

Debt conference presentation by Teppo Eskelinen (Left Forum, Finland)

10 April 2014

1. I will start by briefly introducing the situation in Finland, before going to the actual topic. Namely, I believe that the Finnish situation is interesting because it shows the ideological nature of debt discourse today. While in Southern European countries the debt levels are a real problem and the political struggle is on how to decrease debt levels and enable fiscal stimulus, in a country like Finland public debt serves only as a pretext for austerity policy in right-wing discourse.

The ratio of public debt to GDP in Finland is under 60%, and the net debt level is considerably lower. Further, public debt is most likely to be *negative* if the assets of public pension funds are counted (of course they cannot be used by the government in any way it wishes, but they are public assets nevertheless). All in all, it is quite outlandish to say that Finland has a “public debt problem”. In any way, we are told that such a problem exists, it is acute and leading to the “fate of Greece” and therefore, we should drastically cut public spending; the right-wing is only debating the desired schedule of cuts.

I believe it is instructive to follow political debates in such a country. Finland shows that you cannot get a debt level low enough for the right-wing to cease calling for austerity under this pretext. To quite a large extent, debt crisis is merely ideology.

2. What we need to understand, then, that there are two separate political problems. First, fighting austerity policy which is pushed whatever the debt levels and which relates to debt only rhetorically. Second, seeking strategies to react to the debt problem where such a problem actually exists. Yet of course there is no objective standard of problematic debt level, other than problems of refinancing.

The European public debt problem is a problem of EMU institutions not enabling deficit spending in a recession. So clearly one way of solving the debt problem is merely about changing the structure of the ECB to give governments more manoeuvring space. This can be done via direct possibility of CB funding to the governments, or by pushing the interest rates for government bonds low by purchases of government bonds.

3. Yet there are situations, in which a country has to react to an acute debt trap. What should be done in the case, that the country’s debt level is simply too high, debt repayments consume a disproportionate share of a country’s fiscal means, and the political institutions seem to be quite intact?

To answer the question, we first need to note, that “debt crisis” is never an unexceptional situation. Debt crises are as old as money, public debt crises as old as nation-states. All economic systems have experienced debt crises, with forced repayments of mounting interest and the resulting suffering. Further, debt restructurings have been always part of economic systems. This is a part of the self-preservation of any economic system. Capitalism would have long collapsed without debt restructurings, as the banks would have drained all demand from the economy.

Debt is political struggle, then, and of course it has always been a key part of the creditors’ strategy to present debt cancellations as very exceptional, and typically only a matter of the good-will of the creditor. Therefore also the banking sector today is so keen to present any restructuring as highly exceptional and threat to the continuity of the very economic system, even though globally dozens of debt restructurings in numerous countries over the latest decades having been carried out.

4. As there is a long history of struggles over debt, there are also political experiences. This leads to the question, how unique is the current European condition. Now it is clear that the EMU structure is unique and experimental, but we might find that there are lots of issues related to politics of debt, where we can learn from the long struggles over debt.

Just a decade or two ago, the majority of the world's poorest countries were victims of very similar strategies as Southern Europe is today: indebtedness caused by reasons beyond their control; forced severe austerity which failed to create fiscal balance but caused immense unnecessary suffering; complete loss of control of economic policy; but also emergence of political movements. These movements learned to politicise debt, created very intelligent and creative means of political action, such as "citizens' audits" for assessing illegitimacy, and also studied possibilities for using international and national legislations to declare debts null and void. These movements were thriving in countries such as Philippines, South Africa, and all over Latin America.

This third world debt movement had concrete demands, discussed lots of different strategies. Further, I would argue, would the movement have better succeeded to push its demands, Europe would not be in the state it is today because the global financial architecture would have evolved to a different direction. Generally, when we seek solutions to the debt crisis and austerity policies, which are so viciously destroying European societies, we could do a lot more to learn from the South.

5. As for strategies, these movements have undergone a long and thorough discussion on political strategies in debt trap situations. The key choice is between repudiation and arbitration: whether to try to impose one's own terms for repayment – or even unilaterally declare one's debts null and void – or to seek more formal audits where the creditors are also present, and which follows some established procedural logic.

Already in biblical literature, you find two reactions to over-indebtedness. First, run to the desert, be as self-sufficient as possible, and keep yourself busy attacking the society you have left behind. Second, institutionalise jubilee. These strategies are not different from the options for over-indebted sovereign governments: repudiate and try to survive, or try to institutionalise some mechanism for arbitration, with criteria which are not completely biased in the favour of the creditor.

An indebted country can attempt to repudiate if it is run by politicians willing to follow this risky strategy (and of course it can be an important electoral campaign). The problem with such strategies are, that creditors are very likely to retaliate. When Egypt repudiated in the 19th century, Britain invaded the country militarily. Today this will not be seen, but we know that would for example Greece impose its own rules, some retaliation would follow. Of what kind, we don't know.

If European crisis countries would simply refuse payment, we would need a massive movement of solidarity in Northern European countries. I am afraid that the Left is not strong enough for this. It is crucial to be realistic here. Repudiation can be a politically ambitious strategy, but it can turn out to be catastrophic without strong support within main creditor countries. This is not a matter of electoral strategy, it's a more general matter of organising.

6. Traditionally debt cancellation strategy has meant campaigning for creditor governments or public creditors such as the World Bank to decrease the debt burden. For instance, we need a campaign in Finland for cancelling the debts owed by Greece to the Finnish government; especially if Syriza gets governmental

power and tries to establish its alternative for Greece, this is urgent. But of course the issue gets more complicated when most creditors are private financial corporations. Who gets its debt cancelled, on what grounds, and to what extent? One debtor has numerous creditors, all wanting to get maximum repayment.

It is crucial that we push for radical demands, because in a debt trap, some restructuring is also on the agenda of creditors. The creditors want to keep the reductions of debt as small as possible, and always keep control of the criteria of debt reductions. Most private financial corporations will seek public bailouts in compensation. We have seen this is the case of World Bank and developing countries. Thus the Left agenda has to be, not to bail-out creditors but cancel debts, make the cancellation criteria genuinely political rather than creditor-controlled, and push for debt reductions large enough to give the crisis countries an economic future, not to merely enable maximum repayment.

7. For debt arbitration, there are lots of different models available. The biggest choice is between an ad hoc debt restructuring, modelled on something like the German debt reduction after the II world war, and a permanent institution of debt arbitration?

A permanent Fair and Transparent Debt Arbitration mechanism has indeed been suggested by several scholars around the third world debt campaign. The idea would be to have a permanent institution deciding in dispute situations, to what extent should sovereign debts be cancelled and to what extent they should be paid. This would allow for a kind of “government insolvency”, which yet would enable the continuity of government. When you think of it, the lack of such institution for arbitration of sovereign debt is quite striking. The international system has all kinds of economic and social institutions, but no permanent institution to determine any limit or procedural standard for how much wealth a creditor can drain from an indebted government struggling with mounting debt.

The campaign for establishing such an institution was of course always also a campaign for establishing some key debt cancellation criteria. These would be acute social needs (*force majeure*) and odious debts. The citizens of any country should be entitled to basic services, and the incapacity of a government to provide this because of debt repayment obligations is a *force majeure* reason to declare debts (partly) null and void. Second, citizens must not pay for a debt which has been caused by lending harmful to them.

8. So should we campaign for an ad hoc audit, established as a political reaction to the very particular situation we are facing in Europe today? Or should we rather campaign for establishing an institution for systematic and transparent debt arbitration? I guess the answer is both. Solving an acute crisis can pave the way for creating better permanent institutions.

A permanent debt arbitration institution would be useful, since debt crises are likely to recur, especially given the financial capitalism which reigns the world today. Campaigning for the establishment of a permanent debt arbitration mechanism could also be seen as a constructive idea for European institutional framework. Its main positive function would be to deter lenders from odious lending, as they would anticipate potential cancellation.

On the other hand, a debt arbitration institution is something like the welfare state: a compromise. Like the welfare state is a decent compromise between capital and labour, and arbitration institution in a decent compromise between creditor and debtor; somewhat better balance of power. But a compromise is a bad political goal for the very reason that it is a compromise. We need to remember that also the IMF has called for permanent arbitration mechanisms. The mechanism is therefore no goal as such; crucial is, what kind of balance of power the institution would reflect.