

Europe's Debt Crisis: Challenges for the Left, Confronting the Creditors

By [Eric Toussaint](#) and [Le Vent Se Lève](#)
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Region: [Europe](#)
Theme: [Global Economy](#)

Second part of the interview given to LVSL. Here, the first part:



[The Doctrine of Odious Debt. Break the Taboo on Odious Debts and Their Repudiation](#)

By [Eric Toussaint](#) and [Le Vent Se Lève](#), January 08, 2019

LVSL: *If we look at the case of Greece in 2015, we see that there was a change of regime when Syriza and Alexis Tsipras came to power, with strong popular support. And yet in the end, Tsipras downplayed and ignored the work of the Truth Committee on Greece's Public Debt, which you worked for. What are the political factors that interfered with this movement towards a possible repudiation of a portion of Greece's debt?*

Eric Toussaint: Yes, it's obviously extremely important to analyse the case of Greece. In fact it was simply a matter of Alexis Tsipras being unable to adopt a strategy that was appropriate to the actual context in which Greece found itself. If you look at the Thessaloniki Programme presented in September 2014, which is the platform on which he was elected in January 2015 (see the excerpts from the programme in my [article](#)), there was a whole series of very important commitments in it that included a radical reduction of the debt. There were measures that would have brought about radical changes concerning the brutal austerity measures that were being taken, the privatisations, and the way in which the Greek banks had been bailed out. As Prime Minister, Tsipras took an approach that was not at all consistent with his programme and with the commitments he had made.

But what is extraordinary, and absolutely needs to be underlined in Tsipras's case, is that a few days after he was elected in January 2015 and formed his government, before he had taken any measures whatsoever, on 4 February the [ECB](#) cut off the normal flow of cash to Greece's banks (see [this](#) and [this](#)). That was nothing short of a declaration of war. And Tsipras did not have the courage to use the weapons of self-defence that were available to him: he did not suspend repayment of the debt, and that led to failure; he did not take control of the banks, nor did he take measures to control capital movement, and that allowed capitalists to organise the flight of capital (some thirty billion euros left the country between January and July 2015).

His strategy was to make very rapid concessions to the [Troika](#), made up of the ECB, the

[IMF](#) and the European Commission represented by the Eurogroup. The latter is in fact an entity that has no legal structure and does not exist in the treaties. And yet the Tsipras government agreed to be imprisoned in it. Yanis Varoufakis would negotiate and sign agreements with the Eurogroup, which at the time was chaired by Jeroen Dijsselbloem. In my opinion that strategy led to an initial capitulation on 20 February 2015, almost immediately. Agreeing to extend the memorandum of understanding for four months, to stick to the calendar of repayments and to commit to submitting proposed extensions of the reforms to the Eurogroup amounted to remaining in servitude (see [this](#)). Many people have interpreted that as adopting an intelligent attitude, as a tactical manoeuvre on Tsipras's part. In reality the terms of the agreement of 20 February 2015 amounted to surrender. It imprisoned him for good. He would have had to back-pedal by admitting to his people and to international opinion that he had been naïf in agreeing to the terms of that 20 February agreement. In reaction to the Troika's refusal to respect the expressed will of the Greek people, he should have announced that in making concessions, he had wrongly believed that the Eurogroup would also make concessions. In the face of the Eurogroup's refusal, he could have concluded that he needed to change his approach. But he didn't, despite the fact that he had the legitimacy to do it, which was evident later when he won the referendum in July 2015. But even after that vote, he did not comply with the people's will, even though he had made commitments to do the opposite of what he in fact did! So it was Tsipras himself who prevented a movement towards repudiation of the debt, among other things.

LVSL: Can a similar situation come about today with Italy?

E.T.: Well with Italy, we're at a stage where you get the impression that the Salvini government - for which I obviously have no sympathy - is being a little tougher than the Tsipras government was in the face of the diktats of Brussels executive. But that needs to be put into perspective, since whereas during the campaign Salvini was asking the Italian people for a mandate to leave the euro system, as soon as he was able to take part in setting up the government with Di Maio, he accepted the framework and the constraints of the euro. After that, until December 2018, the Italian government did appear to be standing firm when it came to refusing strict budgetary discipline. Nevertheless at the end of December 2018, we witnessed the capitulation of the Salvini-Di Maio government, which accepted a strict budgetary discipline with a deficit limited to 2,04 % of [GDP](#) as demanded by the Eurogroup.

What we are seeing now in the case of several right-wing governments is that they disobey the European Commission not on the question of refusing austerity but on other issues: they refuse to respect the European agreement regarding refugees, applying a more rightist, more inhumane policy than the one put in place by the European institutions.

In this respect, clearly, so far no government has really disobeyed the EU directives regarding the continuation of budgetary austerity.

Indeed it's interesting to point out that the Macron government is the only European government that will slacken budgetary discipline, very slightly, announcing a deficit equivalent to 3% of GDP for 2019. That is being done, as everyone knows, because they are under pressure from a broad social movement that has profoundly destabilised and weakened the government. Macron is prepared to back down on austerity only as a means of recovering a degree of legitimacy. It's also interesting to underline the fact that this deficit overrun is being tolerated by the European Commission because it realises that it too would lose more credibility and legitimacy if it were to directly oppose the French

government's concessions to the Yellow Vest movement. That is because the movement and its demands, involving resistance to unpopular taxes, an increase in purchasing power, and a reduction in fiscal injustice and inequality have met with a sympathetic response among the populations of other European countries. And lastly, it is hazardous for the European Commission to enter into conflict with the president of Europe's second-ranking power and champion of the European neoliberal, undemocratic order.

LVSL: Don't the European institutions have a policy of being much stricter with governments of the Left, progressive governments, than with others?

E.T.: In any case yes, it's absolutely certain that the European institutions are making a policy of being stricter with governments of the democratic and progressive Left than with others.

At the same time those governments, Greece being one example, have avoided disobedience. The government of Spain, under the Socialist Pedro Sánchez, is adhering to budgetary discipline. The same is true of the government of the Socialist Party in Portugal. You'll recall that during the legislative election of 4 October 2015, the political Left won an absolute majority of seats in the Assembly of the Republic: the Socialist Party (PS) came in second, with 32.4 %; the Bloco de Esquerda (Left Bloc) was third with 10.3% and 19 deputies, doubling its number of seats (it had eight in 2011); the PCP gained a seat and had a total of 15; the Green party, PEV, was unchanged with two seats. A coalition government agreement was reached in November 2015: the PS would govern alone and the other two, more radical parties (Left Bloc and PCP), while refusing to take part in the cabinet, supported the government's decisions in the parliament when they agreed with them. The minority government of the Socialist Party took certain measures which improved living conditions for a part of the popular sectors by increasing the legal minimum wage to 600 euros gross and restoring the legal work holidays that had been taken away by the previous government, which gained it a certain popularity. But it nevertheless maintained a policy of compressing public spending in order to comply with the budgetary discipline of austerity imposed by the European Commission, and conducted bank bailouts that were favourable to big capital. Portugal's debt stood at 125% of GDP. The regular repayments prevented the government from increasing public spending as it should have, and despite the improvement in living conditions for some popular segments of the population, unmet social needs were still considerable. That is why it is of fundamental importance to call repayment of the debt into question (Interview with Eric Toussaint [in French with Portuguese subtitles]: see [this](#)).

LVSL: Let's imagine a situation like the one posited by the recent article by Renaud Lambert and Sylvain Leder in *Le Monde Diplomatique* titled "*Face aux marchés, le scénario d'un bras de fer*" ("The Scenario of a Showdown with the Markets"). Let's posit the case of a country like France where a government of the progressive Left determined to break with neoliberalism would be elected. The government would quickly announce a moratorium on debt repayment in order to consider repudiating the portion of the public debt that is illegitimate. In a case like that, how to avoid the financial panic and the [collateral](#) economic and social damage that would ensue?

E.T.: In this case indeed, we need to know how to respond to the intent of the banks to destabilize or blackmail the government. Such actions of the banks would happen no matter what, and we would have to be ready. In order to hedge the risks the government should

socialize the banks and the insurance companies while enforcing control on capital flows. This would make banks and insurance companies actually serve the people (see Patrick Saurin and Eric Toussaint, “How to Socialize the Banking Sector,” see [this](#)).

So as to better withstand the kind of blackmail or reprisals the European [Central Bank](#) used against Greece’s left-wing government, I propose an instrument that is not mentioned in the article in *Le Monde Diplomatique*. The European Central Bank (ECB), in the context of Quantitative Easing (QE) – **see Box** – purchased French securities from private banks for 420 billion euros. That is an extremely large amount, nearly a fifth of France’s total public debt.

The operation is on the ECB’s [balance](#) sheet (official site of the ECB, *Breakdown of Debt Securities Under the PSPP*, see [this](#), consulted on 4 January 2019). These securities were purchased from private banks, but the French treasury will pay the [interest](#) to the ECB, and also the capital when the securities mature. If the ECB were to attempt to take a measure like the one it took with the Tsipras government against a government of the Left elected in France, then, faced with the ECB’s attempt to prevent it from carrying out its democratic mandate, the French government could decide not to repay that debt. It’s an argument that has considerable force and reverses the balance of power, which the ECB thinks it dominates. I’m astonished that none of the economists consulted by *Le Monde diplomatique* thought of it. Quantitative Easing has not been analysed sufficiently by economists in general, including alternative economists on the Left, who don’t seem to see what a powerful weapon it is in the hands of States once they decide to disobey. The Troika would be in a terrible situation.

I also [share](#) with the authors of that very interesting article in the Diplo the idea of adopting a strategy that divides the creditors. For example, to return to the case of Greece, Tsipras could have initially concentrated on the IMF. In fact the six billion that had to be repaid before 30 June 2015 only concerned the IMF. The Greek government should have targeted the IMF head-on.

In this way, when there’s talk of panic on the markets and threats of deterioration of France’s rating, if France asserts that the country will finance itself otherwise than on the markets, the rating assigned to France by the agencies makes no difference. An alternative financing policy needs to be set up through a legitimate bond issue. The government should require the largest companies to purchase a given amount of French debt securities at an interest rate fixed by the public authorities, and not by the “markets”. That recalls what was called the Treasury Circuit (*Circuit du Trésor*), which operated in France between the Second World War and the 1970s. On that subject, you really need to read a thesis by Benjamin Lemoine, published [in French] as a book under the title *L’ordre de la dette*, see [this](#). The book tells you all about the Treasury Circuit, which has otherwise been forgotten. The *Circuit du Trésor* or Treasury Circuit refers to the way the French government financed itself after Second World War. We have to keep in mind that the Banque de France and four major deposit banks had been nationalised under pressure of the social movements in 1945-1946. The Treasury Circuit allowed the French government to borrow from the banks without depending on the financial markets. Banks had to buy a certain amount of French sovereign securities at a price and interest rate that had been set by the public authorities. Benjamin Lemoine explains that this worked perfectly for over thirty years and that the public debt amounted to much less than what would later be the case. Only in the 1980s was this ‘Circuit’ abandoned in the context of the neoliberal offensive. From then on France borrowed on the financial markets from private banks and other private financial institutions. So in

fact what needs to be done is to restore an efficient and legitimate circuit for public financing.

Public debt could be used to finance ambitious programmes of ecological transition instead of enforcing anti-social, extractivist, productivist policies that foster competition between nations. Public indebtedness is not in itself a bad thing. Public authorities can use bond issues to:

- finance the complete closure of thermal and nuclear power plants;
- replace fossil energies with renewable sources of energy that respect the environment;
- finance a conversion from current farming methods, which contribute to climate change and use a lot of chemical inputs which are responsible for the decrease in biodiversity, favouring local production of organic food to make farming compatible with the fight against climate change;
- radically reduce air and road transport and develop public transport and the use of railways;
- finance an ambitious programme of low-energy social housing.

Public borrowing is quite legitimate if it serves legitimate projects and if those who contribute to the financing do so legitimately.

A popular government will not hesitate to force corporations (whether national, foreign or multinational) as well as richer households to contribute to financing without drawing any [profit](#) from it, i.e. with zero interest and without compensation for [inflation](#).

At the same time, a large portion of households in the popular classes will easily be persuaded to entrust their savings to the public authorities to fund the kinds of legitimate projects mentioned above. This voluntary funding by the popular classes would be remunerated at a positive actual rate, for instance 4%. This means that if annual inflation reached 3%, the public authorities would pay a nominal interest rate of 7%, to guarantee an actual rate of 4%.

Such a mechanism would be perfectly legitimate since it would finance projects that are really useful to society and because it would help reduce the wealth of the rich while increasing the income of the popular classes.

Of course, for a popular government of the Left to be elected, there will need to be a series of victorious achievements through social and progressive political struggles. For this government to be truly democratic, it would need to endorse a constituent process which could be based on a number of progressive struggles challenging social inequalities, the destruction of the environment, the capitalist system as a whole as well as the undemocratic institutions of this system. Many of these struggles are yet to be invented, but we can already draw on existing ones, which we will need to strengthen – such as the different forms of strikes and the opening of private companies' account books to delegitimize capitalist criteria of “efficiency” and exploitation; the currently strong and diverse feminist movements; the ecologist territory-based struggles (such as the “ZADs” in France, and more generally the protests against the implementation of mega projects which are destructive of the environment) and inventions of new forms of management of “commons”; the different spectacular forms of struggles against tax evasion like requisitioning of furniture from banking agencies of financial institutions involved in such tax

evasion (as happened in France); the movements of occupation of public spaces, either with specific goals or as broader protest movements which challenge social inequalities and the lack of democratic institutions such as the current movement of the “Yellow Vests” in France, the 2014 “Citizen Forums” movement in Bosnia, the 15M movement which started in 2011 in Spain and so on; the audit of public institutions at municipal, national or European levels and their debts; the movements welcoming the migrants and helping them cross the borders; as well as many other existing struggles.

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