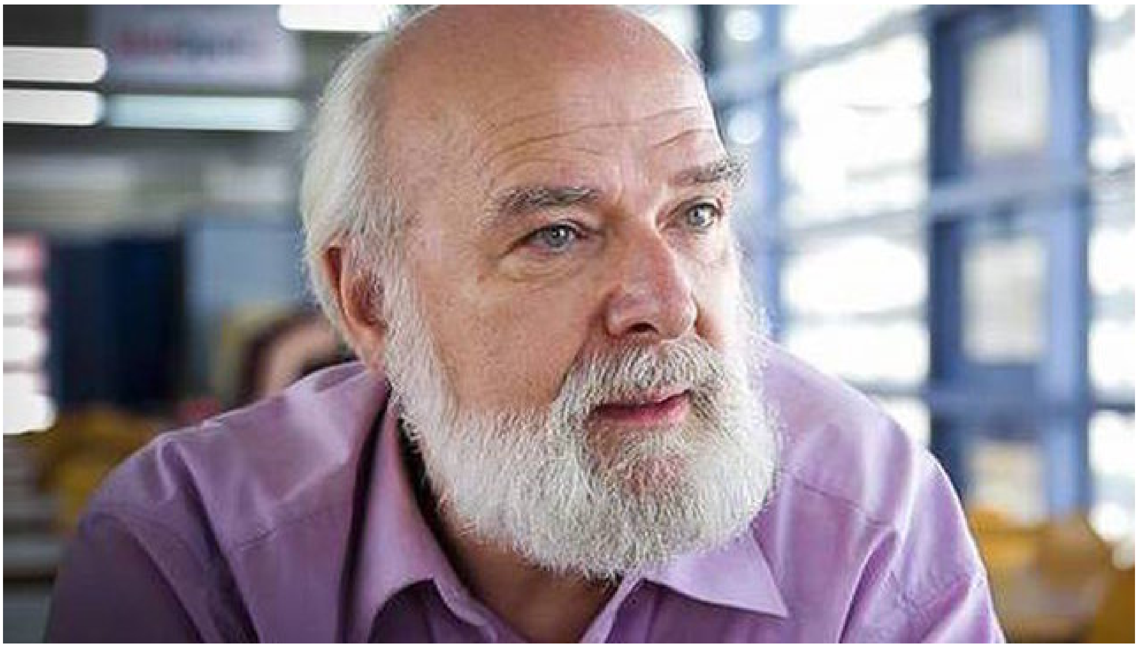
“We Need a Plan B for Europe”: Interview with Éric Toussaint

9 February 2016 by **Eric Toussaint** , **Gokhan Terzioglu** , **Steve Knauss** , **Antoine Dolcerocca**



Potemkin Review met with Dr. Éric Toussaint, a founding member and President of the Committee for the Abolition of Third World Debt (CADTM) - Belgium, and a global spokesperson for the movement. Author of more than a dozen books on the political economy of neoliberal globalization and the fight for alternatives, he has also served in an advisory role on matters such as the cancellation of illegitimate debts and the establishment of debt audit commissions in countries such as Ecuador, Paraguay, Argentina, and East Timor, as well as for organizations such as the UN general secretariat, UNCTAD, and the African Union. Most recently, he presided as the scientific coordinator for the Truth Committee on the Greek Public Debt established by then President of the Greek Parliament Zoe Konstantopoulou in 2015. He sat down with Potemkin Review to give the following interview:

As we know, the main mechanism that turns a financial crisis into a sovereign debt crisis is the socialization of the private debt of banks and other financial institutions through bailouts. Since the financial sector sits on the credit and payment system of the whole economy, it is therefore in a position to blackmail to take everything down with it, if their losses are not borne by the public as a whole. Indeed, in most cases governments find it too risky to let these major players fail, so they end

up being injected public money, financed by issuing government bonds that add to sovereign debt. This makes repudiation of debt thus incurred and nationalization of credit and finance two key priorities in fighting against the subordination of whole populations by finance capital.

We know that nationalization of this key sector is possible and has precedents in a number of advanced capitalist countries, such as in France after the liberation. Nevertheless when François Mitterrand attempted once again in 1981 to nationalize certain key sectors including finance, not so much in an attempt to fight global capital as to revive the country's economy, the endeavor ended in capitulation with his government backtracking a few years later. Do you think countries have less room for maneuver under global neoliberalism to pursue such a route? What do you think about the complementarity of unilateral measures such as capital controls, refusal to pay illegitimate debt and bank nationalizations? What about the order of implementing such measures in order to maximize their benefits?

I have a very strong conviction that for a whole series of European countries, obviously countries such as Greece, Portugal, Spain, Ireland, and Cyprus, but also a group of other countries, if we want to change the political orientation and break with austerity, there are fundamental measures to take. Because, in many countries – including these last months in Portugal, but also in Greece and we will for sure see it rapidly in Spain as we already see it in Italy – it is very clear that the banking crisis is not at all resolved. As soon as the international economic situation deteriorates, the balance sheets of the banks become quite fragile (explosion of non-performing loans for instance). We are witnessing today a very important fall in the stock market that implies a fragilization of the banks, and therefore, among the first measures to take there is a need to effectively take control of the banks. In some cases (for example, Greece) it will be necessary to bring about their failure in order to reclaim them under our control. Of course we will then rapidly put them back into operation, but in first allowing their collapse we are making those responsible for the crisis pay the costs. In the Greek case, for example, I am convinced that this is exactly what should have been done.

You asked me about Mitterrand who made a move in the direction of the nationalization of banks and then capitulated. When Mitterrand discussed nationalization, in a certain sense he was not under the pressure of resolving a banking crisis, whereas today any potential left government in Europe is under the obligation to take control of the banks. If they don't do so, the public finances will not be able to support the cost of resolving the crisis of the banking sector and the European Central Bank (ECB) will exercise a permanent blackmail over the liquidity of the banks and, as it did with Greece, asphyxiate the banking system. Therefore, I would agree that the margin to maneuver is narrower than that which Mitterrand had, as we are in the Eurozone and the European Union. Nonetheless there is a practical and political obligation to enter into conflict with the European institutions and the ECB. Here, I am simply speaking of unilateral measures of self-defense for a country that is living through the banking crisis. I want to add that as far as the debt audit is concerned, the unilateral measures to take are based on regulation number 472 of May 21st, 2013 [1], that envisages a debt audit; hence a government in the Eurozone can perfectly say that it is applying this regulation. There is therefore a legal basis, I would say, in the action taken by the government. However, in the case of Greece and probably in other countries under the pressure of the creditors, I would also add a call for the unilateral suspension of payments during the duration of the debt audit. Of course, this measure will not be accepted and there will be a conflict, but there are arguments in international law to support these types of unilateral actions as self-defense measures. Without question, all these measures are directly linked to a key immediate measure that has to be taken, which is the implementation of capital controls. It's clear that there is an immediate link here with the political situation. To do all this, one needs to have popular legitimacy and organize popular mobilizations along with international solidarity.

To move from the general to a more concrete case that is on everyone's mind, let's talk about your experience in Greece. You were the scientific coordinator of the Debt Truth Commission set up in April 2015 by the president of the Greek parliament Zoe Konstantopoulou. The commission released its report on June 17, 2015, just as the 4 month extension that Syriza obtained in its February 20 agreement with the Troika was set to expire on June 30. In such an important moment politically, the commission set out to show that contrary to popular belief, the increase in debt did not stem from excessive public spending on the part of the Greek welfare state but from other factors such as the state recapitalization of private banks, the payment of extremely high rates of interest to creditors, the over spending in defense, etc. The report made clear that the purpose of the loan agreements to Greece was to rescue Greek and other European private banks and that the majority of borrowed funds were transferred directly to financial institutions. It also identified for each creditor (IMF, ECB, EFSF, bilateral loans, private creditors) evidence of illegal, illegitimate, and odious debts, and presented legal arguments that could permit Greece to unilaterally repudiate such debt. Notwithstanding the report's findings, however, by early July the Tsipras government opted against pursuing any such measures in favor of capitulating to the European institutions, as is well known. In hindsight, what course of action could have been taken at the time the report was published or even before that might have avoided such capitulation?

First of all, already by February 20, I think that the Tsipras government and Minister Varoufakis should have taken the measures that I've mentioned above. That is to say, they should have said from the beginning: “we are carrying out an audit of the debt, we are applying article 7 of regulation 472 as a defensive measure against you creditors, who haven’t opened a single serious avenue toward negotiations during our first three weeks in government. During the audit we suspend the payment of the debt” Therefore, I think the February 20 agreement already contained a retreat on the part of the Syriza-Anel government [2].

Now what is important and what was not at all noticed, is that on February 20, it was only Varoufakis that signed the document for the Syriza-Anel government. It was never submitted to the Greek parliament. And the president of the Greek parliament, Zoe Konstantopoulou, had said to Tsipras that she would never accept such an agreement and that it would face strong opposition in Parliament. This is important because, on the other hand, if you fast forward to July 13, when Tsipras signed the capitulation and the parliament approved it on the night of July 15-16, this is a much stronger action.

Therefore, I think that on February 20, the government should have adopted a Plan B, and the Plan B was the implementation of capital controls, a debt audit with the suspension of payments, changing the status of the shares held by the Greek state in the Greek banks, because it is the principal shareholder, to go from preference shares to ordinary shares in order to directly exercise control of the banks and to organize the process of bank failures while protecting the deposits. I also think there was a need to rapidly launch a parallel currency, a currency that is not convertible, that is only used for a series of internal operations but that could for example facilitate the raising of salaries and pensions, and the payment of taxes as well as a series of bills (water, electricity, public transport, etc.). They could have also attempted to use this parallel currency for trade in the local economy, including as a means of stimulating economic activity and consumption.

Why do you think Tsipras and his inner circle never seem to have seriously considered moving toward a Plan B consisting of such measures? For example, was either unilateral debt repudiation or bank nationalization ever an option considered by the Syriza management or a part of the coalition? How important was the issue of Eurozone exit, in your opinion, in terms of the feasibility of such an alternative program?

Yes, I think unilateral actions were defended by Lafazanis, the Minister of Productive Reconstruction, Environment and Energy, and the ministers who were in the left platform, that is to say several ministers (and alternate ministers), Panagiotis Lafazanis, Kostas Isychos, Nadia Valavani, Dimitris Stratoulis, Nikolaos Chountis, in other words several ministers and deputy ministers were in favor of such unilateral actions. I think at one point they should have started to (communicate) their positions and said there is a Plan B, but unfortunately they never made their propositions sufficiently public because they were bound by government discipline. But it is very clear that within the government, Lafazanis refused to collaborate with Varoufakis. Varoufakis passed on the Eurogroup's requests to Lafazanis, and he did not collaborate. Thus one can say that the Tsipras government, by February 20, became a "government in dispute", as they say in Spanish. That is to say, there was a contradiction within the government between those still committed to Plan A (which is based on the notion that there is a way to convince the creditors and the European institutions to respect the democratic choice of the people), and the Left that was in favor of the Plan B. Even though the Plan B wasn't implemented in the wake of February 20, I believe it still could have been implemented even in July to avoid a capitulation |3|.

I should note that the set of measures I developed as a Plan B didn't imply exiting the Eurozone as an immediate step because Syriza had run an electoral campaign to stay within the Eurozone, and they didn't have the mandate to exit. Of course, Syriza could have made a different choice in 2012 and 2013 and started to talk about an exit to prepare the population, but since they didn't do that, they couldn't include exiting the Eurozone in the plan B. However, I think the measures I talked about could have been understood and supported by the Greek population, and one could have made an international campaign to support Greece and that would have led the European authorities to push Greece out of the Eurozone. Expelling wasn't allowed legally, but by asphyxiating the banking system and by other means, they would have pushed Greece out of the Eurozone; and that would have allowed Tsipras to say "*it is not us who want to exit, but they're pushing us out, so we are leaving*."

Much discussion has shifted from Greece to Spain in the wake of the December 20 election results by Podemos. Do you see the forces in Podemos clustering around similar internal divisions, taking stock of lessons to be learned from the failures of the Syriza experience?

Sure, I think that this debate absolutely exists within Podemos and there is a need to bring to light exactly what lessons should be drawn from what happened in Greece. For me, there is a need to have a Plan A and a Plan B. Plan A as I've mentioned relies on convincing the creditors and the European institutions. But up against the impossibility of obtaining reasonable concessions from the European institutions, we need to switch to Plan B, and in my opinion, the Plan B should be made public. I think that a party such as Podemos should say to the Spanish public: "*you can see the reasonable propositions that we are making with our Plan A, and if the European institutions and the ECB deny the right of Spain and the Spanish people to exercise a minimum of sovereignty, here is our Plan B.*" This is a crucial point. And in my opinion, with the Plan B, there is another aspect that is very important in the economic sphere: it needs to be said that as a movement of the left, it is not possible to maintain a balanced budget nor to produce a primary budget surplus. I think that Podemos, or the left bloc in Portugal, or Jeremy Corbyn in the UK, they all need to say this. Because, while it is definitely true that there will be additional revenue as a result of reactivating the economy and tax reforms, this will take two or three years. Therefore, it needs to be said: "*we will not respect the European fiscal discipline*." The various left parties should campaign to win elections saying publicly that it is an illusion and it is unacceptable to impose a fiscal equilibrium on us.

Moving outside of the current European context, in 2001 Argentina defaulted on its debt worth more than 150% of its GDP, and is still struggling with vulture funds fighting with the backing of the US legal system to be repaid 100% of the face value of their bond holdings. After the default, two of those, NML Capital, and Aurelius Capital Management refused two restructuring proposals in 2005 and 2010 offering payment with a 70% discount (30 cents on the dollar), which 93% of creditors agreed to. In October 2014, Argentina joined the group of countries that passed legislation to set up a debt audit commission, especially for the debt incurred during the dictatorship between 1976 and 1983.

Ecuador has also been an important example in showing that even a small country can defy global finance if the political will is there. You were part of the Audit Commission in Ecuador after Correa's election in 2006 and also have been involved in the Argentinian discussions. What are some lessons that could be learned from these particular cases?

The lesson for me is that it is perfectly feasible to take unilateral actions such as the suspension of payments or the realization of a debt audit; and that, contrary to the majority of economists and commentators, I affirm that this absolutely does not produce economic chaos or a prolonged recession. Furthermore, you know as well as I do that a series of economists that are not particularly on the left, such as Joseph Stiglitz |4|, Eduardo Levy and Ugo Panizza |5| penned studies which recognize that the suspension of payments on debt is the first step toward an economic recovery. This includes, I should mention, the work of economists such as Christoph Trebesch, who has written several papers for the IMF and also some joint work recently with the neoliberal Carmen Reinhardt, that shows very clearly that the suspension of debt payments allows generally for an economic recovery within a reasonable period (6 months, a year, at most a year and a half). |6| It also shows that the subsequent return to markets is also achieved rapidly. Personally, I think that if a government has the possibility to not return to the financial markets, this is better. If you have oil revenue or other types of revenue that allow you to have an economic activity that brings in a sufficient level of taxes, why is there a need to go to the financial markets? I had debates with some members of Cristina Kirchner's government in Argentina because they had the obsession of wanting to return to the markets and negotiate with the Club of Paris. And I said to them: "Why? You have demonstrated yourselves for more than seven years now, that you are in default with the Club of Paris and you are having economic growth without going to the financial markets." So I think that this dogma that you have to go to the financial markets to obtain financing is very dangerous and it must be affirmed that there is no such necessity.

Mortgage debt is still at obscene levels in many countries around the globe, after wreaking havoc in 2007 and 2008 and ending with widespread foreclosures. In the US, the student debt stock exceeds $1 trillion. What can be done about the meteoric rise of private debt?

I think that the movements confronting public debt definitely need to integrate the question of illegitimate private debts into their politics. With illegitimate private debt, I'm talking about, among other things, student debt, mortgage debt, the debt of peasants, for example in India, the debt from microcredit in a series of countries, for example Morocco, Bangladesh, etc. A left government, as an example, could bring about the annulation of such debts by legal means. Back when Syriza was in the opposition, Zoe Konstantopoulou had brought forward a proposed law that should absolutely be translated into many languages, because it posited that the debt of families with an annual income lower than a given amount would be legally annulled. We could add different criteria. The reason that it's very important for a government to pursue this legally through parliament is to avoid a situation like the United States, for example, where as you know there are more than 10,000 trials concerning private debt, while there would be no trials if the government settled it in Congress. As a government, you can simply settle the problem in a legal manner. So I think, for example, that if Jeremy Corbyn becomes Prime Minister in the UK, then what Cameron did to systematically indebt the students needs to be changed completely. As it currently stands, some students are going to have to work for thirty years to reimburse a debt that they took out to pursue their studies. This needs to be changed through a legal path, and in the United States as well. And in Spain, this directly concerns Podemos, which needs to legally solve the problem of mortgage debt in Spain and change the draconian law relating to foreclosures and expulsions, that dates back to Franco. It was confirmed during the transition by the socialists, but it's a decree from 1946 by the dictator Franco.

You have written a lot on the Third World debt crisis in the past. Although this topic has faded from recent headlines, the difficulties are nonetheless far from disappearing. As a final word, what more can be said today about the problems of debt as they relate to the Global South?

It is clear that we are now witnessing a new debt crisis in the emerging countries. In fact, it has already started. It is already hitting head-on the big oil exporting countries such as Venezuela and Nigeria, which are no longer able to refinance their debt at reasonable interest rates. They've already accepted heightened rates, but now that the oil revenue has diminished, it is clear that we are going to see situations of default on debt payments very soon. Maybe as soon as two years, a year, or even six months.

Source:[*Potemkin Review*]

Footnotes

|1| "A Member State subject to a macroeconomic adjustment programme shall carry out a comprehensive audit of its public finances in order, inter alia, to assess the reasons that led to the building up of excessive levels of debt as well as to track any possible irregularity."
in http://eur-lex.europa.eu/legal-cont...

|2| See in the Eurogroup statement on Greece made public on 20th Feb 2015: "The Greek authorities reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and timely.
The Greek authorities have also committed to ensure the appropriate primary fiscal surpluses or financing proceeds required to guarantee debt sustainability in line with the November 2012 Eurogroup statement. The institutions will, for the 2015 primary surplus target, take the economic circumstances in 2015 into account."
http://www.consilium.europa.eu/en/p...

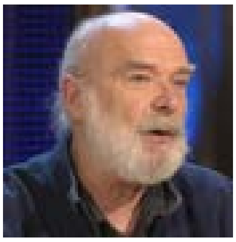
|3| See : Eric Toussaint, "Greece: Alternatives to the Capitulation", 16 July 2015, http://cadtm.org/Greece-Alternative...

|4| Eric Toussaint, "Joseph Stiglitz shows that a suspension of debt repayments can be beneficial for a country and its people", 20 January 2015, http://cadtm.org/Joseph-Stiglitz-sh...

|5| Eduardo Levy Yeyati and Ugo Panizza, "The Elusive Costs of Sovereign Defaults", Inter-American Development Bank - Banco Interamericano de Desarrollo (BID), Research Department - Departamento de Investigación, Working Paper #581

|6| Carmen M. Reinhart and Christoph Trebesch, "A Distant Mirror Of Debt, Default, And Relief", Working Paper 20577

Author



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