Check out details for submission:
http://www.uk.sagepub.com/journalsProdDesc.nav?ct_p=manuscriptSubmission&prodId=Journal201656&crossRegion=eur (word-limit: 10,000 words)

Who Owes Whom?

Citizens' Audit as a Response to the Sovereign Debt Crisis

'The settlement of the national debt is on the principles before lucidated merely an arrangement of form, and however necessary and important is an affair of mere arithmetical proportions readily determined; nor can I see how those who, being deprived of their unjust advantages, will probably inwardly murmur, can oppose one word of open expostulation to a measure of such irrefragable justice.'

Shelley, *A Philosophical View of Reform*, 1820

1. Introduction

In many European societies the process of repaying vast public sector debt is disfiguring society and distorting and suffocating the economy. The process by which these debts were acquired is obscure to most citizens, and has been the subject of tendentious political argument. This has led to an incendiary situation where the most important political decisions of a generation, which are utterly changing the nature of the society we have negotiated between ourselves, are made within narrow, technical parameters with the citizenry being excluded from the discussion and deprived of the information they need to participate in a process of democratic consideration.[1]

In this paper I explore the possibility of democratising the process of managing the national debt of the governments of democratic societies. I explore the proposal to establish a Citizens' Debt Audit to address this democratic deficit and to facilitate public debate about the public debt: how we acquired it, who our creditors are, and what the implications might be of negotiating or repudiating some parts of the debt. The ideas discussed in the paper are inspired by the process of challenging external debts undertaken by countries of the majority world from the 1980s onwards. This theoretical understanding is then supplemented by an account of the existing Citizens' Audit campaigns in several European and North African countries. The framing concept for these campaigns is that of 'odious debt', which is interpreted as meaning debt that is not acquired by citizens in a transparent and accountable manner.

The nature of financing government through debt has important distributional implications, most significantly that the payment of interest implies a transfer of wealth from those who work and pay taxes to those who own financial investments. At a time of extreme public debt a range of other asset transfers take place: the

[1] M. Couret Branco, ('Economics against Democracy', *Review of Radical Political* Economics, 44: 23-39) explores how economics has taken on a powerful mythical status which enables it to claim superiority and to overcome the democratic will of populations.

value of savings is eroded; the value of personal and business assets, such as homes and business premises, can change unpredictably; both public and private sector managers seek to bear down on wages and politicians cut levels of social security payments. The ability of different groups to defend their financial interests during these times of turmoil is unequal, but in a democracy we need to ensure that this process is transparent and accountable. While default might appear a radical proposal, the disorderly process of economic shrinkage, devaluation and monetary inflation also incurs social losses, in fact very severe losses. It is therefore necessary that an inclusive democratic debate considers all options, including default, partial default / negotiated redistribution of the debt, disorderly default, and the 'status quo'.

The paper begins by framing debt challenge and debt default as an inevitable part of a capitalist economy, where money is created as interest-bearing debt. I next offer a summary of the process Argentina followed after defaulting on its debt in 2001. In Section 3 I discuss how the idea of a Citizens' Audit has emerged and cover some of the theoretical debates informing the arguments of those who challenge the state's right to require us to pay its private creditors. This section focuses particularly on our own home country: the UK. Section 4 offers thumbnail sketches of Citizens' Audit campaigns in a range of European countries. Section 5 concludes by returning the questions of the links between the need for transparency about national accounts and the health of democratic societies.

2. The Role of Default in a Capitalist Economy

The history of public defaults is a long and inglorious one. Andrew Haldane, of the Bank of England, and Mark Kruger, of the Bank of Canada, argue[2] that 'default is a natural feature of the market mechanism'. However financial markets tend not to see it that way, and countries that have defaulted can be punished, at least temporarily, by higher interest rates charged on loans to them, or complete loan boycotts. A research study from the Bank of England did not find this a compelling argument against default, however, arguing that 'Overall, the empirical evidence suggests that sovereign default is not necessarily associated with any loss of market access'.[3]

The priority for the creditor in a situation where their sovereign debtor becomes unduly stressed is to achieve the maximum return. National default, the state equivalent of a personal bankruptcy, is an unattractive outcome, since the slate could be wiped clean, causing significant losses to lenders. Kurger and Haldane argue against such an outcome on the basis of moral hazard on both sides, it: 'applies to both debtors (by blunting incentives to' undertake the necessary adjustment and reform) and creditors (by blunting incentives to undertake effective risk management)'[4] Their proposal is rather for a 'standstill', a national drawing of breath while the political, rhetorical, and financial tools can be put in place to ensure that interest payments continue to be made:

---

[2] Haldane, A. and Kruger, M. (2001-2), 'The Resolution of International Financial Crises: Private Finance and Public Funds', *Bank of Canada Review*, winter.
[3] De Paoli, B., Hoggarth, G. and Saporta, V. (2009), 'Output costs of sovereign crises: some empirical estimates', Bank of England Working Paper no. 362.
[4] Haldane and Kruger, 'Resolution', p. 6.

‘The importance of ‘standstills’, the decision to invoke which lies with the debtor. The advantages are: ‘prevent creditor co-ordination’ they can ‘break the circuit of destabilizing and, ultimately, self-fulfilling creditor expectations’. They can help to ‘align creditor and debt incentives’. Thirdly they can allow a breathing-space to introduce macroeconomic policy adjustment.’[5]

Debts can be extended, transferred to different holders, and interest rates changed, to enable money to continue to flow from debtor to creditor.

Following a series of debt crises and defaults during the 1990s, the IMF attempted to create a ‘sovereign debt restructuring mechanism’ which, while unsuccessful, did lead to changes in the legal position surrounding default, enabling creditors to protect their interests via ‘collective action clauses’.[6] However, as Panizza *et al*. point out, national governments are in a much stronger legal position than corporations since they have legal protection of their assets even if located on foreign territory, and because ‘a sovereign cannot credibly commit to hand over assets within its borders in the event of a default’,[7] a point whose validity appears to have been undermined by the use of default as a pretext for instituting large-scale privatisation of public assets. However, they make clear that this protection from pursuit by private creditors has declined over time in US law, so that ‘sovereign immunity no longer plays an important role in shielding sovereign debtors from creditor suits’.[8] If owed money by a sovereign, creditors have to make a decision about whether they are likely to gain more via expensive litigation than via a rescheduling agreement, meaning that over time nation-states are coming to have similar legal standing to that of corporations. However, given the difficulty of enforcement, a sovereign’s willingness to impose a default seems to be a function of political will, rather than legal restraint, as the example of Argentina cited below demonstrates.

In the case of eight recent defaults—those of Russia (1998-2000), Ukraine (1998-2000), Pakistan (1999), Ecuador (1999-2000), Argentina (2001-5), Uruguay (2003), Moldova (2002), and the Dominican Republic (2005)—the sharing of the losses between debtor and creditor seems to relate more to the political power of the debtor than the position in international commercial law. Hence Argentina and Russia were able to negotiate a loss for their creditors or around 75% and 50% respectively, while in the case of the Dominican Republic a rescheduling meant that the debt would eventually be repaid in full. In all cases cited, the countries saw a return to a positive inflow of private capital within five years, suggesting that any deterrent effect to a default based on fear of loss of investment is not well grounded. Costs of non-domestic finance also appear to return to their pre-default levels within two years. The authors conclude that the major cost associated with sovereign default is economic and social dislocation, rather than exclusion from future borrowing.

The inspiration for this paper—the idea of the popular examination and potential repudiation of destructive national debt—comes from Latin America, the subcontinent that has been the site of some of the most spectacular defaults of

---

[5] Op. cit., p. 7.
[6] Panizza, U., Sturzenegger, F. and Zettelmeyer, J. (2009), ‘The Economics and Law of Sovereign Debt and Default’, *Journal of Economic Literature,* 47:3, 651–698.
[7] Op. cit., p. 653.
[8] Op. cit., p. 654.

recent years. As Oscar Ugarteche outlines, the neo-colonial exploitation of countries of Latin America has been effectively achieved through the use of financial mechanisms, leading to a history of repeated debt crises. This region was particularly vulnerable because of finding itself in the backyard of the dollar, and because of the willingness of its politicians to follow monetary regimes that linked their currencies to that of their powerful neighbour. It is difficult to read the history of monetary policy in South America except as a choreographed exercise in using successive processes of debt acquisition, interest payment, and restructuring as a subtle means of acquiring the region's resources at very low prices.

The pressure to repay debts was used by holders of capital, both domestic and foreign, to bid down wages as a share of GDP: from 34% to 28% in all countries excepting Chile and Brazil.[9] It has been the refusal of these countries to continue to take on IMF loans that has enabled them to begin to compete with the 'developed' economies of the minority world since the turn of the millennium. Ugarteche concludes that the debt was used to advance the economic interests of the owning class against that of employees 'A common sense was created that Latin Americans had lived beyond their means. Austerity was the solution and that meant reducing the wage bill.'[10] This is a lesson that those of us working to question the debts of Europe could learn from. The Latin American defaults, and later refusal to take on international debts, indicates a possible alternative route for the European economies.

Argentina's default, which was formally agreed in 2004/5, is the largest historical default that has been the subject of academic study, and therefore a useful case-study of a powerful and sophisticated national economy that eventually found no alternative but to default. It was also a highly complex and technical process, untangling default and negotiating terms with creditors, in most cases successfully.[11] Following its unwise peg to the US dollar Argentina ran into serious balance of payment problems at the end of the last century, leading to a total economic collapse in 2001.[12] At this stage public officials remained unpaid, while IOUs circulated as currency and global corporations were engaged in large-scale barter. This was a financial collapse beyond anything we have seen in Europe so far.

By the end of the year the government took the inevitable decision and began negotiations with its half a million creditors, who by that stage owned bonds worth $81 billion. By February the following year the overwhelming majority had accepted an exchange for new bonds worth only 35% of their original holdings.[13] By March 1st 2002 President Néstor Kirchner claiming that the restructuring had been a triumph,

---

[9] Ugarteche, O. (2011), 'The Debt as a Lever for Economic Policy Change: A Tale of Two Continents', Research on Money and Finance working paper 32 (London: SOAS).
[10] Op. cit., p. 8.
[11] Olivares-Caminal, Rodrigo (2008), 'Sovereign bonds: A critical analysis of Argentina's debt exchange offer', *Journal of Banking Regulation*, 10/1: 28-45.
[12] Cato, M. S., 'Argentina in the Red: What can the UK's Regional Economies Learn from the Argentinian Banking Crisis?', *International Journal of Community Currency Research*, 10: 43-55.
[13] Hornbeck, J. F. (2004), **Argentina's Sovereign Debt Restructuring,** CRS Report for Congress, available here: http://fpc.state.gov/documents/organization/39301.pdf, downloaded, 4 Nov. 2011

and that 70-75% of bondholders had accepted it.[14] It is worth noting that losses were suffered by sovereign bond-holders as well as domestic ones: almost 40% of the defaulted debt was held by Argentinians, compared with 60% held offshore.[15]

Table 1. *Value of Argentina's Public Debt before and after the 2003 Default*

	December 2003[a]	After the swap[b]
Bonds eligible for the swap	104.1	36.2
BODENs[c]	18.5	19.4
Provincial guaranteed bonds	9.7	10.5
IMF loans	15.5	13.8
Other multilateral loans	16.7	15.1
Guaranteed loans	14.1	15.0
Short-term debt	2.5	3.2
Total debts	188.6	120.8
Hold-outs		20.8

[a]Corrected for the effect of transfer into pesos.
[b]Assuming 80% participation
[c]Bonds compensating banks for the effect of transfer into pesos.
Source: Economist (2005),[16] based on data from the Argentinian Ministry of Economy.

As a result of its default, the value of the Argentinian peso fell, allowing Argentina to benefit from the boom in commodity prices during the last decade. Being well endowed with productive land and natural resources, its newly devalued peso made it highly competitive in the booming commodities markets, especially for soya. The financiers are now back in Buenos Aires, but some of the economists who saved the country's economy from 2002 onwards are wondering whether debt was so good for the country.[17] Now that Europe is facing a similar public debt crisis, some economists are questioning whether a phased and managed default might not represent a preferable alternative to cuts so severe that they threaten the foundation of a civilised society. In the title of a recent report,[18] the Eurozone is caught 'between austerity and default'.

The conclusion about Argentina's default is largely positive. The combination of the dollar peg and the external debt were asphyxiating an otherwise healthy economy. Since being allowed to breathe is has flourished, benfiting particularly from high agricultural commodity prices.[19] The process was also achieved with a high degree

[14] 'A victory by default? The successful restructuring of Argentina's debts has set a painful new benchmark for creditors', *Economist*, 4 Mar. 2005.
[15] Olivares-Caminal, op. cit. 29.
[16] *Economist*, A victory by default? The successful restructuring of Argentina's debts has set a painful new benchmark for creditors, 3 March; available on the website.
[17] See 'Argentina learns not to pampa financiers', Gaian Economics blog, 16 Nov. 2011.
[18] Lapavitsas, C., Kaltenbrunner, A. and others (2010), 'The Eurozone between Austerity and Default', report from Research on Money and Finance.
[19] OCED (2008), 'Rising Food Prices: Causes and Consequences', available online here: http://www.oecd.org/dataoecd/54/42/40847088.pdf; downloaded 27 May 2012.

of social consensus, notable in a society with a history of intense political polarisation. Trebat views this as a result of the shared concern for social justice arising from the radical social teaching of the Catholic church, which underpinned a shared pragmatic response. Whether the social consequences of the pending European defaults will be as consensual remains to be seen.

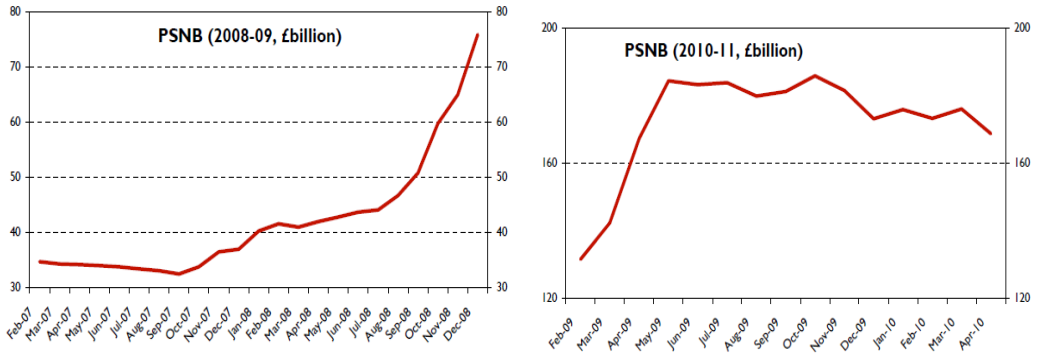
3. National Debt in the UK Context

In this section I address the issue of sovereign debt in the context of our own democracy: the United Kingdom. This is peculiarly appropriate, since one of the things that we have learned from the financial crisis is that the rootless nature of capitalism was always more apparent than real, and that when there are losses to be paid, the geographical and political location of the companies that owe become very relevant indeed. This is a lesson of special importance to us in the UK, which has long been at the heart of the global financial system that facilitated the movement of the global economy into a morass of debt. This gives the issue a particular importance, due to the national dependence on financial services as a source of fiscal revenue and foreign-exchange earnings. In this section I use the UK to illustrate how a Citizen's Audit might work and the sorts of questions it might ask.

How much do we owe and how was this debt acquired?

This is a highly political question and attempts to answer it have been obfuscated by the politicisation of the discussion: part of the role of the Audit Commission would be to look for evidence as to how much of the current public debt as caused by reckless public spending, and how much was the result of the acquisition of debt without proper understanding by, or accountability to, the citizenry. The two graphics below indicate the rates of public borrowing for the periods February 2007-December 2008 and February 2009-April 2010 and are highly suggestive of an answer to this question. We can see the rate of public borrowing begin to rise massively from autumn 2008, when the financial crisis began to hit. By February 2009 we are on a completely different axis. So the financial crisis had an impact on our public-spending but the causation is not simple or direct. The intervening variables include a fall in tax revenues, higher rates of welfare spending, as well as a contraction in the size of the economy.

Figure 1. Graphical Representation of UK Public Sector Net Borrowing, December 2008 and April 2010 compared



Source: Public Sector Finances of the Office for National Statistics website: http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Public+Sector+Finance

Some useful work in forensically examining UK debt has been undertaken by London-based New Economics Foundation. They reach some fairly stark conclusions:

- 'Public sector support for the banking sector amounts to at least £1.2 trillion committed, equivalent to 85 per cent of GDP – the highest level of any comparable economy
- In order to maintain existing levels of activity they currently have to borrow £12 billion a month; the projections we reproduce in this report indicate that in 2011 they will have to borrow £25 billion a month.'[20]

They remind readers that this monthly total is equivalent to half the current expenditure on education or a quarter of the expenditure on health services.

While these findings are a helpful indication, they can be accused of lacking of independence and authority. The Audit Commission would be tasked to assess the evidence about the likely impact of the financial crisis and seek explanations for the source of the public debt. It would need to have academic and political credibility. It would need to be granted, or to demand, access to detailed government accounts, and the accounts of banks currently majority owned by the UK taxpayer. Its first key role would be to shine a spotlight onto the acquisition of these vasts levels of debt on behalf of UK citizens. As the NEF report concludes, 'Alongside the apparent complexities of the mechanics of the financial system are great difficulties arising from the unavailability of data on important phenomena and a more general lack of transparency in the debate following the crises of the last three years.' The proposal for an audit committee would be for a group of people with the technical expertise and political independence necessary to untangle the complexities and present the British people with a clear picture of how we came to be in the worst position of endebtedness in our national history.

Who do we currently owe the money to?

As we have seen above, this question helps to elucidate the ways in which the national debt shifts value amongst the members of our society, and would enable proposals to be made to ensure that this was done more transparently and equitably. The purpose of the Commission would be precisely to answers these questions, but we can get a first glimpse by considering the figures from the UK Debt Management Office reproduced in Table 2. These indicate that around a third of our national debt is in the hands of foreign creditors, but that a larger share is owned domestically, allowing us to engage in political negotiations between interest groups. The data shown in the graphic indicate that only 29 per cent of the gilts currently in circulation are held by overseas investors, with slightly more (30%) being held by UK insurance companies and pension funds. The nature of ownership of government debt is an

[20] New Economics Foundation (2011), Where Did Our Money Go? Building a Banking System Fit for Purpose (London: Nef).

aspect of the sovereign debt crisis that has not been widely discussed: we might wish to debate the relative merit of claims made by global financiers and rentiers to the national wealth of our economies, compared with our own citizens. In the case of bonds held domestically a different kind of negotiation might be possible: downgrading bondholdings according to a taper, perhaps, so that the wealthiest lose the largest share of their holding. In the case of institutional bond-holders, such as pension funds, a political process might weigh losses to these funds against parallel losses or gains to vital public services. Pensioners and future pensioners might be defending their financial interests now to the detriment of the social and health services they will come to depend on in five or ten years' time.

Table 2. *Distribution of UK Gilt Holdings at 30 September 2011 (based on market values)*

£millions	Q2 2011	%ages	Q2 2011	%ages
Insurance companies and pension funds	291,205	27.48897	317,267	27.49
Overseas	323,455	30.53329	354,676	30.73
Bank of England (Asset Purchase Facility)	198,651	18.75	213,124	18.47
Monetary Financial Institutions[a]	124,050	11.7	130,687	11.32
Other financial institutions	107,502	10.15	123,717	10.72
Households	12,996	1.23	12,975	1.12
Local authorities and public corporations	1,493	0.14	1,635	0.14
Total	1,059,352		1,154,081	

[a]This designation replaces Banks and Building Societies and excludes BoE holdings.
Source: UK Debt Management Office (2011), *Quarterly Review*, October-December; available on the DMO website.

The figures in Table 2 also indicate that nearly a quarter of our own national debt currently belongs to the Bank of England, which appears to be the result of the quantitative easing policy and could, if political conditions were right, be simply dissolved. It seems rather absurd to devastate the public sector merely in order to pay interest to ourselves.

What proposals could we come up with for restructuring the debt so that we find ways of avoiding the destruction of the institutions of a civilised society we most value?

It is this question that provides the rationale for the whole process of debt audit. In a democracy decisions about who gains and who loses in situations of crises should be open to public debate, and yet the obfuscation and complexity of financial arrangements have made this impossible, and have left citizens accepting the simplistic and frequently dishonest spin that 'we are all in this together' and that we have been 'living beyond our means'. So the critical question is who would lose out if we acknowledged that repayment of a debt on this scale is inconsistent with living in a civilised society, and began a policy of negotiating with creditors that they would not see the whole of their lending repaid? This question drives the audit process, since the pressures to prevent a country from defaulting depends on the motives and relative power of those who will gain or lose:

'It is worth recalling that in a restructuring procedure, the different creditors do not have the same objectives. A retail bondholder does not aim to have the same exchange offer as that of an investment bank or a vulture fund. On the one hand, we might be talking about the lifetime savings of a senior citizen, while on the other hand, it might be someone that makes a business by investing in distressed debt on a regular basis.'[21]

The most significant purpose of the audit would be to enable us to find answers to this question. However, we can begin to think how those answers might arise. For those who have investments in pension funds, they may see their pensions reduced but the public services they also mainly benefit from will be protected, so it will be a trade-off, but one that is fairer because those with larger savings will lose more, in contrast to the spending cuts that hit the poorest hardest. The overseas and other financial institutions would also lose out but this could be seen as compensation for the massive investment bubble they benefited from, and gained from, and which caused the banking and credit crisis that landed us all in this mess. These are just preliminary suggestions: it would be precisely this open and transparent discussion of how the value and the losses should be shared that the Audit Commission would be established to lead.

4. The Praxis of Debt Audits in Europe

This section is informed by contributions to a meeting held in Brussels on 7 April 2012. It was attended by representatives from a majority of European debt audit campaigns including around 60 activists from across Europe and the newly liberated countries of the Middle East. Countries represented included France, Egypt, Poland, Tunisia, Italy, Greece, Portugal, the UK, Ireland, Germany, Belgium, and Spain. In each country, popular movements have grown up to resist the disfiguring of societies that austerity brings, some with a more technical approach to debt audit, some with more direct campaigning responses. While the exact objective of the social movements represented related to the national situation they found themselves in, the meeting was united on the objective of challenging national debts at source and on conducting a series of audits to ascertain exactly how we came to be in this disastrous position and to ask the question, Who really owes to whom?

[21] Olivares-Caminal, op. cit. 29.

Having established the almost routine nature of debt default during the history of capitalist economics in this section to provide some theoretical framing for the idea of a social or citizen-based repudiation of national debt that is perceived to be destructive to the shared interests of social actors. We do this through the consideration of two concepts: 'odious debt' and 'jubilee'.

The idea of establishing a national audit committee comes from Ecuador, where President Correa was elected in 2005 to preside over an economy which was oil-rich but whose wealth was being drained and whose people were left in poverty because 50% of national income was being spent on servicing foreign debt. In July 2007 he established a Debt Audit Commission to explore whether these debts had been acquired legitimately. The Commission reported in November 2008 and found that a series of Ecuadorian bonds were unlawful, and recommended that Ecuador should refuse to make payments on them. President Correa responded by repudiating this debt on the basis that it was 'improperly authorised by previous administrations and involved onerous interest rates, commissions and prepayments'. By the following April Ecuador had successfully renegotiated the bonds, reducing their value by 65%.[22]

The concept of odious debt dates back to the 19th-century, when the US wished to avoid responsibility for the debt of the states it had absorbed into its territory as a result of the Spanish-American War, specifically, the debt that Cuba had incurred under its colonial rules. It holds that:

'debt should not be transferable to successor regimes if (a) it was incurred without the consent of the people and (b) was not for their benefit (Alexander N. Sack, 1927; Ernst Feilchenfeld, 1931). The underlying principle is that just as an individual does not have to repay money that someone fraudulently borrows in her name, and a corporation is not liable for contracts that its chief executive officer enters into without authority to bind the firm, a country should not be responsible for debt that was incurred without the people's consent and was not used for their benefit.'[23]

An idea which was developed for a single pragmatic requirement and had gathered dust in legal libraries came back to public attention in 2003, when the US Treasury Secretary used it as justification for repudiating the debts incurred by Saddam Hussein when it took over Iraqi territory. It derives from a strong moral sense that those responsible for acquiring debts should not be able to force this responsibility onto other who have neither consented nor benefited from them:

'It is morally repugnant to saddle the population of a country, down unto generations yet unborn, with the obligation to repay debts that are truly odious in the Sackian sense. Most people instinctively believe that the consequences of reprehensible acts should be visited exclusively on the malefactors (in this case, the corrupt regime and

[22] Gentile, C. M. (2010), 'The Market for Odious Debt', *Law and Contemporary Problems*, 73: 151-174 (Fall 2010). Available at: http://scholarship.law.duke.edu/lcp/vol73/iss4/11.
[23] Jayachandran, S. and Kremer, M. (2006), 'Odious Debt', *American Economic Review*, 96/1: 82-92.

its complaisant creditors). The question is whether this moral imperative can be translated into a workable legal theory.'[24]

The concept of 'odious debt' has been related to debt acquired by regimes that have been regarded as illegitimate in international law either because they were oppressive, or undemocratic, or because a change in state regime rather than just government had taken place, in the case of Cuba and Iraq due to external invasion. But might we extend this concept to stable western democracies, whose citizens are now struggling with oppressive debts? Recalling Sack's two conditions—that the debt was incurred without the consent of the people and was not for their benefit—can we apply these conditions to our own situation in the UK?

This is not the place to enter into a philosophical or legal discussion of consent, but such a route might be fruitfully followed in an area where ignorance on the part of the citizenry was so widespread. A clear finding of the various popular books that have emerged in the wake of the financial crisis is the opacity surrounding the behaviour of financial institutions and their employees, which left many key policy-makers and politicians, not to mention the citizens who trusted them to regulate the sector, ignorant of the 'dark arts'.[25] The role of the public in supporting the banks that are headquartered on their soil was not well understood,[26] suggesting that meaningful consent to the financial costs of this can be questioned.

Whether or not it was for the benefit of UK citizens is perhaps more problematic. In a situation where the Chancellor of the Exchequer publicly stated that we were within hours of the cash-point machines failing, there was clearly a strong public need to support the monetary system, which required nationalising the banks at vast public expense.[27] But UK citizens were unfortunate that some of the world's largest banks were headquartered on their soil, and this led to their supporting a banking system for the general global good at their personal national expense. Whether the tax receipts during the boom justified the cost of the bust to the UK balance-sheet is one question that a Citizens Audit could seek to answer.

The concept of 'odious debt' has been linked to discussions of the morality of debt forgiveness in the case of highly indebted countries: 'Most people instinctively believe that the consequences of reprehensible acts should be visited exclusively on the malefactors'.[28] Citizens of European democracies that now see the IMF austerity programmes visited on them might ask whether a similar moral suasion might be used in their defence. In the case of highly endebted poorer countries of the majority world, the discussion around the morality of debts has been extended into a

---

[24] Buchheit, L. C., Gulati, G. M., and Thompson, R. B. (2007), 'The Dilemma of Odious Debts', *Duke Law Journal*, 56/5: 1201-62.
[25] Cable, V. (2009), *The Storm: The World Crisis and What it Means* (Atlantic Books); Lanchester, J. (2010), *Whoops! Why Everyone Owes Everyone and No one Can Pay* (London: Allen Lane).
[26] Mellor, M. (2010), *The Future of Money* (London: Pluto).
[27] Treanor, J. (2009), 'Cash machines were monitored every hour during banking crisis', *Guardian*, 11 October.
[28] Kremer, M. and Jayachandran, S. (2002), 'Odious Debt', NBER Working Paper No. 8953.

discussion around the need for a debt ‘jubilee’[29], and this may be a route that the countries of Western Europe could choose to follow. Thus far, most national campaigns are choosing to raise the public profile of the illegitimacy of debt, in opposition to the hegemonic idea of the moral requirement to repay debts whatever the social cost. It is to some of these national campaigns that we now turn.

In Spain the campaign against the debt was launched in October 2011 under the rubric 'We don't owe; We won't pay'. A coalition of social and ecological movements, including part of the *indignados* movement and the debt network ‘Who owes whom?’. Their objective is a general one: to raise the issue of the debt nationally and regionally and to challenge the perceived inevitability of austerity policies. This campaign is less focused on the specific technical aspects of debt audit, rather the campaign for an audit is used as a vehicle to demand a real democratic debate about the national debate and its social and political consequences. The aim of the campaign is to change the political and economic model, taking power from the financiers and giving it back to the people.

In Greece the campaign against an unquestioning policy of austerity and in favour of a open discussion about policy alternatives forms an umbrella within which a number of groups operate including three who were represented in Brussels: Comite grec contre la d'être, No debt no euro, and the Greek Debt Audit Campaign. Specific investigation of the debt itself has been undertaken mainly by the third of these, and has consisted of research into single-issue examples of illegitimate debt. Overall the campaign is working at the level of popular education to share and explain the idea of debt audit and debt cancellation. The defining characteristic of the Greek crisis is a failure of trust in elites and particularly where money is concerned. For this reason the Audit campaigners do not feel able to consult experts or to seek funding to pay economists or accountants to study the government accounts. In the current context they feel that this would only lead them to lose credibility in the eyes of the public. Hence they undertake to forensically analysis the debt using the data they can gain access to, and in a voluntary capacity, but the Greek campaign has drawn strength from the success of anti-austerity parties in the recent elections. The main left-wing opposition party Syriza has taken the idea of a debt audit into its proposals for government. At the time of writing we are waiting to see whether it will be the largest party in the second general election to be held in June.

In Portugal the campaign against the debt was launched officially in a big public meeting on 17 December 2011. The focus is on working towards a full-scale public debt audit although, as we were told at the conference, 'All initiatives of resistance and a new social paradigm are unequivocally indispensable at this moment'. The aim of the campaign is to produce technically reliable results from a thorough analysis of government accounts. In the mean time, however, the campaign process itself is providing the opportunity for considerable public education. The common sense view in Portugal, as in many European democracies, is that the debt must be paid: that there is no alternative. The campaign has achieved widespread media coverage and is organising a roadshow to take its message around the country. One particular

[29] Busby, J. W. (2007), ‘Bono Made Jesse Helms Cry: Jubilee 2000, Debt Relief, and Moral Action in International Politics’, *International Studies Quarterly*, 51/2: 247-275.

campaign is the launch of a legal action against accountants Ernst and Young, who have been found to be auditing companies they themselves work for in a way that may raise questions about their ability to provide independent audit.

From Egypt we heard from Noha el Shoki, of the Campagne populaire pour l'audit. A trained economist, she told us of her campaign's goals to suspend payment of the foreign debts inherited from the Mubarak era and to enter into negotiations with debt holders. They have a rather dubious history of such 'rescheduling', such as the 40% downgrade in foreign debts that Mubarak was allowed in exchange for his support for the Iraq War. The campaign is undertaking a technical exercise to audit their country's national debt from this point. They are meeting with the new parliament's public accounts committee and are being well supported with information. Less encouragingly, Noha told us that during the period between the overthrow of Mubarak and the election of the parliament, Egypt was allowed to borrow at 8 times its previous annual rate, acquiring illegitimate loans that the new democracy will now be forced to pay back. These loans were agreed in documents that were not even translated into Arabic.

A similar situation arose in Tunisia, which will host the World Social Forum in April 2013. Fathi Aloui told us how the national debt is preventing the fledging democracy from succeeding. As in Egupt, during the interim between old and new regimes, Western countries massively increased their loans for questionable projects, tying Tunisia into future debt bondage. On 17 January 2011, three days after Ben Ali was ousted, the World Bank took control of the Tunisian Central Bank. The campaign is seeking to make these facts known to the Tunisian people: without economic democracy political democracy is worthless.

Ireland is, in some ways, the most inspiring example, since three academics from the University of Limerick have already completed and published an audit. The Audit drew some interesting conclusions about the relationship between the Irish state and financial speculators:

'The profile of investors in Irish sovereign debt has changed significantly since the Irish banking guarantee was put in place in 2008. Prior to the crisis, Irish debt was viewed by the market as a low yielding, low risk asset and it usually found a home on European banking books, insurance companies and pension funds. The crisis has changed the nature of Irish sovereign debt and has led to the creation of a number of credit instruments that affect the credit risk of the Irish sovereign. Over the past three years the trading activity in Irish sovereign debt and related instruments has been unprecedented both in terms of volume and trade-type.'

Once the state was guaranteeing returns, the market was open for profiteering and extortion, spiking in 2011 when returns were at their maximum. The academics also question the democratic acceptability of having secret bond-holders owning government debt.

The most significant success of the audit campaign in Ireland has been the popular rejection of the agreements undertaken by the government to support private banks using public money. The portrayal of these banks as ‘zombies’, who are now sucking the life out of the national economy has caught the public imagination, and has

changed the nature of debate about the relationship between the state, the citizens of Ireland and the overvalued assets that have resulted from Ireland's Celtic Tiger boom years. In December 2009 the government established NAMA (the National Asset Management Agency) as a repository of rotten loans and rotten assets. This enabled the state to appear to keep the acquisition of further debts at arm's length, a process that has been exposed by the Not Our Debt campaign.[30] The campaign was also able to track the way that the government gave in to creditor pressure to increase the legal obligations on the citizenry to repay bad debts.

In Britain we are still at the early stages of building a coalition to call for a Debt Audit. A technical exercise is useful, but if nobody notices its findings then it does not take you very far. Instead we need to build an ideological movement to reject the austerity vs. growth dichotomy and find a third way of transcending debts and moving towards a stable and sustainable economy. The role of the City has the heart of the system of global finance that caused the global recession means that UK citizens have been left responsible for a vast proportion of the resulting debt, as made clear in Section 3. However, the national dependence on finance as a source of private and public revenue, has facilitated the acceptance of the political rhetoric of the need to 'live within our means' and accept the cuts in public-spending that repaying these massive debts requires. A transparent process of auditing the national accounts could play a crucial part in challenging this political consensus.

5. Conclusion

The narrative around the sovereign debts of Western nations has followed the interests of the financial class, leading Simon Johnson to suggest that we have been the victims of a 'quiet coup'.[31] The emphasis has been on 'living beyond our means' and the immorality of reneging on debt. Questions about how the debt was acquired have been obfuscated and the general opacity around the activities of the financial sector during the boom years leading up to the 2008 crisis has facilitated the control of popular discontent. In such a context, the asking of the right questions and the quest for information can be powerful weapons. Such questions may help to shift the debate around debt repayment, and especially to regain the moral high-ground from those who would argue that debt repudiation is morally reprehensible.

In the context of Argentina, Trebat identifies the key issue as the one relating to justice. Drawing on the social teachings of the Catholic Church he foregrounds concern for the sufferings, especially of the poor, during times of economic dislocation, whether before or after a default, a lesson which could be well taken by politicians across contemporary Europe. Trebat concludes that the Argentinian default was consistent with the Church's teaching, in that it was a pragmatic response and that concern was shown for social justice during the negotiations. This was particularly remarkable in a society that had previously being marked by intense political and social polarisation.[32] By contrast in Europe, the crisis has led to

---

[30] Malone, M. and Storey, A. (2012), 'Noonan's miracle Anglo deal didn't stop us paying in full', *The Village*, May-June, pp. 18-19.
[31] Johnson, S. (2009), 'The quiet coup', *Atlantic Magazine*, May.
[32] Trebat, T. J. (2007), 'Argentina, the Church, and the Debt', *Ethics and International Affairs*, 21/1: 135-60.

significant political polarisation, with large increases in electoral support for parties of far right and far left.[33]

In more encouraging vein, we find an alternative form of mobilisation in terms of people finding the need to inform themselves in areas that previously they took for granted. In the wake of the crisis there has been an explosion in popular books and articles relating to money and finance, as well as a rapid growth of websites and blogs relating to similar themes.[34] This suggests a form of intellectual mobilisation. This mobilisation is now finding expression across Europe in the form of campaigns for Citizens Debt Audits, drawing inspiration from the examples offered by the highly indebted countries, and especially those of Latin America. The legal concept of 'odious debt' is an attractive organising concept for such movements, since it combines a pithy statement of revulsion with strong legal support.

The political consequence of popular resistance to the social consequences of the austerity measures that have been imposed as a response to sovereign debt crisis has been the imposition of 'technocratic', non-democratic governments in Italy and Greece, and the failure of a number of European governments, including those if Iceland, Ireland, Slovakia, Spain, the Netherlands, and most recently, France.[35] In a situation where a crisis of capitalism is leading to a crisis of democracy, the route of opening up the national books to public scrutiny may be the only means to save our economic and political systems.

Acknowledgements

I would like to acknowledge the courage and dedication of those people across Europe who are struggling to maintain civilized societies devoted to social justice and humanity in the face of an unprecedented assault. In particular I would like to thank the following for their insights into the campaigns that are taking place across Europe: Christina Laskaridis, Fathi Aloui, Noha el Shoki, Iolanda Fresnillo, Marie Moran, Mark Malone and Joao Camargo.

---

[33] See the series of reports by the thinktank Demos called *Populism in Europe*: http://www.demos.co.uk/projects/thefarrightineurope

[34] In the UK this popular education is being led by organisations such as the New Economics Foundation and Positive Money.

[35] Armitstead, L. (2011), 'Slovakia rejects enhanced bail-out fund, government falls', *Telegraph*, 11 Oct.; Jónsdóttir, B. (2011), 'Lessons from Iceland: the people can have the power', *Guardian*, 15 Nov.; McKittrick, D. (2011), 'Irish government falls and calls 11 March poll', *Independent,* 21 Jan.; Hooper, J. (2011), 'Mario Monti appoints technocrats to steer Italy out of economic crisis', *Guardian*, 16 Nov.; Donadio, R. (2011), 'Greece and Italy Seek a Solution From Technocrats, *New York Times*, 10 Nov.; Evans-Pritchard, A. (2011), 'Spain - the fifth victim to fall in Europe's arc of depression', *Telegraph*, 20 Nov.; Schneider, H. (2011), 'Dutch government falls in skirmish over austerity measures', *Washington Post*, 24 Apr.; Bremer, C. (2012), 'Hollande's win signals challenge to austerity', *The Herald*, 7 May.