on both national and European level. Paraskevopoulos highlighted that there will be no change at the European level unless there is change at the national level. On the other hand, in the European context, solidarity actions from abroad are essential if a new government in Greece starts to implement alternative policies. And it is through people's actions that change is created.

CASE STUDY POLAND

Poland is a different case entirely. **Gavin Rae** from the Kozminski University in Warsaw, explained that public debt in Poland appears sustainable as it amounts to less than 50 per cent of GDP, and the budget deficit is below 4 per cent of GDP. Still public debt is one of the largest political issues because Poland's fiscal policies are constrained by a debt limit. The Polish constitution says that public debt cannot exceed 60 per cent of GDP. At a ratio of above 55 per cent, the government has to ensure a balanced budget. A second constraint for fiscal policy comes from the EU, as Poland has voluntarily signed up to the European Fiscal Compact.

Moreover, additional debt vulnerability comes from the fact that 30 per cent of public debt is nominated in foreign currencies, which leads to exchange rate risks and the need to generate foreign currency – a current account surplus – to pay down debts.

While Poland has not been sucked into the recent debt crisis, it went through the cycle of borrowing, crisis and adjustment before. In the late 1980s, the country was unable to repay debts and began to implement structural adjustment policies designed by the IMF. In effect, Poland was the only country to undergo a recession under communism. Poland received a relatively generous debt relief by the Paris Club and London Club in the early 1990s but under the condition that they implemented neoliberal shock reforms, as the first country in the Central and Eastern European region. The result was a deactivation of labour, and a regressive tax system that relies mainly on indirect taxes. Debt levels have been held down for a while due to large-scale privatisation, i.e. sell off of public assets, but government debt surged when the pension system was privatised.

Poland was hit by the global financial crisis too, but it avoided a recession due to increased government spending and public investment, as well as an intelligent use of transfer monies provided through the EU's structural and cohesion funds. When public debt began to reach the constitutional limit, the Polish government responded by reversing the pension reform. The almost complete nationalisation of private pension funds brought public debt down massively. However, fiscal policy space remains limited. If austerity is to be avoided, the only solution will be to reform the constitution, remove the limit on debt, and introduce policies to increase government investments and reduce unemployment in order to boost growth.

ALTERNATIVE SOLUTIONS - THE EXPERIENCES OF ARGENTINA, ECUADOR AND ICELAND

Moving on to a stronger focus on actual solutions, the conference then went on to look at countries that have managed to overcome a debt crisis, Three countries stand out:

- **Argentina** had made a non-negotiated restructuring offer to its creditors in the mid-2000s;
- **Iceland** refused to fully bail out overleveraged banks and exited a debt crisis as a more equal nation than it was when it entered;
- Last but not least, **Ecuador** set up an Audit Commission to assess the legitimacy of outstanding loans, and refused to repay on the basis of illegitimacy, as we have already seen above.

Alan Cibils, a university professor from Buenos Aires, presented the **Argentinian** case. The accumulation of sovereign debt in Argentina before the large debt crisis of 2001 went back to the 1970s dictatorship, when Western banks and IFIs propped up the military regime in a Cold War context. Large parts of the debt could thus be declared toxic. The neoliberal policies of the military regime and of the following democratic regimes (such as those of President Menem) included the privatisation of the social security system, from which banks have profited hugely. The interest rate hikes of the 1980s and massive capital flight also contributed to surging debt levels.

It was clear since 1998 at least that the country's debt was unsustainable, but the IMF had the wrong diagnosis and procrastinated in the restructuring. The debt grew further. When Argentina finally decided to default in 2001, it triggered the world's largest sovereign debt restructuring so far. The government

of Argentina offered its bondholders the chance to swap the defaulted bonds against new ones, which private creditors could write off the major share of their claims. More than 90 per cent of private creditors accepted the offer.

The consequences of Argentina's non-negotiated debt restructuring were much less bleak than many economists predicted. Domestic production was revived, internal demand and exports surged. The debt restructuring led to a long period of recovery that lasted more than seven years, with annual economic growth rates of 7 to 9 per cent. On top of the debt restructuring, however, it was a massive devaluation of the currency that helped to boost domestic production and the export sector, an option that is not available to Euro crisis countries. The Argentinian case shows that unilateral action by a debtor country is an option that can be considered. Having a separate currency helps to expand policy options.

A second country case is **Iceland**. It followed the neoliberal blueprints for economic reform in the early 2000s, and privatised and liberalised its banking system. The results included highly overleveraged banks. **Huginn Thorsteinsson**, who was an officer in the Ministry of Finance during the crisis management, said that the Landesbanki has acted since 1885 as a public bank in the service of the nation's development. In 2003, the bank was privatised. In 2008, it went bankrupt: *"It took neoliberalism five years to take down a bank that had survived two world wars"*.

**ALTERNATIVE SOLUTIONS -
THE EXPERIENCES OF ARGENTINA,
ECUADOR AND ICELAND**

The great Icelandic financial sector crash plunged the country into economic disaster, and triggered a combined currency, banking and financial crisis. A full bank bail-out was never an option as the collapsed banks' assets had already amounted to 600 per cent in 2007, and even 1,000 per cent in 2009. Iceland separated good from bad deposits and limited the bank bail-out to the minimum necessary. This was in contrast to other countries with massive banking sector problems such as Ireland that went for a full bank bail-out, at the cost of their citizens.

Most interesting still was the 'structural adjustment package' with which the government responded to the crisis. Instead of the austerity policies and large-scale privatisation that were witnessed in other crisis countries, Iceland introduced new taxes on wealth and capital gains, as well as new corporate taxes such as on the fishery industry that profited from the currency devaluation of 40 per cent. Capital controls were introduced to impede capital flight. The results were impressive. The economic indicators stabilised and, while evidence elsewhere is that debt crises drive inequality, the income inequality fell substantially. Thorsteinsson concluded that tax policies were key: "*the Left in the EU should cry for higher taxes*".

Eric Toussaint of CADTM International, who has been a member of the Ecuadorian Debt Audit Commission, presented the Ecuadorian case. In the mid-2000s, Ecuador faced a major economic crisis in which 3 million Ecuadorians had to emigrate for economic reasons. The new government of president Correa came into office in 2007 based on the election promise of regaining control over the nation's resources and spending them on social development, not debt service.

The Debt Audit Commission that released its report in 2008 declared Ecuador's foreign debt illegal and illegitimate, for a number of reasons that included abusive clauses in loan contracts, insufficient authorisation of involved parties and usury interest rates. The Commission recommended to stop servicing outstanding government bonds. The Ecuadorian government eventually suspended its payment on bonds worth US\$3 billion in a debt moratorium. The Ecuadorian case was groundbreaking in the sense that a nation refused to pay debt on the basis of its illegitimacy.

In contrast to Argentina, which swapped the old against newer bonds with better terms for the debtor, Ecuador used the depressed market values after its moratorium to buy back the bonds at 35 per cent of nominal value. It thus legally discharged the bonds and does not face the vulture fund lawsuits of holdout creditors that are troubling Argentina since the restructuring. Ecuador's way was also facilitated by a surge in oil prices, its major export product, and the fact that China emerged as a new partner in trade and finance, which reduced the leverage of the IFIs and the powers from the global north.

After the audit, Ecuador witnessed a significant rise in spending on infrastructure, education and social sectors in general. However, Toussaint emphasised that debt reduction is a necessary but not sufficient condition to boost social development, redistribution and changes in economic production are also needed.

THE STRUGGLE FOR DEBT AUDITS

Following the successful Ecuadorian example, debt audits in their different forms have gained much support among citizen activists in Europe and beyond. The conference convened debt audit activists from almost a dozen different countries. Six of the country campaigns were discussed in depth, those in Belgium, Greece, Ireland, Norway, Spain and Tunisia.

The character of debt audits differs from country to country. The majority of the activists represented citizen debt audit campaigns. A citizen debt audit is a participatory and citizen-led exercise that aims to assess the origins and legitimacy of a nation's (or local government's) debt. There are, however, also citizen initiatives to commission debt audits to independent teams of experts, for example in [Ireland](#), and last but not least citizen campaigns that put pressure on the government to audit its debt against a set of responsible financing standards, such as in [Norway](#). Norway is also an exception in the sense that the Norwegian government audited the lending side of the loan equation – the loans that Norway gave to other countries – while most campaigns aim to audit its nation's own public debt, the borrowing side.

In **Belgium**, the main purpose is to unveil the roots of the high Belgian debt burden. According to [Jérémie Cravatte](#) of CADTM Belgium and the [Belgian debt audit campaign](#), this includes a defunct tax policy and a funding policy through financial markets with higher interest rates than alternative options. The campaign wants to raise the question of where it comes from and who profits from the debt. Doing this, they also include state-owned enterprises' debts.

The **Tunisian** campaign, explained **Fathi Chamki**, works on the basis of the assumption that external debt is another straightjacket that takes people's liberty, a tool of political and financial neocolonialism.

This on top of the dictatorship that has been overcome by the Tunisian revolution. The purpose of the debt audit campaign in Tunisia is to unveil the illegitimacy of the inherited dictator debt, but it also aims to assess post-revolution debt – much of which was to service the dictatorship's debt. Finding arguments and evidence to back the demand for debt cancellation is clearly the aim. Debt audits, stressed **Iolanda Fresnillo** of the [Spanish campaign](#), can be an important tool for awareness-raising about public finances, at local, national and international levels. Therefore it is not necessarily the aim to have a final audit report. It is about mobilising permanent citizen engagement. She said that campaigns have to work with activists at the local level so that everyone understands what the debt means, and that the gender impacts of debt has to be part of the assessment.

Christina Laskaridis from the [Greek campaign](#) affirmed that there is a need for more transparency and accountability towards citizens in public finance, as pointed out for instance by the corruption scandals related to military expenditure. The Greek campaign aims to push for an audit of Greece's debt to find out where all the money went, and to delegitimise the repayment of public debt. "*As the debt keeps growing, so do the reasons for the cancellation,*" she said. She also highlighted that there are a number of reasons to question the legitimacy of Troika loans to Greece, which have been disbursed since the crises started and now account for three quarters of Greece's public debt. They were not even properly agreed by the Greek Parliament, a major share has been used for bailing out private bondholders, and the Troika creditors are making a lot of money out of Greece – paying interest on the loans. The campaign for an audit allows these reasons for cancellation to be brought to the fore.

In **Norway**, reported **Gina Ekholt** from the Norwegian Campaign for Debt Cancellation SLUG, the demand for a debt audit was a key request put forward by citizen activists since 2007. Norway had cancelled some debts linked to failed development projects in 2007, but campaigners suspected there was more illegitimate debt. The debt audit became part of the left-wing government's platform agreed on in 2009. The audit was carried out by an international consultancy firm through open tender. It only covered €120 million, but the symbolic value was important.

DIFFERENT CHALLENGES FOR DEBT AUDITS

In **Belgium**, a country that has been sidelined by the Euro crisis although it has a quite high debt to GDP ratio, the issue is simply not high on the public and political agenda. Many activists stress that swimming against the stream of hegemonic mainstream media is a tough job, with the limited means they have available. The concept of illegitimate debt remains unknown or unaccepted by the wider public, although it helped that much of a large share of new sovereign debt in recent years was due to bank bail-outs.

Access to information is a challenge mentioned across the board. On the one hand, there is a lack of public data on public debt and spending, and on the conditions of loan contracts etc. On the other hand, there is a lack of process-information, e.g. how the decision-making process went and who the decision-makers in a certain debt case were. The latter would be essential in terms of holding actors to account. At the same time, for citizen groups with limited capacities, there is often too much information to digest, or information is presented in an inaccessible way. Some campaigns, such as those in Spain, have started to develop [tools for visualising](#) debt-related data, in order to make it possible for ordinary citizens to participate.

Time is also a key challenge, as mobilising for and conducting debt audits can take a lot of time. Windows of opportunity for larger mobilisations, as well as for getting access to decision-makers, may close quickly. The Norwegian campaign, for instance, targeted the minister with an influential Twitter campaign. Public mobilisation in Belgium is supported by [YouTube videos](#). The Irish campaign is considering a public Debt Tribunal.

For most campaigns, the aim of the debt audit is actual debt cancellation or repudiation of the illegitimate debt that the audit identified. This is in order to reduce the debt burden of their nations and free up public resources to finance more important public services. Beyond the clearly economic or financial aims, the debt audit as related to illegitimate debt has a strong normative and political dimension. It is also about delivering justice and exercising sovereignty.

Debt audits address the question 'who owes whom?' and aim to change the discourse. As such, they could even result in a call for reparations, as highlighted by the Greek campaign. The Tunisian debt audit bill in turn was linked to stolen asset recovery. For some campaigns, the aim of a debt audit is not just limited to debt as such. One activist mentioned that their audit campaign is part of a wider deligitimisation strategy of unjust capitalist economic relations.

It was also stressed that it is about helping citizens to take control of public spending and borrowing. If debt audits are seen in a wider context, their institutionalisation makes sense. There are diverging views on what this should look like in practice. The Spanish campaign started to open independent citizens' observatories that monitor and control local budgets and local debts from the citizens' perspective. A second strategy is to strengthen the state's own audit and accountability institutions to operate more effectively.

RESISTANCE FROM CITIZENS

Citizen action against debt, debt crises and their consequences are manifold and go far beyond debt audits. A few recent examples from Spain and Greece were highlighted and discussed at the conference.

One is the campaign of Spanish citizens affected by mortgages (**Plataforma de Afectados por la Hipoteca – PAH**), which fights against evictions and foreclosures. Currently, 130 families per day are losing their houses in **Spain** because the wage cuts and surging unemployment levels since the crisis started mean they cannot pay the instalments on their mortgages. In total, Spain has counted 415,000 foreclosures and 144,000 evictions since 2008. Even after eviction, Spanish law states that debtors cannot discharge their mortgage. They remain unhoused and indebted for the rest of their lives. This is different from the legal system in many other countries in which defaulting on a mortgage implies that the banks take the collateral (the house), but at least clear the mortgage.

PAH was set up five years ago when the crisis started. It quickly grew to more than 500 activist groups across the country. Their actions include direct resistance of evictions – stopping the police from entering the houses of indebted families. They have managed to stop more than 1,000 evictions. Another activity is to negotiate with the banks and inform families about their rights and legal means.

PAH also organises assemblies where people share their experiences. They also organised a citizens' legislative proposal, which gathered more than 1,400,000 signatures, and they forced the government to consider the proposal by blockading the governing party's headquarters. The government did not pass the proposal. Eventually PAH went to MPs' homes and blamed and shamed them publicly. This was a huge success. At the peak of the campaign, 90 per cent of the population agreed with PAH and their strategy. Last but not least, PAH

occupies newly built empty buildings. The legacy of the Spanish real estate bubble is that it has the highest number of empty housing units in Europe – currently standing at 3,400,000.

A second example of citizen resistance is the work of '**Solidarity for All**', which was presented at the conference by **Tonia Katerini**. It is a project that supports and connects the many different social initiatives in **Greece**, and solidarity initiatives for Greece. Three hundred solidarity networks have been created in Greece since the beginning of the crisis, according to Katerini. Many support Greek citizens with high debt burdens.

'Solidarity for All' uses three parallel tactics: inform, understand, resist. Training sessions aim to inform citizens. In a similar way to the Spanish campaign, they also fight the stigma that defaulting is bad. They coordinate joint positioning and develop rational arguments to put forward to the government and the Troika. Public opinion is mobilised and shaped at neighbourhood-level public meetings, for example, and coordinated within the different networks.

They also try to influence the legislative processes in order to achieve more debtor-friendly legislation. Additional asks include: reexamining all files from a social point of view; the ban on debts being transferred to other funds; creating a list of the different categories of different debtors; and calling for the cancellation of credit card and other debt with usury interest rates. Citizen action in Greece successfully managed to stop foreclosures asked for by the banks.

A strong pillar of 'Solidarity for All' is to set up, or link up, European networks – enabling participation in international networking meetings, and mobilising citizen counter-movements to creditor conferences, e.g. of the real estate and mortgage industry.

A third example, the work of the Greek organisation for consumer protection EKPIZO, was presented by **Victor Tsiafoutis**. He agreed that banks handed out loans generously in Greece, and explained that this was facilitated by the liberalisation of consumer credit in 2003 triggered by an EU Directive. EKPIZO deals with different kinds of private debt, but recently mortgages represent 80 per cent of their work. They estimate that up to 30 per cent of mortgages and 50 per cent of consumer credits are in arrears.

The house ownership rate in Greece is high, and homeowners' first residence used to be protected against foreclosures by relatively favourable legislation. In December 2013, however, a new law entered into force that made foreclosures much easier. In fact, this law found inspiration in the German law regarding personal bankruptcy, and was part of the structural adjustment package that the Greek government had negotiated with the Troika. Currently, more than 80,000 cases of foreclosure are pending for the Ombudsman to look at. EKPIZO met the Troika delegations three times and were told that foreclosures are an integral part for development of the construction sector. This position was shared by the Greek government when it negotiated with the Troika.

EKPIZO launched a campaign against the foreclosures, using a [website petition](#) through Avaaz. They collected 140,000 signatures. Their demands include decreasing interest rates and adjusting the volume of the mortgages to the real value of the property today. Last but not least, they want to establish a three-year moratorium on foreclosures in order for measures to work. Tsiafoutis concluded that more transparency and awareness is needed, as overindebtedness is not only caused by the economic framework condition but by lack of information and awareness from citizens about credit and specific credit conditions. For the time being, it is very important to create some kind of human protection, to prevent the eviction of people from their homes. EKPIZO tries to be there when this is happening.

CONCLUSION

After the financial crisis, debt burdens are weighing heavily on countries in Europe, the MENA region and elsewhere. Citizens are concerned about the high costs of debt service that eat up their tax payments. Each Euro of public income that our governments pay for debt service is a Euro not paid on public services or social protection to the people. Moreover, the citizens whose money is used to pay off debts find that much public debt that burdens our nations is illegitimate. They also find that the loans have been taken out against their will and without their due authorisation, and that the money has not been used for their benefits. Citizens feel that this debt is not our debt, and that we should not pay what we do not owe.

The experts and activists brought together at the 'Alternative solutions to the debt crisis' conference proposed a number of policy options about how to deal with current debt problems. A key measure is certainly to bring the costs of debt service down.

THE PROPOSALS CAN BE GROUPED INTO TWO DIFFERENT CATEGORIES:

The first is to reduce the debt stock, the total amount or volume of debt in crisis countries, through debt restructuring, cancellation or repudiation. There are different ways to get there. One proposal that stood out because it featured in many presentations is to deal with the European 'peripheries' debt problem in a similar way as Germany's post-war debt in 1953 was dealt with. Convene a major conference of creditors and debtors that deals comprehensively with the debt burden, and takes developmental criteria into account when deciding on the size of debt reduction and the revised terms of debt repayments. For instance, by limiting their volume as share of GDP, or making them dependent on current account surpluses, in the same way as the London Debt Accord did in 1953.

The second is to reduce the cost of debt service. Several experts argued that it is not the size of the debt stock that matters but the costs of it, which is primarily determined by the interest rate a debtor nation has to pay. Therefore, the aim is to get the interest rates down and/or to reschedule repayment to a point of time when the economic and financial situation of debtor countries has improved. One prominent example would involve the European Central Bank: the ECB could purchase government bonds of debt-distressed nations and convert them into zero-interest bonds with long or even infinite maturities.

However, there was a strong sense, especially among the activists at the conference, that not all debt can be considered alike. A distinction needs to be made between legitimate and illegitimate debts. A key instrument is the debt audit, an investigation into the origins of public debt that can be conducted by citizens or governments, and assess either a nation's debt stock (which historically happened in Ecuador) or outstanding loans (as Norway did as a creditor nation). Illegitimate debt should be repudiated by debtors, and ultimately creditors have to accept that they have to cancel illegitimate claims.

There was a strong consensus that solving the current debt crisis is not enough. Unless major reforms take place, we will soon end up in the next crisis. The reasons for debt crises are manifold and differ from country to country, and so did the proposals. Just a few examples contain better citizen participation in and oversight over budget making, public borrowing and spending, in order to reduce waste, corruption, and the embezzlement of funds. A large set of proposals addressed the tax policies. In particular low and decreasing tax rates for capital and corporations have been identified as key reasons for the fiscal deficits that ultimately led to the debt crisis. Higher or new taxes, for instance on wealth or financial transactions, featured strongly in the debate on how to finance public affairs while reducing the need to borrow from financial markets. Importantly, experts also mentioned the need to strengthen the domestic economy and its industrial and productive capacities, as trade deficits cause a balance of payment crisis. Several mentioned that the character of conditionalities that creditors such as the IMF impose do more harm than good in this regard.

In Europe in particular, bank bail-outs and macroeconomic imbalances have been triggers for the sovereign debt crisis. The view on solutions here differed, with some proposing deeper integration and better coordinated EU policies in more sectors as the best way, while others advocated for more national sovereignty, including even an exit from the European Monetary Union in order to increase national policy space. There was a strong consensus that we do not have the right institutions to prevent and manage debt crises, and that the institutions we have – in particular the Troika – are illegitimate and fell victim to elite capture, which explains why they managed the crisis for the benefit of the rich. The debate about “alternative institutions” is certainly one that should follow on from the discussion about “alternative solutions” that took place at the conference.

There are at least two prerequisites for reforms to happen. Firstly, a change in attitude is needed. There is still a predominant view in mainstream thinking that the ‘guilt’ for a debt crisis is to be found on the debtor’s side, and consequently the debtor has to be punished and change their behavior. The debtor has to adjust. In practice, however, there is no lack of evidence of misconduct on the creditors’ side, which contributed decisively to the debt crises. It should be obvious that the debt relation necessarily involves two parties. Both share the co-responsibility for preventing debt crises and for overcoming debt when prevention failed. Debtors (nations and individuals) must develop the courage to default when creditors refuse to act responsibly.

Secondly, political change on a local, national and international level is needed in order to shift the power balance from creditors to debtors. More precisely, from political forces that are captured by creditors and are dancing to their tune, to those who want to solve the debt crisis in the public interest, based on principles of justice and solidarity. The European Parliament elections in May offer a key opportunity for doing so.

ANNEX 1

COMPENDIUM OF SOLUTIONS

OVERARCHING OR CROSS-CUTTING:

- Change debtors' attitudes: challenge the view that debt always needs to be repaid
- Change creditors' attitudes: promote the concept of creditor co-responsibility
- Empower the debtor collective, enable collective action
- Challenge the rules of the credit system
- Regain policy space at the national level
- Promote better policy coordination at EU and global levels
- Encourage solidarity and cooperation: support alternative ways.

INFORMATION:

- Conduct citizen debt audits and/or push for independent audits
- Expose (illegitimate) origins of debt and those who are responsible
- Expose who profits from debt: track the money
 - Expose the consequences of continued debt service for a country's citizens.

DEALING WITH PRIVATE DEBT:

- Repudiate private individual debts, individually or as collective defaults
- Empower the consumer, make market forces count
- Promote legislative reforms towards fairer bankruptcy and foreclosure laws
- Overcome income poverty and inequality to reduce borrowing needs
- Regulate banks and other lenders, promote responsible lending
- Provide essential services as cost-free public goods.

OVERCOMING PUBLIC DEBT CRISES

- Repudiate all debt or illegitimate debt
- Initiate unilateral default followed by sovereign debt restructuring
- Renegotiate debt and improve payment terms (London Debt Accord type conference)
- Aim towards full and unconditional debt cancellation
- Promote growth through investment booms
- Mandate the European Central Bank to purchase government bonds of crisis states
- Recover stolen assets and bank bail-out monies.

PREVENTION OF DEBT CRISES:

- Stimulate the economy, strengthen productive sectors, review the role of the state
- Reform and renationalise the pension system towards pay-as-you-go systems
- Regulate banks and build effective banking resolution frameworks
- Promote tracking systems for debt and general budget transparency
- Rethink exchange rate policies including the right to exit the Euro zone
- Provide development assistance to poorer countries as grants, not loans
- Avoid macroeconomic imbalances through international cooperation and coordination
- Promote progressive tax systems (wealth taxes, corporate taxes, bank levies, financial transaction taxes, natural resource taxes).

ANNEX 2

SPEAKERS

LIST

POLITICS IN TIMES OF DEBT CRISIS

- **ALBERTO ACOSTA** (Economist, former Ecuadorian Minister, former President of the Constitutional Assembly, and presidential candidate)
- **MABROUKA MBAREK** (Member of the Tunisian Constituent Assembly)
- **YIANNIS MILIOS** (Economic Advisor of the Syriza Party, Greece)
- **HELMUT SCHOLZ** (Member of the European Parliament, GUE-NGL)
- **AXELTROOST** (Member of Parliament, Die Linke, Germany)
- **GABI ZIMMER** (MEP, President of the GUE-NGL group)
- Facilitator: **KLAUS SÜHL** (Rosa-Luxemburg-Stiftung, Brussels office)

WHO PROFITS FROM DEBT AND DEBT CRISES?

- **LIDY NACPIL** (Freedom from Debt Coalition Philippines & Jubilee South Asia Pacific)
- **TORBEN SCHENK** (UNI Global Union)
- **AXELTROOST** (Member of the German Parliament, Die Linke)
- **LEONIDAS VATIKIOTIS** (Free University of Cyprus)
- Facilitator: **BODO ELLMERS** (Eurodad)

DEBT AND THE ARAB UPRISINGS

- **ZAHRA BAZZI** (Arab NGO Network for Development)
- **FATHI CHAMKI** (RAID ATTAC Tunisia)
- **MOHAMMED MOSSALLEM** (Popular Campaign to Drop Egypt's Debt)
- **MABROUKA MBAREK** (Congrès pour la République)
- Facilitator: **ANTONIO GAMBINI** (11.11.11/CNCD)

THE PRIVATE DEBT CRISIS IN EUROPE AND OTHER WORLD REGIONS

- **EMMA BRYN-JONES** (Zero Credit, UK)
- **LIDY NACPIL** (Freedom from Debt Coalition Philippines & Jubilee South Asia Pacific)
- **SUSANNE SOEDERBERG** (Queen's University, Canada)
- Facilitator: **SARAH-JAYNE CLIFTON** (Jubilee Debt Campaign UK)

DEBT, TROIKA AND THE EUROCRISIS

- **HELMUT SCHOLZ** (MEP Die Linke – GUE/NGL)
- **ANDY STOREY** (Debt Justice Ireland, University College Dublin)
- **NUNOTELES** (University of Coimbra, Portugal)
- Facilitator: **NESSA NI CHASAIDE** (Debt and Development Coalition Ireland)

COUNTRY STUDIES – THE DEBT REGIME IN ACTION

- **THEODORUS PARASKEVOPOULOS** (Greece)
- **GAVIN JOHN RAE** (Kosminzki University, Warsaw, Poland)
- Facilitator: **MARKUS HENN** (World Economy, Ecology and Development – WEED, Germany)

ALTERNATIVE SOLUTIONS: THE EXPERIENCES OF ARGENTINA, ECUADOR AND ICELAND

- **ALAN CIBILS** (Universidad Nacional de General Sarmiento, Argentina)
- **HUGINN FREYR BORSTEINSSON** (former Advisor to the Icelandic Finance Minister)
- **ERIC TOUSSAINT** (CADTM International)
- Facilitator: **MARIA DYVEKE STYVE** (Norwegian Campaign for Debt Cancellation)

THE STRUGGLE FOR DEBT AUDITS

- **JÉRÉMIE CRAVATTE** (CADTM Belgium)
- **FATHI CHAMKI** (RAID ATTAC Tunisia)
- **NESSA NI CHASAIDE** (Debt and Development Coalition Ireland)
- **IOLANDA FRESNILLO** (Plataforma por la Auditoria Ciudadana de la Deuda, Spain)
- **CHRISTINA LASKARIDIS** (Corpwatch, and Greek audit campaign)
- Facilitator: **GINA EKHOLT** (Norwegian Campaign for Debt Cancellation)

RESISTANCE FROM CITIZENS

- **TONIA KATERINI** (Syriza, Greece)
- **VICTORTSIAFOUTIS** (Legal Advisor of EKPIZO, Greece)
- **IOLANDA FRESNILLO** (Plataforma de Afectados por la Hipoteca, Spain)
- Facilitator: **FLORIAN HORN** (Rosa-Luxemburg-Stiftung, Brussels office)

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