CADTM

World Debt Figures 2015

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Editorial

The Committee for the Abolition of Third World Debt (CADTM) has been working tirelessly since 1990 to demonstrate the relationship between debt and the incapacity of the world economic system to ensure even the most basic rights for hundreds of millions of people in the world.

In the 1990s, the CADTM called attention to the need to build fair relationships between Northern and Southern countries through the abolition of debt. In particular, it stressed the harmful affects on the development of Southern countries of the mechanisms of indebtedness used by the multilateral financial institutions (the International Monetary Fund and the World Bank), the governments of the North via the Paris Club*, and the major international financial groups.

Even though the CADTM's priority, as its name indicates, is the abolition of debt in the 'Third World' countries, its more general goal is to demonstrate, through its studies and activism, how the 'debt system' subjugates people in developing countries and in industrialised countries in the same way. As stated in the Political Charter of the CADTM international network:

« *Both in the Northern and Southern hemispheres, debt is a mechanism used to transfer wealth created by workers and small producers to the benefit of capitalists. Debt is used by lenders as an instrument of political and economic domination* »[1].

1 Political Charter of CADTM international: http://cadtm.org/Political-Charter

We don't owe, we won't pay
Let's cancel the illegitimate debt

Foreword

Before we get to the heart of the matter, we should clarify the vocabulary used. We use the terms North, 'rich' countries, industrialised countries, 'developed' countries and Triad interchangeably to refer to the group comprising the countries of Western Europe, North America, Japan, South Korea,[1] Australia, New Zealand, and a few other countries with high incomes *[see list in appendix]*.

Even though we feel that the soundness of grouping together countries as different as Thailand and Haiti, Brazil and Niger, or Russia and Bangladesh in the same category is debatable, we have adopted the classifications used in the statistics supplied by the international institutions. Therefore, we refer to as developing countries or Third World or South all those countries that are not in the 'developed countries' category, i.e. 145 in 2011. In that category, for historical reasons, we make a distinction between a group of countries that includes Central and Eastern Europe, Turkey, and Central Asia, and the others (Latin America and the Caribbean, Middle East and North Africa, Sub-Saharan Africa, Southern Asia, Eastern Asia and Pacific) *[see list in appendix]*.

In the text that follows, we give preference to the designations used by the international institutions—since most of the data we analyse come from these same institutions—, which distinguish between 'developed countries' and 'developing countries'. Yet it is necessary to point out the ideological and Western-centric connotations of that terminology. Indeed, it essentially takes into account only the economic dimension of development, and implies that there is only one model of development (the Western industrial and 'extractivist' capitalist model), and that certain countries are 'behind' and must catch up with other countries that are 'further ahead'. The CADTM is completely opposed to that vision of the world.

« In 1951, in a Brazilian journal, I spoke of there being three worlds, but without using the expression 'Third World' . I created that expression and used it for the first time in the 14 August, 1952 edition of the French weekly l'Observateur. My article ended as follows: 'because in the end this ignored, exploited, scorned Third World, like the Third Estate, wants to become something too.' It was a transposition of the famous phrase of Sieyès on the Third Estate during the French Revolution. »

Alfred Sauvy,
French demographer and economist

There was the First World, the 'North', the so-called socialist Second World (the Soviet bloc + China), and the Third World, which included the people in developing countries, most of which were former colonies of Western Europe, Japan, or the US. The Second World collapsed in the early 1990s with the fall of the Berlin Wall. Ten years earlier, the Third World had been subjected to the diktats of the International Monetary Fund (IMF) and the World Bank. The financial crisis of 2008 marked the downfall of the First World. There are now only two major categories: the handful of individuals who profit from contemporary capitalism and the great majority who are subjected to it—in particular through the mechanism of debt.

Over the last thirty years, the weak links in the world economy were in Latin America, Africa, Asia or the so-called 'countries in transition' in the former Soviet bloc. Growth was in the 'North' while the developing countries, the Third World, were bowed under the weight of debt. Since 2008, the panorama has changed, the European Union, where economic growth is anaemic, living conditions are deteriorating, and debt is increasing, is now a major cause for concern.

As in the previous editions, World Debt Figures 2015 has a twofold goal: on the one hand, to offer a rigorous critical analysis, and, on the other, to condemn the destructive motivations and results of the '*debt system*', both in the South and in the North.

1 Since the publication of the book Who Owes Who? 50 Questions About World Debt (2004), these country groupings have been modified by the World Bank. For example, South Korea left the Developing Countries category and joined the Developed Countries. While such assessments are debatable, we have followed that convention to ensure that our calculations are made on the same basis as those of the World Bank. The same is true for countries such as the Czech Republic and Estonia.

content

From the South to the North of the planet:

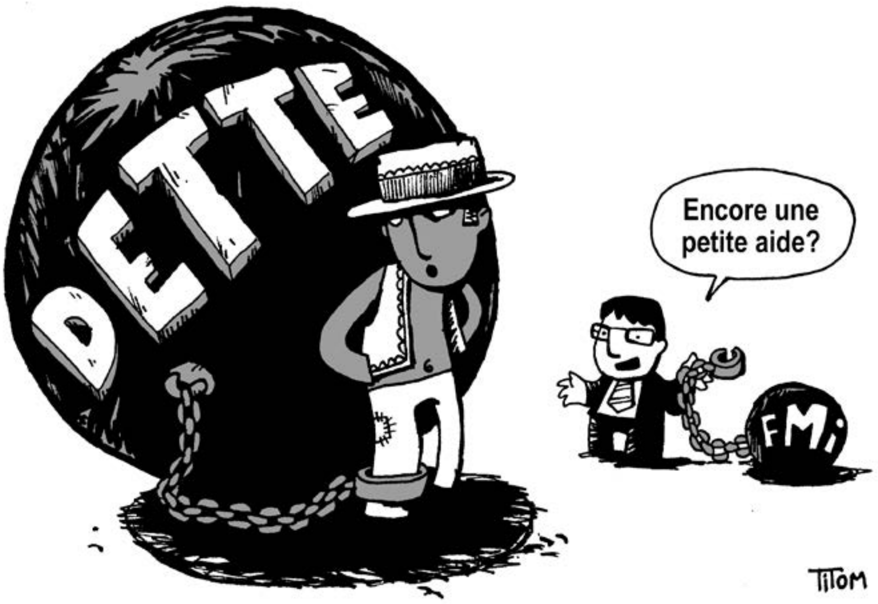
A SHORT HISTORY OF THE DEBT CRISIS AND STRUCTURAL ADJUSTMENT PROGRAMMES

Since the 1980s, public debt, both in the Third World countries and in the industrialised nations, has been systematically used to impose austerity policies in the name of structural adjustment.[1] Accusing their predecessors of 'living beyond their means' through overuse of loans, most governments in power since then have imposed an adjustment of public spending, and in particular social spending, which forces people to tighten their belts.

Margaret Thatcher and Ronald Reagan

In the Third World and Eastern Europe, the formidable growth of public debt* began at the end of the 1960s and led to a debt crisis that started in

1 This introductory text is an updated version of the introduction written by Éric Toussaint for the collective work FMI : Les peuples entrent en Résistance. (2000) CETIM/CADTM/Syllepse: Geneva. The book is the result of the collective efforts of the CADTM, ATTAC, and the Association internationale des Techniciens, Experts et Chercheurs (AITEC), http://www.cetim.ch/fr/documents/PAS-texte.pdf (in French).



DEBT
«Want a bit more help?»
- IMF

1982. The parties responsible for that indebtedness are known. They are essentially in the industrialised nations—the private banks, the World Bank, and the governments of the North, which literally churned out loans of hundreds of billions of eurodollars[1] and petrodollars[2].

To invest their surplus capital and merchandise, these different players in the North lent at very low interest rates. Public debt in the countries of the Third World and Eastern Europe increased twelvefold between 1968 and 1980. In the industrialised countries, public indebtedness also increased greatly during the 1970s as governments attempted to respond to the end of the post-war boom[3] using Keynesian policies to re-launch the economic machinery.

A historic turning point was reached between 1979 and 1981 when Margaret Thatcher in the UK and Ronald Reagan in the US came to power, both of whom began applying, on a large scale, the policies the neoliberals had been dreaming of. The US immediately hiked up interest rates in order to slow inflation* and the massive flight of dollars. This unilateral increase, imitated by numerous countries, forced indebted public authorities to transfer colossal amounts to private financial institutions and other holders of debt instruments.

From that moment, on a planetary scale, payment of public debt became a powerful mechanism for extracting part of the wealth created by workers and small producers to the benefit of the wealthiest 10%, and in particular capitalists. These policies, dictated by the neoliberals, were the beginning of a huge offensive by capital against labour. The indebted governments began reducing social spending and public investments, to 'balance' their accounts. Then they resorted to new loans to keep up with the increasing interest rates. This is the famous 'snowball effect', which means taking out new loans to pay off earlier ones.

To pay back public debt, governments made abundant use of taxes, the structure of which was modified in a regressive way beginning in the 1980s-1990s. The share of tax revenues from tax payments on revenue from capital decreased, while at the same time, the share of tax revenues from taxes paid by workers increased, as did taxes on mass consumption, by the generalisation of the value-added tax (VAT).

In other words, the State took from workers and the 'poor' to give to the 'rich', to capital—exactly the opposite of a redistribution policy, which should be the primary concern of public authorities.

The strategic importance of structural adjustment in the periphery countries

While the IMF, the World Bank, and the US government first denied the existence of a debt crisis, structural adjustment* policies began to be applied in the late 1980s under the direction of the IMF, which imposed

1 Dollar and $ refer to the US dollar, unless otherwise stated.

2 Les « eurodollars » renvoient aux dollars prêtés dans les années 1950 par les États-Unis aux Nations européennes, notamment via le plan Marshall destiné à financer leur reconstruction. A partir des années 1960, les banques privées européennes regorgent donc de capitaux, essentiellement constitués par ces « eurodollars », et elles vont alors chercher à les prêter pour qu'ils génèrent des profits. Quant aux « pétrodollars », ce sont les dollars issus du pétrole. A partir de 1973, l'augmentation du prix du pétrole (ce qu'on a appelé le premier « choc pétrolier ») a apporté des revenus confortables aux pays producteurs - les « pétrodollars »- qui les ont placés dans les banques occidentales. Pour qu'ils leur profitent, ces banques ont alors accordé des prêts à des conditions avantageuses.

3 The 'Trente Glorieuses' or 'Glorious Thirties' refers to the three decades between 1945 and 1975 when France experienced unprecedented economic growth.

its conditions in exchange for loans to indebted governments. These policies amounted to continuing, under a new form, the offensive that had begun during the previous decade with the policies instituted by the military dictatorships in Chile, Argentina, Uruguay, and other countries.

For the strategists of the Northern governments and the multilateral financial institutions that serve them, beginning with the World Bank (see points 4.2 and 4.3 on the distribution of voting rights within the IMF and World Bank), a challenge needed to be met: the loss of control over a growing portion of the periphery. From the 1940s to the 1960s, one country after another gained independence from the former European colonial powers, the Soviet bloc imposed its influence on eastern Europe, the Chinese and Cuban revolutions triumphed, and populist and nationalist policies implemented by capitalist regimes in the periphery emerged—from Peronism in Argentina, to Nehru's Congress in India, and pan-Arabism under Nasser in Egypt. In short, new movements and organisations had developed all around the world, all of which represented dangers to the domination of the major capitalist powers in the context of the 'Cold War' with the Soviet bloc.

The massive loans granted to a growing number of periphery countries starting in the 1960s (beginning with the strategic allies, Mobutu's Congo, Indonesia under Suharto, Brazil, then under military dictatorship, and countries such as Yugoslavia and Mexico) acted as the lubricant for a powerful mechanism designed to take back control. These targeted loans were aimed at forcing these countries to abandon their nationalist policies and strengthen the ties of the economies of the periphery to the worldwide market dominated by the centre. The purpose was also to ensure the supply of raw materials and fuel to the economies of the centre. By gradually putting the periphery countries in competition with each other, by inciting them to 'strengthen their export model', the goal was to lower the prices of the products they export and consequently to reduce production costs and increase the rate of profit in the North.

Admittedly, we cannot go so far as to say that this amounted to a conspiracy on the part of the private banks, the World Bank, and the governments of the North. Yet an analysis of the policies of the World Bank and the governments of the major industrialised countries as regards loans to the periphery demonstrates that those policies were not devoid of strategic intent.[1]

1 For an in-depth analysis, see Toussaint, Éric. *Enjeux politiques de l'action de la Banque mondiale et du Fonds monétaire international envers le tiers-monde*, doctoral dissertation in Political Science, University of Liège, University of Paris VIII, 2004. Available at http://cadtm.org/Enjeux-politiques-de-l-action-de (French)
Toussaint, Éric. *The World Bank: a never-ending coup d'état. The hidden agenda of the Washington Consensus*, Paris: CADTM/Syllepse/CETIM, 2006 (out of print). Summary available at http://cadtm.org/The-World-Bank-a-never-ending-coup
Millet, Damien. & Toussaint, Éric. *Debt, the IMF, and the World Bank. Sixty Questions, Sixty Answers*, New York: Monthly Review Press, 2010, http://cadtm.org/DebttheIMFandtheWorldBank

AUSTERITY
Make the bankers pay!
occupy

The 1982 crisis

The crisis that broke out in 1982 was the result of the combined effect of the drop in the prices of products exported by the periphery countries to the worldwide market and the explosion of interest rates. Overnight, more had to be repaid with decreasing revenues. The result was strangulation. The indebted countries announced that they were experiencing repayment difficulties. The private banks in the centre immediately refused to grant new loans and required that the old ones be paid off. The IMF and the major industrialised capitalist countries extended new loans so that the private banks could recoup their investments and to prevent a succession of bank failures.
Since that period, the IMF, with the support of the World Bank, has imposed structural adjustment* plans. An indebted country that refuses the structural adjustment is threatened with suspension of loans from the IMF and the governments of the North. We can now say without fear of contradiction that those who were proposing back in the 1980s that the periphery countries cease reimbursing their debts and create a united front of debtor countries, were right. Had the countries of the South created such a front, they would have been in a position to dictate their own conditions to the creditors, whose backs were to the wall. By choosing the path of repayment and putting themselves at the mercy of the IMF, the indebted countries transferred the equivalent of several Marshall plans[1] to the financial capitals of the North. In submitting to the adjustment policies, they gradually abandoned key elements of their national sovereignty. For these countries, that has meant greater dependence on the industrialised countries and their multinationals. None of the countries that have applied structural adjustment policies have been able to sustain a high level of growth. In all of them, social inequalities have increased. Not a single 'adjusted' country has fared well.

The IMF's adjustment programmes pursue three goals: 1) ensure that the debts contracted are paid back; 2) implement structural reforms aimed at liberalising the economy, opening it up to the international markets, and reducing the presence of the State; 3) gradually make it possible for the indebted countries to have access to private loans from the financial markets, while still remaining indebted.

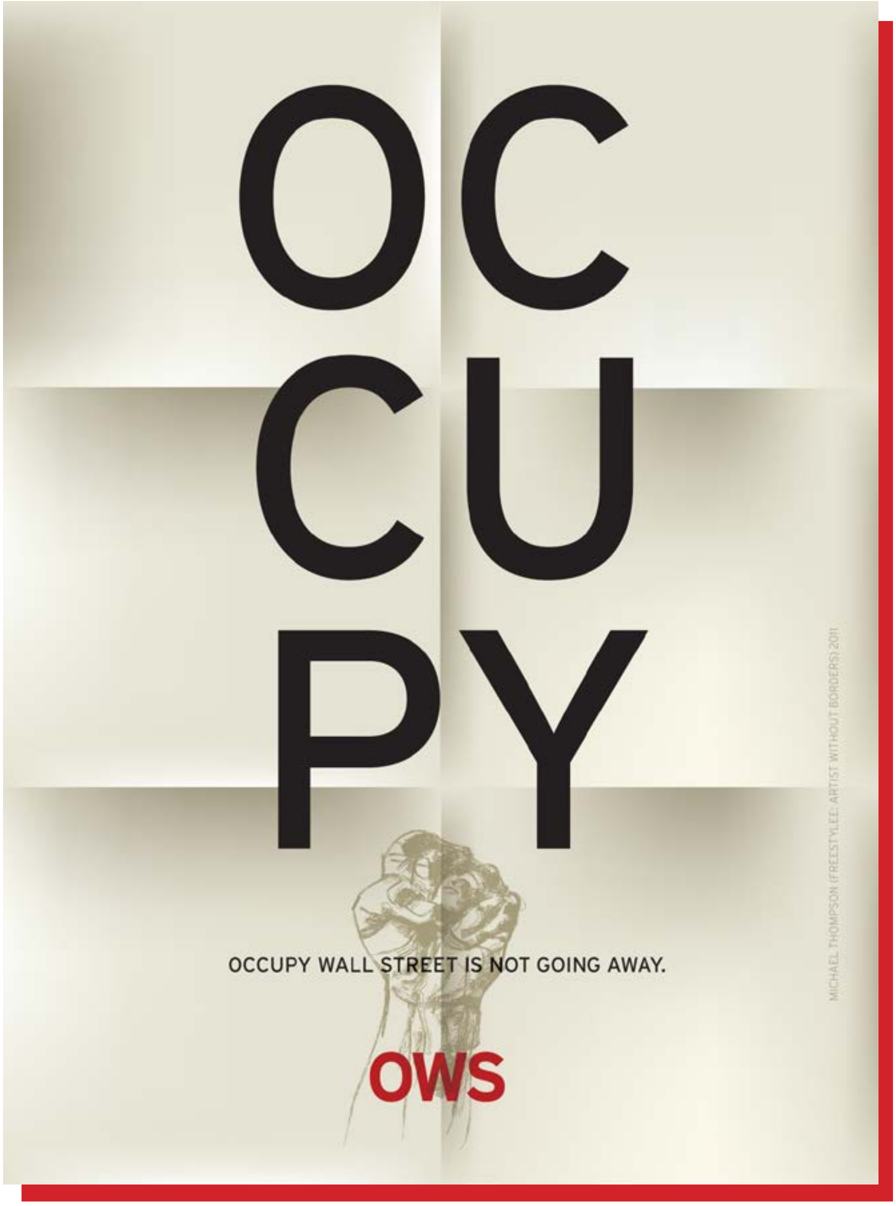
What exactly does 'adjustment' entail?

Structural adjustment includes two main types of measures.
The first are macroeconomic stabilisation measures that are traditionally included in the conditions imposed by the IMF. They amount to shock therapy (generally, devaluation* of the currency*, and raising internal interest rates in the countries concerned).
The second are structural reforms including privatisations, and tax reforms.[2]

The devaluations are aimed at making exports from the countries more competitive (as a result of the reduction in the value of the local currency compared to other currencies) so as to increase the flow of hard currency needed to pay back

1 A programme of economic reconstruction proposed in 1947 by the US Secretary of State, George C. Marshall. With a budget of $12.5 billion of the time (about $100 billion in 2014 terms) composed of donations and long-term loans, the Marshall Plan enabled 16 countries (especially France, the UK, Italy and the Scandinavian countries) to finance their reconstruction after the Second World War.

2 The IMF began granting loans tied to structural adjustment programmes in 1986, and the following year it approved Enhanced Structural Adjustment.



the debt. Another advantage, and not a negligible one from the point of view of the interests of the IMF and the industrialised countries, is that they bring about a reduction in the price of the products exported by the countries of the South.

For the latter, they also have deleterious effects—they cause an explosion in the prices of products imported onto their own markets, and at the same time have a negative impact on internal production. Thus, not only do their production costs increase, both for agriculture and for industry and crafts—all the more since they now incorporate numerous imported inputs due to the abandonment of 'self-reliance' policies—, but the purchasing power of the great mass of consumers stagnates or erodes (since the IMF prohibits any indexing of wages).

Regarding the debt itself, since the value of revenues (in the local currency) decreases as that of the loans increases vis-à-vis external creditors (in hard currency, which has now become more expensive), the actual amount of the debt increases. As for the policy of high interest rates, it does nothing but increase the domestic recession—farmers or artisans who must borrow in order to purchase the inputs they need to produce goods can no longer do so because of the increased cost of credit. Rentier capital, on the other hand, prospers. The IMF justifies these high interest rates by claiming that they will attract the foreign capital the country needs. In practice, the capital that is attracted by such rates is volatile and disappears at the first sign of a problem or as soon as a better prospect for profit appears somewhere else.

Other adjustment measures specific to the periphery countries are the removal of subsidies for certain basic goods and services, and agrarian counter-reform. In most Third World countries, the staple food (bread, corn tortillas, rice...) is subsidised so as to protect it against large price increases. Public transportation, electricity, and water also often receive such subsidies. The IMF and the World Bank systematically require that such subsidies be removed, which results in the impoverishment of the poorest segment of the population, and has on occasions resulted in food riots.

Regarding land ownership, the IMF and the World Bank have launched a long-term offensive aimed at causing the disappearance of any form of community property. For example, they succeeded in obtaining the modification of the article of the Mexican Constitution that protects communal lands (called ejido). Likewise, one of the major projects the two institutions are currently striving to implement is the privatisation of communal or state lands in Sub-Saharan Africa. In recent years, the land grabbing by major foreign corporations has accelerated thanks to the support of the World Bank and the IMF.

Adjustment measures found in the North and in the South

The following measures are seen throughout the world in varying doses depending on the relative strength of labour movements. Reducing the role of the public sector in the economy, reducing social spending, privatisations, tax reforms that favour Big Capital, deregulation of the labour market, the abandonment of essential aspects of state sovereignty, the removal of controls on foreign exchange, stimulating investment-based retirement plans, deregulating trade, and encouraging stock-market operations.... What is striking is that from Mali to Greece, from Spain to Brazil, from France to Thailand, from the US and Belgium to Russia, we observe a profound similarity and complementarity between so-called 'structural adjustment' policies in the developing countries and what are called 'austerity' or 'convergence' policies in the developed countries.

Everywhere, the public-debt crisis, or at the very least a strong increase in public debt, is having the effect of an infernal machine that transfers wealth to the holders of capital.

François Chesnais sums up the situation as follows: "*The markets for public-debt securities (public bond markets), put in place by the major countries that benefit from financial globalization and imposed on the other countries (most often without much difficulty), are, in the words of the International Monetary Fund itself, the 'cornerstone' of financial globalization. Translated into understandable language, this means very precisely that through financial liberalisation, a powerful mechanism has been put in place for transferring the wealth of certain classes and social strata and of certain countries to other countries and classes. Attacking the foundations of the power of finance presupposes dismantling that mechanism, and therefore cancelling public debt—not only that of the poorest countries, but also of all countries whose vital social forces refuse to allow governments to continue imposing budgetary austerity on the citizens so they can pay interest on public debt.*" [1]

Structural adjustment plans and austerity plans combine to form a war machine aimed at destroying all mechanisms of collective solidarity (from community property to universal pension systems) and subjecting all of human activity to the logic of the market.

The deeper meaning of structural adjustment policies is the systematic suppression of all historical and social obstacles to the free deployment of capital to enable it to pursue its logic of immediate profit, regardless of the human or environmental costs.

Developments from the 2000s to 2014

The following important changes have taken place since the end of the 1990s.

1 François Chesnais, *Tobin or not Tobin*, L'Esprit Frappeur, Paris, 1998.

1) Several developing countries have moved away from neoliberal policies

After more than twenty years of neoliberal policies, in the late 1990s and early 2000s, thanks to major mobilisations, several Latin American countries have rid themselves of neoliberal presidents, and elected heads of state who implemented policies more in line with the people's interests. This has been the case in Venezuela, Bolivia, and Ecuador.[2] The government of Ecuador took a remarkable and very positive initiative in 2007-2008 by conducting, with the active participation of delegates from social movements, a complete audit of its debt.[3] Based on that audit, repayment of part of the debt identified as being illegitimate was suspended and the creditors were pressed to agree to a large reduction of the debt.[4] This action enabled an important increase in social spending. In another positive move, the governments of these three coun-

2 See Toussaint, Éric. *Banque du Sud et nouvelle crise internationale*, Liège-Paris: CADTM/Syllepse, 2008. Available at http://cadtm.org/Banque-du-Sud-et-nouvelle-crise (French)

3 The CADTM was a direct participant in the presidential commission that conducted the audit of Ecuador's debt.

4 See Toussaint, Éric. *Les leçons de l'Équateur pour l'annulation de la dette illégitime*, (The lessons of Ecuador for abolishing illegitimate debt), 29 May 2013, http://cadtm.org/Les-lecons-de-l-Equateur-pour-l (French). More recently, the Ecuadorian authorities seem to be returning to a more traditional policy regarding debt—loans from China, the first loan (since 2005) from the World Bank in 2014, a new issue of Ecuadorian debt securities on the financial markets under the leadership of Citibank and Credit Suisse--a troubling development.

tries also increased the taxes levied on the revenues of the big foreign companies that exploit their natural resources, Tax revenues were greatly increased and increases in social spending followed.
The citizens of these three countries democratically adopted, new Constitutions which provide that all elected representatives may be revoked at the middle of their term.
We should add that Bolivia, Ecuador, and Venezuela have made the very wise decision of withdrawing from the International Centre for Settlement of Investment Disputes (ICSID), the World Bank's tribunal.

2) Increases in raw material prices and currency reserves*

In 2003-2004, the prices of raw materials and agricultural products began to increase[1] in a context of strong international demand. This situation enabled the countries that export such products to increase their revenues, especially in strong currencies (dollar, euro, yen, and pound). Certain developing countries used this opportunity to increase social spending, while most invested this revenue in purchases of US Treasury Bonds—thus contributing to financing the leading world power. In other words, they increased their loans to the world's principal economic power, thus contributing to maintaining its domination by providing it with the means to continue living on credit and maintaining a large trade deficit. Meanwhile, as the interest rates on US Treasury Bonds and other debt securities are low—between 0.0% and 2.7%,[2] this enables the US to finance itself at a very low cost.

3) The waning power of the World Bank and IMF over some developing countries

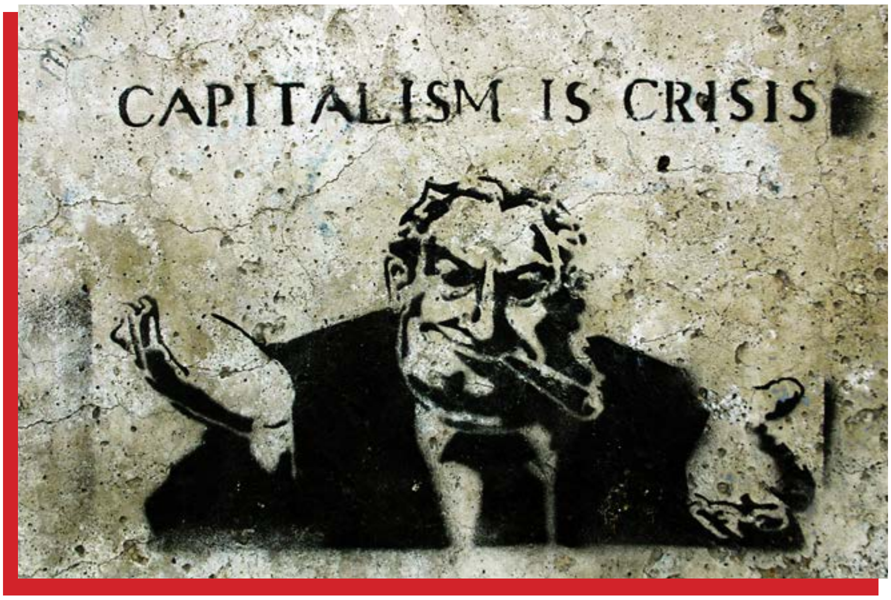
The increasing resources of certain countries as a result of the increase in currency revenues and the large number of private investors before the outbreak of the crisis in 2007-2008 has reduced the influence of these two multilateral institutions. This loss of influence also comes from the fact that China (see the following two points) and the other 'BRICS' countries (Brazil, Russia, India, China, South Africa), especially Brazil, have greatly increased their loans to certain developing countries.

4) The arrival of China on the world stage as a creditor country

Another factor has reinforced this phenomenon: a rapidly expanding China has become the world's workshop and accumulated huge currency reserves* (above all in dollars). It has significantly increased its financing of developing countries. Its loans are now competing with those of the multilateral financial institutions and industrialised countries. This development has reduced the capacity of these institutions and of the countries of the North to put pressure on a certain number of developing countries. However, we should remain vigilant regarding these new debts. China does not give anything away, and its investments are aimed at ensuring control over the raw materials it needs.

1 This is a new trend. In general, raw-materials prices started to collapsed in 1981, and remained low until 2003-2004.

2 The yield on US Treasury Bonds is between 0 and 2.57% depending on whether the term is one month (0.01%) or 10 years (2.57%). For the yields published by the US Treasury department, see http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield (accessed 24 September 2014).



5) In 2014, the BRICS countries announced the creation of their own multilateral bank[1]

This bank, if it begins doing business one day (which is not sure), will not be an entity capable of offering a positive alternative for developing countries. Indeed, the governments founding it are seeking to create a bank that will directly serve their interests (ensuring sources of raw materials and outlets for their exportations) and not those of their citizens.

6) Increases in internal public debt

Slowly but inexorably, internal creditors have replaced external ones. Payments no longer end up in bank accounts in New York, London, or Paris, but in banks within the countries of the South themselves. However, we should not be fooled. The domestic banks that issue loans to the public authorities of their country in the local currency are often in fact subsidiaries of foreign banks, and the loans in local currencies, in many cases, are pegged to a strong currency (generally the dollar). This means that if the local currency is devalued or the value of the strong currency increases, the amount to be paid back increases considerably.[2] The apparent transformation has not changed the fundamental situation: resources which should be used first of all to meet fundamental social needs are devoted to paying off debts, which are illegitimate or illegal in many cases.

7) Public debt has become one of the major concerns in Northern countries since the crisis caused by the big private banks

In the US and Europe in particular[3], the crisis caused by the big private banks generated a strong increase in private debt,* and then in public debt. The lessons drawn from the Third World debt crisis are extremely valuable for analysing the events that followed the crisis of 2007-2008. The policies applied to the North closely resemble those that have affected the countries of the South since the 1980s. That is why the CADTM has engaged in more studies and actions targeting the countries of the North, while remaining involved with the situation in the South.

8) Interest rate reductions in the North have reduced the cost of the debt in the South

The central banks* of the most industrialised countries have lowered interest rates, in particular since the outbreak of the current crisis and the massive injection of cash into the financial system to save the big banks and indebted corporations, which has indirectly resulted in a decrease in the cost of refinancing for developing countries.[4] This low-cost financing, combined with the inflow of capital from the North seeking more profitable yields due to the low interest rates in the North and higher revenues from exportation, has created a dangerous sense of security for the governments of the developing countries. In fact, the situation could very well reverse itself in the coming years. Interest rates in the North may increase, especially in the US, and the price of raw materials may decrease due to decreasing demand, particularly in China.
We must monitor the situation closely, and the peoples and countries of the South need to take advantage

1 See the critique of Daniel Munevar (CADTM economist): *BRICS Bank: Is it an alternative for development finance?*, 28 July 2014, http://cadtm.org/BRICS-Bank-Is-it-an-alternative. Also see Pérez, Benito *The alternative would be a Bank of the South, not the BRICS Bank*, interview with Éric Toussaint, Le Courrier, 19 August 2014. http://cadtm.org/The-alternative-would-be-a-Bank-of

2 That is what happened between May and December 2013 for countries such as Turkey, Indonesia, and Brazil.

3 In Japan, a crisis that was partly comparable broke out in the 1990s. See Munevar, Daniel. *Décennies perdues au Japon* (Japan's Lost Decades) in La Dette ou la Vie, Brussels: CADTM/Aden, 2011, pp. 223-236..

4 In September 2014, the Federal Reserve Bank's interest rate was 0.25%, the ECB's was 0.05%, and the Bank of England's 0.5%. For the Bank of Japan, it has remained under 1% since the mid-1990s, and in September 2014 it was 0.1%.

*If you don't let us dream,
we won't let you sleep*

of the more favourable economic context to implement policies aimed at ensuring human rights and protecting nature. This process requires a radical break with the current model.

9) Poor countries are issuing and selling debt securities on the international markets

Rwanda and Senegal, both Heavily Indebted Poor Countries, have sold public-debt securities on the financial markets of the North, which has not occurred in the past 30 years. The Ivory Coast, a country which emerged from a civil-war situation only a few years ago, has also issued securities whereas it is also among the Heavily Indebted Poor Countries. Kenya and Zambia have also issued debt securities. These examples show that there is a highly unusual international situation: financial investors in the North have enormous amounts of cash, and in response to the very low interest rates in their own region, they are looking for higher yields. Senegal, Zambia, and Rwanda have promised a yield of 6% to 8% on their securities. As a result, they have attracted financial companies seeking to invest their cash temporarily even if the risks are high. The governments of the poor countries are euphoric and have attempted to convince their citizens that happiness is just around the corner, whereas the situation might be dramatically reversed. These government leaders are accumulating way too much debt, and when the economic situation deteriorates, they will expect the people to foot the bill.

10) The food and climate crisis

In 2007-2008, the peoples in developing countries faced a sharp increase in the price of foodstuffs. This situation resulted in food riots in 18 countries. The number of people suffering from hunger, which was approximately 900 million before the crisis, increased by nearly 120 million, bringing the total to over one billion in 2009. As we will see below, that figure has been gradually reduced, but it can only alert us to the incredible vulnerability of hundreds of millions of people. This dramatic situation is directly linked to other factors related to the global crisis and the debt system.[1] Among the factors behind this global food crisis, which is keeping one out of eight humans in a state of hunger, are financial speculation on the prices of basic food items, the use of land to produce agrofuels instead of food, and the priority given to cash crops intended for exportation, along with the end of subsidies to local producers, which were intended to ensure locally-based food security.
In addition, the effects of the climate crisis are becoming worse in the developing countries. Here again, the policies rolled out by the World Bank in particular, and the productivist capitalist system in general, are part of the problem and not of the solution.[2]

11) Individual illegitimate debts

This is a new field of analysis and intervention for the CADTM. Like peoples collectively, individuals in the working classes also suffer from the 'debt system'—indebted farmers in India who commit suicide,[3] families evicted from their homes by the banks in the US, Spain, and Ireland, among other countries, women in the South caught up in the micro-credit system, like the case of the indebted women in Morocco,[4] university students in the US

1 Toussaint, Éric. *Getting to the root causes of the food crisis*, 21 November 2008, http://cadtm.org/Getting-to-the-root-causes-of-the. See also: Millet, Damien & Toussaint, Éric. *Why is there rampant famine in the 21st century and how can it be eradicated?*, 6 May 2009, http://cadtm.org/Why-is-there-rampant-famine-in-the; Toussaint, Éric. *Banks speculate on raw materials and food*, 10 February 2014, http://cadtm.org/Banks-speculate-on-raw-materials

2 Éric De Ruest and Renaud Duterme, *La dette cachée de l'économie*, Paris: Les Liens qui Libèrent, 2014. See http://cadtm.org/La-dette-cachee-de-l-economie (French)

3 In India, more than 270,000 farmers committed suicide because of debt between 1995 and 2011.

4 See ATTAC/CADTM Morocco, Le micro-crédit ou le business de la pauvreté (Micro-credit, or the poverty business), 2014, http://cadtm.org/Le-micro-credit-ou-le-business-de (French)

and UK who are saddled with debt simply because they want to continue their studies. Student debt in the US is over $1 trillion.[1] That figure is greater than the total cumulative external public debt* of Latin America and Africa (see Table 2.2). Resistance movements have developed in recent years—in the US to defend indebted students victimised by banks, in Spain and the US to prevent foreclosures, in Morocco to support the struggle of women who are victims of micro-credit fraud, in India, to protect farmers who are victimised by usurers, and elsewhere.

12) Vulture funds[2]

Public debt has become the target of the speculative strategies of 'litigating creditors', known as 'vulture funds'. These are private investment funds, most of which are located in tax havens that specialise in buying up debt securities from States in default or on the verge of default. They then sue these States in the courts of English-speaking countries, demanding they pay back their debt at its nominal value, with interest, penalties for late payment, and court costs. Unlike traditional creditors, they refuse to participate in any negotiation and restructuring operations, preferring legal solutions, and in case of non-payment, seizure of debtors' assets* (diplomatic properties, revenues from exports, and various assets invested abroad). Since the 2000s, some twenty States that are among the most heavily indebted on the planet have fallen prey to these strategies, in South America (Argentina, Nicaragua, Honduras, and Peru) and Africa (Sierra Leone, the Republic of the Congo, and Uganda), with major judicial-financial battles that are still in progress today. Since 2007, the phenomenon has been directed against countries in Southern Europe (Greece, Spain, and Portugal). In the future, vulture strategies are likely to prosper in the South and North. Newly issued debts continue to be placed under American or British law, which is favourable to creditors, and certain countries are again contracting debt on the international capital markets, and show a preference for indebtedness to China, which will encourage future debt repurchases on secondary markets.

Argentina was in the spotlight in 2014, when the US Supreme Court rejected an appeal by the Argentine government, and ruled in favour of the vulture funds NML and Aurelius, forcing Argentina to pay them $1.33 billion. Argentina adopted a law on 10 September 2014 aimed at providing it with a mechanism to defend itself against vulture funds. The CADTM would like to point out, however, that the best defence against these funds consists in refusing to recognise the competence of foreign courts in settling claims with creditors, and inserting a clause in contracts stipulating that the local courts have jurisdiction.

13) Citizen audits

In recent years, movements have developed to work towards conducting a citizen audit to identify illegitimate, odious, and illegal debts. These movements in several countries[3] provide an opportunity for interesting and enriching reflection to clarify which parts of public debt should not be paid back. With no claim to being exhaustive, we can propose the following definitions:

a) Illegitimate public debt: debt contracted by government authorities with no concern for the general interest, or in a way that is detrimental to it.

b) Illegal public debt: debt contracted by the government authorities in flagrant violation of the prevailing legal order.

c) Odious public debt: loans granted to authoritarian regimes or which impose conditions for repayment that violate fundamental social rights.

d) Unsustainable public debt: debt whose repayment condemns the people of a country to impoverishment and deterioration of health and public education, increased unemployment, or problems of malnu-

1 1 Trillion Student Loan Problem Keeps Getting Worse, Forbes, 21 February 2014, http://www.forbes.com/sites/halahtouryalai/2014/02/21/1-trillion-student-loan-problem-keeps-getting-worse/

2 The authors would like to thank Louise Abellard for her contribution to this paragraph. For further discussion of this question, see Vivien, Renaud. *Argentine : un vautour peut en cacher d'autres*, op-ed, Le Soir, 23 June 2014. Available at http://cadtm.org/Argentine-un-vautour-peut-n; Toussaint, Éric. *How to resist vulture funds and financial imperialism?*, speech delivered at the International Seminar on Alternatives to financial imperialism and vulture funds held in Caracas (Venezuela) on 12 August 2014, http://cadtm.org/How-to-resist-vulture-funds-and

3 Brazil, Spain, Portugal, France, Belgium, etc.

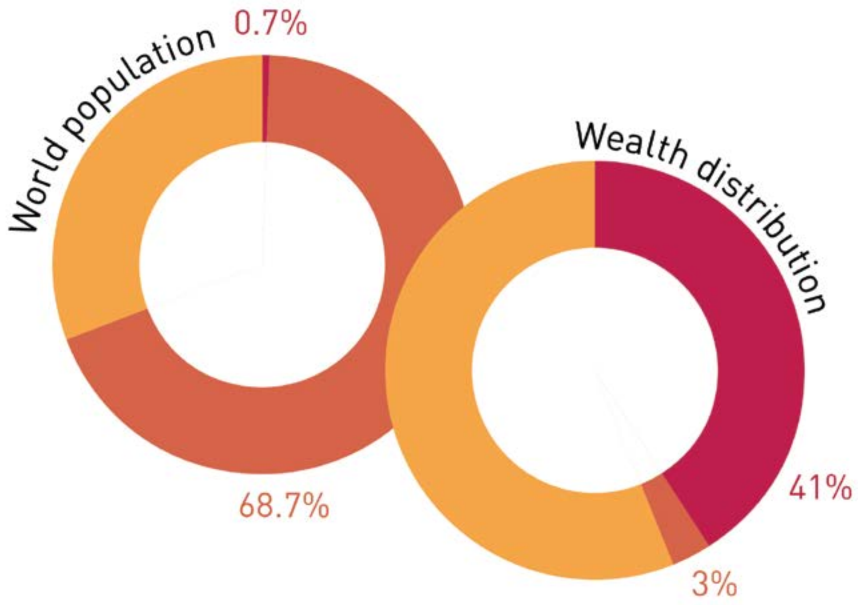
trition. In other words, debt whose repayment makes it impossible for government authorities to guarantee fundamental human rights.

A citizen audit of public debt, combined in certain cases with unilateral sovereign suspension of its payment, can enable the illegitimate, unsustainable, and/or illegal part of the debt to be abolished/repudiated and the remaining part to be greatly reduced. It is also a way of discouraging this type of indebtedness in the future.

I INEQUALITY IN THE WORLD

Inequality is rife in the world, and constantly increasing.

The distribution of wealth and income is a major scandal worldwide. In 2013, 0.7% of the world population (32 million individuals) possessed 41% of the world's wealth, while 68.7% of the population (3.2 billion adults) had but 3% of total world wealt.[1]



Inequalities are increasing in the South and in the North. In Brazil for example, latifúndios (large land-holdings) of over 1,000 hectares account for 0.9% of the total number of agricultural operations, but take up 44.4% of the total land area.[2] According to the ECB's estimates, 1% of the wealthiest Belgian households possess 17% of the total wealth, and the wealthiest 5% own 34% of total wealth. At the other extreme, one Belgian in five is in a situation of poverty and social exclusion.[3] On the African continent (1 billion inhabitants), 0.01% of the population—one ten-thousandth—account for 60% of the GDP.[4]

In 2013, 0.7% of the world population possessed 41% of the world's wealth, while 68.7% of the population had but 3% of total world wealth.

1 Source: Credit Suisse, *Global Wealth Report*, 2013

2 Source : Brazilian institute of Geography and Statistics, Census of Agriculture and fisheries, 2006.
See also FAO, *Dinámicas en el Mercado de la tierra en América Latina y el Caribe*, Santiago, 2011. available here http://www.fao.org/docrep/019/i2547s/i2547s.pdf

3 Source : European commision, Eurostat*, 2012, http://epp.eurostat.ec.europa.eu.

4 "*Un tiers des africains dans la classe moyenne (One third of Africans are middle-class)*", Agence Ecofin, Janvier 2012, http://www.agenceecofin.com/economie/2401-3055-un-tiers-des-africains-dans-la-classe-moyenne (French)

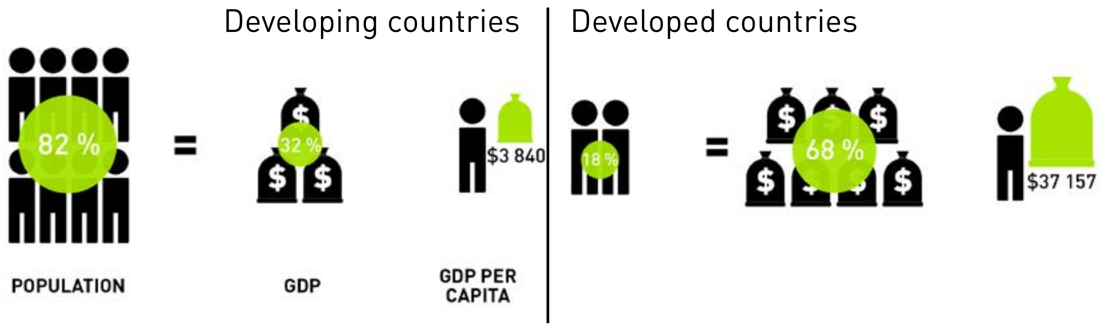
1.1 North-South inequalities

Four out of five people in the world live in the developing countries, which account for barely a third of worldwide GDP. Particularly striking is the difference between the GDP per inhabitant of the developing countries ($3,840) and of the developed countries ($37,157).

Table 1.1 - **Population and GDP (2012)**[1]

	Developing countries	Developed countries	World
Population	82 %	18 %	7.02 billion inhabitants
GDP	32 %	68 %	$69 569 Billion
GDP per capita	$3 840	$37 157	$9 907

1 Bank for International Settlements (BIS), http://www.bis.org; World Bank, *International Debt Statistics*, http://databank.banquemondiale.org. GDP per inhabitant is calculated as the average, weighted by population, for each GDP group per habitant.



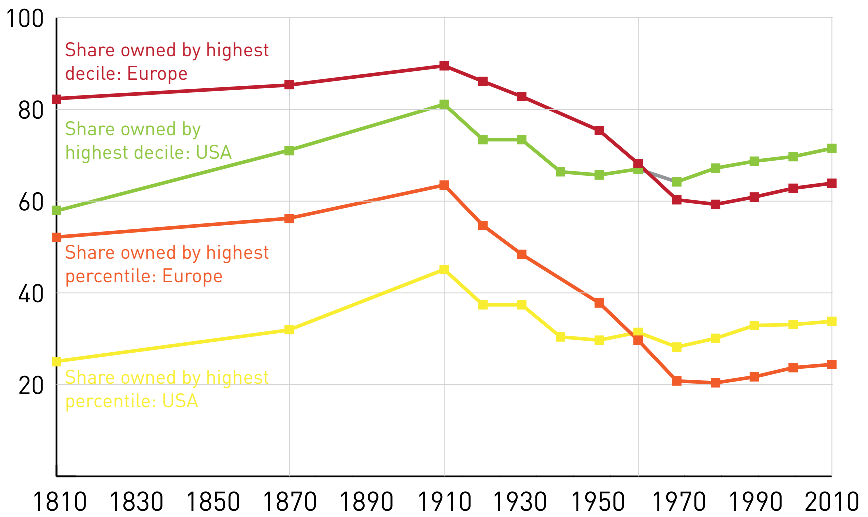
1.2 Increasing inequality throughout the world

Studies on the history of inequalities show an increase in inequality worldwide between the 19th century and the end of the Second World War. Following the war, policies of public spending for reconstruction, social mobilisations, the struggle against Fascism during the Resistance, and the Cold War climate beginning in 1945 prompted the governments of the time to implement measures aimed at reducing inequalities. This trend halted in the late 1970s with the neoliberal conservative shift, which has brought about new increases in inequalities throughout the world.[2]

This trend can be seen in the following chart on the evolution of the distribution of wealth in Europe and the US over the last two centuries.[3]

Chart 1.1

Percentage of total wealth held by the wealthiest 10% and 1% between 1810-2010[4]



2 The rise and the nature of neoliberalism are explained by David Harvey in his book A Brief History of Neoliberalism, Oxford University Press, 2007.

3 These data, like those in general concerning the concentration of income and wealth that we use, provide a picture of reality in the Northern countries. Data are lacking for many Southern countries, due to the weaker institutional contexts, where the wealthiest individuals often pay no taxes and declare neither their property nor their income.

4 The upper decile refers to the amount of wealth possessed by the 10% who own the most wealth. The upper centile shows the share owned by the 1% who possess the most. Levels of wealth are divided by ten and one hundred, respectively, and the upper fraction is observed (the 10% and 1% who hold the most wealth). Source: Piketty, Thomas. Capital in the Twenty-First Century, Harvard University Press, 2014, Chart 10.6. See http://piketty.pse.ens.fr/en/capital21c2

There is clearly a trend toward greater concentration of wealth. Yet that concentration is not inevitable. It is a social phenomenon that can be transformed through social struggle by the working classes against the powerful.[1]

In terms of income, today's world is more unequal than it was in 1870.[2] However, the growth of China and India—which together account for a third of the global population—over the last decades has introduced a distortion. If we observe the figures without counting those two countries, we see that the trend towards an increase in inequalities continues. In fact there is a paradox: while the growth of those two economies smooths the overall figures related to income inequality, it is in fact increasing in both of those countries (see Table 1.2).[3]

The overall trend is toward greater concentration of wealth, which means greater inequality. In reality, seven out of ten people live in countries where inequalities have increased over the last three decades.[4]

The indicator most often used to measure inequality is the Gini coefficient.[5] The following table shows the figures for different world economies. The general trend toward a less fair distribution of income can be seen. The only region that is a major exception is Latin America—where, in most countries, inequalities have generally decreased.[6] However, inequalities in that region still remain enormous. According to World Bank data, between 1988 and 2008 the largest increases in inequalities were in countries in the Africa and Europe and Central Asia groups.

1 Toussaint, Éric. *What can we do with what Thomas Piketty teaches us about capital in the twenty-first century?*, 24 February 2014, http://cadtm.org/What-can-we-do-with-what-Thomas

2 See, for example, Milanovic, Branko. *Global Inequality and the Global Inequality Extraction Ratio. The Story of the Last Two Centuries*, Policy Research Working Paper 5044, World Bank, September 2009, http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5044

3 For more details, see the study by Sanabria, Antonio. Quelques notes sur la situation et l'évolution des inégalités économiques dans le monde (Notes on the situation and the evolution of economic inequalities in the world), 4 June 2014, http://cadtm.org/Quelques-notes-sur-la-situation-et (French)

4 Oxfam International, *Working for the Few: Political capture and economic inequality*, Oxfam informational report No. 178, January 2014, http://www.oxfam.org/en/research/working-few

5 The Gini coefficient shows the level of concentration of wealth within a given economy by assigning a value between 0 (maximum equality: all individuals have the same income) and 1 (=100% - one single individual makes all the income). The higher the Gini coefficient, the greater the inequality.

6 Inequalities have not decreased in all the countries of the region. In Guatemala, for example, the situation appears to be stagnating, though no data are available from later than 2006. The most arresting case is perhaps that of Costa Rica—traditionally an example in the region of lower inequality, but where concentration of income is increasing, as shown by an increase in the Gini coefficient from 0.46 to 0.50 between 1995 and 2012. At the other end of the scale, data for Venezuela show the results of an active policy aimed at sectors with lower income. All the indicators show a reduction in inequalities.

Table 1.2

Inequalities in the world - evolution of the Gini coefficient[1]

	1995	2000	2012
Africa			
Ivory Coast	37	48	41.5
Ghana	38	41	43
Morocco	39.2	41	40.9
Uganda	43	43	44.3
Senegal	41	41	40.3
South Africa	59	58	63.1
Eastern Europe			
Croatia	23	31	33.7
Hungary	28	27	31.2
Latvia	27	34	34.8
Lithuania	34	32	37.6
Poland	32	33	32.7
Romania	28	30	27.4
Russia	48	37	40.1
Latin America			
Argentina	53	56	48
Bolivia	60	56	47
Brazil	64	61	57
Chile	56	55	52
Colombia	57	55	54
Mexico	54	53	49
Peru	53	53	45
Venezuela	51	49	41
Asia			
China	36	39	42
India	31	33	34
Malaysia	49	38	46
Indonesia	29	29	38
Thaïland	43	43	39
EU-15	31	29	30.7
USA	36.1	35.7	38

The indicator most often used to measure inequalities is the Gini coefficient. The following table shows the figures for different world economies. The general trend toward a less fair distribution of income can be seen.

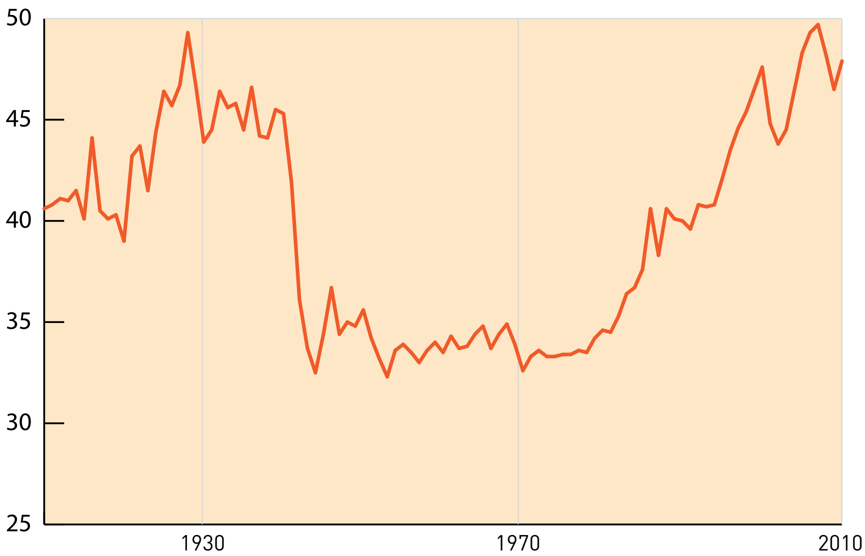
The Gini coefficient shows the level of concentration of wealth within a given economy by assigning a value between 0 (maximum equality: all individuals have the same income) and 100 (one single individual earns all the income). The higher the Gini coefficient, the greater the inequality.

The North has been greatly affected by this increasing inequality too, both in terms of income distribution and possession of wealth (as the preceding table shows). Let us now take a closer look at the US—the world's leading economic power, and one for which the most data are available.

1 Source: Databases of the World Bank, ECLAC, Eurostat, and the OECD*. Since in many countries data are not collected regularly, the data are often those from the year nearest the year indicated. It is also not pertinent to make comparisons between the indexes of countries in the different regions, since the sources are different. The value of the table lies above all in the trends it shows.

Chart 1.2

US: Percentage of national income held by the 10% of the population with the highest income, between 1910 and 2010[1]



During the first decades of the 20th century, the income of the 10% of the population with the highest income accounted for 40% to 50% of the total. From the 1950s to the 1980s, that percentage decreased to less than 35%. Beginning with the neoliberal counter-revolution ushered in by the Reagan administration, the situation has evolved in favour of the wealthiest class. During the last years prior to the crisis of 2007-2008, concentration of wealth in the hands of the wealthiest 10% in the USA had returned to levels similar to those recorded during the Great Depression of 1929. The trend since the current crisis began is again towards increased concentration of wealth in the hands of the wealthiest segment (48% in 2012). According to Oxfam, the wealthiest 1% grabbed 95% of the growth subsequent to the 2009 'recovery'.[2] In 2012, that 1% earned practically one fifth (19%, to be exact) of all the income in the country.[3]

1 Thomas Piketty, Chart I.1. see http://piketty.pse.ens.fr/en/capital21c2

2 Oxfam International, *Working for the Few: Political capture and economic inequality, Oxfam informational report No. 178*, January 2014, http://www.oxfam.org/en/research/working-few

3 Facundo Alvaredo, Anthony Atkinson, Thomas Piketty, Emmanuel Saez, *The World Top Incomes Database*, http://topincomes.g-mond.parisschoolofeconomics.eu/, accessed 18 January 2014

1.3 Causes of inequalities

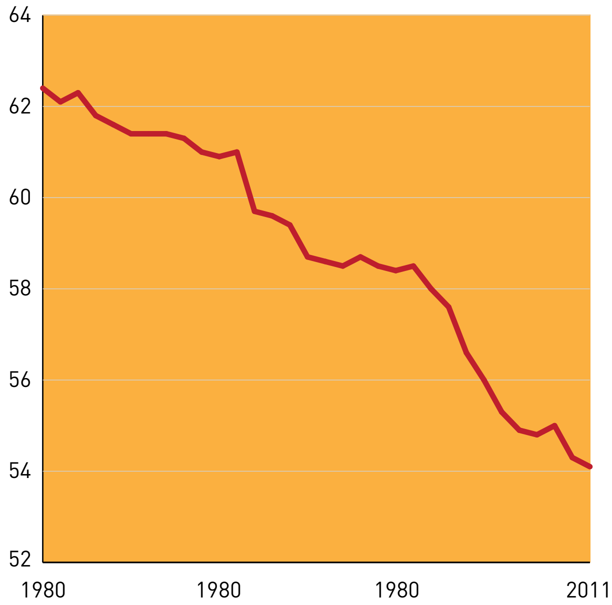
The relationship between capital and labour

The first factor causing inequality is the relationship between capital and labour. In a capitalist economy, in addition to natural resources, the fundamental factors of production are labour and capital. There is a constant struggle between them to capture the wealth generated in the production process. Since capital owns the means of production, that struggle is an unequal one. In fact, the evolution of inequality depends greatly (though not only) on the capital-labour relationship, as clearly shown by neoliberalism since the 1980s. It has put an end to the post-Second World War economic relationships through an offensive by capital that has been dismantling the social progress previously made by workers.

The effects of this new neoliberal model can be observed in the following chart. Note that the share of labour income in worldwide gross domestic product (GDP)* shows a sharp downward trend. If we think of GDP as one large pie, workers are getting a smaller and smaller piece of it.

Chart 1.3

Trend (in percentage) of the share of wages in worldwide GDP (1980-2011)[1]

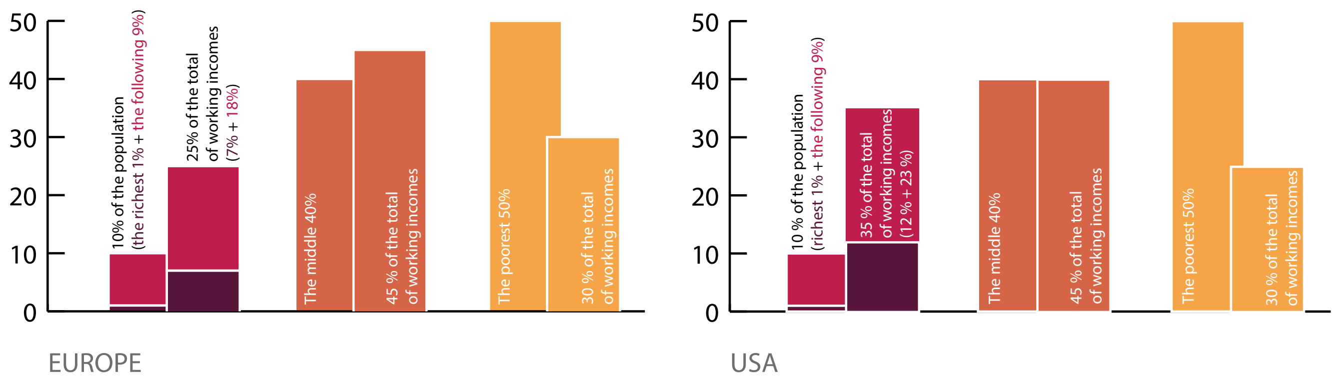


This downward pressure on wages has been accompanied by growing unemployment. Wages are the principal means for redistributing total income. But statistics say that in 2013, 202 million people were jobless worldwide, and as a result had no access to that income. That means five million more jobless people than the previous year, and 62 million fewer jobs since 2008.[2]

We also observe an increase in inequalities in wage distribution during the past decades. The following table shows the breakdown of wages among the different categories of the population by income, in Europe and in the US.

Chart 1.4

Inequalities in income associated with wages in Europe and the US (2010)[3]



1 UNCTAD, *Trade and Development Report 2013*, United Nations, New York and Geneva, 2013, p.15. Available at http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=636

2 ILO, *Global Employment Trends 2014: The risk of a jobless recovery*, http://www.ilo.org/global/research/global-reports/global-employment-trends/2014/lang--en/index.htm

3 Piketty, Thomas. *Capital in the Twenty-First Century*, Harvard University Press, 2014, Table 7.1. See http://piketty.pse.ens.fr/en/capital21c2

Increased tax regressivity

The neoliberal counter reforms have transformed the distribution of taxation in countries. On the one hand, taxes on the highest incomes and on large fortunes have been reduced, as well as taxes on corporate profits and revenue from capital. On the other hand, the liberalisation of movements of capital has made it easier for money to be moved, and thus escape taxes by hiding in tax havens.
In recent years, in order to reduce budget deficits, governments have taken so many austerity measures that a small gesture had to be made towards making those truly responsible for the crisis—that is, the richest segment of the population—pay a little more to help the rest of the population to swallow the medecine. But as Table 1.3 shows, these recent tax increases in the high income brackets do not begin to compensate for the huge tax reductions made since the 1980s.

Taxes on corporate profits have followed a similar downward trend. In France, for example, the maximum taxation rate has gone from 50% prior to 1985 to 34.4% since 2007 (see Table 1.4). Worse yet, as a result of numerous tax breaks, the effective rate is only 22%. For companies listed on the CAC 40 (the index of the 40 biggest corporations listed on the Paris Stock Exchange), it is barely 8%.

And the Consolidated Global Profit Tax System mechanism (a tax regime granted by certain States which permits large corporations to deduct losses posted abroad from their taxes) allows major corporations to pay no taxes at all in certain cases. For example, while it posted profits of €10 billion in 2010, the oil giant Total paid no taxes. That is only one example of widespread practices.

Table 1.3

Tax rates on highest incomes[1]

Country	1986	2002	2007	2013
France	65	58	46	50
Germany	53	51	48	48
Belgium	72	56	54	50
Spain	66	49	43	52
Italy	62	46	45	47
Netherlands	72	52	52	52
UK	60	40	40	45
Ireland	60	42	41	41
Sweden	80	56	57	57
US	50	45	41	46
Japan	70	50	50	51

Tableau 1.4

Maximum legal tax rate on corporate profits[2]

Country	1986	2002	2007	2013
France	45	35	34	34
Germany	60	39	39	30
Belqium	45	40	34	34
Spain	35	35	33	30
Italy	46	36	33	28
Netherlands	42	35	26	25
UK	35	30	30	23
Ireland	50	16	13	13
Sweden	57	28	28	22
US	50	39	39	39
Japan	43	41	40	37

1 OECD, *Tax Database 2000-2014*, Paris, May 2014, http://www.oecd.org/tax/tax-policy/tax-database.htm#C_CorporateCaptial;
Tax Policy Center, *Historical Top Marginal Personal Income Tax Rate in OECD Countries*, April 2014, http://www.taxpolicycenter.org/taxfacts/Content/PDF/oecd_historical_toprate.pdf

2 Source: OECD, Tax Database 2000-2014, op.cit. Data relating to taxation apply mostly to Northern countries, since they are the ones for which we have the most data. Nevertheless, we should keep in mind that the tax systems in the developing countries are often even more favourable to the very wealthy and major corporations than in the developed countries. Also, as indicated just above, a distinction has to be made between the legal taxation rate and the rate actually paid, which is very often significantly lower.

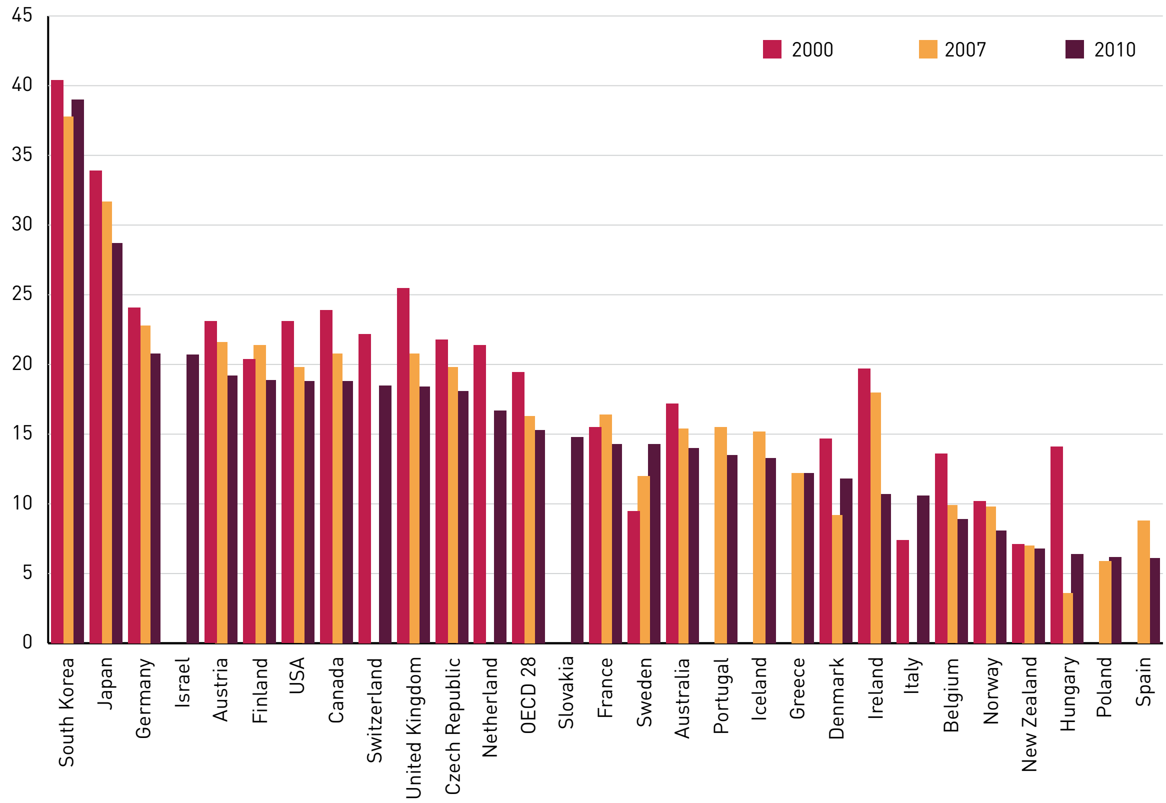
Gender inequality

The social inequalities that affect women cut across all economic relationships. Whereas access to employment represents the principal source of income for most of the world's population, women are discriminated against, even in countries where equality of rights is recognized. This theoretical recognition contrasts, for example, with unemployment rates for women, which are higher than those for men. Added to that are lower wages for women—including for the same work done by male co-workers. In addition, women's restriction to part-time or informal jobs (that is, jobs not subject to labour legislation) exposes them to ever-increasing precariousness.

In the North

In the North, public-spending cuts required by austerity policies are resulting in cutbacks of social policies intended to fight gender inequality. Similarly, cuts in social spending assume that the "Care Sector" (health, early-childhood services, education, care for dependent and/or elderly family members, etc.), abandoned by the public sphere, will now be taken over by the private sphere—meaning women.

Chart 1.5 - **Wage inequalities (in %) between the sexes for full-time jobs**[1]



1 The wage estimations used in the calculations refer to gross wages for full-time employees under contract. Wage and gender inequalities are not adjusted. They are calculated as the difference between the median (most common) income of men and women compared to the median income for men. Data are for 2005 (instead of 2010) for Holland, 2008 for Belgium and Iceland, and 2009 for the Czech Republic and France.
OECD, *Labor Market Position of Families (LMF)*, OECD Family Database, Paris, http://www.oecd.org/social/soc/oecdfamilydatabase.htm#labour_market

The reduction in wage differences between the sexes in most countries shown above is the result of a loss of jobs—in other words of income earned by men—rather than of an improvement in wage conditions for women. Despite the improvement, even though it may appear significant, the average wage difference between men and women remains a very tangible reality. In OECD* countries, it was 17.3% in 2011, with rates above 25% for South Korea and Japan.[1]

Regarding unemployment, the situation is similar. The unemployment rate for women is higher than for men. The same is true of the inactivity rate for women.[2] These data reflect the exclusion of women from the labour market.

During the crisis, the gap between women's and men's unemployment generally decreased. However, this decrease in average unemployment rates between the sexes can be attributed much more to the overall deterioration of the employment situation and heavier losses of jobs in sectors that are traditionally male-dominated (banking, construction, finance, the automotive industry, transport, etc.) early in the crisis than to any improvement of gender equality on the labour market.

Table 1.5

Unemployment rate for men and women 2008-2013[3]

	2008		2013	
	Men	Women	Men	Women
Belgium	6.5	5.4	8.7	8.1
Denmark	3.2	2.4	6.7	7.3
Germany	7.4	7	5.6	5
Ireland	7.6	6.1	15.2	10.6
Spain	10.1	8.5	25.8	27
France	7.3	5.8	10.8	10.9
Netherlands	2.8	2.2	7.1	6.3
Portugal	7.9	6.8	16.5	16.5
US	6.1	4.8	7.6	7.1
EU-28	6.7	7.6	10.9	10.9
Eurozone 18	**7**	**8.5**	**12**	**12.2**

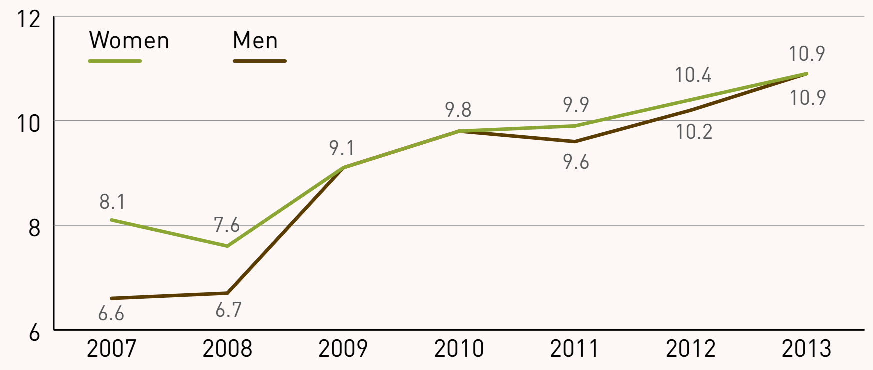
If we take into consideration only full-time employment, the gap between the unemployment rate for men and for women is significantly greater, because unemployment statistics do not take into account part-time jobs, most of which are held by women. This over-representation of women in part-time work reflects a relationship of inequality within the private sphere, which has repercussions in the work place The highly unequal distribution of domestic and care-giving tasks between the sexes very often forces women to 'choose' part-time work. Meanwhile, austerity measures are reducing access to social services, such as care for dependent persons, nurseries and day-care centres, care for the elderly, and policies for reconciling working life and private life, the private sphere—so women are increasingly taking on the burden of

1 OECD, *Labor Market Position of Families (LMF)*, OECD Family Database, Paris, http://www.oecd.org/social/soc/oecdfamily-database.htm#labour_market
Data for Estonia, Cyprus, Slovakia, Latvia, Lithuania, Bulgaria, Luxembourg, Romania, Ireland, Slovenia, and Malta are for all employees who work at least 15 hours per week, which probably tends to smooth gender inequalities. Data are for the year 2000 for Estonia, 2006 for Cyprus, Slovakia, Latvia, Lithuania, Bulgaria, Luxembourg, Romania, Ireland, Slovenia, and Malta.

2 The activity rate measures the relationship between the active population (that is, who are working or seeking work) and the total working-age population. The percentage of women who are working or seeking employment is generally lower than for men.

3 Source: European Commission, *Eurostat*, 2014, http://epp.eurostat.ec.europa.eu

Trends of the unemployment rate in Europe (in %)



providing these services. In order to be able to perform this unpaid work of caring for others, women tend to reduce the number of paid hours they work (or sometimes even leave the labour market altogether), which exposes them to increased financial precariousness.

Gender inequality is also present when we analyse the job market. The 'choice' of only part-time work or of remaining unemployed will be greater for women to the extent that the range of jobs available to them is more limited than for men,[1] a situation that has worsened with the crisis. For example, women are more heavily impacted by budget restrictions intended to give priority to repaying debt by reducing public employment. In Europe, women hold a majority of jobs in the public sector (69.2% of the total number of employees in that sector are women)[2], which generally provides them with better working conditions and wages than those prevalent in the private sector.

When it comes to retirement, there is also gender inequality: in Europe, retired women receive an average of 39%[3] less than their male counterparts, since they have paid into the retirement system for less time and at lower rates. The priority being given to paying back the debt to the detriment of social spending is likely to aggravate the situation for the following reasons:

- women suffer more from the effects of the crisis on employment;
- they are forced to reduce or abandon their paid work to assume unpaid care tasks;[4]
- reforms of public retirement schemes are making it more difficult for women to have access to a pension that will enable to them to live with dignity and above the poverty line.[5]

1 That is what the OECD data show (*Labour Market Position of Families (LMF)*, OECD Family Database, Paris, http://www.oecd.org/social/soc/oecdfamilydatabase.htm#labour_market).

2 Source: European Women's Lobby (EWL), *The price of austerity – the impact on women's rights and gender equality in Europe (report)*, October 2012, p. 4. Available at http://www.womenlobby.org/news/ewl-news/article/ewl-publishes-report-on-impact-of

3 European Commission, *The Gender gap in pensions in the EU*, Luxembourg, 2013, p. 34. Available on http://ec.europa.eu/justice/gender-equality/files/documents/130530_pensions_en.pdf

4 The common belief that it is up to women to take care of domestic work and care tasks is the result, firstly, of the reproduction of male chauvinist stereotypes which hold that such tasks are 'women's work' . According to stereotype, if a women enters the labour market, her wages will always be considered only as a complement to the man's income. In addition, since women have more difficulty than men in accessing the job market, their being relegated to the private and family sphere seems more logical and natural.

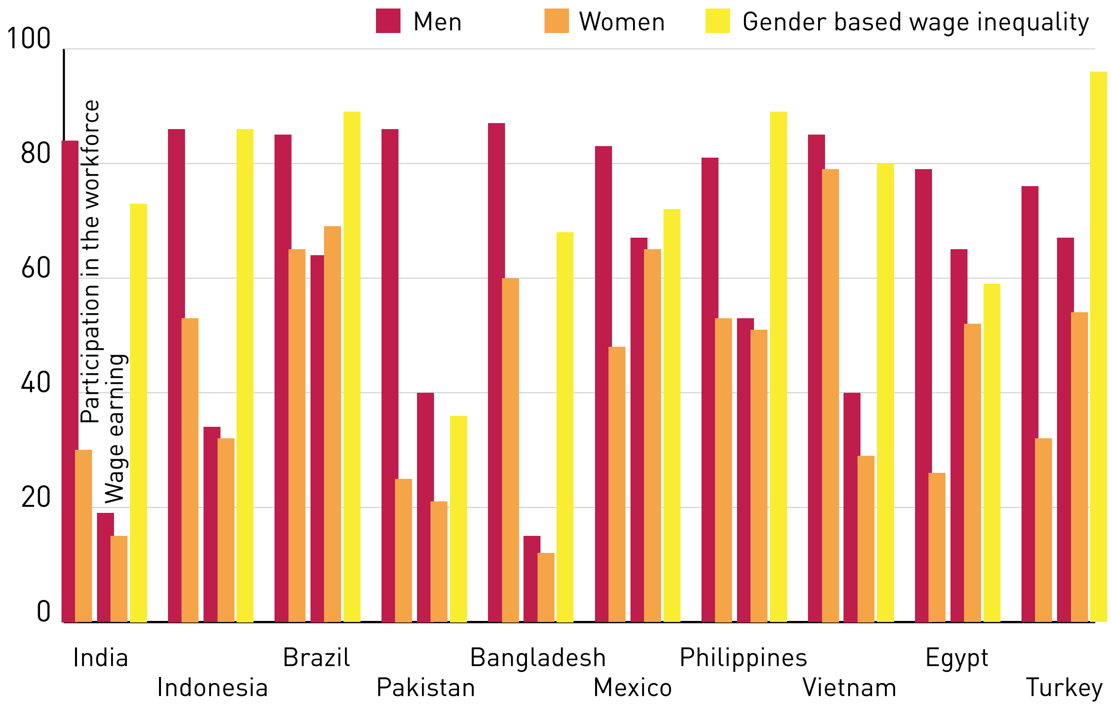
5 At least 22% of all retired women in the European Union live below the poverty line. Source: European Parliament, *Opinion draft on an agenda for adequate, safe and sustainable pensions*, 19 December 2012. Available on http://www.europarl.europa.eu.

In the South

In the developing countries, women suffer greatly from inequality and discrimination. While some of them have been able to increase their economic activity, conditions are much less favourable than for men. The following chart shows that evolution. It analyses a sampling of ten countries, which represent a third of the world's population.

Chart 1.6

Rate of participation in the workforce (in % of population between 15 and 64); rate of wage earning (in % of employed labour force) and gender-based wage inequality for 2008-2012[1]

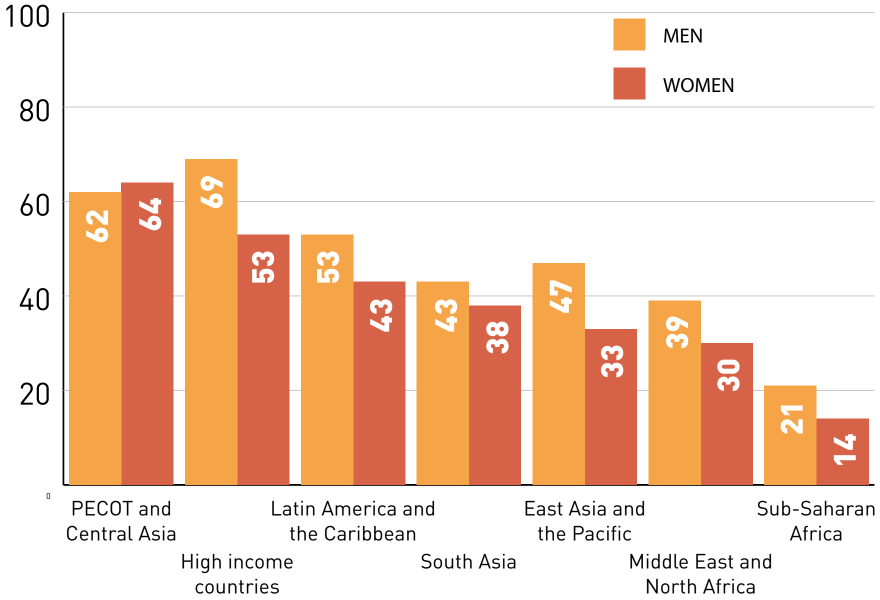


Among the countries sampled, only Brazil, Bangladesh, and Vietnam show participation by women that is above 60% of the total number of women of working age. In all other cases, the same figures, applied to men, show around 80%.

1 In economics, the 'workforce' refers to the 'active population' , that is, all people of working age, whether they are actually working or seeking employment.
World Bank, *Women at Work*, 2014.

Chart 1.7

Full-time jobs by gender in the different regions of the world (% of the workforce in 2012)[1]



The observations made regarding the North apply around the globe: it is more difficult today for a woman to find full-time employment than for a man, and the gap is wider in countries where income is high. We should recall that full-time work is generally synonymous with a higher-quality job that guarantees more rights.

1 World Bank, *Povcal Net* - World Bank Database, http://iresearch.worldbank.org/PovcalNet/index.htm?1

1.4 Poverty and malnutrition: deconstructing the neoliberal fable

If we believe the United Nations, the World Bank and the IMF, even if the world situation is still cause for concern, things are moving in the right direction—extreme poverty and hunger are decreasing around the world. In 20 years, the number of people living in extreme poverty has decreased by 700 million, from 1.9 billion to 1.2 billion (Chart 1.8), while the number of people suffering from hunger has dropped from 1 billion to 842 million (Table 1.6).

Chart 1.8 – Extreme poverty in the world[1]

Number of persons living on less than $1.25 a day (in millions)

In the world : 1937 in 1981, 1908 in 1990 et 1215 in 2010

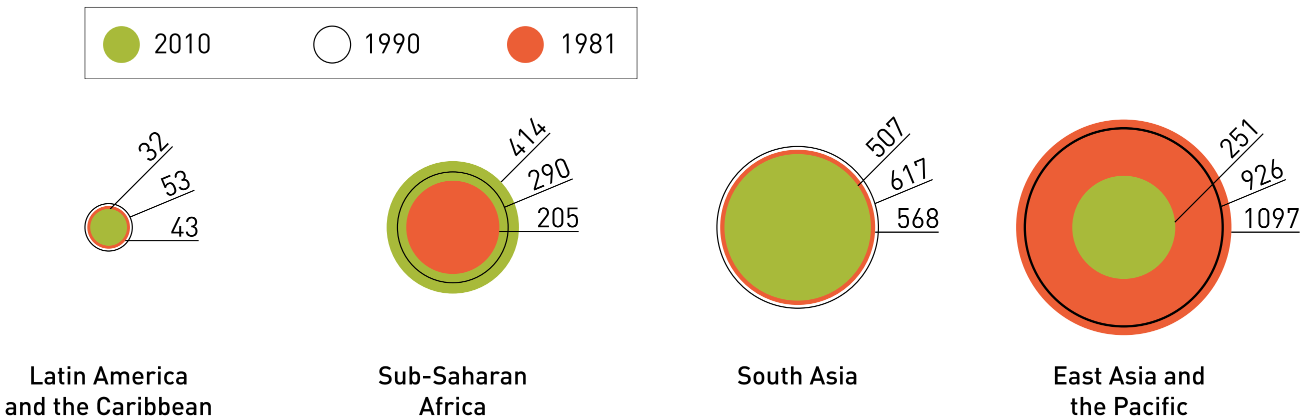
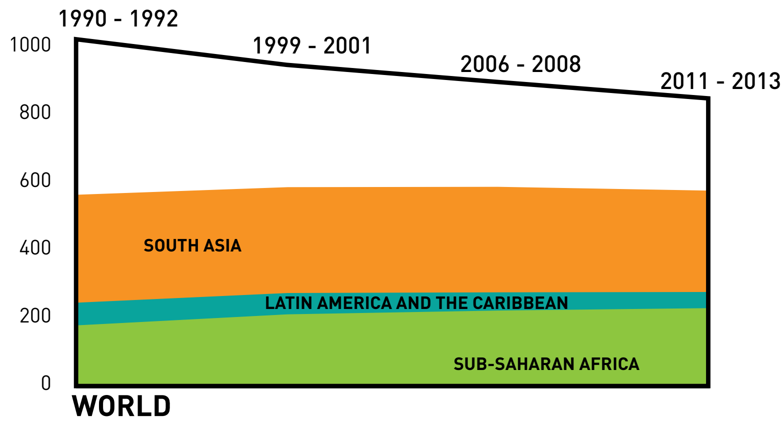


Table 1.6 – Hunger in the world[2]

number of persons suffering from hunger (in millions)	1990 - 1992	1999 - 2001	2006 - 2008	2011 - 2013
Sub-Saharan Africa	173	205	216	223
Latin America and the Caribbean	66	62	53	47
South Asia	314	308	307	295
World	1 015	940	890	842



According to these figures, extreme poverty and malnutrition have not decreased everywhere. For example, extreme poverty has barely decreased in southern Asia, and above all has greatly increased in Sub-Saharan Africa. The overall reduction in extreme poverty is therefore likely due essentially to China and India, countries with the largest concentration of extreme poverty, as the chart below shows (chart 1.9).

1 World Bank, *Povcal Net* - World Bank Database, http://iresearch.worldbank.org/PovcalNet/index.htm?1

2 FAO, Hunger Report, 2013. Available at http://www.fao.org/hunger/en/

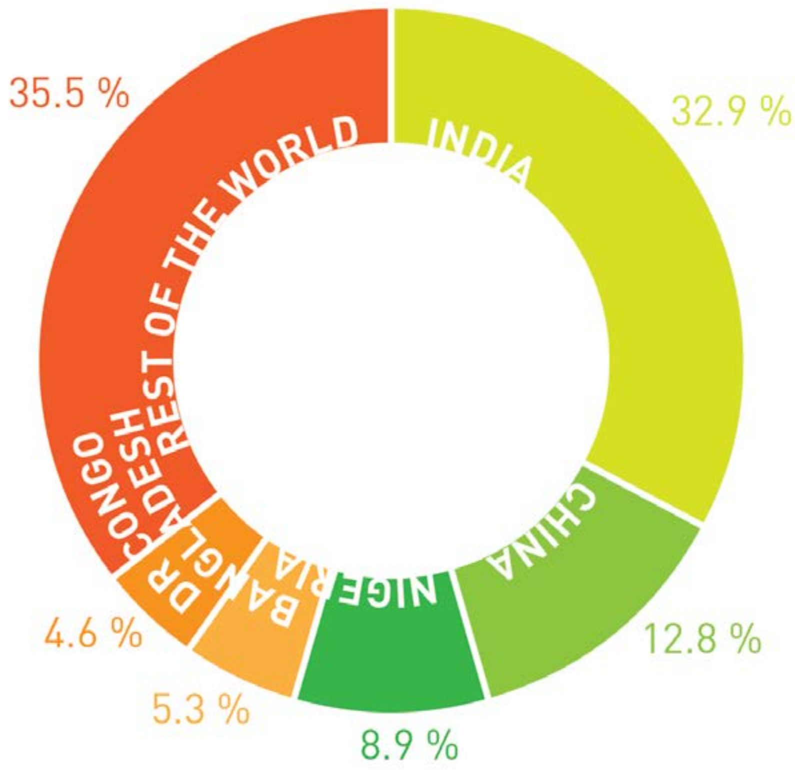


Chart 1.9

Centres of extreme poverty in the world (2010) (% of worldwide total)[1]

There is clearly another interpretation: even if these figures were correct (and they are not, as we shall see below), there would be no reason to be proud. Levels of extreme poverty remain scandalously high. One person out of five lives in extreme poverty and one out of eight suffers from hunger, with all the (often irreversible) physiological and psychological consequences that condition implies. In addition, a person who suffers from hunger also suffers from political, economic, and social exclusion.

But that is not the worst. The story about the reduction of poverty is in fact nothing but a fable. These figures are not at all reliable; they have been manipulated so as to greatly underestimate poverty levels throughout the world.

Setting a poverty threshold at $1.25 per day is totally cynical and unrealistic.

There are few places on the planet where fundamental human rights can be met even on four dollars a day.[2] Yet more than 50% of the population of the global South survives on less than $2.5 per day, while 75% live on under four dollars per day. Another figure: In 2005, 95.5% of the population of the developing countries, or 5.5 billion people, were living on less than $13 dollars per day,[3] or approximately $400 per month. In fact, most people who have supposedly emerged from 'extreme poverty' in recent years have not. If the threshold is set at 2, 3, or 4 dollars per day, we would realize that the majority of the population of the Third World is living in great precariousness and deprivation.

Furthermore, the methods used to calculate poverty levels (extreme or not) are more than questionable. The

1 United Nations, *UN Millennium Development Goals*, 2014 Report, New York, 2014. Available at http://www.undp.org/content/undp/fr/home/librarypage/mdg/the-millennium-development-goals-report-2014/

2 In Niamey, the capital of Niger—the 'poorest' country on the planet in terms of the HDI (Human Development Index)—, rent for a 10-sq.-meter room costs at least €50, which along with the electricity bill eats up the average person's entire income. Yet they still need to eat and drink every day, travel to work, get medical care, and send their children to school.

3 FAO, Livestock sector development for poverty reduction: an economic and policy perspective, United Nations, Rome, 2012, p. 5. Available at http://www.fao.org/docrep/015/i2744e/i2744e00.pdf. $13 per day is the poverty line in the USA.

threshold for the different countries is calculated in terms of 'purchasing power parity'[1], that is, taking into account differences in the cost of living. That implies that for many countries, the poverty threshold is even less than $1.25 per day. For example, for India, the World Bank considers that the cost of living is much lower than elsewhere, and so lowers the threshold of poverty to $0.25 per day in purchasing power parity! Using that methodology, the Bank tends to strongly underestimate real poverty.

In October 2007, a study conducted by a governmental institution in India calculated that 77% of the population, or **836 million** Indians, lived on less than 20 rupees (less than $0.50) per day. That figure is very different from the World Bank's assertion that **300 million** Indians live on less than one dollar a day. Already in 2002, in a report on poverty in the Least Developed Countries, the UNCTAD (United Nations Conference on Trade and Development) had called attention to the problem and directly challenged the World Bank's estimates. According to the World Bank, 41.7% of the population of Niger were living on less than one dollar per day in 1992. For that same year, the UNCTAD put that figure at over 75%.

Among the Bank's manipulations of the figures, one could add the fact that its updating of poverty thresholds (the threshold was raised from $1 to $1.25 in 2008) did not fully take into account the effects of inflation*, thus magically lifting 121 million people out of extreme poverty.[2]

In reality, the absolute number of poor people in the world has increased, and therefore we need to dismantle this fable, which serves only one purpose—to deny the manifest failure of the neoliberal policies the World Bank and the IMF have been imposing on the peoples of the world. Yet beyond the figures, we must not forget that poverty is a multidimensional phenomenon, which cannot be described in purely financial terms. Access to health care, education, energy, and social protection are all factors that must be taken into account in assessing poverty.

One final aspect needs to be brought to attention: there is a close relationship between the increase in poverty and the increase in inequality. On the one hand, is a tiny minority in whose hands a huge amount of wealth is concentrated; on the other, is a multitude who suffer and struggle to survive. Massive poverty is not a 'natural' phenomenon. It is the direct result of capitalist logic, based on accumulation and the exploita-

1 Purchasing Power Parity (PPP) is a method used in economics to compare countries in terms of the purchasing power of the national currencies, which cannot be done by simply using currency exchange rates.

2 See Hickel Jason, *Exposing the great 'poverty reduction' lie*, 21 August 2014, http://www.globalsocialjustice.eu/

tion of people. Eliminating poverty is entirely possible. In 2008, the FAO calculated that $30 billion per year 'would be enough' to eliminate hunger. Forbes magazine estimates that there are 1,645 billionaires in the world.[1] A tax of only 0.47% on these huge fortunes would be enough to eradicate hunger in the world. What else is there to say?

1 For the FAO figures, see FAO, *The world only needs 30 billion dollars a year to eradicate the scourge of hunger*, 3 June 2008. Available at http://www.fao.org/NEWSROOM/en/news/2008/1000853/
For the data (2013) from Forbes, see *Inside The 2013 Billionaires List: Facts and Figures*, Forbes, 25 March 2013, http://www.forbes.com/sites/luisakroll/2013/03/04/inside-the-2013-billionaires-list-facts-and-figures/
According to Forbes, since 2009, the number of billionaires has increased considerably and the total wealth accumulated by these billionaires has been multiplied by 2.7, from $2.4 trillion to $6.4 trillion. Clearly not everyone is suffering from the crisis.

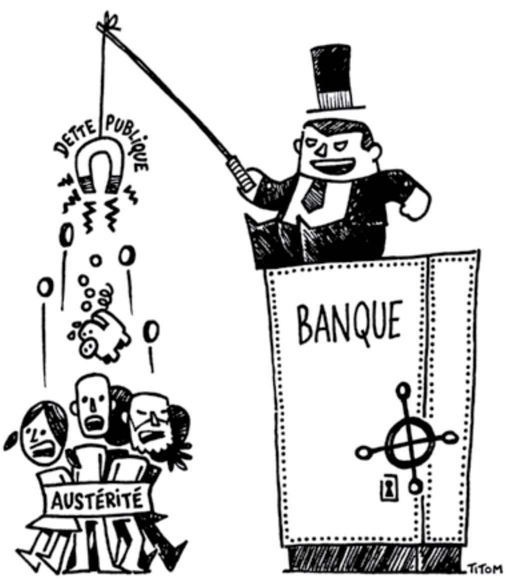
1.5 Inequality generates debt

There is an obvious link between income inequality and debt. The process runs more or less as follows: the liberalisation of movements of capital and financial deregulation have generated economic growth based on private debt*. Easier access to credit has enabled the very rich to increase their holdings and their income thanks to the yield from their financial investments. Companies increase their investments, relocate in other countries, and/or buy out competitors. Banks facilitate the granting of credit in order to increase their profits in addition to what they earn from financial speculation.[1] They derive part of their financial income from loans to those citizens whose income is the lowest. Banks increase the volume of their loans to increase their profits (but lending to citizens who are a great credit risk). In parallel, the loans enable numerous workers to increase their consumption even though their real wages are stagnating or decreasing.

Meanwhile, the liberalisation of capital movements and governments' complicity with economic elites result in lower taxes in their favour (see Tables 1.3 and 1.4). That being the case, governmental policies that serve the interests of the most wealthy increase inequalities. The increase in inequality swells the bubble of private

1 See Toussaint, Éric. *Bancocratie*, Brussels: Aden, 2014 (in French; English version, *Bankocracy*, in press, Merlin Press, May 2015).

Public debt
Austerity
Bank



debt*, and the use of credit in turn strengthens that inequality.[1] It is a vicious cycle that is only broken when events cause the credit bubble, which has become unsustainable, to burst. The collapse of financial markets follows with the socialisation of losses, and with it the increase of public debt.

Public debt increases due to the tax breaks given to the richest minority and major corporations, which drain the State's revenues, and also because of a tax structure that is more sensitive to economic activity: tax revenues increase during periods of growth and are reduced during periods of crisis, aggravating governments' budget deficits and the public debt that is intended to compensate for them. In these conditions, most public spending is covered by issuing securities—beforehand a large proportion of revenue was from the collection of taxes, which must be compensated for by contracting loans and paying interest on them.

In an economic recession, in order to obtain financing for public deficits, governments pay lenders higher interest rates. At the same time, they apply austerity policies to reduce public spending, thus bolstering guarantees of payment to creditors. And the wheel of the 'debt system' never stops turning.

1 Source: Michael Kumhof, Romain Rancière, *Unequal = Indebted, Finance & Development*, Vol. 48, No. 3, IMF, September 2011, pp. 25-27, http://www.imf.org/external/pubs/ft/fandd/2011/09/kumhof.htm Michael Kumhof, Romain Rancière, Inequality, Leverage and Crises, *IMF Working Paper*, IMF, November 2010, https://www.imf.org/external/pubs/ft/wp/2010/wp10268.pdfA

II OVERVIEW OF DEBT IN THE SOUTH

BREAKDOWN OF EXTERNAL DEBT IN DEVELOPING COUNTRIES

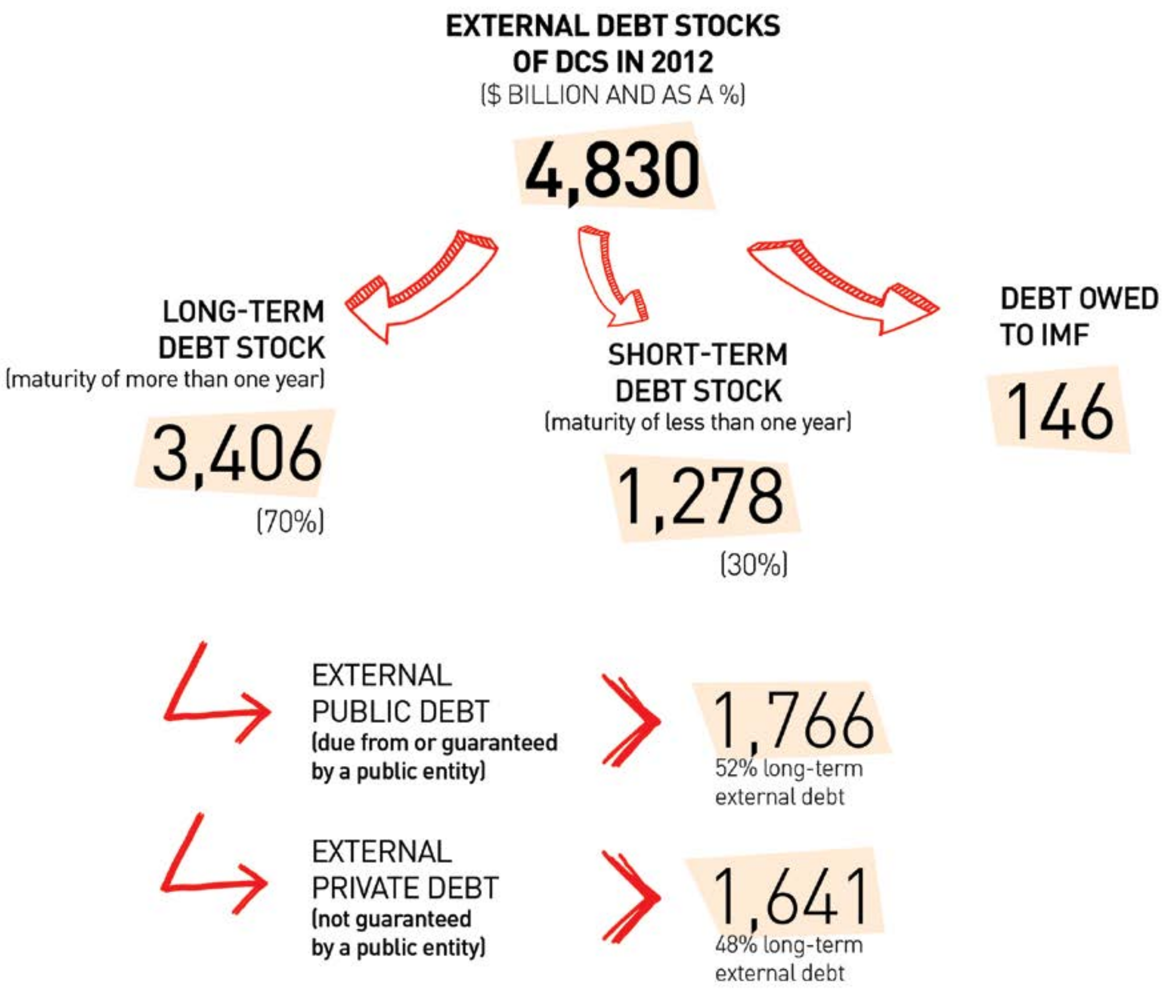
This part provides a general overview of debt trends in Southern countries,[1] highlighting the significant amount of money used to pay off debt, which is in many cases odious, illegal, or illegitimate, and detrimental to the basic rights and needs of people. In Part 3, we will examine this trend for Africa, Asia, and Latin America.

2.1 By type of external debt* and debtor

The figure on the next page shows the external debt of DCs (Developing Countries) by type of debtor. External debt is the debt taken on by a country (the State or private borrowers) from foreign creditors. When it is incurred by different government administrations, it is called external public debt. External private debt is the debt incurred by private borrowers (financial organisations, companies, and households).

External debt makes indebted countries vulnerable to changes in the international financial environment (financial crises in other countries, increasing international interests rates, etc.). In addition, indebted countries sometimes have little control over their own debt, since it may be in foreign currencies or subject to foreign jurisdictions, which are often more favourable to the creditors. Finally, external debt (public or private) can reflect the extent to which an economy is dependent on external funding to cope with the misappropriation of its internal resources.

1 In this part, we analyse the trends in the debt of low and medium-income countries according to World Bank data: International Debt Statistics, http://databank.worldbank.org/data/home.aspx.



2.2 Debt in the South by region

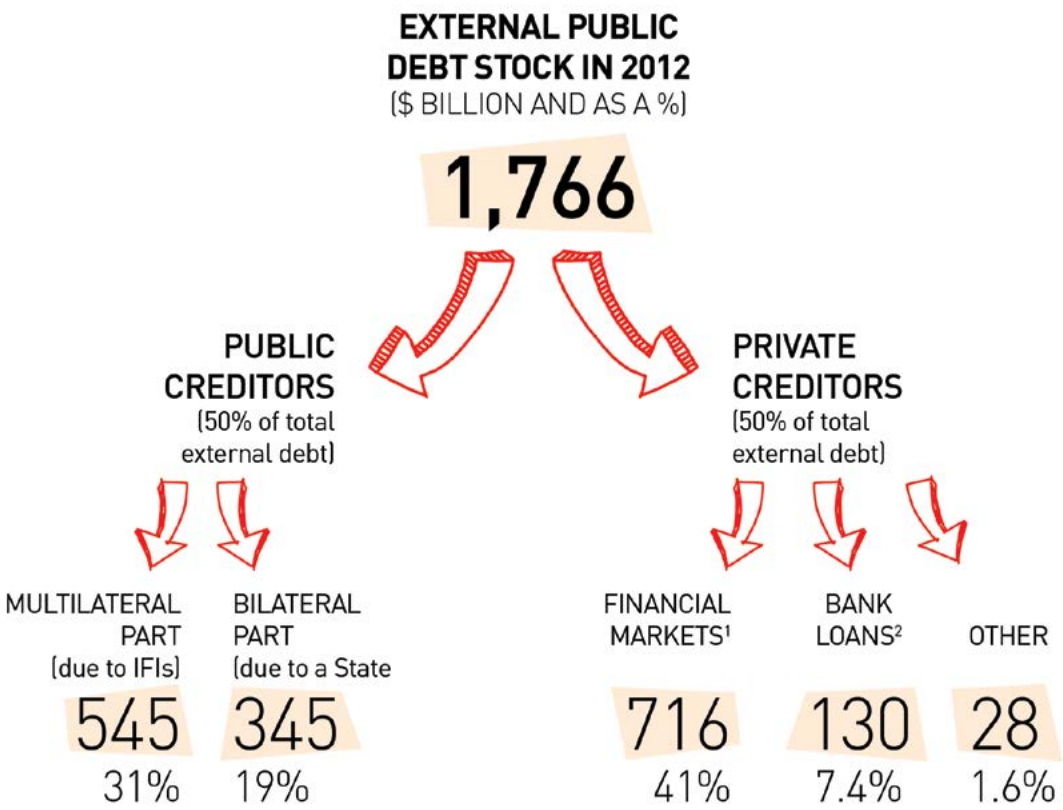
Table 2.1
External debt by region ($ billion)

In recent years, external debt has increased significantly in absolute values. In fact, it doubled between 2000 and 2012, and most of this increase was concentrated in the private sector.

The situation is similar in terms of external public debt, which nearly doubled in several regions from 1990 to 2012. It is especially Asia and Latin America that reported the highest external public debt as of 1980 (and even before).

In billions of $	External debt			
	1980	1990	2000	2012
Latin America	230	420	714	1 258
Sub-Saharan Africa	61	176	213	331
Middle East and North Africa	64	137	144	177
South Asia	37	126	163	501
East Asia	61	234	497	1 412
Europe and Central Asia	58	101	234	1 150
Total	**511**	**1 194**	**1 965**	**4 829**

2.3 Les créanciers de la dette externe publique



The figure above shows the amount of debt by type of creditor. In general, bilateral debt and especially debt contracted from international financial institutions, such as the IMF, World Bank and regional development banks, reflect the funding difficulties encountered on the private markets. These official loans generally include conditionalities imposing severe adjustments that have disastrous consequences on the lower classes in the countries concerned.

As the figures above indicate, private creditors are owed half of the DCs' external debt, and this funding is especially based on the securities they issue. In effect, given the tremendous liquidity in capital markets, which offer financing at a very low rate--an economic context that has been more favourable to some economies in the South, which have accumulated large quantities of currency reserves* (see point 2.8)--the IFIs are no longer the primary lenders they were in the past.

In the last three decades, only one significant change has occurred in the breakdown of external public debt. Whereas the share of loans from international financial institutions has decreased, this drop has been offset by an increase in bilateral loans. Meanwhile, the share from private actors decreased in the 1980s and 90s, before increasing significantly in the 2000s.

1 The principal buyers on financial markets are banks, insurance copmpanies, investment funds, and private pension funds. These private companies purchase government-issued public debt instruments.

2 Banks also make ordinary loans to governments.

Chart 2.1
Trends in the breakdown of external public debt creditors (%)

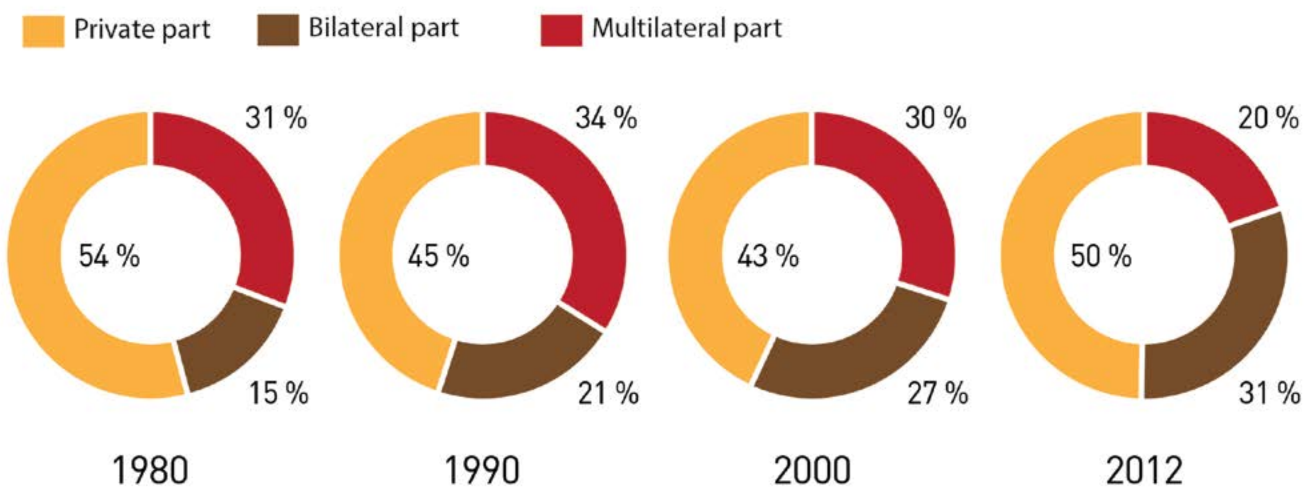
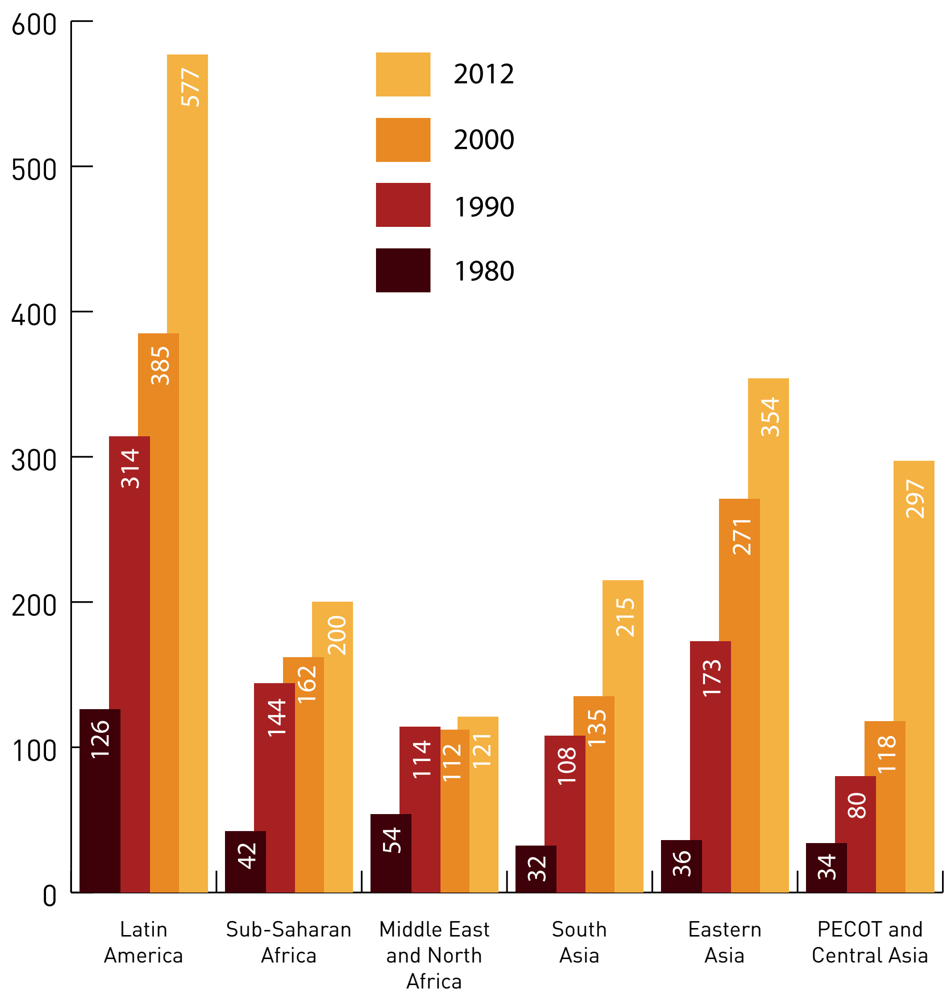


Chart 2.2
External public debt by region ($ billion)



2.4 Debt in the South and the resources to repay it

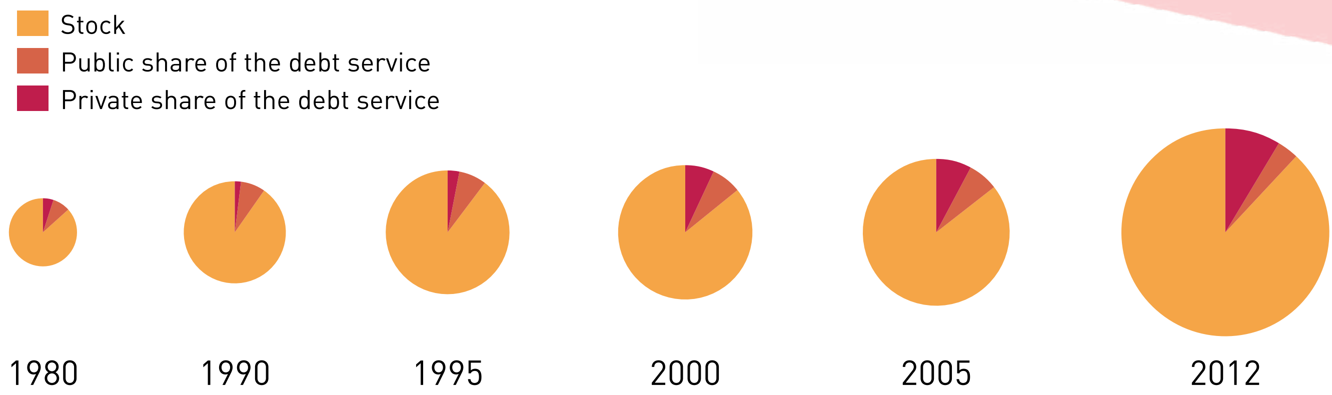
Since 1980, there has been a 900% increase in the external debt* of Southern countries. Nearly 30% of this debt was contracted by the public sector. Due to this situation, the governments allocate more money for external debt repayments than the official totals reported in their books as official development assistance* from the Northern countries and the official organisations that work for them. We say 'official totals reported', because in reality a large proportion of this official development assistance is trapped in the North by various mechanisms, and never makes it to the South.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)[2]

A large proportion of official development assistance goes back to the donor countries or simply remains in these countries, so a distinction must be made between 'real aid' and 'phantom aid'. For example, partial cancellations of debt are included in the official figures,[3] as are the administrative costs and technical cooperation fees (which represent more than one fourth of total ODA), whereas this money is not transferred to the developing countries. Tied bilateral aid (which means that the beneficiary country has to buy products or services from the donor country) and costs for 'welcoming' refugees from the South in Northern countries, in some countries the cost of the imprisonment of refugees in detention facilities are also considered to be ODA. Ultimately, the percentage of ODA that actually makes it to the beneficiary countries and can be invested in development projects is very small.

Table 2.2

External debt of developing countries and the resources needed to service this debt ($ billion)[1]



1 The repayments or debt service correspond to the amount of capital and interest paid for the debt.

2 Millet, Damien & Toussaint, Éric. *Debt, the IMF, and the World Bank. Sixty Questions, Sixty Answers*, New York: Monthly Review Press, 2010, p. 229-236; Millet, Damien & Toussaint, Éric, *Les faux-semblants de l'aide au développement*, Le Monde diplomatique, July 2005, http://cadtm.org/Les-faux-semblants-de-l-aide-au (in French and Spanish).

3 When France cancelled €50 million of the Ivory Coast's debt, €50 million were added to France's ODA figures, but no payments were made. It is simply lines on a balance sheet.

External debt of developing countries and the resources needed to service this debt (in $ billion)

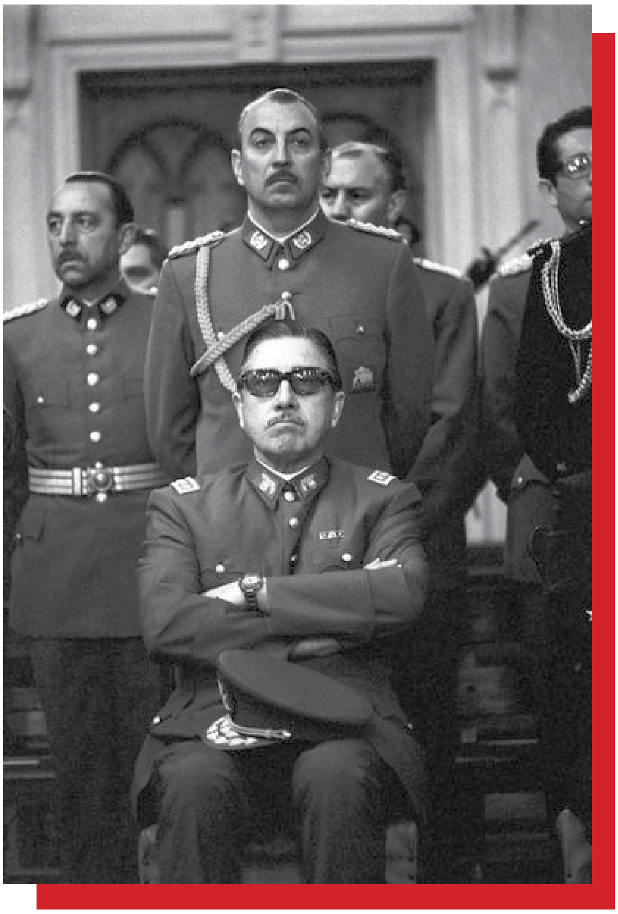
	Stock	Service	*of which :* Public share	Private share
1980	510	79	48	31
1990	1194	129	100	29
1995	1744	201	138	63
2000	1966	325	164	161
2005	2338	400	180	220
2012	4830	660	182	478

2.5 Odious debt

Regardless of how much debt has accumulated, it is vital to remember the origins of public debt. In many cases, the process through which debt has accumulated was initiated by non-democratic governments. Consequently, this debt must be considered as odious, which means that the countries concerned are not obliged to pay back their creditors.

Generally speaking, **odious debt** is defined in terms of the following criteria:

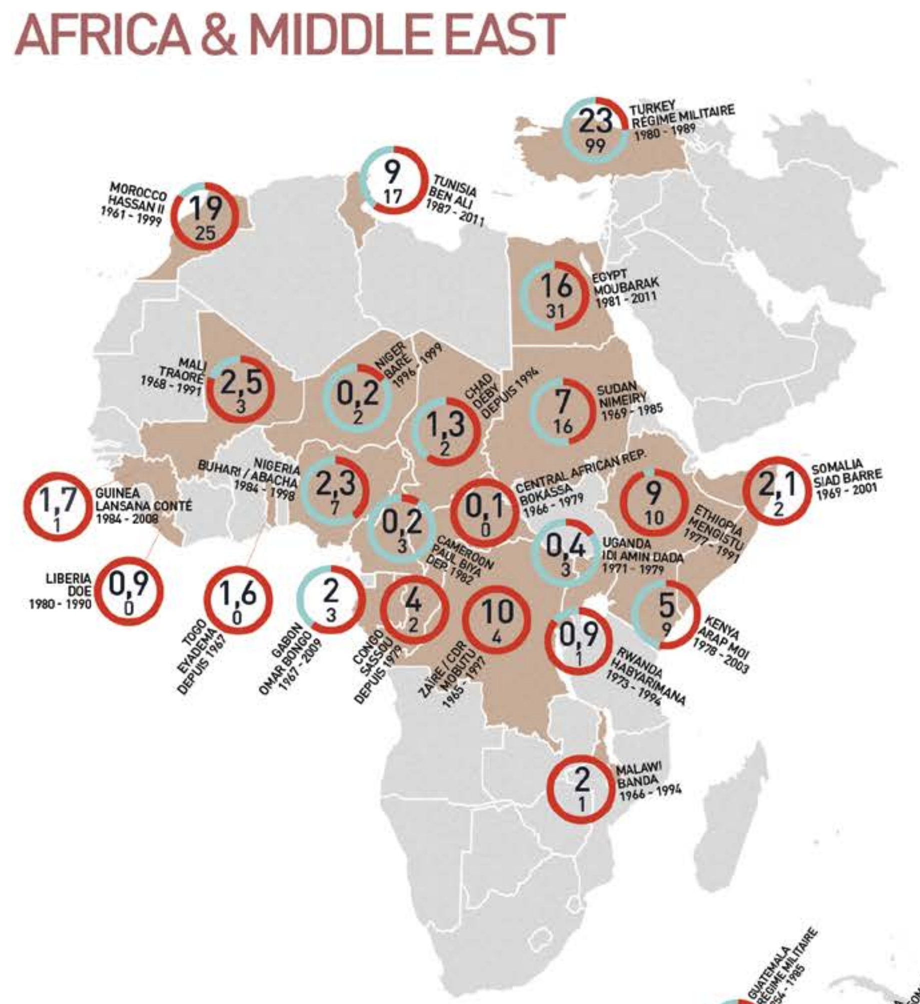
- no consent by the people in the country concerned by the debt,
- no benefits for the people,
- the creditors knew (or were in a position to know) the odious use of the loans.



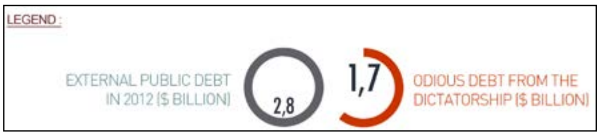
Pinochet, dictator of Chile from 1973 to 1990

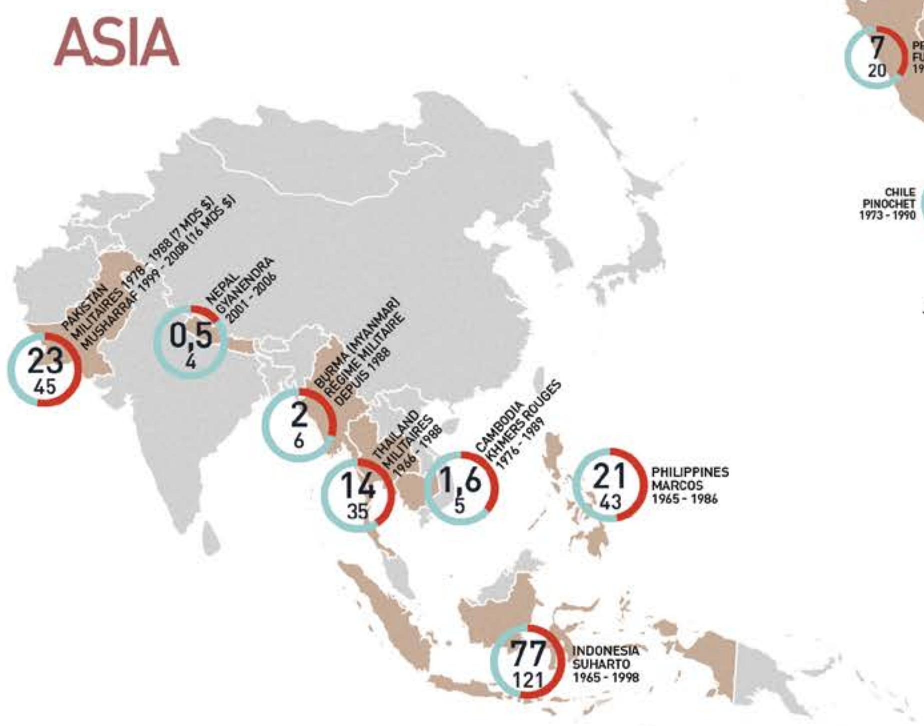
Table 2.3
The origins of odious debt ($ billion)

Odious debt: debt incurred during a dictatorship[1]



1 The odious debt calculated here corresponds to the debt incurred during a dictatorship. These amounts do not include the debt incurred subsequently to repay the debt taken on during the dictatorship. The World Bank provides no data for Iran, Iraq, or apartheid South Africa.





Country Name	Foreign public debt in 2012 ($bn)	Regime	Dictatorship period	Odious debt ($bn)
Indonesia	121	Suharto	1965-1998	77
Brazil	117	Military Junta	1965-1985	77
Argentina	68	Military Junta	1976-1983	27
Turkey	99	Military regime	1980-1989	23
Pakistan	45	Military regime	1978-1988	7
		Pervez Musharraf	1999-2008	16
Philippines	43	Marcos	1965-1986	21
Morocco	25	Hassan II	1961-1999	19
Egypt	32	Moubarak	1981-2011	16
Thailand	35	Military regime	1966-1988	14
Zaïre/CDR	4	Mobutu	1965-1997	10
Chile	16	Pinochet	1973-1990	9
Tunisia	17	Ben Ali	1987- 2011	9
Ethiopia	10	Mengistu	1977-1991	9
Peru	20	Fujimori	1990-2000	7
Soudan	16	Nimeiry	1969-1985	7
Kenya	9	Arap Moi	1978-2003	5
Congo	2	Sassou	1979-	4
Bolivia	4	Military Junta	1964-1982	3
Uruguay	12	Military Junta	1973-1985	2,7
Mali	3	Traoré	1968-1991	2,5
Nigeria	7	Buhari/Abacha	1984-1998	2,3
Guatemala	6	Military regime	1954-1985	2,3
Paraguay	2	Stroessner	1954-1989	2,1
Somalia	2	Siad Barre	1969-1991	2,1
Malawi	1	Banda	1966-1994	2
Gabon	3	Omar Bongo	1967-2009	2
Burma (Myanmar)	2	Military regime	1988-	1,7
Guinea	1	Lansana Conté	1984-2008	1,7
Togo	0	Eyadema/Gnassingbé	1967-	1,6
Cambodia	5	Khmer Rouge	1976-1989	1,6
Chad	2	Déby	1990-	1,3
Liberia	0	Doe	1980-1990	0,9
Rwanda	1	Habyarimana	1973-1994	0,9
Nicaragua	3	Anastasio Somoza	1974-1979	0,8
Haiti	1	Duvalier	1957-1986	0,7
Salvador	7	Military Junta	1962-1980	0,5
Nepal	4	Gyanendra	2001-2006	0,5
Uganda	3	Idi Amin Dada	1971-1979	0,4
Cameroon	3	Paul Biya	1982-	0,2
Niger	2	Baré	1996-1999	0,2
Central African Republic	0	Bokassa	1966-1979	0,1

2.6 Net debt flows*

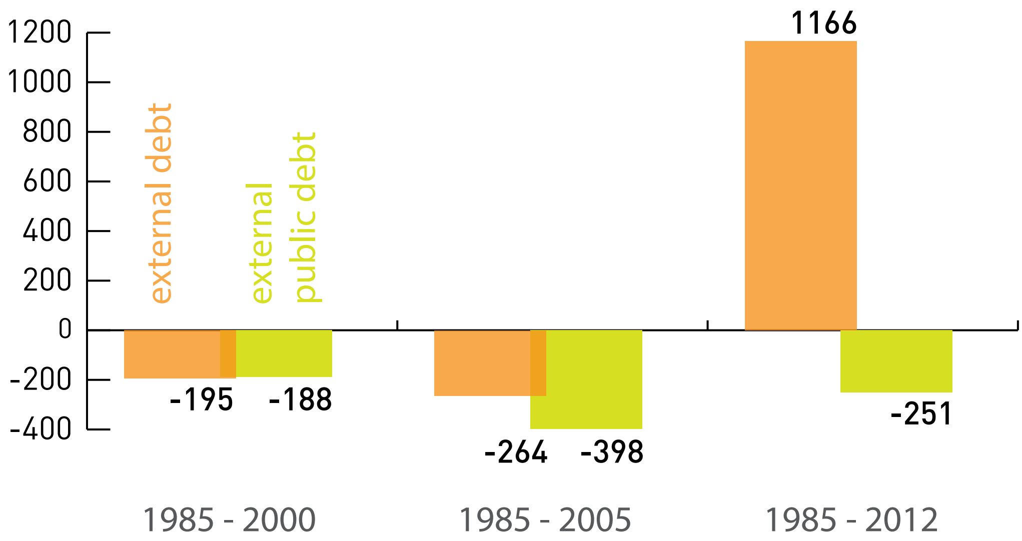
Net debt flow is defined as the total amount of loans and credits received minus the total amount of capital and interest repayments made. A negative figure means that the debtors transferred more resources to their creditors than they received in new loans and credits.

For thirty years, external debt has been a mechanism pumping economic resources out of developing countries, in the form of a negative net debt flow. In other words, DCs have been paying their creditors more than they have received, so the net capital flow has been from the DCs to developed countries, and not in the opposite direction as one would imagine.

This trend has only been reversed in recent years due to the rapid increase in external debt through additional borrowings that more than balance outgoings. Nonetheless, there is still a negative net external debt flow in the public sector of Southern countries. The resources (i.e., the total amount of loans and credits granted, minus the total amount of repayments made) transferred by the governments of DCs to developed countries between 1985 and 2012 are the equivalent of 2.5 times the resources provided by the Marshall Plan for the reconstruction of Europe after the Second World War.

Chart 2.3

Net debt flows* for all DCs ($ billion)



2.7 Comparison of financial flows

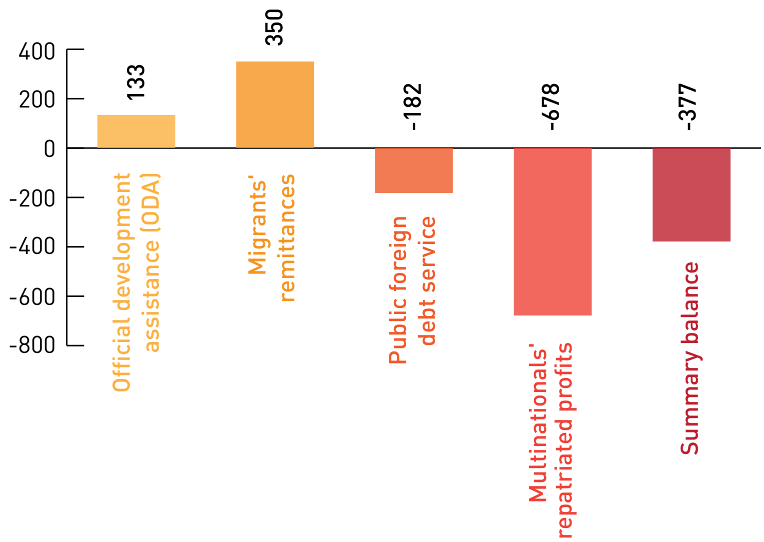
In this section, we compare the different financial flows going from the North to the South, and from the South to the North. Official Development Assistance* (ODA) and the remittances sent by emigrants are much lower than the flows from DCs to their various creditors and to the foreign corporations that do business in the DCs.

In other words, the developing countries are net creditors of the developed countries, as shown in the table below. It is worth noting that in 2012, DC governments repaid to their creditors ($182 billion) much more than the ODA they received ($133 billion).[1] In fact, the money entering DCs is to a large extent in the form of remittances from emigrants ($350 billion), which is 2.6 times the ODA. Finally, we must highlight the tremendous profits made by multinational corporations that flow rapidly out of DCs ($678 billion in 2012), and cannot therefore be used to finance their development or social services.

1 We must remember that the ODA figures are largely exaggerated because a large proportion of it never makes it to the developing countries as real money. See box in point 2.4.

Chart 2.4

Comparison of financial flows for all DCs in 2012 ($ billion)[1]



1 The figure for official development assistance includes financial flows that are counted as official aid. The figure for the repatriation of profits from multinationals is entered into the 'payments' side of the current account balance of payments.
We are reproducing World Bank data for these four flows. However, according to the CADTM, the balance is incomplete, because these data do not account for the actual drain of resources flowing from developing countries to developed countries. We must also add the flight of capital, the cost of brain drain, an estimate of the looting of natural resources, and the losses stemming from payments for intellectual property rights (patents and copyright).
Toussaint, Éric. *Your Money [or] Your Life – The Tyranny of Global Finance*. Chapter 9. Chicago: Haymarket books.

2.8 Accumulation of international reserves

The logic of the current system obliges developing countries to incur debt in unfavourable conditions, and at the same time to accumulate reserves in the currencies of the most economically developed countries. What explains this system?

First, the currencies of weaker economies are more unstable with exchange rates that vary a great deal compared to strong currencies. As a result, to obtain external funding at a lower cost, DCs generally borrow money in foreign currencies, especially ones that are strong and stable (mainly the US dollar).

Second, external goods and services (imports) are purchased in strong currencies (for example, the euro to import machinery from Germany, the yen to buy computers from Japan, and the dollar for oil imports).

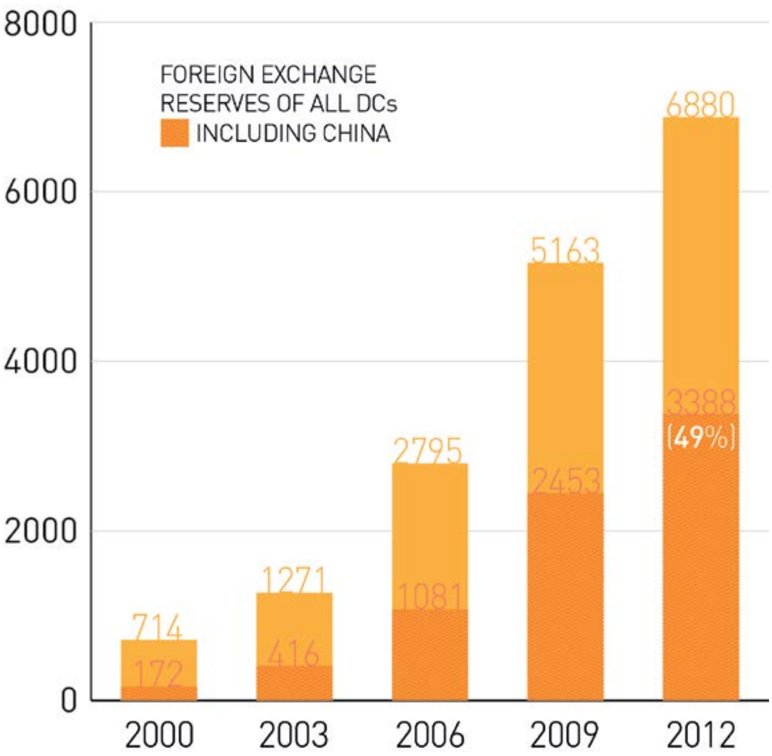
Third, they need currency to pay back the external debt. We see that it is a vicious circle: they borrow currency and incur new debt to pay back their old debt.

For these three reasons, they must accumulate foreign exchange reserves in strong currencies.

In recent years, many DC economies recorded a positive debt flow. In other words, more money flowed into their economies than out of them. Two of the principal causes were a favourable context for the raw materials export market, with increasing international demand and prices, and improved South-South economic relations. This situation has enabled DCs to accumulate growing volumes of foreign exchange reserves. To maintain their reserves, they have decided to invest in assets* considered to be safe, the least risky of which are public debt instruments of developed countries, such as US Treasury bonds. Consequently, we are in a situation in which the economies of developing countries are financing the economies of developed countries. On the one hand, by repaying their external debts; and on the other, through their own reserves that are invested in the debt instruments of Northern countries.

Chart 2.5

Trends in international reserves of DCs and China ($ billion)[1]



1 Foreign exchange reserves include foreign currencies and gold. At the end of the 1st quarter of 2014, the figures for China are estimated to be greater than $3.95 trillion (Radio China International: http://french.cri.cn/720/2014/05/20/542s384278.htm (French))

Chart 2.5 shows the growing accumulation of foreign exchange reserves, particularly in the case of China. In 2012, almost half (49%) of the total foreign-exchange reserves of developing countries were held by China.

The most highly developed countries have foreign exchange reserves amounting to only about $2.3 trillion. $50 billion of those reserves are held by the US, which does not need foreign exchange reserves since the rest of the world accepts the dollar as the international currency-- one of its privileges. The eurozone only has foreign exchange reserves of $220 billion. We should stress that Japan (about $1.2 trillion in foreign exchange reserves) and Switzerland (about $490 billion) hold more than 70% of the total foreign exchange reserves of the most highly developed countries.[1]

Table 2.4

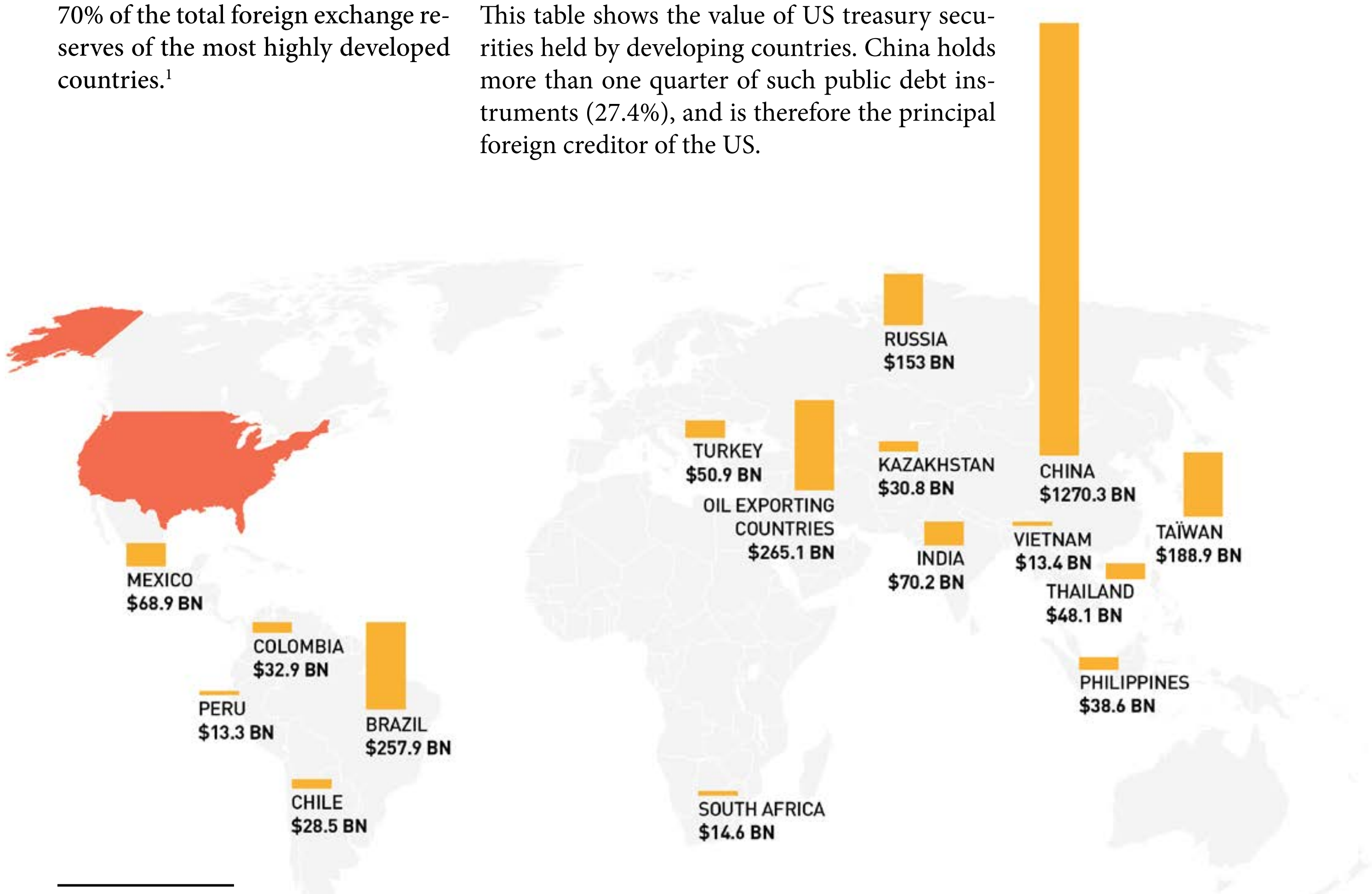
Foreign exchange reserves of DCs and external public debt in 2012 ($ billion)

Country	Foreign exchange reserves	Public foreign debt
China	3388	74
India	300	119
Brazil	373	117
Peru	64	20
Algeria	201	2
DC s	6880	1766

Chart 2.6

Developing countries and emerging economies that are creditors of the United States[1] (value of US Treasury bonds in $ billion)

This table shows the value of US treasury securities held by developing countries. China holds more than one quarter of such public debt instruments (27.4%), and is therefore the principal foreign creditor of the US.



1 Source: Bank for International Settlements (BIS), *84th Annual Report 2014*, Basel, June 2014, p.102, Annex Table V.1.

1 Source: US Department of Treasury, *Major Foreign holders of treasury securities*, data from March 2013, http://www.treasury.gov/ticdata/Publish/mfh.txt

III DEBT IN THE SOUTH[1]

In spite of the optimistic declarations by the World Bank and the IMF, debt is still a serious hindrance to human rights and the satisfaction of the basic needs of the populations of the DCs. This section will analyse this situation and its specific characteristics in three regions of the Global South.[2] We will examine how debt and the principal economic indicators related to it have evolved since 1960, in Africa, Latin America, and Asia. Although the burden, in relative terms, has decreased since 2000, in absolute terms, the sums necessary for debt repayment continue to be significant.

Given that external debt has increased considerably in absolute value, a lower price for raw materials may make it impossible for the countries that earn income from these exports to repay their debt. Such is the case for Nigeria, Venezuela, Brazil, Argentina, Equatorial Guinea, the Democratic Republic of Congo, Angola, and scores of others. If, in addition, as is forecast, the rich countries, starting with the US, increase their interest rates, the cost of borrowing to make repayments will also become insupportable. At the same time, hundreds of billions of dollars temporarily invested in emerging stock exchanges will be rapidly called back to the Northern markets in search of better yields. In the 1980s, the same thing happened in similar circumstances. In its annual report published in June 2014, even the generally reserved Bank for International Settlements (BIS)* warned that many developing countries were caught up in a 'debt trap'.

1 The definition of 'region' in this work is the one used by the World Bank. Figures are in constant dollars.

2 Unless otherwise stated, all data in this section is from the World Bank, International Debt Statistics, http://databank.banquemondiale.org

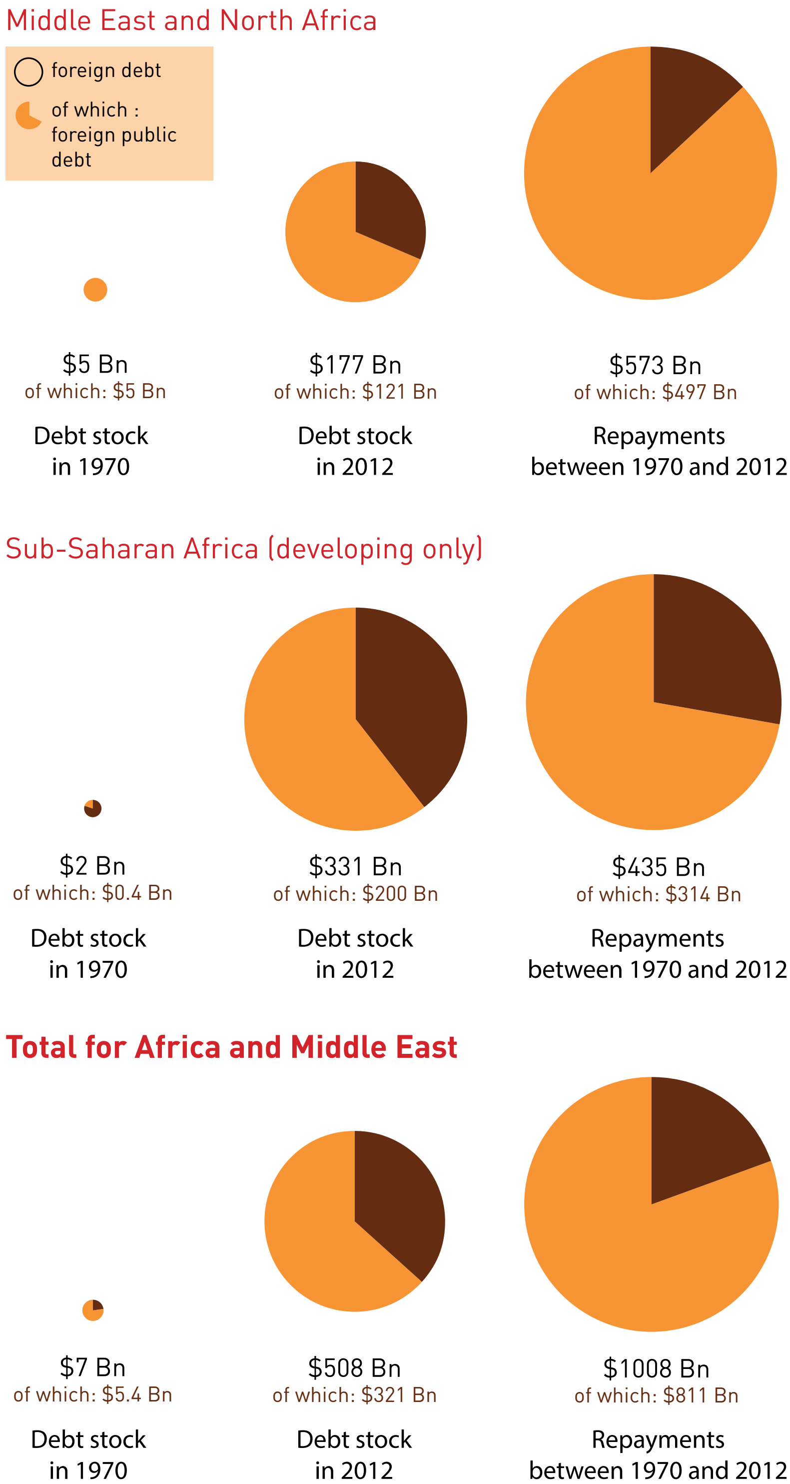
3.1 Africa and the Middle East

Debt and the means to repay it

In the countries of Northern Africa, Sub-Saharan Africa, and the Middle East total debt in 2012 was 73 times greater than in 1970. During that same period of time, they have made debt repayments equal to 145 times the original amount due in 1970.

Chart 3.1

The cost of debt ($ billion): Africa and the Middle East[1]



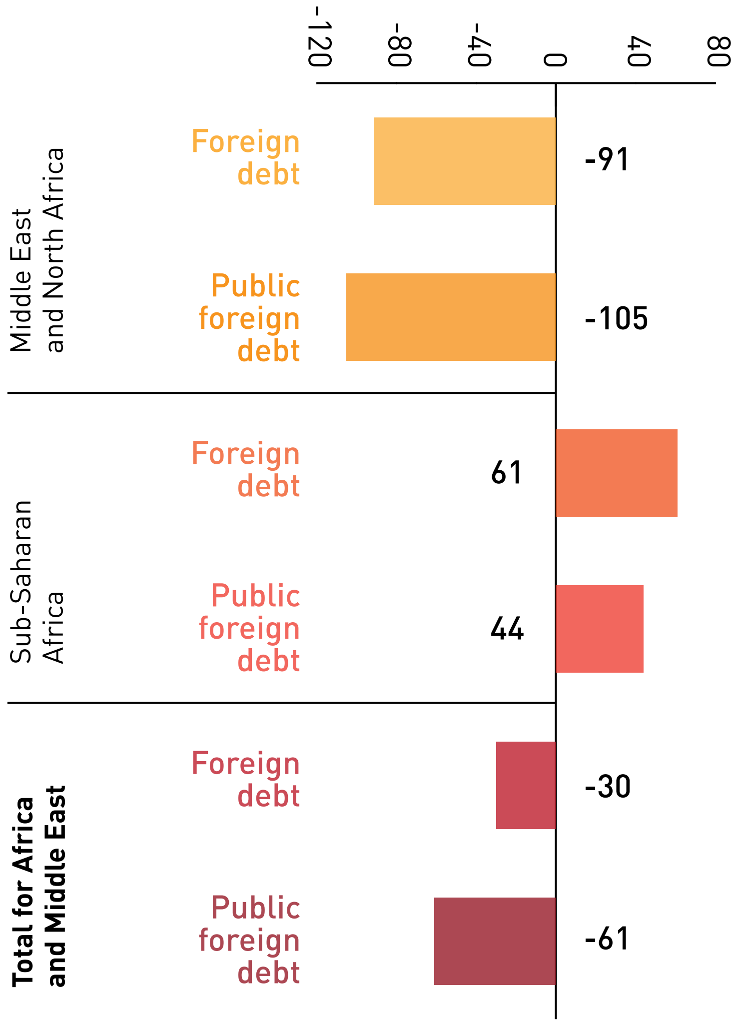
1 The debt repayments correspond to capital and interest paid back.

Net debt flows

Chart 3.2

Net flows on external debt from 1985 to 2012 ($ billion): Africa and the Middle East

Between 1985 and 2012, Middle East and African countries repaid $61 billion more than they received in loans over the same period (-$105 bn + $44bn = $61bn).



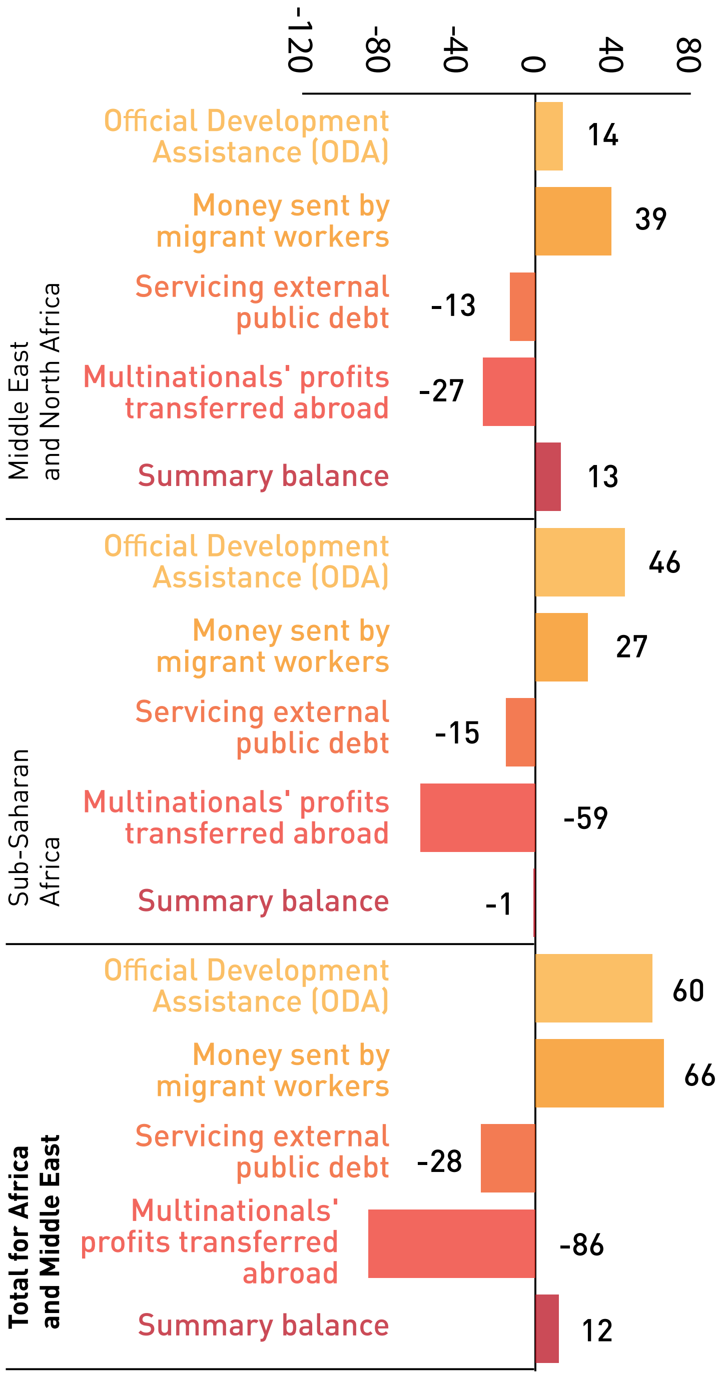
A positive balance means that more was borrowed than was repaid over the period, a negative balance means more was repaid than was borrowed over the period.

Comparison of financial flows

For the African continent, Official Development Assistance* (ODA)[1] and the remittances sent home by emigrants, fall short of the total flows out of Africa by different creditors and by international corporations that exploit African resources and repatriate profits.

Chart 3.3

Comparison of financial flows in 2012 ($ billion): Africa and the Middle East[2]



As this table shows, nearly all of the Official Development assistance granted to African and Middle Eastern countries is used to service the external debt. Migrant's remittances are three times greater than the ODA provided by Northern governments.

1 As explained above, a large proportion of ODA does not constitute a real flow of funds and remains in the donor country (see page 38).

2 The ODA figures are those that are declared by donor countries. The figure for repatriated profits is found by identifying sums entered on corporations' national subsidiary accounts as payments sent to their parent companies in their home countries. Source: World Bank data: this data is incomplete as it does not show the full picture of the draining away of resources from the developing counties to the developed countries (see page38).

When considering Africa alone, the profits repatriated by multinationals in addition to debt servicing amounts to $1 billion less than the sum of migrant's remittances. In 2012, profits repatriated by the multinationals active in the region were close to five percent of the GDP compared to the equivalent of one percent of GDP received as ODA. Given these figures, we must ask ourselves who is assisting who?

We should recall that the slightly negative balance of Sub-Saharan Africa, or the slightly positive balance for Africa and the Middle East is incomplete. If all financial flows between the African continent and the developed countries were taken into account, the balance would be much more unfavourable. The pillaging of Africa's natural resources by big private corporations, the 'brain drain' of educated Africans, the ill-gotten wealth accumulated and placed off-shore by Africa's richest one percent and the price fixing methods used by the multinationals to increase their profit repatriation capacities is bleeding Africa to death. Unfortunately, we do not have enough room to present the complete figures.[1]

In 2012,
profits repatriated by multinationals in Africa represented
5% of its GDP
compared to
1% as ODA.

So :
who is assisting who?

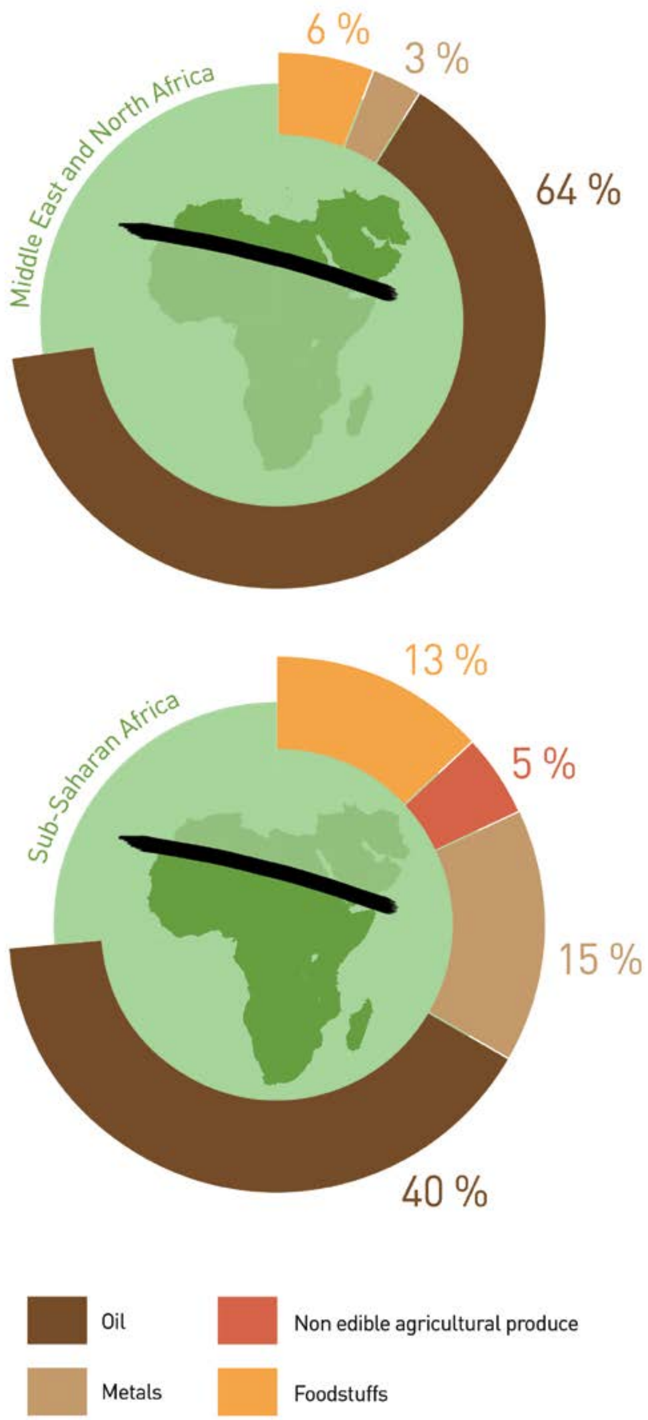
1 See also footnote on page 43. We recommend the work of the economist Léonce Ndikumna, particularly *Savings, Capital Flight, and African Development - Part 1*, 12 August 2014, http://triplecrisis.com/savings-capital-flight-and-african-development-part-1/ and http://triplecrisis.com/author/leonce-ndikumana/#sthash.vlyv7ARw.dpuf. See also, the video http://triplecrisis.com/video-africa-lost-1-6-trillion-in-capital-flight-and-odious-debt-over-forty-years/

Dependency on raw material exports

The countries in this region continue to be very dependent on raw material exports, which makes them highly vulnerable to price fluctuations.

Chart 3.4

Proportion of raw materials in exports in 2012[1]: Middle East and North Africa



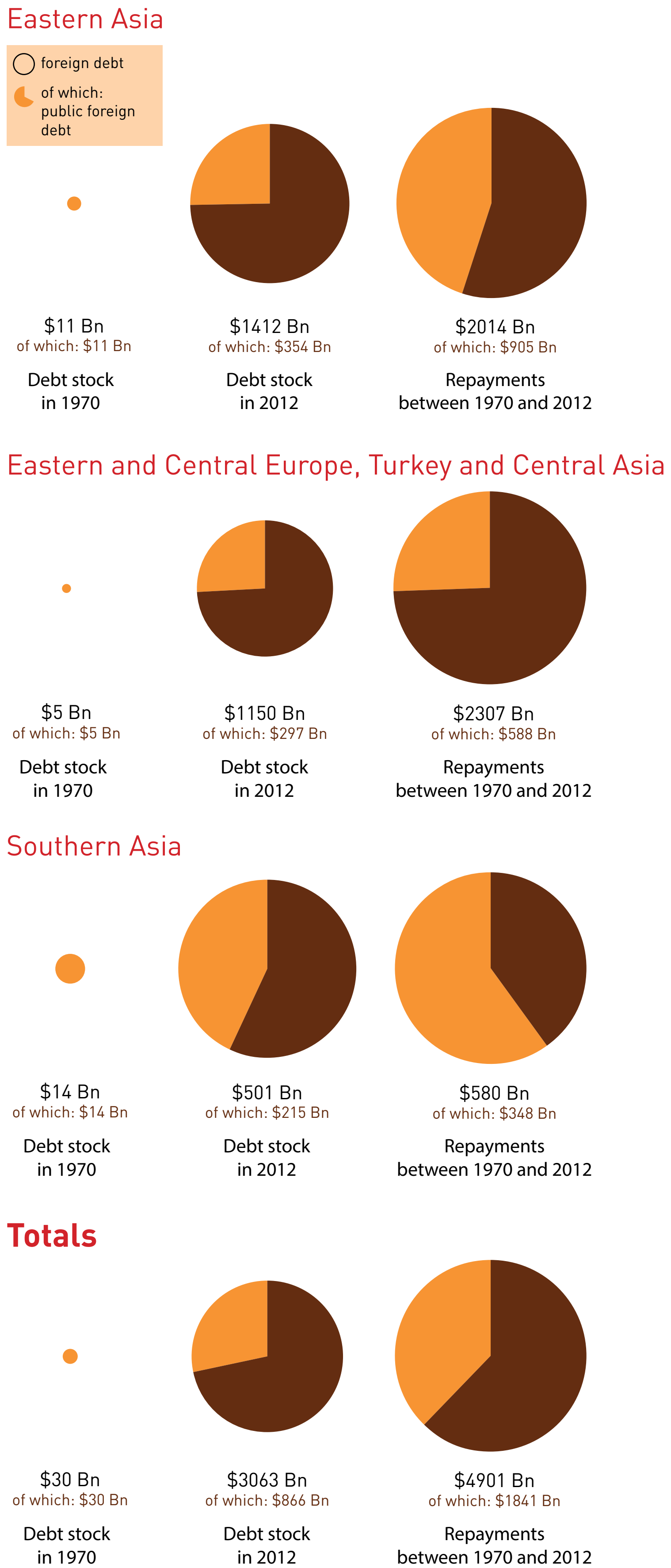
1 The figures for the Middle east and North Africa are for 2011.

3.2 Asia, Europe, and Central Asia

Debt and the means to repay it

In Asia, between 1970 and 2012, external debt was multiplied 102 times. During this time, Asian countries earmarked **$4.9 trillion** for external debt repayments.

Chart 3.5
The cost of debt ($ billion): Asia, Europe and Central Asia

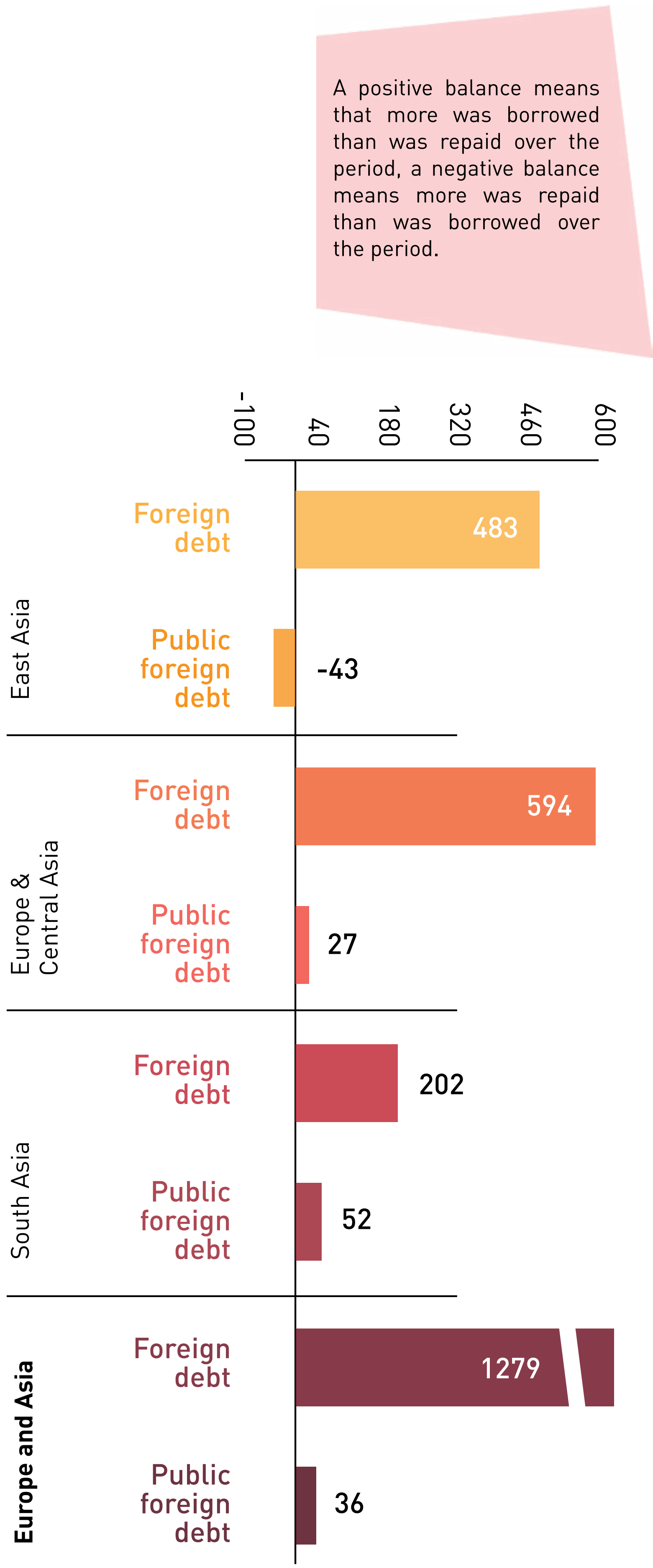


Net debt flows

The financial crisis that started in 2007–2008 in the US and subsequently spread to Europe caused a rapid increase in capital flows towards Asian markets, which resulted in positive net capital flows on debt. This is a significant reversal of the traditional negative trend of net flows observed since the 1980s. It must be noted that between May 2013 and the end of 2013 the net flows once again became negative (especially for Indonesia, the Philippines, and India) after the Fed announced a change of policy, which included reducing purchases of financial assets* and higher interest rates in anticipation of forecasts for the near future. This situation was similar to the Asian crisis of 1996-1997.

Chart 3.6

Net flows on external debt from 1985 to 2012 ($ billion): Asia, East and Central Europe and Turkey

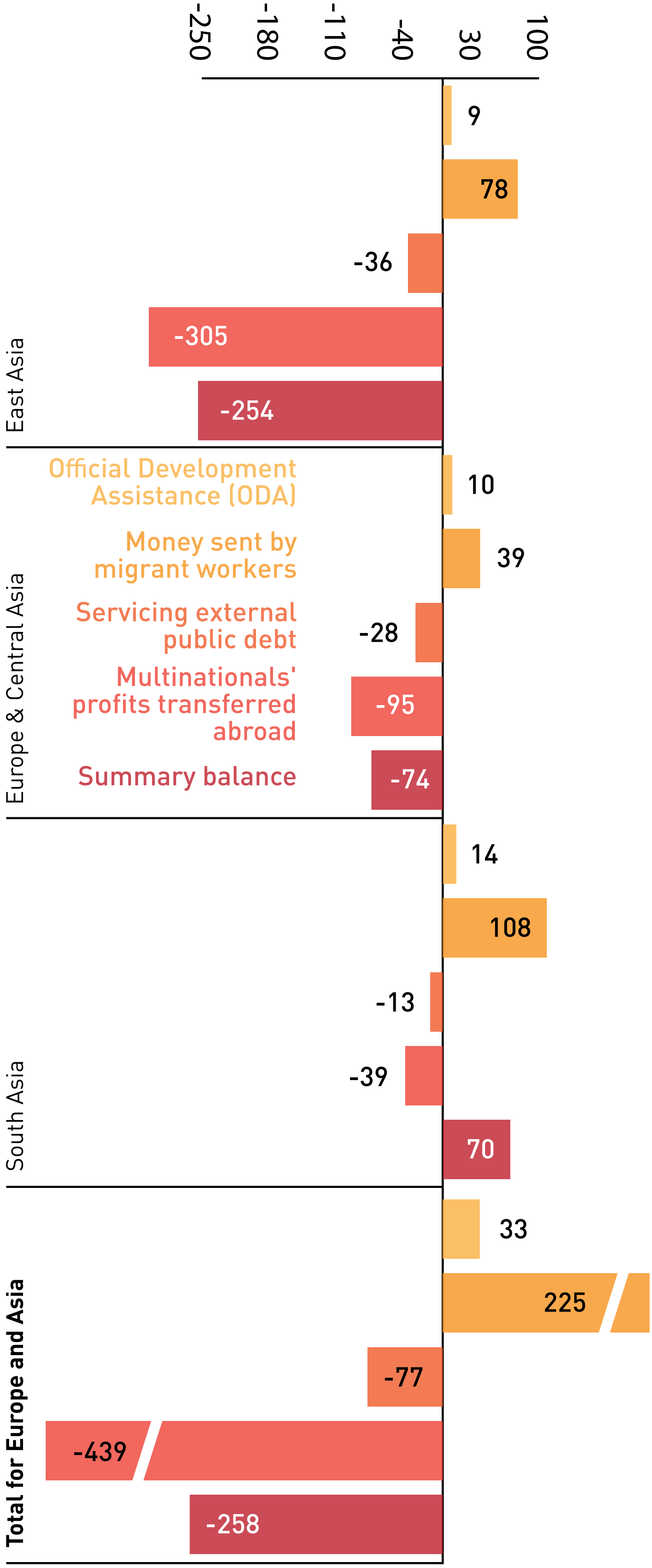


Comparison of financial flows

Although the relative debt burden in Asia has diminished, debt repayments and the repatriation of profits by the multinationals largely surpass the amounts received as ODA and emigrant remittances.

Chart 3.7

Comparison of 2012 financial flows ($ billion): Asia, East and Central Europe and Turkey[1]

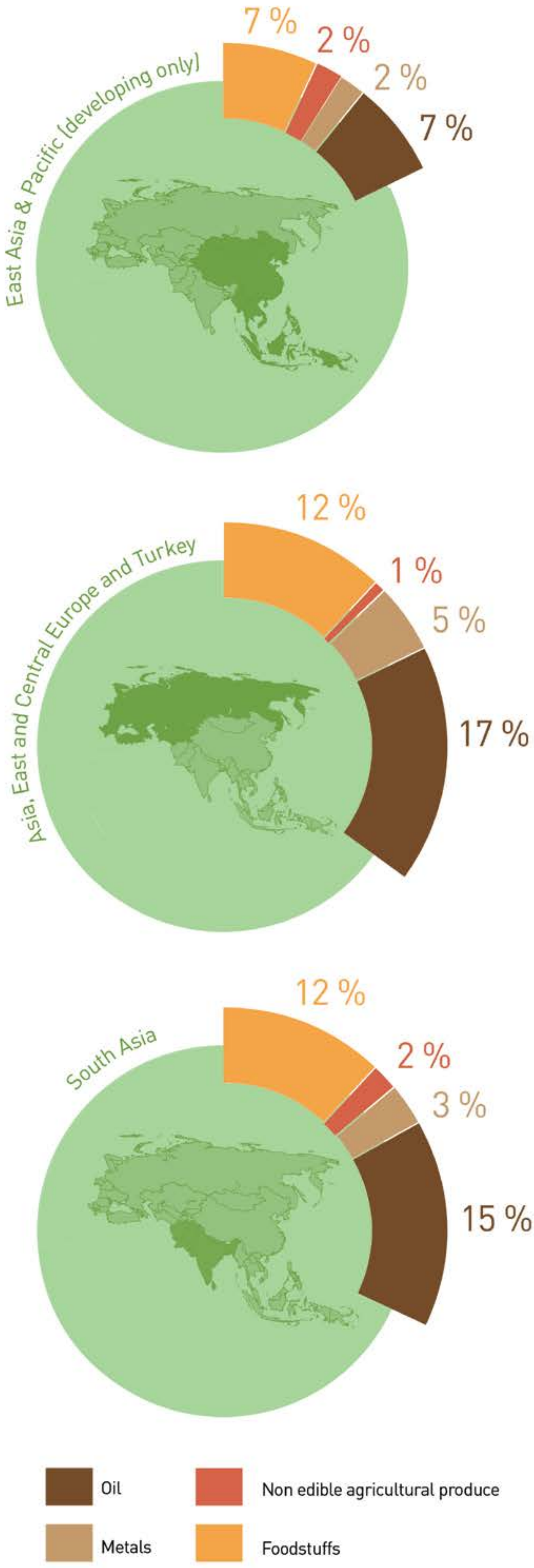


1 The ODA figures are those that are declared by donor countries. They do not constitute a real flow of funds. The figure for repatriated profits is found by identifying sums entered on corporations' national subsidiary accounts as payments sent to their parent companies in their home countries. Source: World Bank data: this data is incomplete as it does not show the full picture of the draining away of resources from the developing counties to the developed countries. See footnote page 43.

Dependency on raw material exports

The East Asia region is not very dependent on raw material exports, so it enjoys a more stable situation in terms of foreign exchange revenues. Nevertheless, as is the case in other developing countries, the governments of East Asian countries are pushed by corporate employers to bear down on wages in order to remain 'competitive'. This collusion is a fundamental obstacle to real development. If the prices of raw materials go down, the raw material exporting countries will be forced to reduce their imports of many East Asian finished products.
Likewise, if the crisis returns to North America and Europe, this could also cause a drop of imports from China and Korea.

Chart 3.8
Proportion of raw materials in exports in 2012 (% of total) : Asia, East and Central Europe and Turkey

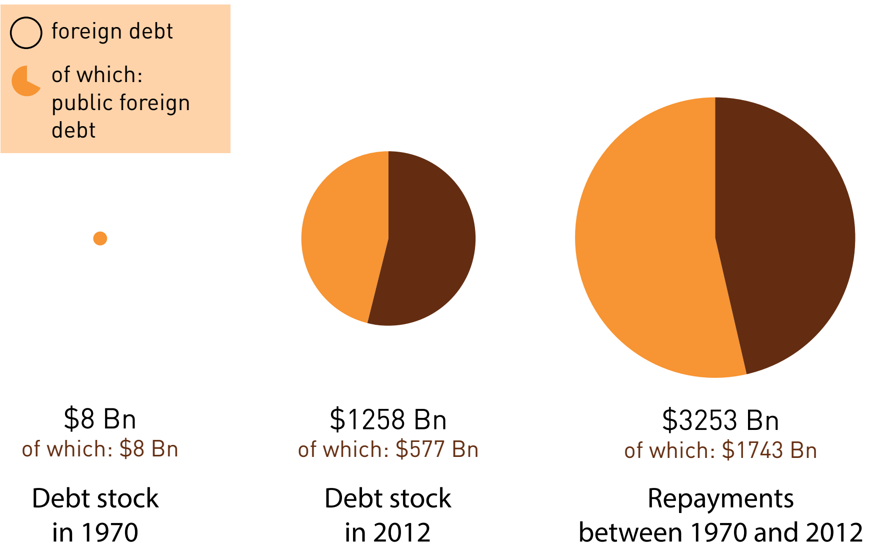


3.3 Latin America and the Caribbean

Debt and the means to repay it

Between 1970 and 2012, the external debt of the Latin American and Caribbean countries increased 165 fold, and during the same period $3.25 trillion flowed out of the region to its creditors.

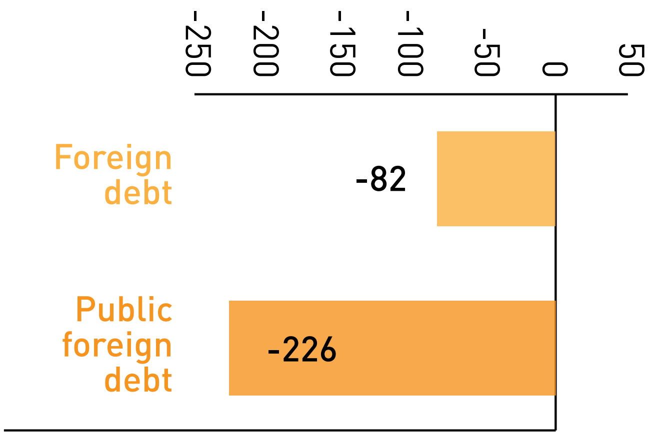
Chart 3.9
The cost of debt ($ billion): Latin America and the Caribbean[1]



Net debt flows

For 1985-2012, Latin America is the developing continent that has the worst negative balance. Nevertheless, as in Asia, this trend has been somewhat reversed in recent years because of an increase in capital flows to the region. The experience of the 1970s, when capital flows to the region increased until the 1982 debt crisis exploded, should incite caution.

Chart 3.10
Net flows on foreign debt from 1985 to 2012 ($ billion): Latin America and the Caribbean



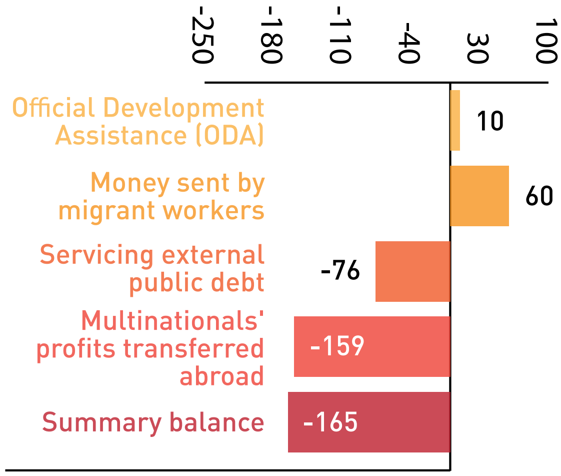
1 The repayments correspond to the total amount of principal and interest paid.

Comparison of financial flows

As is the case for Africa and Asia, Latin America loses a great deal of its resources to creditors. Its outflows are far greater than its ODA inflows.

Chart 3.11

Comparison of financial flows in 2012 ($ billion): Latin America and the Caribbean[1]

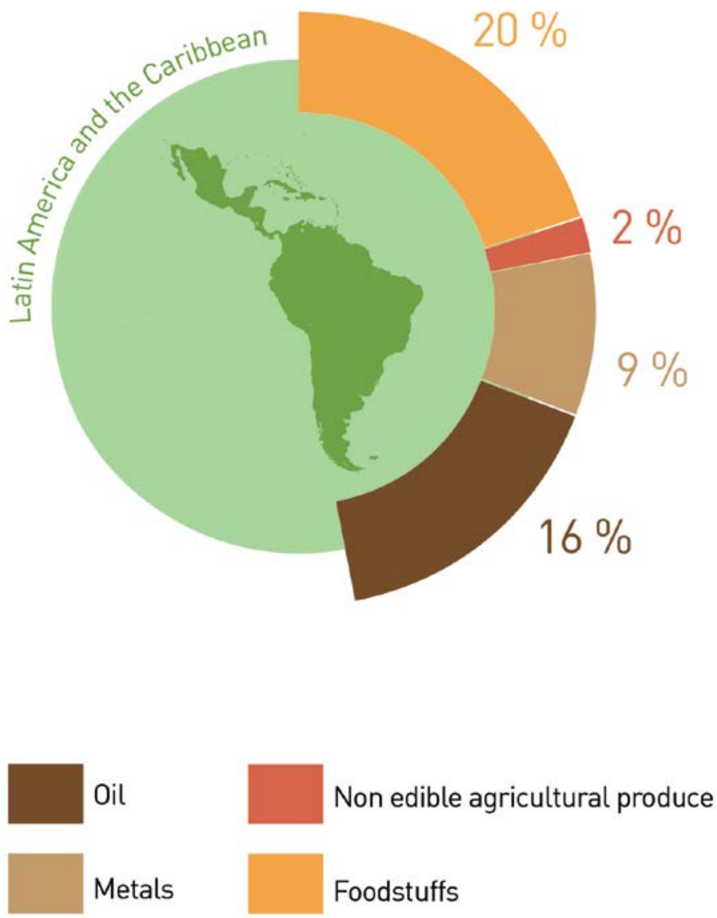


Dependency on raw material exports

The region is less dependant on raw material exports than the two other regions cited in this study.

Chart 3.12

Proportion of raw materials in exports in 2012 (% of total): Latin America and the Caribbean



1 The ODA figures are those that are declared by donor countries. They do not constitute a real flow of funds (see box 2.4). The figure for repatriated profits is found by identifying sums entered on corporations' national subsidiary accounts as payments sent to their parent companies in their home countries. Source: World Bank data: this data is incomplete as it does not show the full picture of the draining away of resources from the developing counties to the developed countries. See footnote page 43.

Internal debt trends

Borrowing on the home market has progressively replaced external debt as a source of public sector funding. For the group of countries below, internal debt increased fourfold between 2000 and 2013, while external debt remained stable.

Table 3.1

Breakdown of Latin American debt (2000 to 2013) ($ billion and as a % of total debt)[1]

Public debt by country		2000		2005		2013	
		$ billions	% of the Total debt	$ billions	% of the Total debt	$ billions	% of the Total debt
Argentina	Internal	47	36	68	53	137	70
	Foreign	81	64	61	47	60	30
Brazil	Internal	302	79	541	87	1293	95
	Foreign	80	21	82	13	64	5
Colombia	Internal	26	58	51	69	118	74
	Foreign	18	42	23	31	41	26
Ecuador	Internal	3	22	4	25	10	43
	Foreign	11	79	11	75	13	57
Mexico	Internal	74	47	124	63	337	75
	Foreign	85	53	72	37	110	25

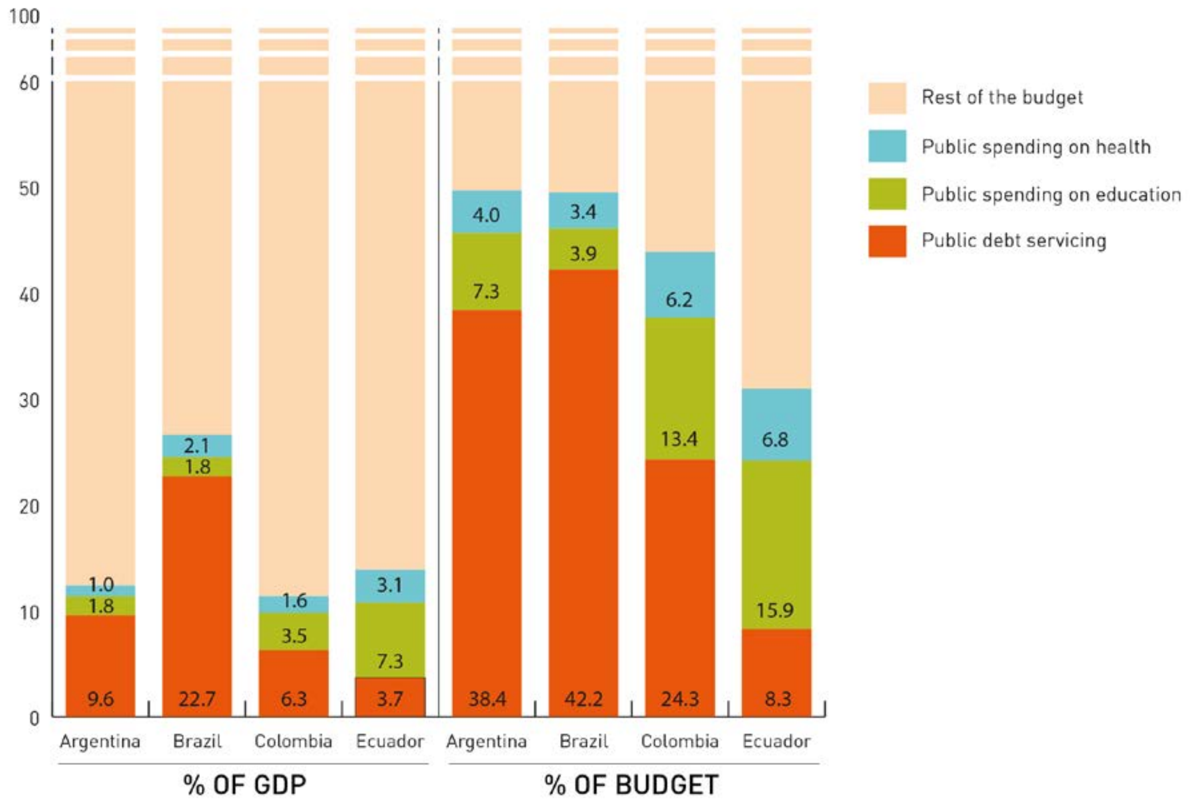
1 Source: Inter-American Development Bank (IDB), *Latin American Macro Watch Data Tool*, http://www.iadb.org
The figures for Argentine debt are from 2012.

The impact of debt on the use of public funds

The audit completed in 2007-2008, and the unilateral suspension of repayments that followed have enabled Ecuador to decrease its debt stock* significantly. It is the only country in the region that spends more of its budget on health and education than to service its debt.[1] In all the other countries, debt repayments take priority over all other government obligations.

Chart 3.13

Breakdown of spending priorities in the national budgets (as % of GDP and % of budget) in Latin America in 2013[2]



1 However, Ecuadorian debt is increasing, having borrowed from China and from the World Bank.

2 The official Argentine figures for 2013 are from the general budget, the economy and finance ministry and the Argentine presidential office), *Presupuesto 2013 Resumen*, Buenos Aires, 2013,
http://www.mecon.gov.ar/onp/html/presupresumen/resum13.pdf;
The Brazilian data are from a citizen debt audit. Maria Lucia Fattorelli, *Dívida consumirá mais de um trilhão de reais em 2014*, Auditoria Cidadã da Dívida, http://www.auditoriacidada.org.br/wp-content/uploads/2013/09/Artigo-Orcamento-2014.pdf;
The official Columbian data are from the general budget for 2013 announced by the Columbian ministry of the interior and public credit in the general budget for the nation 2013. http://www.minhacienda.gov.co/presupuesto/index.html ;
The official Ecuadorian data are from the general budget for 2013 announced by the Ecuadorian ministry of finance in the general budget for the nation 2013. *Presupuesto General del Estado*, 2012, http://www.finanzas.gob.ec/el-presupuesto-general-del-estado.

IV THE WORLD BANK AND THE IMF

Multilateral financial organisations are at the core of the 'debt system'. Since they were established in 1944 (in the framework of the Bretton Woods Agreement), the World Bank and the IMF have used debt as a mechanism to promote the implementation of policies favouring creditors and private companies to the detriment of people's well-being.

4.1 The HIPC (Heavily Indebted Poor Countries) Initiative[1]

The HIPC Initiative* is a clear example of the link between debt and neoliberal policies. This initiative to relieve some of the debt of a handful of very poor and heavily indebted countries was launched in 1996 by the World Bank and the IMF in the framework of the mandate given to them by the major powers within the G7 (USA, UK, Germany, France, Canada, Italy, and Japan). The policy was intended to last for six years. Yet it is still continuing in 2014, having lasted ten years longer than expected.

On the whole, the HIPC Initiative has turned out to be a fiasco. It has amounted to making sure that the developing countries concerned pay back their debt up to a threshold value, in one go, with no late payments, and to the maximum of their financial capacities. In fact, the creditors still want the debt repaid without the fear of a sudden interruption of payment by one country or another. In that sense, the threshold defined by the HIPC Initiative corresponds to the maximum debt level that a country can bear without requiring a restructuring of the debt. The HIPC Initiative is thus limited to resetting the debt at the maximum sustainable level. It therefore comes down to cancelling the debts that could not in any case be repaid, those that could lead the country to suspend repayment. Even worse, any debt relief remains conditional on the application of a wide range of neoliberal measures that negatively affect the living conditions of most of the people, violate human rights, and weaken the economies of the countries concerned by exposing them to international competition, with local producers unable to rely on any measures of assistance.

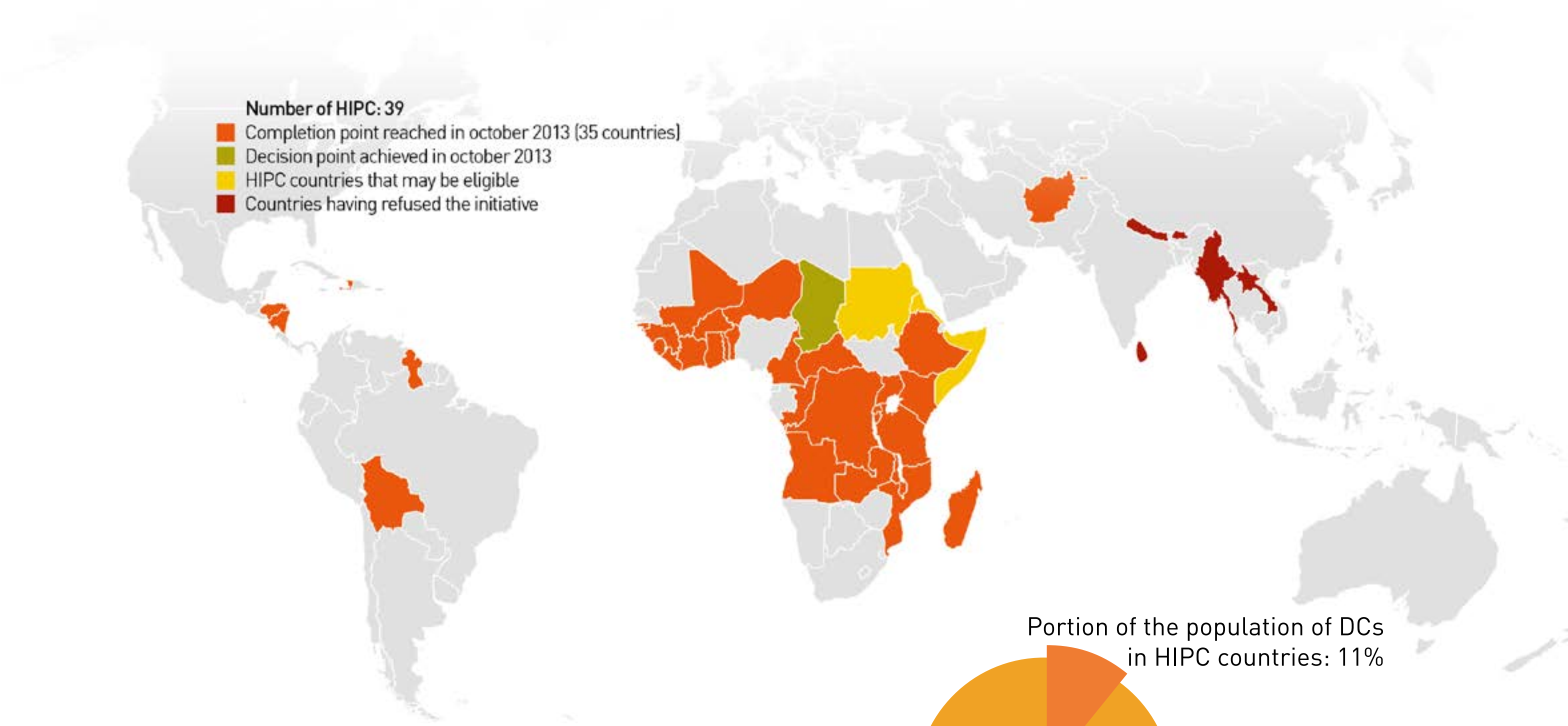
1 This section is based on World Bank data (unless otherwise mentioned): World Bank, International Debt Statistics, http://databank.worldbank.org/data/home.aspx

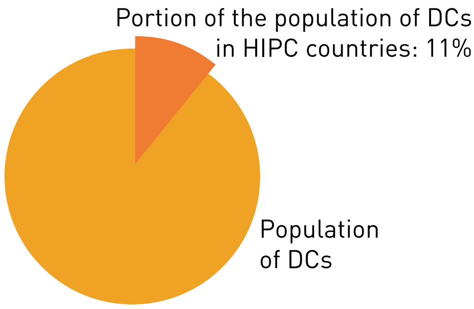
A failure in terms of scope: only 39 countries involved

The initiative only concerns a small number of countries (39) and a low proportion of the population living in poverty (only 11% of the total population of developing countries).

Chart 4.1

Countries concerned by the HIPC Initiative[1]





Major delays: a policy that was supposed to end in 2004

Table 4.1

State of progress of the HIPC Initiative in 2013

HIPC countries having reached completion point in October 2013					
Afghanistan	2010	Gambia	2007	Mozambique	2002
Benin	2003	Ghana	2004	Nicaragua	2004
Bolivia	2001	Guinea	2012	Niger	2003
Burkina Faso	2002	Guinea-Bissau	2010	Rwanda	2005
Burundi	2009	Guyana	2003	Sao Tome and Principe	2007
Cameroon	2006	Haïti	2009	Senegal	2004
Central African Rep.	2009	Honduras	2005	Sierra Leone	2006
Comoros	2012	Liberia	2010	Tanzania	2001
D.R. Congo	2010	Madagascar	2004	Togo	2010
R. Congo	2010	Malawi	2006	Uganda	2000
Ivory Coast	2012	Mali	2003	Zambia	2005
Ethiopia	2004	Mauritania	2002		

Decision point achieved
Chad ► 2001

Waiting candidates
Somalia – Eritria – Soudan

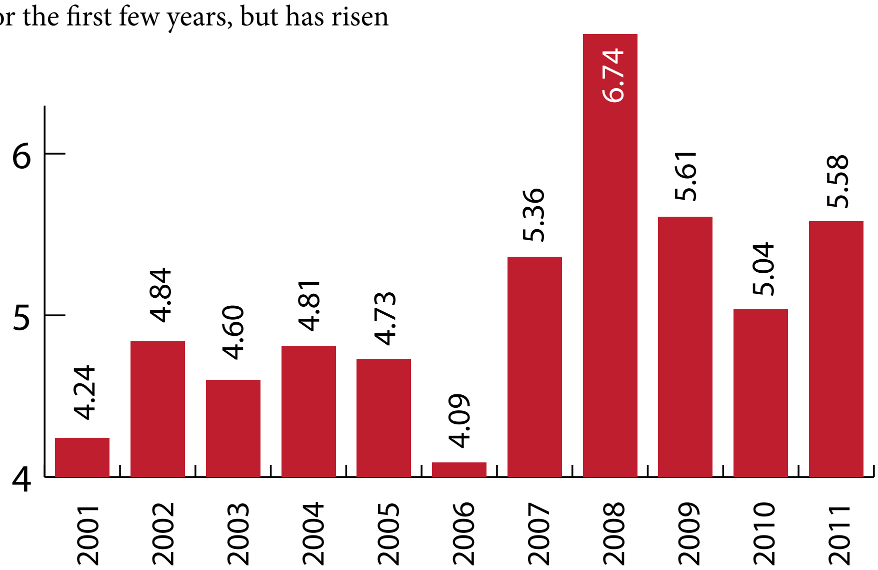
Countries having refused
Laos, Burma, Sri Lanka, Bhoutan, Nepal

1 For an explanation of the HIPC Iinitiative and its various stages, see glossary, page 91 (Heavily Indebted Poor Countries (HIPC) Initiative).

The debt service* of 36 of the countries concerned has hardly decreased at all

The statistics concerning the 36 countries that reached decision point show that their debt service fell moderately for the first few years, but has risen again since 2001.

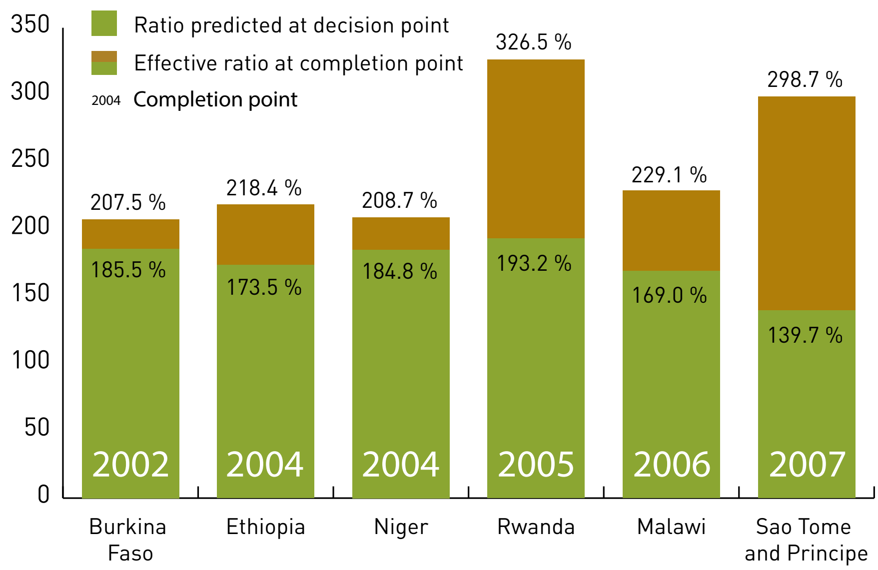
Chart 4.2
Evolution of the debt service* of HIPC Initiative countries ($ billion)



False debt relief for certain 'poor' countries

The objective of the HIPC Initiative was to reduce the net debt-to-export ratio below the threshold of 150%.

Chart 4.3
External debt stock* / exports ratio for certain HIPC Initiative countries



4.2 Structure of the International Monetary Fund (IMF)[1]

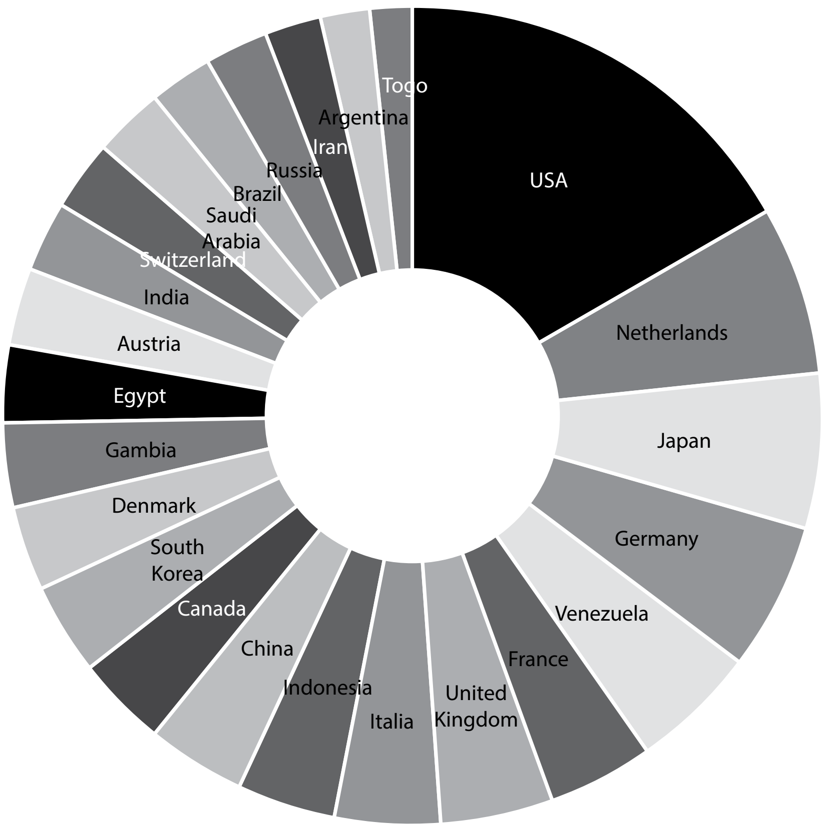
Multilateral institutions act in function of the interests of creditors within the international financial system. To put it more precisely, the institutional decision-making structure is characterised by an anachronism that disproportionately benefits the most industrialised countries, and the financial companies and multinationals they represent.

IMF voting shares

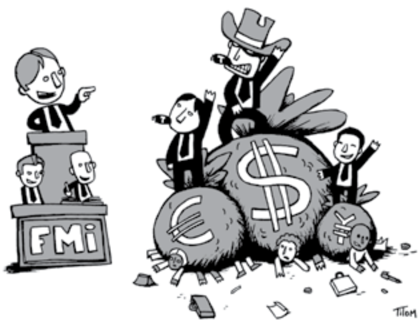
Table 4.2

Distribution of IMF voting shares (2014)

Countries	%	Groupe presided by	%	Groupe presided by	%
USA	**16.8**	Netherlands	**6.6**	Egypt	**3.2**
Japan	**6.2**	Venezuela	**4.9**	Austria	**2.9**
Germany	**5.8**	Italy	**4.2**	India	**2.8**
France	**4.3**	Indonesia	**3.9**	Switzerland	**2.8**
UK	**4.3**	Korea	**3.6**	Brazil	**2.6**
China	**3.8**	Canada	**3.6**	Iran	**2.3**
Saudi Arabia	**2.8**	Denmark	**3.4**	Argentina	**1.8**
Russia	**2.4**	Gambia	**3.3**	Togo	**1.6**



IMF



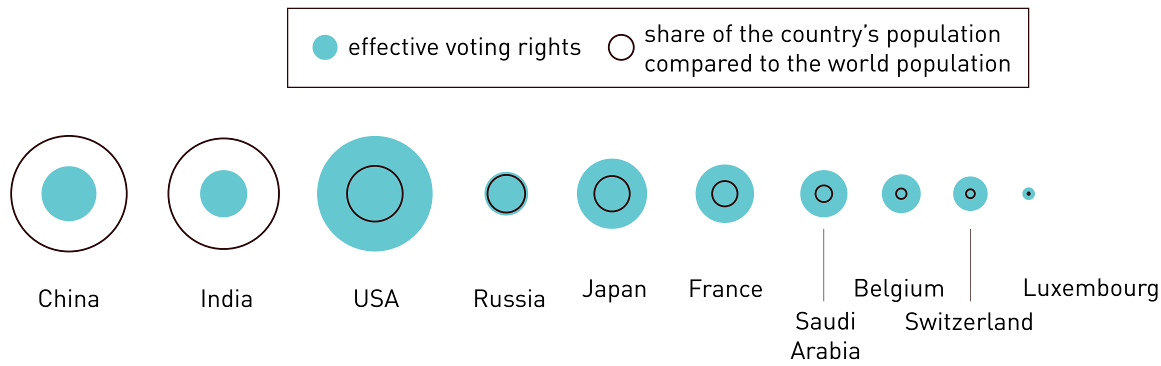
1 This section is based on International Monetary Fund data: IMF, IMF Executive Directors and Voting Power, http://www.imf.org/external/np/sec/memdir/eds.aspx

Comparison of voting shares within the IMF

Table 4.3

Population and IMF voting shares (2014)

Country or group	Population in 2012 (in millions)	IMF voting share (%)
China	1350.0	3.8
India	1236.0	2.3
USA	313.0	16.8
Russia	143.0	2.4
Japan	127.0	6.2
France	65.0	4.3
Saudi Arabia	28.0	2.8
Belgium	11.0	1.9
Switzerland	8.0	1.4
Luxembourg	0.5	0.2



Evolution of IMF voting rights since 1945

Table 4.4

Historical evolution of IMF voting rights (in %) from 1945 to 2014

Country	1945	1981	2000	2014
Industrialised countries: of which	67.5	60.0	63.7	54.6
USA	32.0	20.0	17.7	16.8
Japan	-	4.0	6.3	6.2
Germany	-	5.1	6.2	5.8
France	5.9	4.6	5.1	4.3
UK	15.3	7.0	5.1	4.3
Petroleum producing countries: of which	1.4	9.3	7.0	6.6
Saudi Arabia	-	3.5	3.3	2.8
Developing countries: of which	31.1	30.7	29.3	38.8
Russia	-	-	2.8	2.4
China	7.2	3.0	2.2	3.8
India	5.0	2.8	2.0	2.3
Brazil	2.0	1.6	1.4	1.7

4.3 Structure of the World Bank

Voting power in the World Bank

Table 4.5

Distribution of voting power in the World Bank (2014)[1]

Country	%	Group presided by	%	Group presided by	%
USA	**16.0**	Belgium	**5.1**	Italy	**3.2**
Japan	**8.0**	Mexico	**4.4**	Algeria	**3.2**
Germany	**5.2**	Netherlands	**4.1**	Switzerland	**3.0**
France	**4.5**	Canada	**4.0**	Kuwait	**2.8**
UK	**4.0**	Australia	**4.0**	Malaisia	**2.8**
China	**4.0**	India	**3.6**	Argentina	**2.1**
Saudi Arabia	**2.2**	Finland	**3.3**	Zambia	**1.8**
Russia	**2.2**	Philippines	**3.3**	Sao Tome and Principe	**1.8**
				Nigeria	**1.6**

Comparison of voting power in the World Bank

Table 4.6

Population and voting power in the World Bank (2014)[2]

Country	Population in 2012 (in millions)	Voting power (%)
China	1350.0	5.2
India	1236.0	3.0
USA	313.0	16.0
Russia	143.0	2.2
Japan	127.0	8.0
France	65.0	4.0
Saudi Arabia	28.0	2.2
Belgium	11.0	1.6
Switzerland	8.0	1.6
Luxembourg	0.5	0.1

1 Source: International Bank for Reconstruction and Development, *Voting power of executive directors*, World Bank, 2013, http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDEDsVotingTable.pdf

2 Source: International Bank for Reconstruction and Development, *Subscriptions and voting power of member countries*, World Bank, 2013, http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf

The World Bank network

The World Bank Group is made up of five agencies: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). These subsidiaries have been developed so as to create a more and more tightly woven mesh.

Let us examine a theoretical example to understand the effects of this policy. The World Bank grants a loan to the authorities of a country on condition that the water purification and distribution system will be privatised. The public utility is therefore sold to a private consortium that includes the IFC, part of the World Bank.

When the people affected by the privatisation protest against the dramatic increase in rates and the reduction in the quality of services, and the public authorities turn against the predatory transnational company, the management of the dispute is entrusted to the ICSID, which is both judge and interested party. In most cases, the ICSID decides in favour of the large private company and rules that the State should pay it damages and interest.

The situation is now such that the World Bank Group is present at every level: (1) imposition and financing of the privatisation (World Bank via IBRD and IDA); (2) investment in the privatised company (IFC); (3) the guarantee given to this company to cover political risks (MIGA); (4) judgement in the event of a dispute (ICSID).

V DEBT IN THE NORTH

Until 2008, countries in the North seemed untouched by debt problems.[1] The crisis has completely changed this situation. Now, in particular Ireland, Greece, Portugal, and Eastern and Central European countries are feeling the devastating effects of the austerity policies applied since the 1980s.

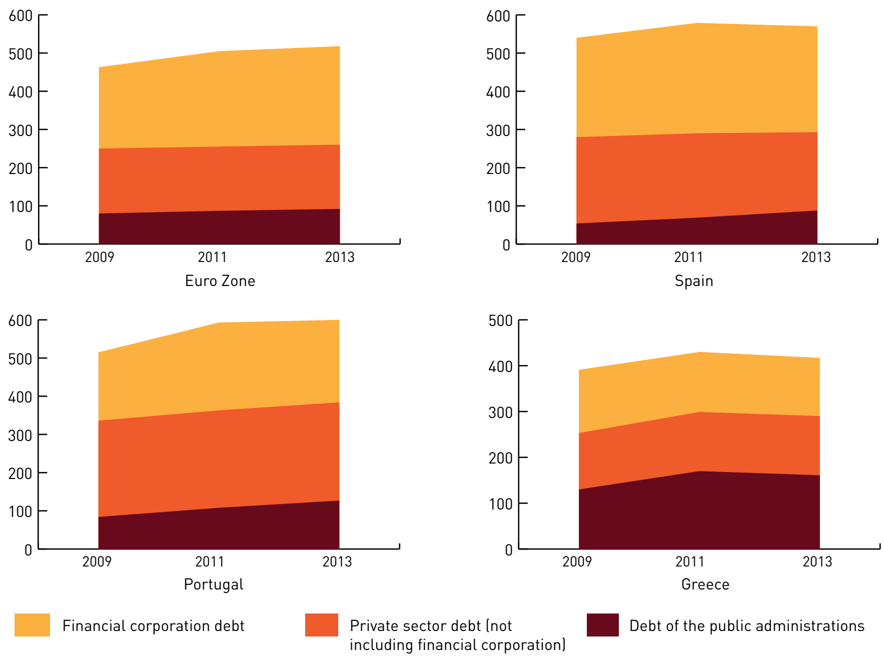
1 In the introduction, we saw that during the 1980s a number of European countries endured a largely forgotten debt crisis. The city of New York was also hit by a debt crisis at the turn of the 1980s (Harvey, David. *A Brief History of Neoliberalism* and Graeber, David. *Debt: The First 5000 Years*) as were European cities such as Liverpool in the UK and Antwerp and Liege in Belgium. Concerning Liege, see : ACiDe (Audit citoyen de la dette) / Collectif ACiDe liégeois, *Aux origines de la dette de la ville de Liège*, 21 July 2014, http://cadtm.org/Aux-origines-de-la-dette-de-la (French)

5.1 Debt in Europe

Trends in public and private debt

Table 5.1
Trends in public and private debt (% of GDP), from 2009 to 2013: 'euro zone'[1]

	2009	2011	2013
Euro Zone			
Debt of the public administrations	80	87	92
Private sector debt (not including financial corporation debt)	170	168	168
Financial corporation debt	213	250	258
Spain			
Debt of the public administrations	54	69	88
Private sector debt	226	221	205
Household debt	86	83	81
Non-financial private sector debt	140	138	124
Financial corporation debt	260	289	277
Portugal			
Debt of the public administrations	84	108	127
Private sector debt	252	255	257
Household debt	96	93	91
Non-financial private sector debt	156	162	166
Financial corporation debt	179	230	216
Greece			
Debt of the public administrations	130	170	161
Private sector debt	123	129	129
Household debt	53	63	64
Non-financial private sector debt	70	66	65
Financial corporation debt	138	131	127



1 Banks' debts include all declared liabilities.
Non-financial corporations: all private companies that are not financial companies, from Tesco, Unilever, Ford, BP, and Arcelor-Mittal to Cross & Blackwell or Radio Luxembourg. Private financial companies are mainly banks, insurance companies, pension funds or investment funds.
Sources:European Central Bank (ECB), *Statistics Pocket Book*, Frankfurt, October 2013, http://www.ecb.europa.eu/pub/pdf/stapobo/spb201310en.pdf; and (ECB), Consolidated Banking Data, 2013, http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html

Contrary to the declarations made by European leaders and the mainstream press, which contend that States' debts are too high because of insufficient control of social spending, the increase in European public debt occurred after private organisations (principally businesses and banks) had become overly indebted. The causes of this excessive debt include:

insufficient tax revenues, particularly from those taxes paid by the wealthiest, on capital gains and company profits. This shortage is not an accident, it is the result of a series of tax breaks made to rich individuals and big corporations to the detriment of the general public. With the crisis came over-indebtedness, another cause of lower tax revenues and increased public debt;

policies that favour the funding of public deficits by the financial markets. Since the Maastricht Treaty in 1992 (subsequently confirmed by article 123 of the Lisbon Treaty) public administrations are not allowed to borrow from their central banks* or the European Central Bank (ECB). States have become totally dependant on private funding by financial companies (such as the big banks), resulting in considerable extra costs to taxpayers;[1]

austerity policies implemented, especially since 2010, that degrade public finances and hinder economic activity and increase unemployment. So, the excessive accumulation of business and bank debt chokes the economy. Austerity plans make the governments reduce spending rather than increase it to stimulate the economy and redistribute wealth: tax revenues collapse along with the economic activity, and public debt grows.

finally, there are **the bank bail-outs**, which add to the debt.

1 The question of illegitimate debt caused by prohibiting the central banks from lending to public authorities is presented page 75

The cost of bailing out the banks

Table 5.2 gives the total volume of bail-outs, assistance, and guarantees to banks made by government authorities between 2008 and 2012. The sums in the guarantees column are not expenditures, they are State guarantees. Should the concerned assets lose their value, the State will cover the losses. They are not immediate costs, but potential future losses.

Table 5.2

Direct public assistance to banks (from 2008 to 2012, in % of GDP) and State guarantees (in 2013, € billion): European Union[1]

Country	Direct public aid to banks ($ billion)	Direct public aid to banks (% of GDP)	Public guarantees to banks ($ billion)	Public guarantees to banks (% of GDP)
Ireland	63.0	38.4	66.4	40.5
Greece	35.1	19.3	73.7	28.1
Cyprus	1.7	10.1	6.7	6.1
Belgium	23,7[2]	6.2	155.0	11.9
Spain	58.3	5.7	414.3	9.3
Denmark	11.0	4.4	100.8	0.5
UK	80.0	4.3	...	...
Portugal	6.8	4.1	67.1	9.9
Netherlands	18.7	3.1	244.1	2.7
Austria	9.4	3.0	126.8	2.4
Germany	65.7	2.4	1108.7	1.8
France	24.7	1.2	834.2	3.3
Italy	6.2	0.4	631.8	5.2
Total EU at 28	**601.2**	**4.6**	**5292.8**	**3.9**

1 The figures in the direct public aid column do not include guarantees (mentioned in the public guarantees column) or ECB lines of credit.
GDP data from: European Commission/ Eurostat*, *Tableaux complémentaires relatifs à la crise financière*, 2007-2012, April 2014, http://epp.eurostat.ec.europa.eu. (French) From Manzano, Daniel *La banca euroea y su recapitalización pública*, El País, 17 September 2014. Available at http://blogs.elpais.com/finanzas-a-las-9/2014/09/la-banca-europea-y-su-recapitalizaci%C3%B3n-p%C3%BAblica.html (Spanish).
Guarantee data from: European Commission, *Overview of decisions and on-going in-depth investigations in the context of the financial crisis*, MEMO/14/507, 13 August 2014. http://europa.eu/rapid/press-release_MEMO-14-507_en.htm?locale=en.

2 CADTM has calculated a figure for Belgium considerably higher than the one mentioned in Table 5.2. Our figure is €32.6 billion, 8.5% of GDP, higher than the official figure of €23.7 billion. The CADTM calculations are based on figures from SFP finance and the Belgian national audit office, and are as follows (€ billion): bail-out of Dexia (8.9) + Fortis (15.2) + KBC (7) + Ethias (1.5) = €32,6 billion. In the case of Belgium, and certainly in other cases as well, official figures underestimate the real value of public aid to banks.
Concerning debt linked to bank bail-outs see: Cravatte, Jérémie. *Pourquoi la dette liée aux sauvetages bancaires est-elle illégitime?*, CADTM, 3 September 2013, http://cadtm.org/Pourquoi-la-dette-liee-aux (French).

The UK is at the top of the list for public aid to banks (€80 billion), followed by Germany (€65.7 billion). However, the country that has the heaviest burden compared to the size of its economy is Ireland with 40% of GDP. Ireland is followed by Greece at 19%, Cyprus 10%, and Belgium and Spain at around 6%.

REAL TIME BOMBS FOR STATES WHO SOCIALISE THE LOSSES AND THE RISKS OF THE PRIVATE SECTOR

Figures from 2013, the latest available, point to Spain as the country that has granted the highest total of guarantees (€95.1 billion), followed by Italy (€81.1 billion) and France (€65 billion).

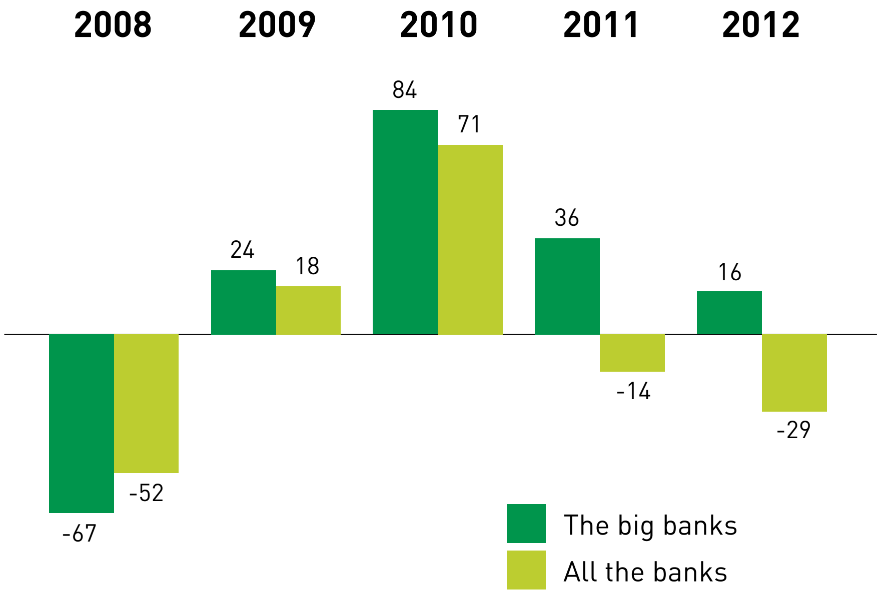
Nevertheless, Ireland and Greece remain the most heavily burdened by guarantees compared to the size of their economies (respectively 40% and 28%). These are financial time bombs on those states' accounts, not only the losses are socialised but also the risks (in this case, banking risks).

Profits and losses of European banks

To balance their budget deficits, European countries apply austerity programmes that bleed the population dry. At the same time as budget deficits are widening because of the large sums used to save the banks, the same banks are making big profits.

Chart 5.1

Profits of banks in the European Union (€ billion)[1]



1 Source: ECB, *Consolidated Banking Data*, 2013, http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html

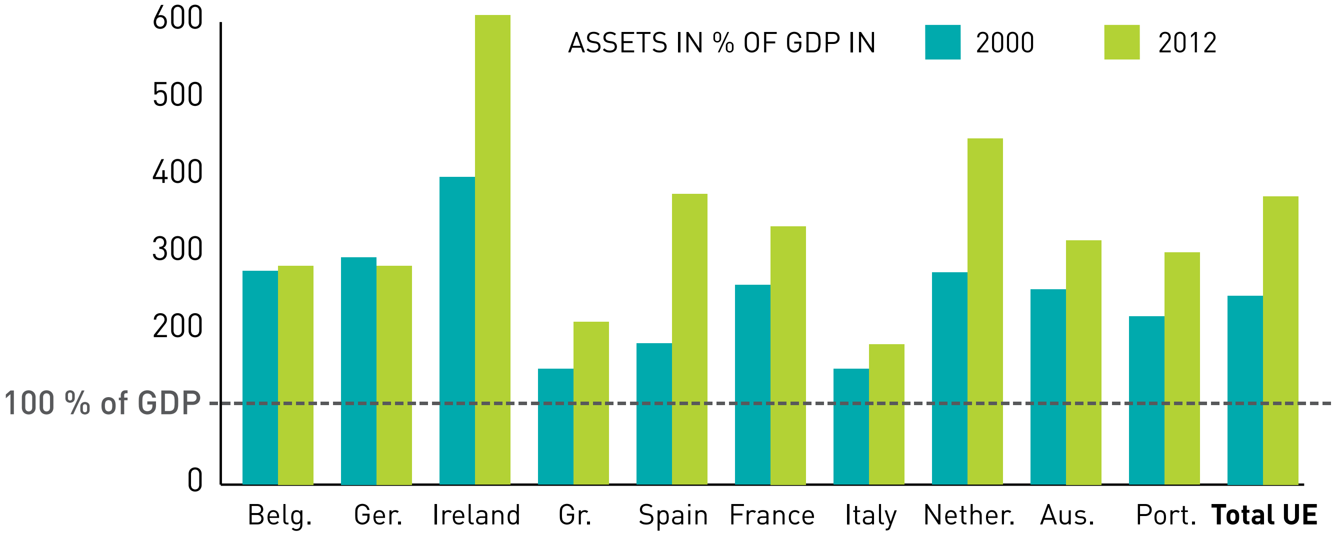
Financial systems and national economies

The deregulation of the financial system has enabled it to grow excessively over the last ten years. This expansion is a significant risk for European economies.

Table 5.3

Bank assets, in nominal value (€ billion) and as percentage of GDP: European Union[1]

Country	Banks' assets in 2000	Banks' assets in 2012	Banks' assets in 2000 (as % GDP)	Banks' assets in 2012 (as % GDP)
Belgium	699	1 048	277	284
Germany	6 084	7 566	295	284
Ireland	418	998	399	609
Greece	207	409	150	211
Spain	1 152	3 884	183	377
France	3 736	6 810	259	335
Italy	1 718	2 849	150	182
Netherlands	1 148	2 688	275	449
Austria	527	1 163	253	317
Portugal	277	496	218	301
Total EU	**22 600**	**35 471**	**245**	**374**



1 Source: *Consolidated Banking Data*, 2013, http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html

Debt repayments and national budgets: the case of Spain

This table compares the total burden of debt servicing (repayments of interest and the capital borrowed) in terms of GDP, to the percentage of public spending devoted to paying the interest on the debt. Both are compared to public education and health budgets for the same year.

Table 5.4

Burden of public debt on Spanish GDP and the State budget from 2008 to 2012[1]

	% GDP			% Total public spending		
	Debt servicing (principal + interêt)	Budget for education	Budget for health services	Reimbursement interest on the debt	Budget for education	Budget for health services
2008	5.3	4.6	6.1	3.9	11.1	14.7
2010	7.3	4.9	6.7	4.2	10.7	14.3
2012	8.2	4.5	6.2	6.4	9.4	12.9

We see that in 2008, debt servicing, as a percentage of GDP, was already higher than spending on health and education. Debt servicing continued to be higher than health spending in 2010. Since 2009 and the crisis, the Spanish health and education budgets have been cut each year. Between 2009 and 2011, spending on health dropped by 11% and on education by 13%. At the same time, the share of the budget allocated to the repayment of interest on debt continued to rise, doubling between 2008 and 2012. Even before the 2011[2] constitutional amendment that established debt repayment as the top priority, taking precedence over all others, that priority was already the standard practice.

1 Source : Ministère des finances et des administrations publiques, Gouvernement d'Espagne : Ministerio de Hacienda y Administraciones Públicas, Gobierno de España, *Ejecución Presupuestaria Año 2013*, 2013 ; et *Contabilidad nacional*, 2013 ; tous deux disponibles sur http://www.igae.pap.minhap.gob.es

2 Article 135 of the Spanish Constitution was modified after agreement between the two principal political parties, the Popular Party (conservative) and the PSOE (socialist), the latter had previously proposed the same reform in August 2011. The constitutional amendment was passed (as in Italy) without a consultative referendum.

Illegitimate debt

The sense of injustice caused by the public bail-out of the banks has led to the formation of various social movements calling for public and democratic audits of public debt.[1] These audits under popular control seek to identify the part of public debt that is illegitimate, with a view to cancelling it. According to the CADTM, it is up to the authorities to take sovereign measures concerning illegitimate or illegal debts: there must be a firm, unilateral refusal to pay.

Certain debts, although legal from a judicial point of view can nevertheless be considered as illegitimate. The debt imposed on Greece, Ireland and Portugal by the 'Troika' (European Commission, ECB and IMF) through bail-outs fall into this category. Several factors point to the illegitimate nature of these debts incurred by governments under orders from the Troika*: the measures have seriously damaged and attacked social and fundamental human rights; the people were not consulted about the policy changes that were made; finally, although at lower than market rates, they are still beyond the financial capacities of the people. For the CADTM, they are illegitimate debts and should be abolished.

The outcome of the structural adjustment policies applied to Greece are dramatic.[2] The following table compares the country's principal macro-economic variables between the first quarters of the years 2008 and 2014.

Table 5.5

Principal Greek economic indicators compared by first quarter 2008 and 2014[3]

	2008 1st quarter	2014 1st quarter	Difference in %
Economic indicators (€ millions)			
GDP	54 296	41 272	-24.0%
Household spending	42 245	32 640	-22.7%
Revenues	18 468	11 885	-35.6%
Investissements	12 626	5 114	-59.5%
Home building	5 044	679	-86.5%
Active popuation (+ 15 years old) in thousands			
Total active population	4 986	4 826	-3.2% (-160 000)
Actively employed	4 567	3 484	-23.7% (-1 083 000)
Unemployed	419	1 342	+220.0 % (+ 923 000)
% of unemployed	8.4%	27.8%	+231.0 %

1 Many of these groups are united under the ICAN (International Citizen debt Audit Network http://www.citizen-audit.net/) banner. In addition to European organisations, there are also Tunisian and Egyptian groups.

2 On the unpayable Greek public debt and the need to reduce it, see Munevar, Daniel & Lapavitsas, Costas. *Greece needs a deep debt write off*, 6 June 2014, http://cadtm.org/Greece-needs-a-deep-debt-write-off

3 M.G. Deprettaki, from figures published by the Greek National Statistics Institute (ELSTAT), which appeared in an article published in EFSYN 2 July 2014. For more information: Deprettaki, M.G. *La situation en Grèce après 4 ans de mémoranda*, 7 May 2014, http://initiativesolidaritebxl.wordpress.com/2014/05/07/la-situation-en-grece-apres-4-ans-de-memoranda/ (in French and Greek).

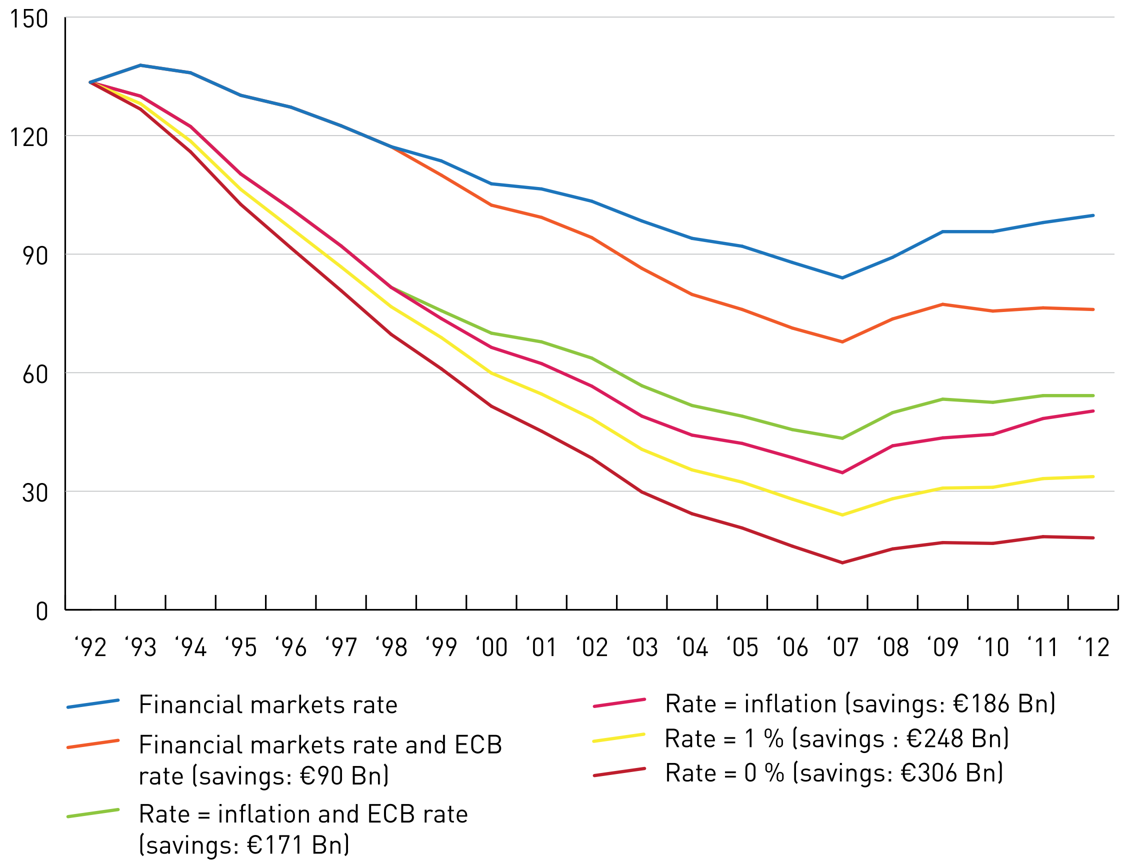
In addition, in 2009 there were well over 950,000 people working in different public sectors. In December 2013, this number had dropped to 675,500, and in May 2014 it was no more than 590,900. Total wages dropped from €24.5 billion to €15.8 billion between 2009 and 2013. The brunt of this loss was taken by non-permanent employees, which fell from 148,600 in 2009 to only 12,200 in 2013.[1] This huge drop, justified by accusations that civil servants were paid for doing nothing, was caused by the non-replacement of employees who retired, as well as by increased unemployment; again, for non-permanent ex-employees. Many public services are paralysed and those that continue to function, such as education, lack resources, and are doing no more than ticking over.

Another example of what could be considered illegitimate debt is the indebtedness caused by prohibiting central banks from lending directly to public authorities. As they cannot be financed by central banks, States have to seek funds on the financial markets where they issue sovereign bonds that are principally purchased by private banks[2]. This private monopoly de-legitimises a large proportion of public debt.

Chart 5.2

Belgian debt trend as a % of GDP in function of lending rates from 1992 to 2012

Source: calculated by Olivier Bonfond using National bank of Belgium (BNB) figures.



1 See the article « Evaluation ? No thanks! », published in the greek newspaper *Efimerida ton Syntakton*, august 25th 2014, based on the figures of the Ministry of administrative reform.

2 Central Bank lending to States is prohibited in the Eurozone by article 21.1 of the ECB statutes, in the US by section 14 (b) of the Federal Reserve Act, in Japan by article 5 of the public finance law. For the Bank of England and other EU central banks (including those not affiliated to eurozone) this method of funding is prohibited by Article 123 of the Lisbon Treaty, which confirms articles already existing in the 1992 Maastricht Treaty.

Likewise, Olivier Bonfond, economist at CADTM and CEPAG, has calculated the surcharge paid by the Belgian State in order to find funds on the financial markets. His chart 5.2 above plots different curves: the dark blue line shows the debt trend as it actually happened. Between 1992 and 2012, Belgian debt was reduced to 100% of GDP from 135% of GDP. The other lines show that public debt would have been much lower if Belgium had been able to borrow from its central bank*. The light blue line shows that if Belgium had borrowed at 1% from the Central bank, its debt would have been at 34% of GDP in 2012. In this case, Belgium would have saved €248 billion during this period. The orange line shows the same scenario, but at 0% interest rate. Belgian debt would have dropped from 135% of GDP in 1992 to 18% of GDP in 2012, and Belgium would have saved €306 billion. This graph clearly shows that a considerable proportion of Belgian public debt is illegitimate.

What is more, if tax breaks to the richest 1% and to big business are taken into account, together with the costs of bank bail-outs, it is clear that Belgian national debt is very largely illegitimate.

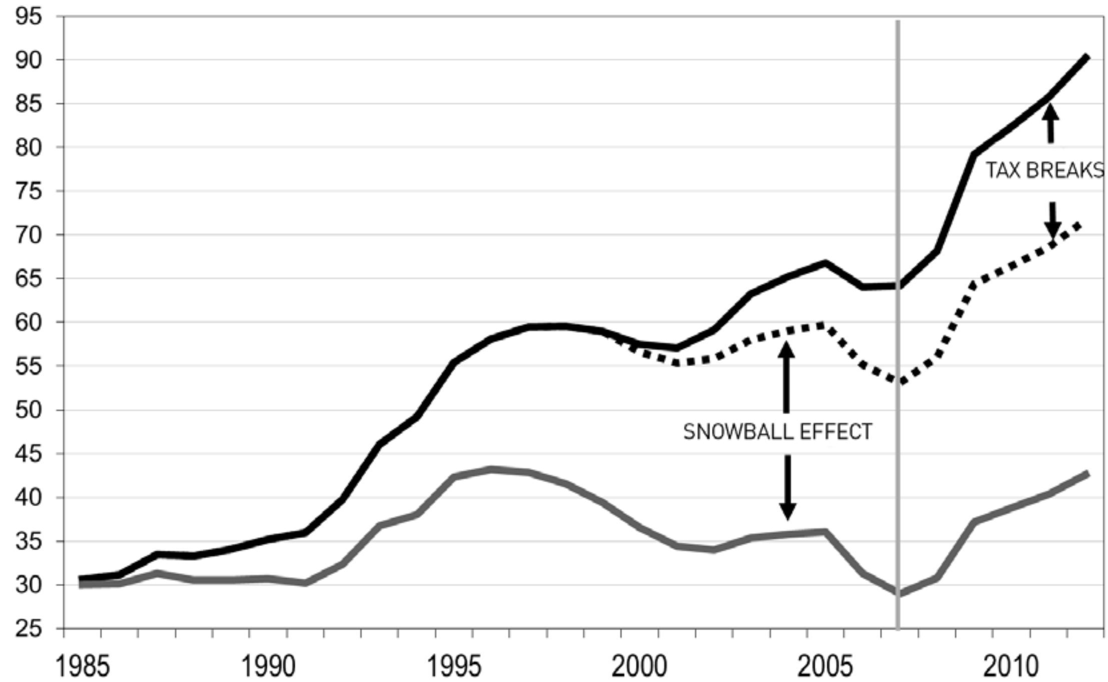
THE MAJOR PART OF THE BELGIAN PUBLIC DEBT IS ILLEGITIMATE

In France, the Citizens' Audit Collective (CAC) published a report in May showing that 59% of France's public debt, €1.097 trillion in 2014, is illegitimate. The report is based on two major factors: the continuing payment of past debt (snowball effect), given that the interest rates are excessive, and the tax breaks to the wealthiest and to big business. The following chart, taken from this report, shows the amount of debt generated by these two factors.

59 % OF THE FRENCH PUBLIC DEBT IS ILLEGITIMATE

Chart 5.3

Proportion of French debt caused by the snowball effect and tax breaks (as a % of GDP, 1985-2013)[1]



CAPTION
Upper line: Actual debt
Middle line: Probable debt levels with no tax breaks
Lower line: Probable debt levels without neither the tax breaks nor the 'snowball effect'

1 Source: Citizen's Public debt Audit Collective (CAC), *Que faire de la dette ? Un audit de la dette publique de la France* (What is to be done about the debt? An audit of France's public debt), France, May 2014; Based on Figures from INSEE, national statistics office, France. (http://fr.scribd.com/doc/225813263/Audit-de-la-dette-publique)

5.2 US debt

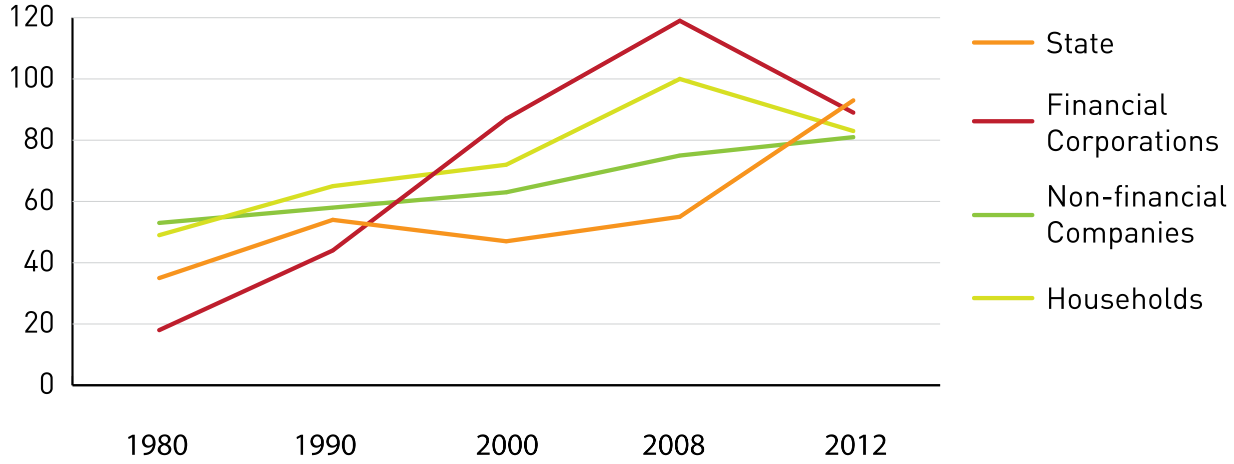
Although the US is at the centre of the world economy, or perhaps for this reason, it has not been spared from uncontrolled growth in public and private debt*. Households and individuals have been severely affected.

Trends in public and private US debt

Table 5.6

Evolution of public and private US debt by sector (as a % of GDP), from 1980 to 2012: United States[1]

Secteur	1980	1990	2000	2008	2012
Households	49	65	72	100	83
Non-financial companies	53	58	63	75	81
Financial corporation debt	18	44	87	119	89
State	35	54	47	55	93



1 Source: Federal Reserve of the United States: *Flow of Funds Federal Reserve*, 25 September 2013; and Flow of Funds Matrix, 2012.

The cost of bank bail-outs

Table 5.7

The cost of bank bail-outs between 2008 and 2013 ($ billion): United States[1]

Programme	Net funding	Guarantees
Troubled Asset Relief Program (TARP)	167	-
US Treasury (non TARP)	510	4 071
Federal Reserve Board (non TARP)	2 632	2 018
Federal Deposit Insurance Corporation (non TARP)	0	2 475
Other (non TARP)	17	7 621
Total	**3 326**	**16 184**

This table shows the various bank bail-out programmes in the US between 2008 and 2013, the first being the Troubled Asset Relief Programme (TARP) approved by G. W. Bush in October 2008.

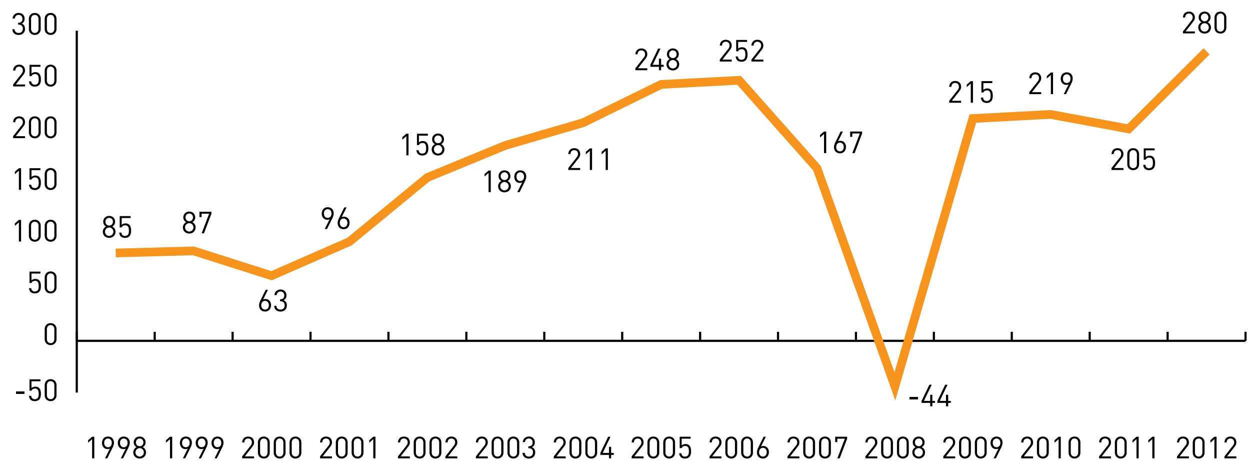
Net assistance is the difference between the public funds injected into the programmes and the funds returned from the programmes. The positive figures are the funds injected that have not been returned. The guarantees are public guarantees of bank assets*.

US bank balance sheets

We might have imagined that following the 2008 crisis, US financial institutions would suffer severe losses ... not at all! Thanks to public funds they were rapidly back on their feet and once again enjoying high profits.

Chart 5.4

US bank profits from 1998 to 2012 ($ billion)[2]



1 Source: US Federal Bailout: http://www.usfederalbailout.com/program_details
2 Source: Federal Reserve Bank of St Louis.

The property crisis

While the banks were 'still getting away with it' thanks to public and central bank assistance, the plights of millions of US families, like hundreds of thousands in Spain, have been ignored by their government. Since 2005, an estimated 14 million US families have been evicted, and over 260,000 families in Spain suffered the same fate between 2008 and 2012. Where is the bail-out plan for these people that would enable them to satisfy their basic right to housing?

WHERE ARE THE BAIL-OUT PLANS FOR THOSE FAMILIES WHO LOST THEIR PROPERTY ?

Table 5.8

Number of evictions after repossessions of homes in the US and Spain from 2005 to 2012[1]

	USA	SPAIN
2005	532 833	-
2006	717 522	-
2007	1 285 873	-
2008	2 330 483	17 433
2009	2 824 674	22 493
2010	2 871 891	32 689
2011	1 887 777	40 740
2012	1 836 634	147 442
Total	**14 287 687**	**260 797**

The 2012 figure includes evictions by court rulings

Protest against the Troïka in Spain, June 2013. «*Stop evictions*»

1 Source: Plataforma de Afectados por la Hipoteca (PAH) [Mortgage Victims' Platform]: RealtyTrac Foreclosure Market Report, 2012; Informe 2013.

VI OVERVIEW OF DEBT IN THE NORTH AND IN THE SOUTH

6.1 Global uncontrolled increase of debt

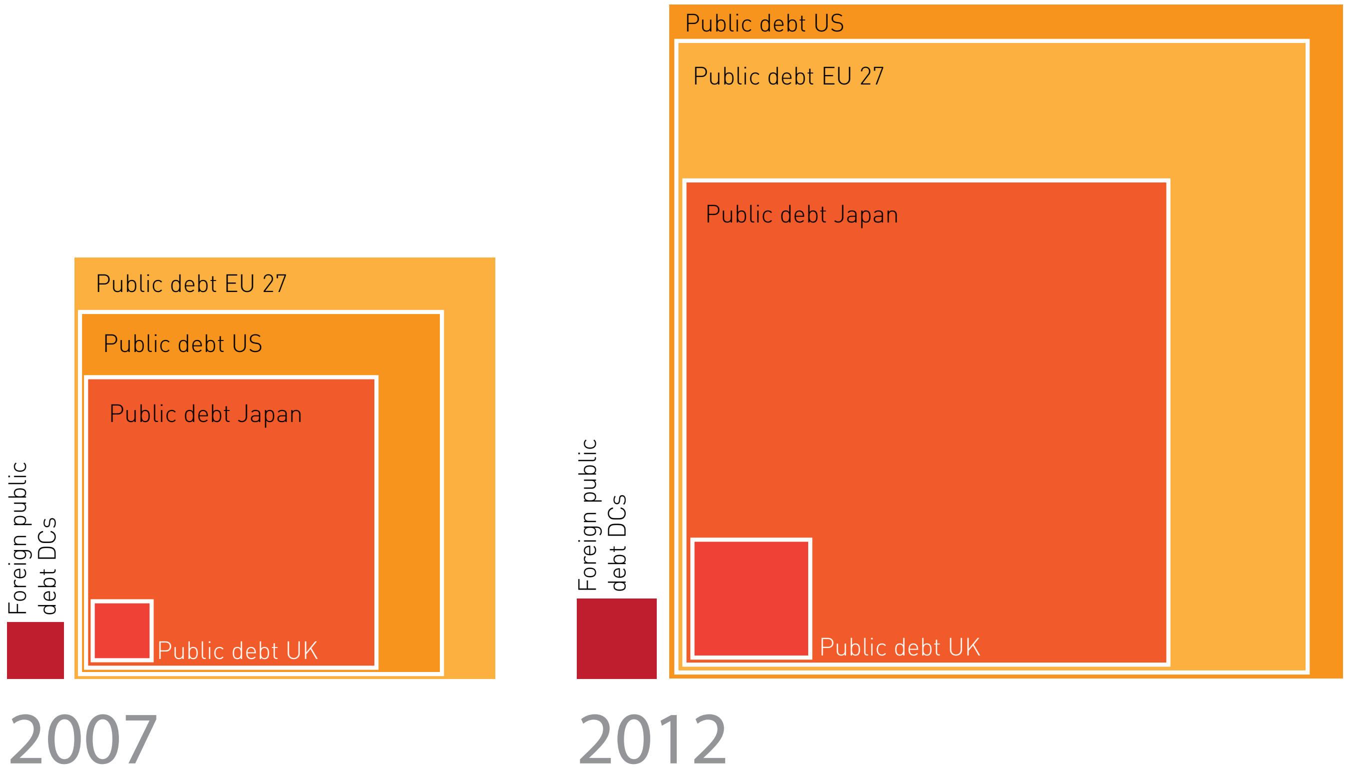
Between 2007 and 2012 public debt in the countries concerned by this study increased by 67%, mainly in developed countries. As seen above, this sudden increase is related to the economic recession and the cost of bailing out banks.

Table 6.1

Public debt in developed and developing countries in 2007 and 2012 ($ billion)[1]

	2007	2012
Public debt EU 27	9 368	14 089
Public debt US	8 054	15 239
Public debt Japan	6 482	10 792
Public debt UK	1 326	2 590
External public debt Dcs	1 272	1 766

1 Data Eurostat*, http://epp.eurostat.ec.europa.eu, and the World Bank, *International Debt Statistics*, http://databank.worldbank.org/data/home.aspx. The figures for the US and Japan refer to the debt of the central government, and do not include public debt in other levels of government or in the US social security system.



It is currently claimed that public debt is the cause of the crisis because of allegedly excessive public spending, yet the most significant increase is in private debt. Between 2000 and 2008, total private debt (incurred by financial and non-financial corporations and households) went from 175 to 235% of US GDP, and from 268 to 434% of UK GDP. Since the outbreak of the crisis, debt owed by the non financial private sector has increased even more: the Bank for International Settlements (BIS)* estimates this increase to be around 30% worldwide.[1] The BIS considers that private debt in the non financial sector amounts to an average close to 275% of GDP for 'advanced' countries[2] and 175% of GDP for 'emergent' countries.

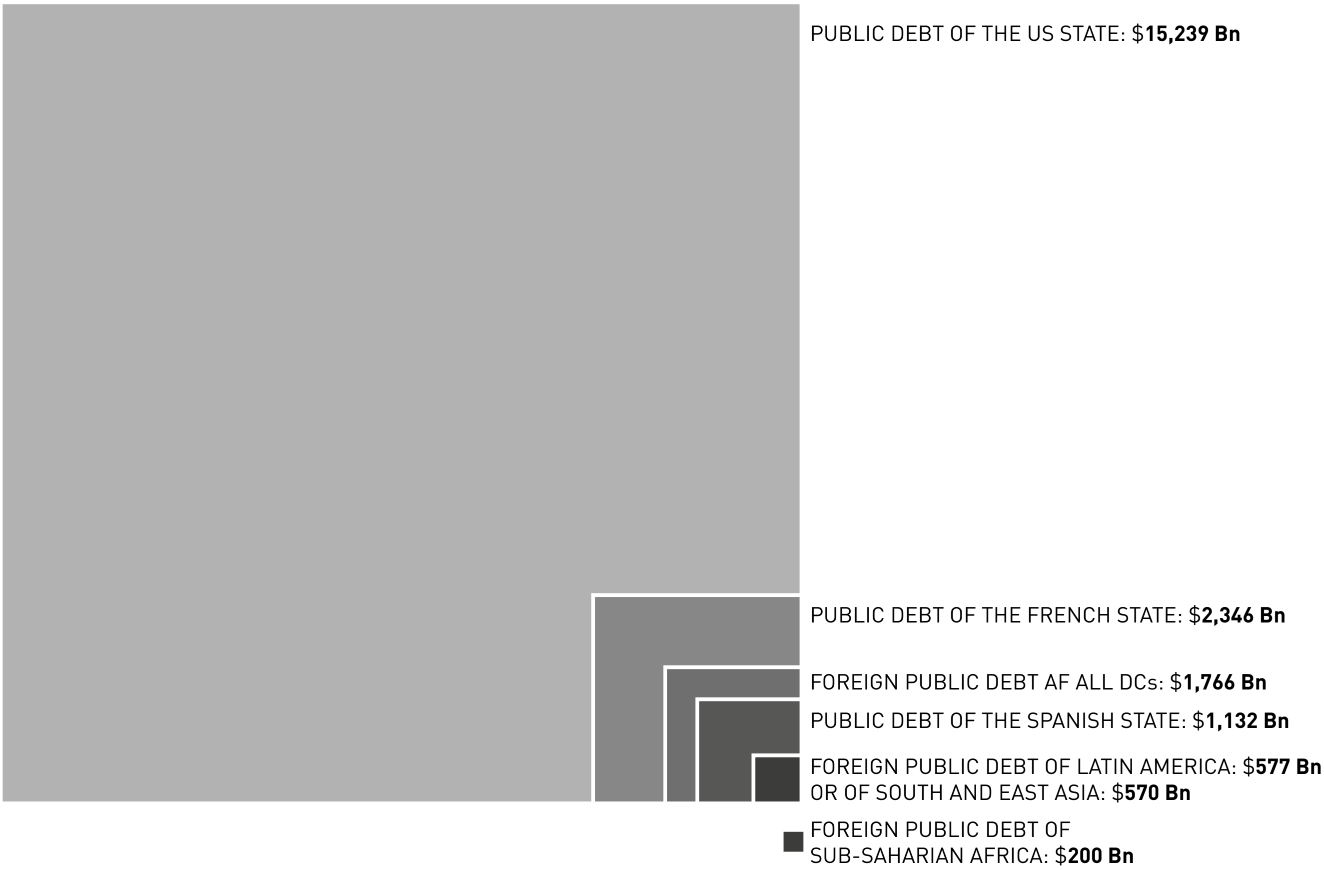
1 BIS, Annual Report June 2014, chart I.1. http://www.bis.org/publ/arpdf/ar2014e.pdf
2 If the private debt of the financial sector were included, the percentage would be even higher.

6.2 Comparison of debt figures in the North and in the South

A simple comparison of amounts of public debt owed by developed and developing countries shows that it is much lower for the latter. In other words, cancelling the debt of third world countries would be easy to achieve in financial as well as economic terms. It is actually a political issue that cancellation is a necessary (though not sufficient) condition to ensure that human rights are respected in these countries.

Chart 6.1

Comparison of debt figures in developing and developed countries ($ billion) in 2012[1]



1 Source: Data Eurostat, http://epp.eurostat.ec.europa.eu, and the World Bank, *International Debt Statistics*,http://databank.worldbank.org/data/home.aspx.

6.3 Comparison of debt figures and other spending

The table below provides some examples of budgets in which actual spending and revenue shortfalls result in failure to meet the basic needs of a large part of the population. Advertising, for instance, amounts to 159 times more than what the World Food Programme receives to fight hunger worldwide.

Table 6.2
Some remarkable figures
($ billion, 2010-2012)

Some remarkable figures	
World advertising budgets in 2012	$557 Bn
World military budgets in 2011	$1,740 Bn
Debt service of developing countries in 2011	$171 Bn
Cost of tax evasion to developing countries in 2011	$400Bn
Income of commercial banks such as Goldman Sachs in 2012	$240 Bn
Annual spending to purchase illegal drugs in 2011	$400 Bn
Annual spending to feed pets in 2012	$67 Bn
Sums collected by the United Nations World Food Programme in 2010	$3.5 Bn
Total budget of Congo DR, population - 74 million in 2012	$8 Bn
Bonuses paid by Goldman Sachs in 2011	$12 Bn
Bonuses paid at the City of London in 2011	$21 Bn
Advantages and bonuses paid out by the the five biggest US banks in 2010	$119 Bn

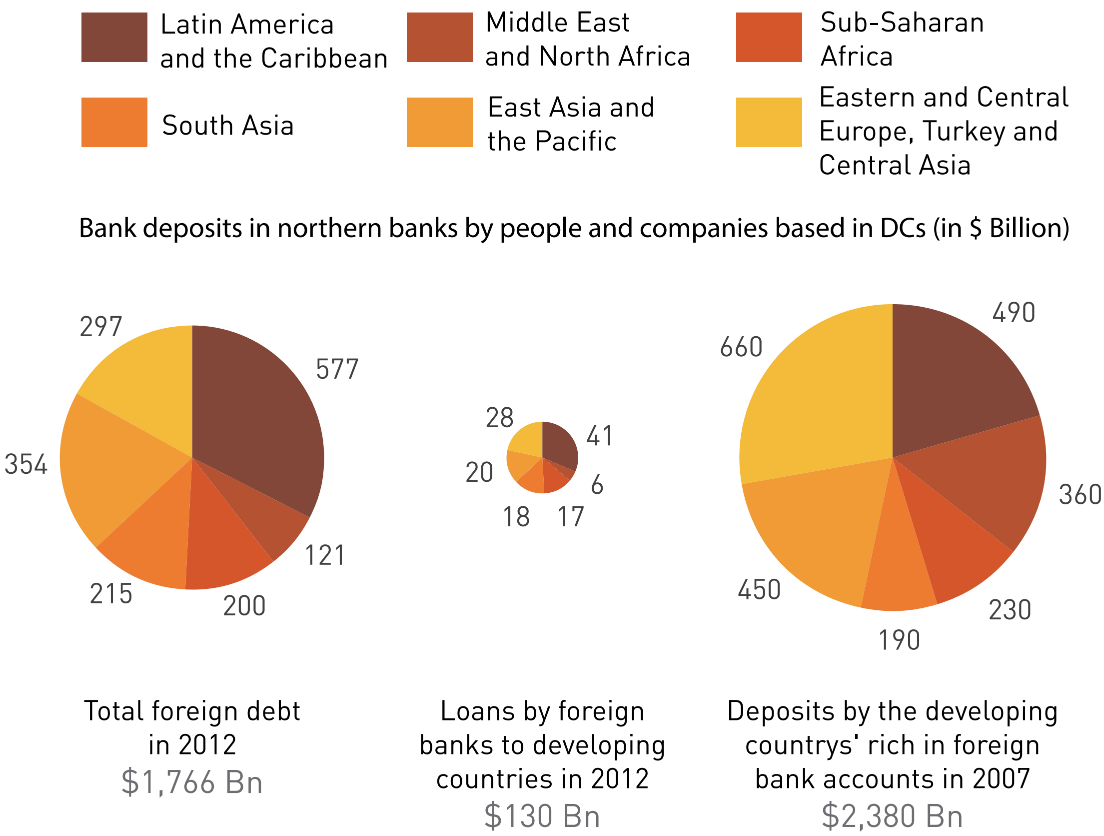
We spend 159 times more money to tell people what to buy than to fight hunger worldwide...

6.4 Deposits from rich citizens of developing countries in banks of the North

While governments in developing countries still owe considerable amounts to Northern banks, some large companies and very rich people in those same countries have accounts in those banks amounting to 14 times the total of those public debts. This situation clearly exposes the urgent need to fight against capital flight and to demand that illegally or dishonestly acquired property be given back to the people in developing countries from whom it was stolen by the local ruling classes.

Chart 6.2

Public debt in developing countries owed to Northern banks, and deposits in Northern banks from individuals and corporations in DCs ($ billions)[1]



1 From data in Bank for International Settlements (BIS), *84th Annual Report 2014*, Basel, June 2014, p.102, Annex Table V.1, and World Bank, International Debt Statistics, http://databank.worldbank.org/data/home.aspx.

VII THE IMPACT OF THE 'DEBT SYSTEM'

CONCLUSION

The 'debt system' involves using public resources to pay creditors instead of meeting the basic rights and needs of people. The relationship between creditors and debtors is strongly biased in favour of the former. In both the 1982 external debt* crisis in Latin America and the 2010 euro crisis, the first response was to deny the obvious and not do anything. Measures were then implemented to protect creditors' interests. In an attempt to reverse the trend in public deficit and ensure debt repayments would be made, structural adjustment or austerity policies were applied, whatever the price to be paid by the people who were victims of the crisis.

THE CADTM ARGUES THAT PUBLIC DEBT MUST BE AUDITED UNDER CITIZEN CONTROL TO DETERMINE ITS ORIGIN AND WHAT PART CAN BE CONSIDERED ILLEGITIMATE AND/OR ILLEGAL

With support from local elites, creditors demand debt repayment and 'adjustments' that ensure debt repayment takes priority over any social needs, thus infringing on the people's basic rights. Furthermore, the measures implemented turn out to be counter-productive, because they only make the problem worse. As a consequence, excessive debt becomes a structural issue.

The 'det system' aggravates inequalities.

Debt makes it possible for a privileged minority to pocket financial benefits and thereby increase their wealth continuously. Consequently the State does not have the resources necessary to meet the basic needs of the people. Inequalities increase as the rich accumulate wealth and are

in a position to exert pressure on decision-makers so as to influence public policy. The rise of the debt and its concentration in a few hands leads to a redistribution of income in favour of the richest members of society, and this, in turn, is both the cause and the consequence of increased exploitation of workers and natural resources.

In response to this situation, the CADTM, together with other associations, argues that public debt must be audited under citizen control to determine its origin and what part can be considered illegitimate and/or illegal and therefore be cancelled.

FIGHTING THE 'DEBT SYSTEM' IS PART OF A WIDER STRUGGLE FOR A WORLD THAT WOULD BE FREE OF ALL FORMS OF OPPRESSION AND EXPLOITATION

Over and beyond this necessary audit, the CADTM denounces the entire 'debt system'. The selfsame mechanisms of domination and exploitation govern illegitimate public and private debt, thus subjugating people collectively and as individuals in the lower classes (indebted smallholders, families evicted from repossessed homes, women enslaved to the microcredit system in the South, indebted students...).

Of course, the cancellation of illegitimate debts must go hand in hand with other measures such as the socialisation of the banking and insurance sector to transform it into a public service, the radical reform of the taxation system in favour of the overwhelming majority of people, the expropriation of the energy sector and its transformation into a public service, the radical reduction of working hours resulting in more jobs as well as an increase in wages and social benefits, the improvement and strengthening of public services, improvements in the distributive pension system, effective gender equality, radical political reforms including changed constitutional processes. These measures must be part of a vast plan for a social, ecological, and political transition in order to move beyond the devastating capitalist system. Fighting the 'debt system' is part of a wider struggle for a world that would be free of all forms of oppression and exploitation.

END

Abbreviations and acronyms

ATTAC: Association for the Taxation of Financial Transactions and for Citizens' Action

BIS: Bank for International Settlements

CAC: Citizen Audit Collective

CAC 40: index of 40 largest corporations listed on the Paris Stock Exchange

CADTM: Committee for the Abolition of Third World Debt

CETIM: Europe- Third World Centre (Geneva, Switzerland)

DC: Developing Countries

DRC: Democratic Republic of Congo

ECB: European Central Bank

ECLAC: Economic Commission for Latin America and the Caribbean

EU: European Union

FAO: Food and Agriculture Organisation, United Nations Organisation for food and agriculture

GDP: Gross Domestic Product

G7: Group of the 7 most industrialised countries (Germany, Canada, United States, France, United Kingdom, Italy, Japan)

HDI: Human Development Index

HIPC: Heavily Indebted Poor Countries

ICAN: International Citizen debt Audit Network

ICSID: International Centre for Settlement of Investment Disputes (World Bank Group)

IFI: International Financial Institutions

ILO: International Labour Organisation

IMF: International Monetary Fund

NGO: Non-Governmental Organisation

ODA: Official Development Assistance

OECD: Organization for Economic Co-operation and Development

PAH: Plataforma de Afectados por la Hipoteca, Mortgage Victims' Platform in Spain

PPP: Purchasing Power Parity

SAP: Structural Adjustment Programme

TARP: Troubled Asset Relief Programme

UNCTAD: United Nations Conference on Trade and Development

VAT: Value Added Tax

WB: World Bank

[APPENDIX]

country groups

Developing countries (DCs)

Sub-saharan Africa :
Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Democratic Republic of Congo (DRC), Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, South Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe.

Latin America and the Caribbean :
Argentina, Belize, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Lucia, St. Vincent and the Grenadines, Suriname, Venezuela.

East Asia and the Pacific :
American Samoa, Burma (Myanmar), Cambodia, China, Federated States of Micronesia, Fiji, Indonesia, Lao PDR, Kiribati, Marshall Islands, Malaysia, Mongolia, North Korea, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Thailand, Timor-Leste, Tonga, Vanuatu, Vietnam.

South Asia :
Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

Europe centrale et orientale + Turquie (PECOT) et Asie centrale :
Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Hungary, Kazakhstan, Kosovo,[1] Kyrgyz Republic, Macedonia, Moldova, Montenegro, Romania, Serbia, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan.

Middle East and North Africa :
Algeria, Djibouti, Egypt, Iraq, Iran, Jordan, Lebanon, Libya, Morocco, Syrian Arab Republic, Tunisia, Yemen Rep.

1 We must remember that the inclusion of Kosovo as a State is a point of contention.

39 Heavily Indebted Poor Countries (HIPCs) in 2014

Afghanistan, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Republic of Congo, Democratic Republic of Congo, Côte d'Ivoire, Eritrea, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tomé-& Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zambia.

Developed countries[2]

Andorra, Australia, Austria, Bahamas, Bahrain, Barbados, Belgium, Brunei, Canada, Croatia, Cyprus, Czech Republic, Denmark, Equatorial Guinea, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Kuwait, Liechtenstein, Luxembourg, Malta, Monaco, the Netherlands, New Zealand, Norway, Oman, Poland, Portugal, Qatar, San Marino, Saudi Arabia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, Trinidad and Tobago, United Arab Emirates, United Kingdom, United States.

2 These groups of countries are modified every year by the World Bank. The criteria adopted to define what constitutes a developed country are, however, debatable as the inclusion of Equatorial Guinea in this group shows. Other countries listed in the developed countries group are also problematic, such as South Korea, the Czech Republic, Estonia, and Trinidad and Tobago. We have nonetheless respected this convention so that our figures refer to those of the World Bank.

glossary

Amortisation: Repayment of principal without taking account of interest.

Asset: something belonging to an individual or a business that has value or the power to earn money (FT). The opposite of assets are liabilities, that is the part of the balance sheet reflecting a company's resources (the capital contributed by the partners, provisions for contingencies and charges, as well as the outstanding debts).

Bank for International Settlements (BIS): the BIS is an international organisation established in 1930, which is responsible for fostering international monetary and financial cooperation. It also acts as a bank for the central banks, with 56 central banks that are members.

Central bank: The central bank of a country defines its monetary policy and issues all national currency. Commercial banks obtain their currency from it, at a supply price determined according to the prime rate charged by the central bank.

Currency: (see also: strong currency) The monetary unit of a country or monetary zone. There is a rate for each currency that permits an exchange rate to be calculated between two different currencies, or to convert the value of one currency into that of the other. The principal exchange currencies have an official quoted rate on the foreign exchange market and can be freely exchanged for another currency.

Currency reserves: assets held in foreign currency by the monetary authorities of a country.

Debt rescheduling: modification of the terms of an existing loan, which may include modifying the maturity dates or extending the date to pay back capital and/or interest. In general, the goal is to give the country experiencing economic difficulties a bit of room to breath, by extending the amount of time to pay off the loan so as to decrease each payment or by giving it a grace period during which repayments may be interrupted.

Debt service: total amount of interest and capital payments made during a given period of time.

Debt stock: total amount of debt owed.

Devaluation: official lowering of the exchange rate value of one currency in relationship to the others, on the international monetary market.

European Central Bank (ECB): the European Central Bank is a European institution based in Frankfurt, established in 1998. Eurozone countries have transferred their monetary powers to it, and its official role is to ensure price stability by combating inflation within the Eurozone. According to its Articles of Agreement, it is politically 'independent' but it is directly influenced by the world of finance.

Eurostat: The European Union's Directorate-General of Statistics that has its head office in Luxembourg.

External debt: external debt is owed to foreign lenders. It includes external public debt and external private debt. External debt is generally expressed in strong currencies. FED or Federal Reserve: (officially, Federal Reserve System) the United States central bank created in 1913 by the Federal Reserve Act (or Owen-Glass Act), after a series of banking crises, particularly the 'Bank Panic' of 1907.

Gross Domestic Product (GDP): an aggregate measure of total production within a given territory equal to the sum of the gross values added. The measure is notoriously incomplete because it does not take into account any activity that does not enter into a commercial exchange. The GDP takes into account both the production of goods and the production of services. Economic growth is defined as the variation of the GDP from one period to another.

Heavily Indebted Poor Countries (HIPC) Initiative: The HIPC initiative was launched in 1996 and strengthened in 1999, to reduce the debt burden of heavily indebted poor countries, with the modest objective of making their debt sustainable.

It is organised in four extremely demanding and complex phases:

1. If a country wants to be included in this initiative, it must first apply economic policies approved by the IMF and World Bank for 3 years, which are known as adjustment programmes, and adopt a Poverty Reduction Strategy Paper (PRSP).
2. At the end of these 3 years, they reach decision point: the IMF analyses the debt of the country applying to see if it is sustainable. If the debt stock / exports ratio is greater than 150%, the country can be declared admissible.
3. The State then benefits from the first debt relief from the creditor countries and private banks, and must continue applying the policies approved by the IMF and World Bank.
4. The last phase is known as the completion point. The remainder of the debt relief is granted at this point to a country to enable it to acquire a sustainable position considered to be satisfactory.

Inflation: a general increase in prices (for example, an increase in the price of oil, causing a general increase in other prices, which theoretically leads to higher wages, and so on). Inflation implies a drop in the value of money, because more money is needed to purchase the same commodity at a later time. This explains why neoliberal policies make it a priority to keep inflation down.

Interest rate: When A lends money to B, B repays the amount lent by A (the capital) as well as an additional sum known as interest, so that A has an interest in agreeing to this financial operation. The total interest paid is determined by the interest rate, which may be high or low. The nominal interest rate is the rate at which a loan is contracted. The real interest rate is the nominal rate minus the rate of inflation.

International Monetary Fund (IMF): An International Financial Institution established within the framework of the Bretton Woods Agreement (1944) at the same time as the World Bank. The IMF was originally intended to support the new fixed-exchange rate system and to guarantee the stability of the international monetary system. The Bretton Woods fixed rate system came to an end in (1971), but the IMF was maintained. It starting imposing its structural adjustment programmes following the debt crisis of 1982.

Liquidities: the capital an economy or a company has available at a given point in time. A lack of liquidities can force a company into liquidation and an economy into recession.

Net debt flow: the difference between amounts received as new loans and the amounts repaid (capital and interest) over the same period. The net debt flow is positive when the country or continent concerned receives more than it repays. It is negative when the amount it repays is higher than the amount that it receives.

OECD (Organisation for Economic Co-operation and Development): an institution established in 1960 that includes the principal most industrialised countries. There were 34 members in 2013.

Official Development Assistance (ODA): Official Development Assistance is the name given to loans granted in financially favourable conditions to developing countries by the public bodies of the industrialized countries. A loan must only be given at a lower rate of interest than the going market rate (a concessionary loan) to be considered as aid, even if it is then fully repaid by the borrowing country. Tied loans with conditions (which obligate the borrowing country to buy products or services from the lending country) and debt cancellation are also counted as part of ODA (see box in section 2.4).

Paris Club: A group of lender States established in 1956 that specializes in dealing with payment defaults by developing countries.

Payable: a sum of money that one person (debtor) owes to another (creditor).

Private debt: private debt is debt borrowed by financial institutions (banks, insurance companies, and pension funds), non-financial institutions (companies), and households.

Public debt: all of the loans taken on by the national and local government, state-owned companies, and public health funds.

Sovereign debt: government debt or debt guaranteed by a government.

Speculation: taking a position on a market, which is often risky, in the hope of making a profit.

Strong currency: a strong currency is a currency that has a reserve value on a foreign exchange market. The factors that contribute to making a currency strong are its long-term stability, an economic situation that is stable in terms of inflation, and the weight of the economy issuing that currency. The US dollar is the principal strong currency.

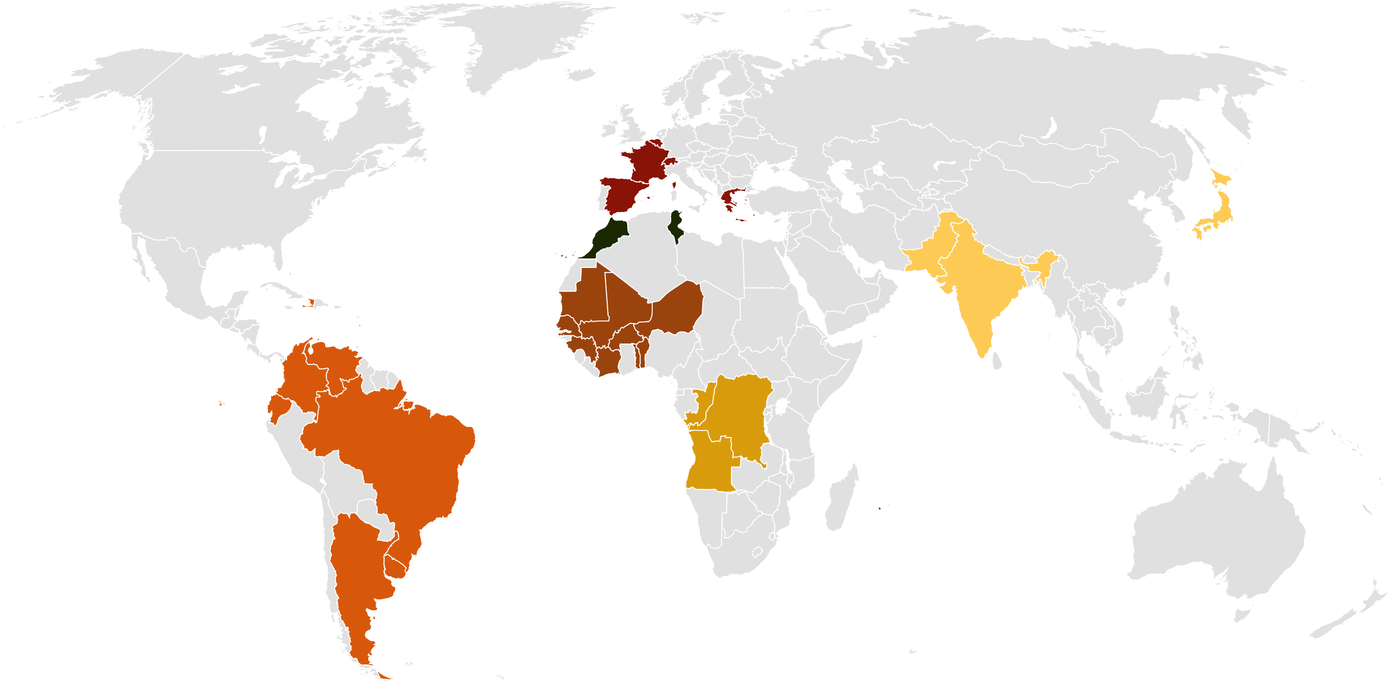
Structural adjustment: neoliberal economic policies imposed by the IMF in exchange for new loans or the rescheduling of old loans.

Structural adjustment programme (SAP): The IMF imposed structural adjustment programmes on developing countries after the 1982 debt crisis. Debt was used as an instrument for imposing policies favourable to the creditors, multinational corporations from Northern countries, those in possession of the country's capital and foreign entities. SAPs have greatly increased poverty in the countries where they have been implemented.

Troika: in the framework of the European economic crisis, the Troika refers to three institutions: the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF). The Troika is supposed to monitor the countries experiencing major economic hardships which 'benefit' from loans granted by the European Union and the IMF. In reality, the policies imposed by the Troika do not at all help the countries overcome their economic difficulties.

World Bank (WB): An international financial institution established within the framework of the Bretton Woods Agreement (1944), initially known as the International Bank for Reconstruction and Development (IBRD), because its mission consisted in funding the rebuilding of countries after the Second World War. The World Bank has five subsidiaries (see point 4.3.3, The World Bank web). While its purported aim is to eliminate poverty, its actions have been severely criticised by numerous social movements due to the negative impact of its policies.

COUNTRIES WITH MEMBERS OF THE CADTM INTERNATIONAL NETWORK



The Committee for the Cancellation of the Third World Debt (the CADTM - Comité pour l'annulation de la dette du Tiers Monde) is an international network of individuals and local committees from across Europe and Latin America, Africa and Asia. It was founded in Belgium on 15th March 1990.

The network acts in close liaison with other movements and organisations fighting for the same ideals. Its main preoccupation, besides the debt issue, is the planning of activities and radical alternatives for the creation of a world respectful of people's fundamental rights, needs and liberties.

The CADTM has always been a pluralist association composed of both private individuals and legally constituted organisations. Its activities take place on the common ground occupied by the battles being waged by grassroots and cultural movements, trade unions, international solidarity committees and development NGOs. It is a member of the international council of the World Social Forum and is fully committed to its role within the international movement of citizens fighting for the "other worlds possible". This movement is gradually defining a new, alternative form of globalisation, in contrast to that being pushed by those insisting on a globalised neoliberal capitalist model as the ultimate in human happiness, the natural state of society, the "end of history", the inevitable destiny for all wherever they come from.

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Further reading:

- Millet, Damien & Toussaint, Éric. *65 questions, 65 réponses sur la dette, le FMI et la Banque mondiale*, 2012 (out of print). Can be downloaded for free at: http://cadtm.org/65-questions-65-reponses-sur-la,8331
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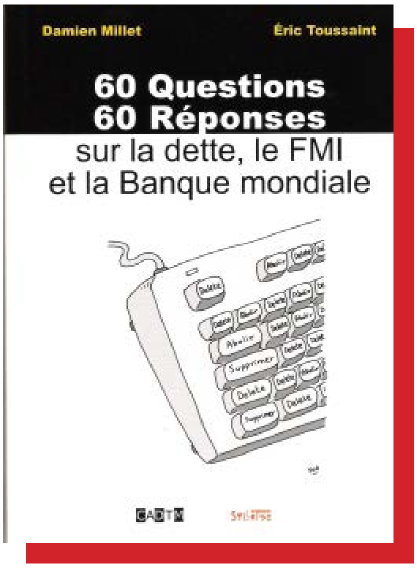

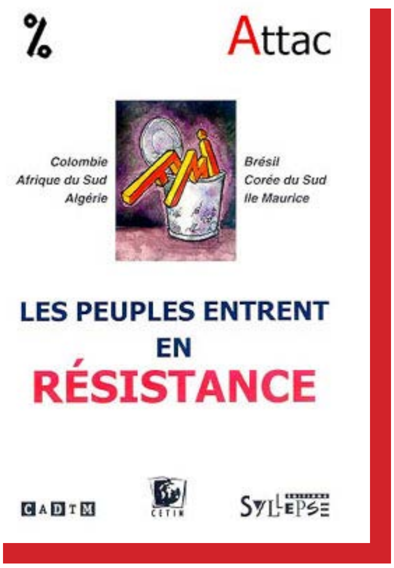

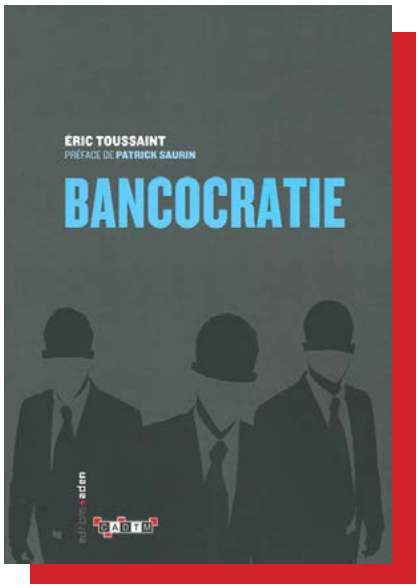

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