

# Life and debt:

Global studies of debt and resistance



October 2013

  
**JUBILEE DEBT**  
**CAMPAIGN**

# Life and debt:

## Global studies of debt and resistance

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Cover photo: Activists from the Freedom from Debt Coalition join a protest to 'Stand up against debt' in Manila, the Philippines, October 2006.  
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# Foreword

We are living in a global economy experiencing a *profound* crisis. At the centre of this crisis is debt. Although debt plays this central role in our society – and its woes – a fierce debate rages as to what debt is and what it means.

Our report shines a light on this at-once very concrete, yet slippery concept. We do this by looking not simply at the statistics of debt – how much each country owes to whom – but at how millions of individual lives are blighted by this economic reality.

We study nine diverse countries, all heavily indebted. These countries – pulled from Africa, Asia, South America and Europe – are both ‘rich’ and ‘poor’, former imperial powers and former colonies. Despite these differences, the people of these countries share certain experiences – of living with, and fighting against, debt.

Far from being a dry economic notion, debt is at the heart of power and politics in the world. Debt is at the centre of an economic orthodoxy which has ruled the roost for more than 30 years, creating soaring levels of inequality in a world characterised by unprecedented pinnacles of wealth, surrounded by deep reservoirs of poverty and suffering.

Along the way, we dispel some myths – the myth that debt crises emerge when people force their governments to splurge on expensive welfare states, as well as the accompanying myth that ‘we all partied’ and must now tighten our belts, like a crisis-stricken household.

These myths are used by powerful elites to justify the fact that many millions of people are suffering poverty in countries as diverse as Jamaica and Greece, Pakistan and Portugal. Even in the poster child country of austerity, Latvia, we expose the false picture painted by the international financial institutions.

Most importantly, in every country we study, we find signs of hope and inspiration. Amid the devastation caused by debt and austerity, we find people not only picking up the broken pieces of their societies, but building something different. We find people searching for a society no longer subject to the logic of the financial markets, which debt seeks to impose on us all.

At the heart of these movements is a deep questioning of the legitimacy of debt. Through campaigns to ‘audit’ debts, activists across the world are asking: by what right does debt redistribute wealth from poor to rich, from public to private? By what right does debt remove our power and strangle our democracy?

Through questioning debt we begin to dispel the biggest myth of all – a myth that underlines the economic orthodoxy, a pernicious myth that seeks to eradicate the possibility of social change by robbing us of our imaginations: that there is no alternative.

Across the world, people are proving that alternatives are alive and well.

# Introduction

Debt is used by international institutions and local elites to force through economic policies which act against the interests of ordinary people. As the current global financial meltdown fuels a growing debt crisis, millions of people across the world are being forced in to poverty.

The Jubilee Debt Campaign was founded to campaign on the Third World debt crisis which created massive hardship and suffering for millions of people in the global South from the late 1970s. During that crisis we uncovered some of the ways debt is created and used to transfer wealth from one part of society (and the world) to another, to make finance more powerful at the expense of the mass of people and to predetermine economic choices and restrict democratic rights.

We campaigned to end such crises, but while we won *some* debt relief for *some* countries, debt was actually growing across the world and the financial system – which fuelled the debt – grew ever more powerful. The most recent financial crisis was the culmination of this unsustainable economic situation, where complex financial instruments were used to hide the true extent of global debt.

This report looks at nine countries currently suffering debt crises – examining the common threads and differences in where the debts have come from, the effects they have had, and how people have resisted those debt regimes.



Photo: Zohra Bensemra/REUTERS

A protester from Tunisia's poor rural heartlands lies in front of the Prime Minister's office in Tunis, January 2011.

# Comparison of the case studies

## Origin of debts

### Ordinary people were not responsible for, and did not benefit from, the debt

The fallout of the current global financial crisis has been felt across the world with shocking rises in unemployment, poverty and human suffering.

But how did we get here? Throughout the 2000s, Western banks went on a lending spree in countries such as **Greece**, **Latvia** and **Portugal**, fuelling economic bubbles, inflating housing costs and creating construction booms.

These loans came to an abrupt end as the financial crisis hit. Now millions of people are suffering increased unemployment, poverty and the devastation of public services, such as healthcare and education, as a result of this reckless lending, where loans were

given without a thought of how they would be repaid, or the damage their repayment would inflict.

In the eye of the storm of the financial crisis, with banks facing bankruptcy as a result of massive over-lending, governments stepped in to bail them out. That's how debt crises were created in most European countries – by transferring the debt from the private to public sector, with the consequent social implications exposed in this report (see figure 1 and 2).

But the bailouts didn't stop there. The EU and IMF lent money to ensure the reckless lenders, such as the banks, continued to be paid. Meanwhile austerity was forced on populations under the pretext of making the debt payable. In reality, economies have crashed or stagnated, while debts have kept increasing.

While the levels of poverty in Europe are different, the current crisis mirrors the events that led to the Third World debt crisis in the global South. A lending boom

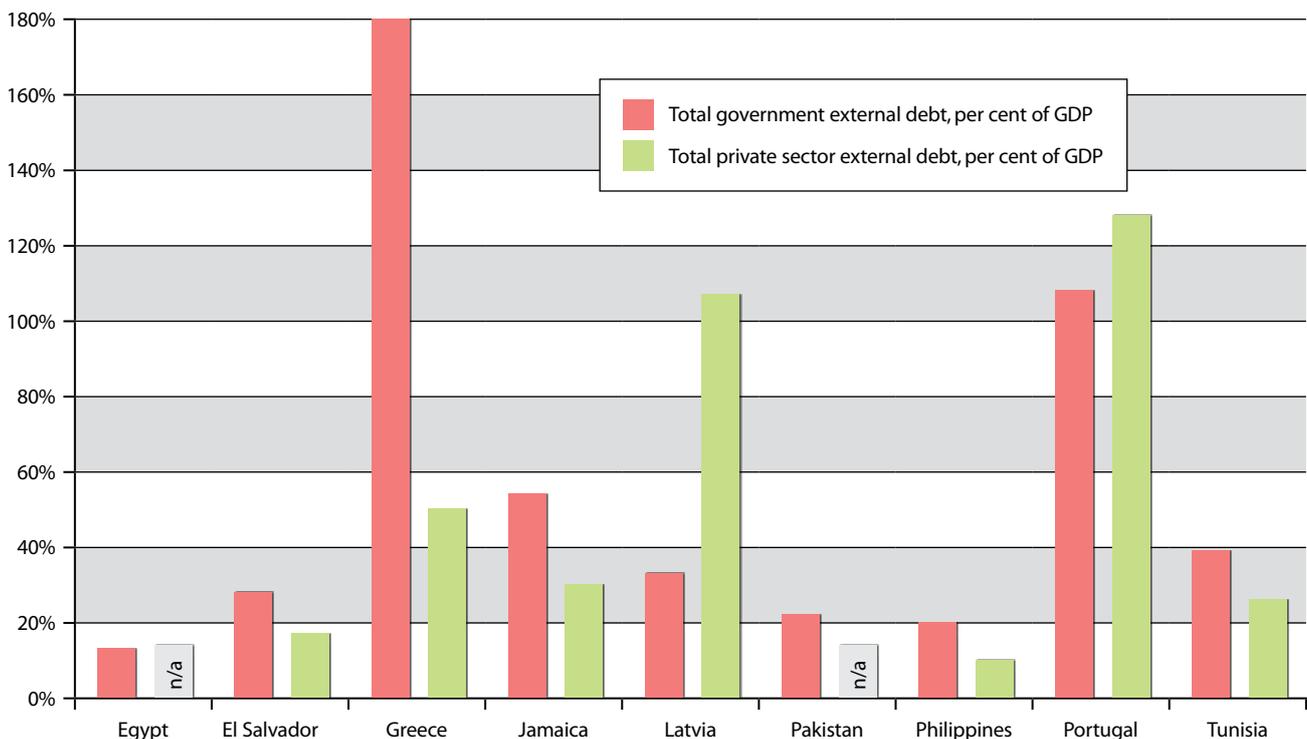


Figure 1: Scale of foreign-owed debts in case study countries

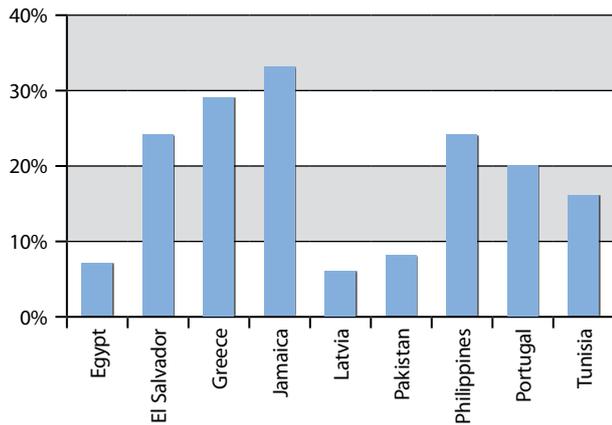


Figure 2: Annual government external debt payments in case study countries, per cent of government revenue

to Latin American and African countries in the 1970s turned to bust in the 1980s when the US increased interest rates on the debt, and the global economy entered recession. To protect Western banks, the IMF bailed out the reckless lenders, while enforcing austerity, privatisation and liberalisation.

It is particularly unjust that many of these reckless debts were given to authoritarian regimes to spend on worthless or corrupt projects. In **Jamaica, Pakistan, the Philippines** and **El Salvador**, debt did not simply arise overnight, but from a long history of unjust loans, damaging projects and failed bailouts. All four countries are now into their fourth decade or more of high debt and austerity.

**Egypt** and **Tunisia** are also once again facing austerity being enforced in the name of tackling the debt.

No wonder that people feel they bear no responsibility for this debt. From the Latin American debt crisis in the early 1980s to the East Asian financial crisis of 1997 and today's global financial crisis, unregulated private lending and borrowing has caused devastation for those who have nothing to do with such reckless behaviour.

## Bailouts and austerity

**Despite the role of banks and the power of the financial sector in creating these debts, such crises have been used again and again to further empower finance and create an ever more volatile system.**

A common feature across the countries covered in this report has been the use of 'bailouts' – public loans – primarily given by the IMF, but also in Europe by the 'Troika', which is made up of the IMF, European

Commission (on behalf of EU countries), and the European Central Bank.

Despite how they are presented in the media, bailouts are not temporary support to an economy suffering economic shocks. Rather they prevent defaults, enabling debts to continue to be paid to the financiers – effectively bailing out the reckless lenders.

- In **Jamaica** and **Greece**, even the IMF admits that the debts can never be repaid in full.<sup>1</sup>
- In **Pakistan** and **Tunisia**, IMF bailout loans are being used entirely to repay old debts – in Pakistan's case, to pay previous IMF loans. In **Portugal** the IMF and EU loans are simply paying off the reckless banks.
- In **Latvia**, even though there wasn't a government debt crisis, IMF bailout loans were given and used to pay off Scandinavian banks, saddling the government with more debt.

## Reckless lending exposed

- The **Philippines'** debt includes Austrian loans to buy Austrian waste incinerators which were so polluting they were banned in the EU, were banned in the Philippines soon after being bought, and have been out of action since.
- **Pakistan's** debt was largely run up in periods of military rule, and includes World Bank loans to build flood protection defences which actually *increased* flooding. **Pakistan** received bailout loans in 30 out of the last 42 years.
- **Jamaica** has endured over 30 years of spending more than 20% of government revenue on debt payments. In that time the government has paid more in principal and interest than it was lent, yet still owes an estimated \$7.8 billion.
- In **Greece**, the main cause of the current crisis was lending by European banks to the government, including numerous loans for very high military expenditure. In one infamous case, Goldman Sachs helped the Greek government hide the true scale of the debt from the Greek people through complicated derivative contracts, in order for Greece to enter the Euro.
- **Egypt** and **Tunisia** suffered major debt crises in the 1980s and 1990s. Into the new millennium, authoritarian governments continued being heavily supported by overseas loans, debts remained high, while the benefits of economic growth were not shared and inequality and unemployment grew.
- In **Latvia** and **Portugal**, the debt crises arose because private banks lent money and fuelled bubbles which burst when the lending from their foreign counterparts stopped. Governments bailed out the banks, which in **Portugal** soon created a high government-owed debt.

- A new IMF loan to **Egypt**, currently under discussion, would see all of the money borrowed used to meet just some of the country's debt repayments.
- **Pakistan** took IMF bailout loans between 2008 and 2010. In 2009, the economy grew 1.7% rather than the 5% predicted by the IMF, and fell further behind in 2010 when the country was hit by devastating floods.

Despite decades of bailouts and loans, countries continue to be mired in debt and economic hardships have increased. In both **El Salvador** and the **Philippines**, debt payments remain extremely high, reducing the money available for useful government expenditure on public services. In the **Philippines**, high debt payments have been compounded by high government saving – done by investing in US bonds, effectively lending *them* money – to seek to protect the country from future crises and rapid flows of money in and out of the country.

The problem of high debt payments is exacerbated by massive tax avoidance and evasion, which reduces further the money available to governments. Both debt payments, and the outflow of untaxed profit and capital, are ways countries continue to be looted and people impoverished while further enriching corporations and elites elsewhere.

As well as increasing poverty and inequality, the bailout system sows the seeds for the next crisis by increasing debts and handing ever more 'power without responsibility' to the banking sector. A working paper for the Bank for International Settlements claims that in the run-up to the current global financial crisis banks lent large amounts to other banks in highly-indebted countries, because of "expectations of a bailout" if any country got into trouble.<sup>2</sup> The system actually *encourages* reckless lending.

## The impacts of debt and austerity

**Despite the lack of responsibility they bear for the crises, the highest price is paid by the poorest in society through the austerity imposed.**

Bailouts come with conditions to introduce austerity measures such as:

- cuts in government spending
- increases in taxes, particularly regressive 'flat-rate' taxes such as VAT
- privatisation of publicly-owned companies
- deregulation, such as removing taxes on imports and cutting minimum wages.

Former IMF mission chief to Ireland, Ashoka Mody, says there is "*not one single historical instance*" where austerity policies have led to an exit from a

heavy debt burden.<sup>3</sup> But this failure of austerity is only part of the story. It is the impact of unjust debts and austerity on ordinary people which shows the true extent of its failure.

In 2000, as part of Millennium Development Goal 8, 189 countries – including those of the EU, US and Japan – agreed to "*deal comprehensively with the debt problems of developing countries*". They have failed to do so. This is one of the reasons debt-burdened countries are off track to meet other development goals:

- **Jamaica** is off track on at least one of the indicators for *all* the MDGs. In two it has even gone backwards. In 1990, 97% of children completed primary school. By 2010, the figure was just 73%. Maternal mortality has almost doubled, rising from 59 per 100,000 live births in 1990 to 110 by 2010.<sup>4</sup>
- **Pakistan** is currently unlikely to meet many of the MDGs, including on hunger, education, gender equality, child and maternal mortality and access to basic sanitation.
- In **El Salvador**, the goal to halve hunger is off track, with the proportion of people malnourished increasing since 2000.
- In the **Philippines**, hunger is on the rise, with 16 million people estimated to be malnourished in 2011, compared to 15 million in 1990.<sup>5</sup>

High debt payments, and cuts in government spending, make it more difficult to provide decent quality public services such as healthcare and education. **Jamaica** spends more than twice as much on debt payments as it spends on education and health *combined*. This year and next, in **Pakistan**, spending on foreign debt payments will be the same as the combined spending on health and education.

## History lessons

The austerity and privatisation policies forced on Latin American and African countries in the past didn't work any better:

- Between 1980 and 2000, economic 'growth' per person, per year was -0.5% in Latin America, and -1.5% in Africa.<sup>6</sup>
- Between 1980 and 1990 the number of people living in poverty in Latin America increased from 144 million to 211 million.<sup>7</sup>
- In Africa, the number of people living in extreme poverty (on less than \$1.25 a day) increased from 205 million in 1981 to 330 million by 1993.<sup>8</sup>
- And most telling of all, *the debt was not reduced*. Across Latin America and Africa, government foreign owed debt increased from 17% of GDP in 1980 to 33% in 1990.<sup>9</sup>

## What does ‘illegitimate’ debt mean?

According to the Philippines’ Freedom from Debt Coalition (FDC), illegitimate debt could be characterised by many factors: that the loans involved corruption or bribery; that they involved immorally exorbitant interest rates and conditions; that the projects they financed were harmful to people or the environment or that the funds were wasted through corruption or mismanagement; that loans contracted by private firms later morphed into public debts; that they compromised the very survival and safety

of the population by becoming a priority over investing in basic services; that they were used as leverage for imposing conditions that violated political and economic sovereignty and democratic principles. Examples of all of these are seen in this report.

Governments are not always blameless, says FDC, but lenders are also culpable in cultivating dictators, in collusion with multinational corporations, and in using loans to buy the loyalty and malleability of local elites.

Countries in Europe have also taken a huge step backwards. In **Greece**, new hospital fees have left many people untreated and children go unvaccinated because it is no longer free. Health expenditure has fallen by 40% between 2010 and 2013.<sup>10</sup> **Latvia** has lost 8% of its healthcare workers and 14% of school staff.

One indicator for the MDGs is to “*achieve full and productive employment and decent work for all, including women and young people.*” Even prior to recent crises, many countries were far from achieving this. Until the revolution, **Tunisia** was presented as a development ‘success’ story. The economy doubled in size between the mid-1990s and 2010. Yet unemployment remained at 15%, with youth unemployment at 30%. A quarter of people are illiterate. High unemployment, inequality and corruption among the ruling elite – as well as political repression – were reasons Tunisians revolted against the Ben Ali dictatorship.

In **El Salvador**, where the official unemployment rate is 6%, the UN Development Programme (UNDP) estimate that the underemployment rate – not getting enough work to sustain a dignified life – is 50%, and over 60% for the young.

The lack of economic opportunities, along with rising costs of living, particularly through higher food and fuel prices, are driving more people to emigrate in search of work. In **Latvia**, 200,000 people – one-tenth of the population – have left the country seeking work elsewhere. Thousands of young people from **Tunisia** are risking the perilous sea crossing to the Italian island of Lampedusa, during which more than 500 migrants have drowned in the last two years. More than 740 people emigrate from **El Salvador** to the US *every day*.

Suicide has also become a major issue in some countries. In **Pakistan**, the government has banned the sale of rat poison because so many people were using it as a cheap way to end their lives. In **Tunisia**, there has been a reported five-fold increase in the number of people – mostly unemployed young men – setting fire to themselves in desperation.

Austerity has also opened the door to a fire sale of state assets through privatisation. It is allegedly used to raise money to pay debts and make services ‘more efficient’. In reality, it delivers profits for the companies of the countries giving the bailout funds while cutting jobs and wages.

In **Greece**, the myth of privatisation as a panacea is undermined by the fact that the most high-profile privatisation to happen so far has been part of the national lottery – a highly profitable asset from which the Greek government was making money.

## Stories of resistance

**Movements against debt across all countries bring together many different activists and focus on questioning its legitimacy and understanding debt as power.**

Across the countries covered in this report, we highlight a flood of inspiring movements and uprisings against debt, austerity and the lack of control citizens have over economic decisions.

In **El Salvador**, the ‘Five More’ movement brings together human rights, indigenous and social justice organisations to build support for progressive social changes that have been introduced – such as the abolition of payments for healthcare – while questioning the validity of the country’s debt, and the push for public-private partnerships (PPPs).

In **Pakistan**, protests against the country’s unjust debt reached a height in 2010 following disastrous floods, which included a three-day hunger strike camp outside the World Bank building in Islamabad.

In Europe there have been protests and general strikes in countries affected by debt, including 1.5 million people taking to the streets in **Portugal**, across 40 cities, in March 2013.

The greatest protests of all have been those in **Egypt** and **Tunisia** in the name of ‘bread, freedom and social justice’. The demand not to inherit the debts of their deposed dictators has been a key part of the call of many of the protest movements – a call given greater articulation through the formation of the Campaign to Audit Tunisia’s Debt, and the Popular Campaign to Drop Egypt’s Debt. This repeats history from the **Philippines**, where activists involved in the overthrow of the Marcos dictatorship founded the Freedom from Debt Coalition, which continues to push for debt audits and the repudiation of unjust debts. In Tunisia, a coalition of parliamentarians have committed to hold a debt audit, though there has been resistance from elsewhere within the government. The IMF and World Bank have put pressure on Tunisia not to hold an audit.

These movements highlight the fact that true democracy can only be achieved if it includes citizens being able to determine the economic choices made in their countries. These choices are stripped away when vast resources are spent paying the debts of others, and economic policies are decided between elites and external enforcers such as the IMF. The need to hold ‘debt audits’ is a common call across the countries, in **Egypt, Greece, El Salvador, Jamaica, Pakistan, the Philippines, Portugal and Tunisia**.

Debt audits are a tool to identify where debts come from, and to highlight reasons why they should not be paid. But they are also aimed at forcing greater accountability on politicians and elites and, ultimately, greater citizen control over the economic decisions made in their name.

## Conclusion: What kind of world are we building?

**The importance of debt as a perspective for building a movement for social change is that it helps get to the root of the myths that underlie the debt-austerity economy.**

The imposed narrative ‘we are in debt?’, ‘then it must be our fault’, ‘how can we make up for it?’, seeks to force us to believe *there is no alternative*. Questioning the legitimacy of debt frees our minds to begin thinking about how society could be if it was not controlled by finance – if it was based on different principles from those dictated by the market.

The struggle against debt is a struggle over principles and values. There can be no one policy solution to free people from the scourge of unjust debt and austerity. This report does not seek to provide a policy roadmap, but to tell the stories of how paying unjust debt, and enforcing austerity, continues to blight millions of lives across the world, and how people are resisting the rule of debt.

Some specifics do emerge, however. One of the key routes to justice is for the unjust debts to stop being paid. This could happen through debt audits that lead countries to repudiate debts, or through the creation of a fair and independent arbitration process for reducing government debts.

But even this is not enough if we want to build greater economic democracy and prevent future debt crises. Economies need to become fairer, with governments getting the resources needed to provide decent services through fair tax systems.

The root cause of debt crises across the world is the unregulated financial system, where large quantities of loans move between countries, fuelling trade imbalances and global instability. A wide range of regulations on the financial system are needed to get finance under control and reduce these huge flows of money across the world.

For life to come before debt we need to build an alternative – including tax justice, controls on lending and the cancellation of unjust debts.

It is immoral for a debt to be paid at the cost of people’s lives.

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# Greece

## Introduction

Greece today is frequently described as a society in shock and despair. Austerity has been brutal and, in an alarmingly short space of time, large numbers of people have found themselves without enough money to pay for proper food, medical expenses or household bills. Pensioners can be found raking through garbage to survive and many are homeless. Suicides have increased and unemployment has rocketed, particularly among the young. Many people are now looking for a way out of Greece.

## Origin of debt crisis

In the mid-1990s the economy began to boom as large amounts were lent by European banks so Greece could buy imports from countries such as Germany. This process intensified with the adoption of the Euro in 2001.

Unlike other European countries in crisis, in Greece the main borrower was the government. One key area was military spending, which reached 3% of GDP between 2000 and 2007 – the highest in Europe.<sup>12</sup> This included buying German warships which never functioned because they had a dangerous slope. In 2013, two

warships were leased from a French company after President Hollande had gone on a sales trip to Greece, which also included the French President pushing for more austerity. Extensive borrowing was also undertaken to fund the 2004 Athens Olympics.

The Greek government hid the true scale of its debt. In one infamous case, US bank Goldman Sachs created specific derivatives to keep debt concealed from the people, in order for Greece to enter the Euro.<sup>13</sup>

When the global financial crisis began in 2008, lending to Greece increased to help the country cope with the impact of lower tax revenues and the need for higher government spending. Foreign banks were particularly keen to lend to governments such as Greece, because they were now seen as safe compared with the banks. By the beginning of 2010 more than \$100 billion had been lent to Greece by French, German and British banks.<sup>14</sup>

In the spring of 2010, lenders finally began to lose confidence in the ability of the Greek government to pay its debts. The interest rate at which the Greek government could borrow shot up. The government admitted that it could no longer afford to make debt payments but, rather than defaulting, it took bailout loans from the IMF and EU. These new loans were used to pay off the reckless banks, while increasing the Greek debt. By early 2013, the EU and IMF had lent \$290 billion, amounting to 65% of the Greek government's foreign-owed debt.<sup>15</sup>

IMF and EU loans were conditional on the introduction of harsh austerity measures and other economic changes, such as widespread privatisation. As a result the economy has continued to crash, falling by more than 20% since 2007. By 2012, the economy was 12% smaller than the IMF said it would be at the start of the bailout and austerity programme, and unemployment was 25% rather than the predicted 15%.<sup>16</sup>

In 2011 the IMF, EU and lenders accepted that the debt was too big, and negotiations began to reduce the debt. A deal was finally reached in March 2012, which reduced the amount of debt owed to private creditors. However, this did not cover any of the debt owed to the IMF and EU. It treated Greek and foreign creditors the same, making big cuts to Greek pension funds and banks, necessitating more bailouts and thereby more loans for the Greek government. And the deal still meant that lenders got back more money than if they had sold their debt on the private market.

### Government external debt:

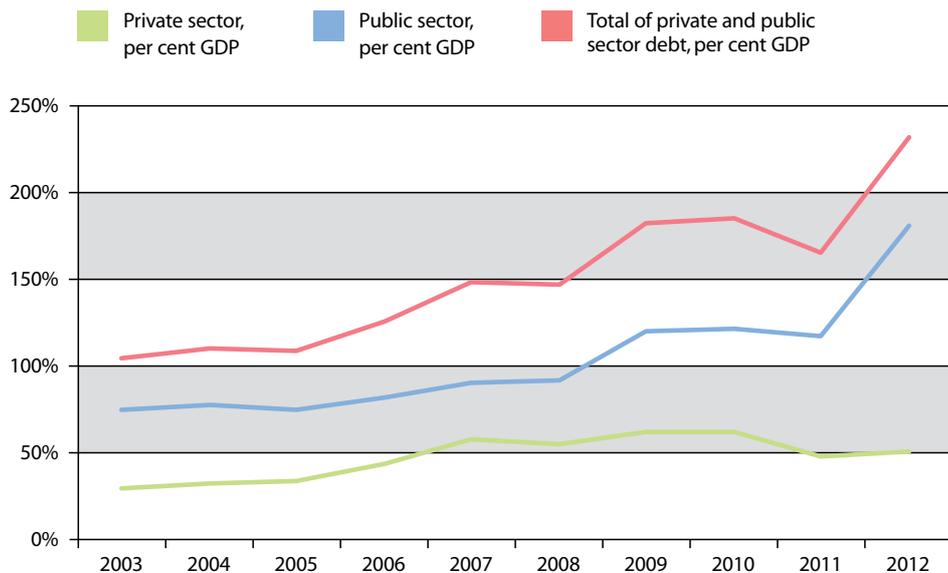
- \$450 billion
- 180% of GDP<sup>11</sup>

### Private external debt:

- \$127 billion
- 50% of GDP

### Government external annual debt payments:

- \$31 billion
- 29% of revenue
- 42% of exports



**Because the 2012 restructuring of Greek debt hit both domestic and external creditors, Greek government external debt actually increased. The Greek government took on more loans to bailout the domestic banks which lost out.**

Figure C1: Greece total external debt (public and private sector, per cent of GDP)<sup>17</sup>

Among the conditions of the bailout loans was a widespread fire sale of government assets, including the privatisation of the Greek national lottery, despite it being one of the most profitable in the world.<sup>18</sup>

## Life and debt in Greece

Eleven percent of Greeks are now classed as living in extreme **poverty** – with far more living close to the breadline or with the threat of joblessness, wage cuts and increased costs hanging over them. **Jobs** are being axed as companies make cuts or close down. More than one-in-four people are unemployed, with nearly two in three young people out of work.<sup>19</sup>

Many young people, often the brightest, are seeking work abroad. Emigration from Greece to Germany rose by 40% in 2012. A survey conducted by Thessaloniki University indicated that 76% of Greeks would like to emigrate. More than 120,000 professionals – including doctors, engineers and scientists – have left the country since 2010.<sup>20</sup>

In July 2013 the Greek parliament voted to back a public sector reform bill that will see thousands more workers lose their jobs in order to pay off the latest €6.8 billion of bailout loans. More than 4,000 state employees will be sacked in 2013. A further 25,000 will be put into a “mobility pool” and be paid 75% of their salaries for eight months, during which time they have to be redeployed or accept redundancy.

**Unemployment benefits** have not escaped the austerity plan, with the monthly allowance reduced by 22%. The benefit is now only payable for up to

one year, after which recipients also lose access to free healthcare. Many young people are ineligible for support because they have never had a job and have not paid the required national insurance contributions.

With so many suffering their own individual free-fall, the traditional **family support network** has suffered, leaving more older people to fend for themselves. The elderly have been particularly hard hit by huge cuts to **pensions**, of up to 40% so far, as well as cuts to **social services benefits, healthcare services, rocketing utility bills** and the imposition of **extra taxes**, such as a large rise in VAT. Older people rummaging through bins in the street is no longer an uncommon sight, and many have been driven into **homelessness**.

There have been marked increases in **depression and suicide**, with an increase in suicides of around 40% across the country in the last two years.

In one high profile suicide case, retired pharmacist Dimitris Christoulas, 77, shot himself outside the Greek parliament after his pension was slashed. His suicide note said the government had “*annihilated all traces for my survival, which was based on a very dignified pension that I alone paid for 35 years... I see no other solution than this dignified end to my life, so I don’t find myself fishing through garbage cans for my sustenance*”.

Meanwhile more children are reported to be **fainting at school** due to a lack of calories and churches and charities are increasingly pitching in with daily **rations** of food to help sustain people.

It is the **decimation of the health system** that has affected so many. Facility closures, huge cuts in central

health budgets, a rising demand and increased charges – such as a €25 entry fee into public hospitals – have created a dire situation where many people now go untreated, children go unvaccinated because it is no longer free and health problems worsen. In particular, there is a serious lack of drugs for cancer patients.

Head of the country's largest oncology department, Kostas Syrigos, told the *New York Times* one of their most distressing cases was of an unemployed woman who had been diagnosed with breast cancer a year earlier but could not afford treatment. By the time she sought help her tumour was as big as an orange and had broken through the skin. *"Everyone was crying,"* he said. *"Things like that are described in textbooks but you never see them because, until now, anybody who got sick in this country could always get help."*

There has also been a rise in **hate crime** and xenophobia against Greece's immigrant community, targeted in large part due to a search for scapegoats in a time of crisis. Many immigrants are trapped because they have no papers and cannot obtain them there. Illegal immigrants have been rounded up by police, with critics calling the crackdowns stunts to divert attention from the economic crisis.

Greece has become a country staring into an abyss. Many people talk of their lack of ability to envisage a future, and chunks of a generation are delaying having children for financial reasons. Despina Koutsoumpa has barely enough money to keep her child healthy, so cannot consider having the second child she would like. Her future is being dictated by economists

intent on using Greece as a guinea pig. *"I am not an experiment – I am a person,"* she said.

## Resistance and the demands of activists

Many have responded to the despair and hardship in Greece with a wave of activity that aims to resist the policies destroying lives and livelihoods.

This has been coupled with inspiring solidarity work to protect the vulnerable, to create alternative social systems and – in many cases – to save lives that would otherwise have been lost to austerity policies that show no regard for their impact on the population.

Thousands have mobilised around a **citizens debt audit**, exposing the countless ways banks and governments had created the crisis. Two groups – the Greek Debt Audit Campaign (ELE) and No Debt No Euro – work to analyse and spread awareness of Greece's debt and help activists understand the social implications of paying that debt. They campaign for debt cancellation and a public audit committee so Greek society can understand where their debt has come from, take democratic decisions about what to do with it, and hold those responsible to account.

**Strikes, protests and occupations** have been a regular feature of crisis-hit Greece, including several stoppages against public sector job cuts, rallies against the destruction of pensions, and dozens of



Photo: Flickr/Julien Lagarde

Protest in solidarity with the people of Greece, Barcelona, February 2012  
'We are all Greeks' 'Hold citizens audit of debt now!'.

general strikes. In one famous case, workers at Vio.Me took over their abandoned factory and decided to run it themselves (see box right).

At a local level public sector unions have been involved in **solidarity actions**, like organising free entry into hospitals, holding summer schools for the children of workers who have had their pay cut, running a voluntary restaurant with cheap or free food, and maintaining free entry days into cultural sites.

Throughout Greece **solidarity networks** have been gradually growing, with an estimated 2,000-plus initiatives now operating – covering health services, food supply, education, legal advice, social economy and cultural activities. The collective **Solidarity for All** was formed with the aim of tracking and co-ordinating the initiatives, helping them share experiences, plus campaigning and mobilising international solidarity.

For example, **solidarity social clinics** are increasingly serving a population unable to afford health insurance, nor pay for treatments and medicine. Initially set up to help immigrant communities, more and more Greek nationals are turning to the free-of-charge clinics, staffed by volunteer doctors and nurses and functioning on donated premises, equipment and drugs. Likewise, **solidarity pharmacies** have been opening to distribute medicine to those who cannot afford it.

The growing movement – inspired by the creator of the first clinic, cardiologist Dr Giorgos Vichas – is adamant that it is not devising an alternative to proper state provision of healthcare, and continues to demand that the state does its job. Dr Vichas's clinic, serving nearly 10,000 patients in Athens, operates as a model for other clinics, which now number around 40.

Women Against Debt was established by health and social workers to provide support to low income women affected by the austerity measures, including vaccinations for their children.

## Abandoned and unpaid – the day the workers took control

The action of workers at the Vio.Me building materials factory has become an international symbol of workers' self-management. The factory, in Thessaloniki, was abandoned by its owners, leaving the workers without pay since May 2011.

They refused to lie down and accept unemployment. Instead they voted to occupy the factory and operate it under direct democratic workers control and, after a long struggle, production began on 12 February 2013. A triumphant three days of rallying, marching and mobilising support culminated in a benefit concert before a packed stadium of 5,000 people.

The 40 workers of Vio.Me – who will use any profits to help those in need – face a long road ahead. They have to struggle against high production costs, a lack of access to credit and trying to maintain a share of the market during the recession.

*“Now more than ever we need to be united and strong, determined to build a new world based on solidarity, justice and self-management,”* they said.<sup>21</sup>

**Small-scale co-operatives** have also been evolving in response to the crisis, in many cases established as agricultural co-operatives of unemployed women. Other examples include coffee shops, taverns and book stores.

**Social kitchens** operate to provide food mostly to the unemployed and homeless, and in some cases cooking for workers on strike.

Meanwhile citizens of Thessaloniki, through their *Initiative 136* campaign, are opposing the **privatisation of water** – with an aim to gather money (€136 per citizen) to bid for a takeover of the water management in their city.

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# El Salvador

## Introduction

The global financial crisis hit El Salvador hard. Exports dropped, food and energy prices rose and remittances fell – from 20% to 17% of GDP – as El Salvadoran workers in the US were laid off. As a result of higher unemployment and increased food and medicine costs, poverty levels increased too. More than 40% of the population live below the poverty line. Yet the government spent \$970 million in 2011 (24% of government revenue) on paying foreign debts, most of which were inherited from the vicious junta of the 1980s.

## Origin of debt crisis

In 1979 a military junta, backed by the United States took power, provoking a civil war in which an unknown number of people were disappeared and 75,000 killed. Throughout this time the junta were supported with extensive loans. Between 1979 and the end of civil war in 1992, the country's debt increased from \$500 million to \$2.2 billion – half of the lending came from foreign governments, primarily the US, and one third from international institutions, primarily the Inter-American Development Bank, IMF and World Bank.

### Government external debt

- \$6.5 billion
- 28% of GDP

### Private external debt

- \$4 billion
- 17% of GDP

### Government external annual debt payments

- \$970 million
- 24% of revenue
- 15% of exports

At the end of the war, government foreign debt payments were over 20% of exports. During the 1992–2009 period when the right-wing ARENA party held the presidency – a period popularly known as the “*civil dictatorship*” – neo-liberal economic reforms were pushed hard by Washington through conditions on aid and loans. This included abolishing property tax and cutting income and import/export taxes, thus greatly reducing the state's revenue and making it more dependent on loans. Between 1989 and 2009 the government sold off assets valued at over \$5.7bn, yet received only \$334m for them, according to the US-based Committee in Solidarity with the People of El Salvador (CISPES).

As a result the country's debt shot up at the turn of the millennium, when El Salvador switched to the dollar. The global financial crisis further weakened El Salvador's economic situation, with the country entering recession in 2009.

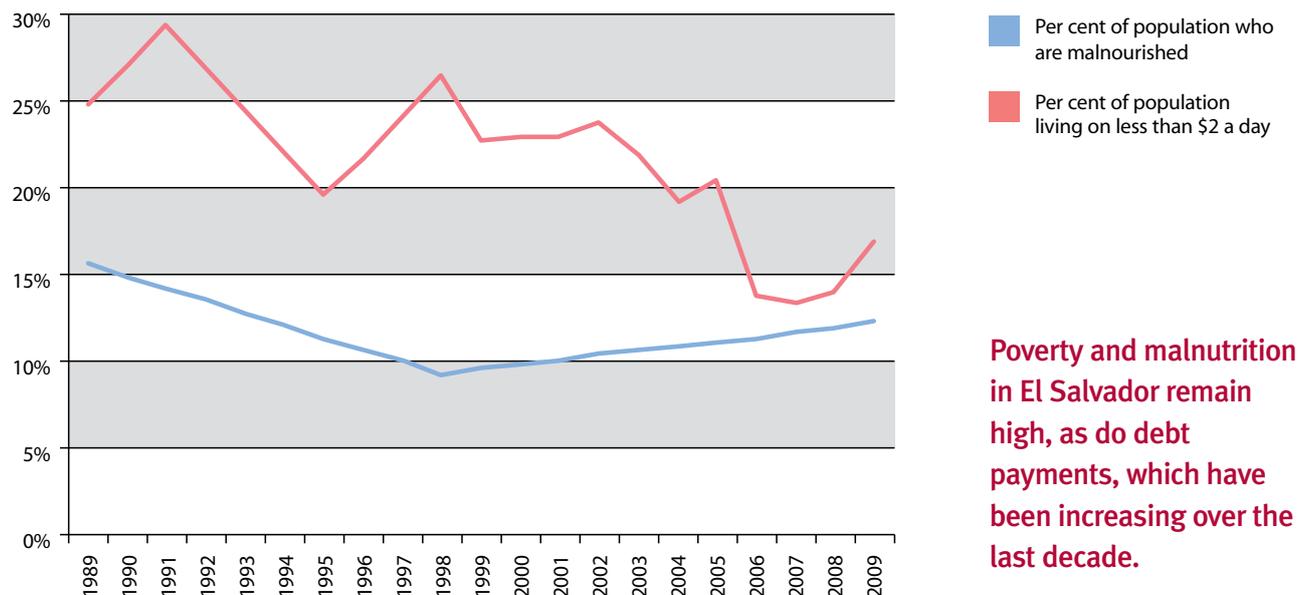
National University professor Raul Moreno claims increased foreign investment and privatisation, promoted under the US-backed administrations, worsened labour conditions and sent profits overseas, causing greater indebtedness.

## Life and debt in El Salvador

According to the UN, 12% of the population are malnourished, up from 9% at the turn of the millennium. The World Bank says 17% of the population live on less than \$2 a day, barely down from 19% in 1995.<sup>22</sup>

Between 2000 and 2011 **food costs** rose 55%. Between 2007 and 2008 food as a percentage of household expenditure rose from 22% to over 30%. The **underemployment** rate, defined as a lack of work sufficient to sustain a dignified life, jumped to 50% – 62.4% among under-24s – according to the UNDP. The growth of insecure, low-paid jobs has led to a loss of purchasing power. And with a lack of work, on average, 740 people **emigrate** to the US every day.<sup>23</sup>

Faced with this dire economic situation El Salvadorans elected their first left-wing FMLN-led government in 2009. They were rewarded with unprecedented increases in **social spending** – from \$35m in 2008 to \$201m in 2012. Over 1.4m public school students are now receiving school supplies, uniforms and shoes,



**Poverty and malnutrition in El Salvador remain high, as do debt payments, which have been increasing over the last decade.**

Figure C2: Hunger and poverty in El Salvador<sup>24</sup>

1.3m are receiving free school meals, while over 180,000 adults graduated from the National Literacy Programme by the end of 2012. Nearly 250,000 family farmers received free seeds, resulting in a record harvest last year.<sup>25</sup>

The system of ‘voluntary’ payments for **healthcare** was abolished on the first day of FMLN government. Medicines, clinics and hospitals are now free. As a result, maternal and infant mortality rates declined and El Salvador recently met the UN MDG for the reduction of infant mortality – four years ahead of schedule. But these initiatives are under threat as the IMF exerts renewed pressure to reduce spending.

Since 2009 El Salvador has had an on-off agreement to borrow up to \$800 million from the IMF, though has not taken any of the money to date. The main reason for having the loans available was to be able to bail out private banks, most of which are foreign owned, in the event of a banking crisis.<sup>26</sup> Because El Salvador uses the dollar rather than its own currency, the central bank does not have the ability to lend money it creates to banks that get into trouble if depositors take their money out. While the loans have not yet been drawn on, El Salvador has had to implement IMF conditions in order for them to remain available.

The main condition of the 2009 IMF agreement was to keep the public sector deficit at less than 2.8% of GDP. But the global financial crisis hit El Salvador much harder than predicted by the IMF, with the economy shrinking by more than 3% in 2009. In reality, within just three months, the fiscal deficit broke the IMF conditions, as the FMLN government maintained spending to support the economy and improve social outcomes.

In 2010, a new agreement was reached with the IMF, on the same basis as before.

Once again, actual outcomes were worse than the IMF predicted, with growth of 1.6% in 2012 rather than the 3% prediction, meaning the budget deficit was higher than the IMF-imposed target.

Concerned at the current government’s failure to implement the extreme cuts demanded in social spending, the IMF has used negotiations on future possible loans to demand that all political parties agree a predetermined set of IMF-endorsed economic policies so that whoever triumphs in the elections in 2014 and 2015, the IMF also wins. It’s democracy – IMF style.

One key area for the IMF and the US is the push for **public-private partnerships** (PPPs) as an alternative to public investment. The recently-adopted P3 – or Public-Private Partnership law – is the initiative of a bilateral US-El Salvador agreement, Partnership for Growth (PFG), signed by the previous ARENA government with no parliamentary debate. The agreement identifies insufficient foreign investment as the main reason for poverty and low economic growth and proposes PPPs as the solution.

Drawn up with the assistance of advisors from the World Bank, US Treasury Department and the IMF, campaigners fear the P3 will lead to massive lay-offs, wage cuts and anti-union persecution. The original bill envisaged auctioning off the running of everything from highways, ports and airports to municipal services, schools, healthcare, roads, higher education prisons and water systems, to private companies – mainly foreign multinationals.

New PPPs in agriculture would require bidders to have a minimum capital of \$100,000 and be producing export crops – meaning local farmers would not be able to participate – and more land would go to export crops instead of improving food sovereignty through local food production for local use.

While these efforts offer abundant profit opportunity to transnational corporations, they pose a serious threat to labour conditions and social welfare. Raul Moreno claims P3s are *“part of a model that has already demonstrated its failure in El Salvador – a mechanism to bring profits to foreign corporations, diverting revenue from the state into private hands at the expense of public services”*.

The law set out to create a standardised mechanism to sell off public services, grant concessions for 40 years and introduce changes to the law to remove the requirement that each privatisation be debated and voted on in parliament. The Bill even mandated that the government pay 1% of the contract value to losing bidders. US Ambassador Mari Carmen Aponte publicly

threatened to withhold up to \$400m in development aid if the P3 law was not passed.<sup>27</sup>

FMLN legislators, backed by mass public campaigns, were able to force significant changes in the Bill before it became law in May 2013. They successfully pushed to exclude public healthcare, education, water, public security and prison administration. However ARENA legislators are already threatening to amend the law to reinstate them in the future.

Opponents also secured a guarantee that all contracts over £10 million will continue to require legislative approval and established an auditor to issue sanctions for contract violations. Despite this, unions and campaigners fear the law will lead to lower wages, fewer jobs and growing poverty. Jaime Rivera of electrical workers’ union STSEL warns *“we as a country would lose the opportunity to own companies that generate resources for social investment, forcing us to borrow and then pay back more, all from less resources”*.



Photo: CISPES

Protest in San Salvador demanding the passage of a Water Law to guarantee all Salvadorans’ right to water and prevent any privatisation, August 2013.

The experience of previous such agreements is a warning to El Salvadoran civil society. Canadian mining company Pacific-Rim is currently suing El Salvador for more than \$400 million, a claim almost double the annual amount of US aid. It has been told that its case – that the government unfairly failed to license the opening of new mining operations – can proceed by a World Bank panel, known as the International Centre for Settlement of Investment Disputes. This part of the World Bank, which exists to enable corporations to sue governments (but not vice versa), will rule soon.

## Resistance and the demands of activists

One response to austerity and the threat to recent social advances is the launch of the Citizens Movement ‘Five More’ – bringing together human rights, indigenous and social justice organisations to build public support for the continuation of transformative programmes and calling into question privatisation and the validity of the country’s debt.

Alongside other social movements and church organisations they back calls to follow the example of Ecuador and launch a **debt audit**, believing much of the debt to be illegitimate and corrupt. Campaigners point to the fire sale of state assets as one sign of the **corruption** of previous governments but also to examples such as past governments borrowing funds to rebuild the Maternity Hospital that was damaged in the 2001 earthquake. Not a brick was laid. Former officials, including the ex-minister of health, were arrested on corruption charges by the new administration but the poor are still paying the cost of the debt.

Among their other demands are more actions to build **economic justice** – an increased minimum wage, fiscal reform, progressive taxation and an expansion of collective bargaining. Campaigners want action to tackle tax evasion, especially by big corporations. They demand the elimination of borrowing from the IMF, World Bank, Inter American Bank or any conditional aid which does not benefit the people.

A group of civil society organisations recently issued a statement arguing for an audit and cancellation of unjust debts on the basis that *“the debt is a central question dictating political and social agendas. The current economic model uses the indebtedness as its principal mechanism for its own survival – structural adjustment programmes have included the privatisation of public services, cuts in social spending, reductions of subsidies. The main cost of repaying these debts is to transfer them to the population as a whole – to socialise the debt, to make those already living in conditions of poverty pay. The debt represents a heavy weight on El Salvador and impedes our development and the exercise of our human rights. The conditions linked to the loans and debts have weakened the power of the state and handed it to corporations and financial institutions”*.<sup>28</sup>

At the centre of the fight is the battle against the impact of the P3 law. El Salvadoran workers have a proud history of **fighting privatisation**. In 2002–2003 attempts to privatise health services were met with a nine-month strike and 200,000 public health workers taking to the streets, forcing the government to abandon the sell-off. In 2006, environmental and social movements mobilised massive public anger against the planned sale of regional water companies. Again, the government was forced to back down.

Faced with the reality of what privatisation and liberalisation has meant for poor El Salvadorans, opposition to the P3 law – led by the public sector unions – was massive. On May Day 2013 more than 80,000 workers, students, indigenous, feminist and social movement activists marched under the banner, *No More Privatisations, No to Public Private Partnerships with Thieves*. Mass protests also took place outside parliament on the day of the vote.

Despite the passage of the law, activists and unions have pledged to fight each proposed privatisation. As the grip of El Salvador’s debt tightens, more struggles are guaranteed.

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# Jamaica

## Introduction

Jamaicans have suffered from a debt crisis and austerity for more than four decades. Even the IMF has admitted that the most recent austerity programme, agreed in 2013, will fail to deal with the debt. But the legacy of high debt payments and austerity is that Jamaica is off track to meet many of the MDGs, with progress on education and maternal mortality even going backwards.

## Origin of debt crisis

At independence in 1962, Jamaica inherited a high dependency on exporting crops such as sugar, coffee and cocoa. In 1973, the economy crashed due to the rise in world oil prices, rapidly pushing up the costs of imports. When interest rates rose at the start of the 1980s, debt payments shot up from 16% of exports in 1977 to 35% by 1986.

Foreign debt payments have remained above 20% of government revenue ever since. Between 1972 and 1995, Jamaica took bailout loans from the IMF in all but one year. And between 1980 and 2010, Jamaica's economy grew by an average annual rate equivalent

to just 0.65%. Since 1990 the economy has effectively stopped growing.

The IMF and World Bank began issuing large amounts of bailout loans in the 1980s, with consequent austerity conditions, including cutting public sector jobs, attached. For example, through the 1980s, the number of registered nurses fell by 60%. An austerity programme carried out between 1989 and 1993 was the most drastic, with large increases in inequality and poverty following financial liberalisation in 1991.<sup>29</sup>

High interest payments have been a constant burden. Since 1970, the Jamaican government has actually repaid more money overseas (\$19.8 billion) than it has been lent (\$18.5 billion).<sup>30</sup> Yet the government is still said today to owe \$7.8 billion in external debt. Before including debt interest payments, the Jamaican government has had budget surpluses for the last two decades, but because of interest payments, it has remained in deficit.<sup>31</sup>

In the mid-to-late 1990s a private banking crisis ensued, and government debt increased again through bank bailouts and the costs of the consequent recession. Government foreign-owned debt increased from 32% of GDP in 1998 to 52% by 2004. The economy entered recession yet again in 2008.

In 2010 and 2011, Jamaica again received more bailout loans from the IMF, but its economic performance was worse than predicted by the Fund. That year the economy shrank 1.5%, when the IMF had predicted it would grow 0.6%.<sup>32</sup> One of the conditions of the IMF loan was the introduction of public sector wage freezes which, given inflation, amounted to a 20% real terms cut in pay. Public sector employees took the government to court, and the Industrial Disputes Tribunal and Supreme Court ruled that the wage cuts had been illegal. To comply with the courts' rulings, the Jamaican government paid back wages owed to public sector employees. But the IMF, taking no notice of the fact this was a legal entitlement, reacted by suspending the bailout loans.

Following the IMF suspension, the World Bank, Inter-American Development Bank and European Union all reduced the loans and grants available to Jamaica, further worsening the country's financial difficulties.<sup>33</sup> In September 2011, the EU Ambassador told the Jamaican press: *"We have already declared that we have to wait for Jamaica to re-engage with the IMF in order to continue disbursing our own funds."*<sup>34</sup>

### Government external debt:

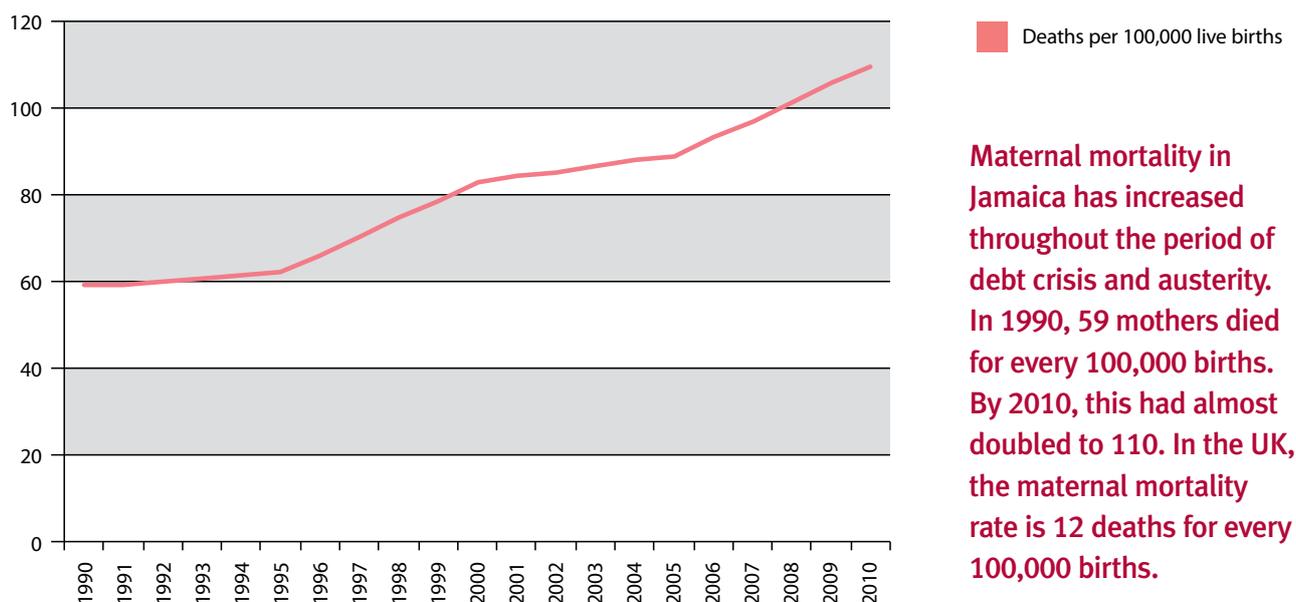
- \$7.8 billion
- 54% of GDP

### Private external debt:

- \$4.3 billion
- 30% of GDP

### Government external annual debt payments:

- \$1.2 billion
- 33% of revenue
- 27% of exports



**Maternal mortality in Jamaica has increased throughout the period of debt crisis and austerity. In 1990, 59 mothers died for every 100,000 births. By 2010, this had almost doubled to 110. In the UK, the maternal mortality rate is 12 deaths for every 100,000 births.**

Figure C3: Maternal mortality in Jamaica (deaths per 100,000 births)<sup>35</sup>

In April 2013, the IMF agreed a new lending programme of \$930 million over four years, with a further \$1 billion from the World Bank and Inter-American Development Bank, in order to enable the country to meet its debt payments as they fall due. One pre-condition for this loan was a requirement to restructure the debt owed to domestic creditors, reducing the interest rate, but not any principal. Yet, the debt owed to *external* creditors was explicitly excluded. The consequence is that as well as the restructuring being far too small to have a large enough impact on the debt, it also excludes the more damaging external debt, while potentially weakening the Jamaican financial system. This restructuring went directly against IMF advice in a February 2013 paper on the Caribbean, which stated that:

*“It is costly for debt restructuring to be ‘too small’. There is a low limit to how often a country can undertake debt restructuring. Hence, partial restructuring that generates only minor gains while eliminating future renegotiation possibilities should, where possible, be avoided.”*<sup>36</sup>

A further precondition of the programme was to agree a new pay freeze with unions for 2012–2013 – an effective pay cut of 8.5% – and wage increases of no more than 5% for the following two years (which, given inflation of 7% a year, will result in further pay cuts and a loss of spending power).

Other conditions of the IMF programme, which need to be implemented for Jamaica to keep receiving the loans, include reducing government spending and increasing taxes, reviewing labour legislation, increasing property taxes and taxation of companies,

implementing a freeze on the hiring of staff in schools deemed ‘overstaffed’ and securing investment in infrastructure through public-private partnerships, including in schools, healthcare, tourism, agriculture and transport.

The IMF programme sets a condition of getting the government debt (external and domestic) below 100% of GDP by 2020 but, incredibly, the IMF also says that *“current projections under the programme suggest that the target will not be achieved”*. The IMF says that by May 2014 the Fund and Jamaica will decide by how much more the debt needs to be reduced, possibly including some debt cancellation. However, this is most likely to be debts owed to foreign governments rather than the much larger debts owed to the private sector and institutions like the IMF and World Bank.

## Life and debt in Jamaica

The global financial crisis and spikes in the price of commodity imports, alongside Jamaica’s unmanageable debt burden and the resultant spending cuts, have sparked a surge in **unemployment**, which increased from less than 10% in 2008 to over 16% in 2013 – the second highest in the Americas. The proportion of people living in poverty increased from 9.9% in 2007 to 17.6% in 2010.<sup>37</sup> A 2011 IMF report said that 43% of the population live on less than \$2.50 a day.<sup>38</sup>

It is little wonder poverty is on the rise when the government spends more than half its income just servicing its debt. In the 2012–2013 budget, 55%



Photo: Carlos Barria / REUTERS

Residents walk on a mud-covered road in Kingston after Hurricane Dean passed close to Jamaica in 2007. The island keeps being hit by disasters and other shocks caused elsewhere in the world.

of expenditure was allocated to paying foreign and domestic debts, leaving too little to provide adequate levels, or quality, of education, health, housing and other services. The government currently spends more than twice as much on paying foreign debts as it spends on education and health combined, and 2.5 times what it does on capital projects.

As a result there have been savage **spending cuts**. Over the course of the 27-month IMF agreement Jamaica was forced to reduce the public sector wage bill from 11.5% of GDP to 9.5%. Public sector workers are enduring a five-year **wage freeze**, amounting to a 20% real terms pay cut, and have seen more than 3,000 jobs go over the past two years. In April 2013, the government announced plans to axe a further 4,200 jobs. A number of state agencies have been closed or merged, leading to further job losses. Plans to install computers and IT in community centres across the country were abandoned due to a lack of funds.

As a consequence, Jamaica is off track on at least one of the indicators for all the MDGs. Maternal mortality has almost doubled, rising from 59 per 100,000 live births in 1990 to 110 by 2010. In 1990, 97% of children completed primary school but by 2010 the figure was just 73%.<sup>39</sup>

Increasing poverty has also been fuelled by **rocketing prices**. Electricity prices have increased by over 135% since 2001. Salaries have not kept pace with food price rises. The country's leading newspaper, the *Gleaner* revealed that the average price of a basket of basic goods had risen 15.5% in 2011.

To meet its growing debt-servicing requirements the current government launched a raid on the funds of the National Housing Trust – taking out J\$45.6bn. The Campaign for Social and Economic Justice (CSEJ) called it *“illegal as well as immoral. Spending that money on one-room block-and-steel starter homes at J\$0.5m each, on the people's land, would yield 90,000 low-cost housing solutions that would benefit 300,000 people”*.

All this at a time when **homelessness** remains a major problem, with many more living in sub-standard accommodation. In Riverton City alone, the location of a garbage dump, 5,500 Jamaicans live in shacks and do not have any plumbing. The local people rummage through trash as soon as it comes off the garbage truck and collect anything that they can re-use or sell.

In light of IMF-imposed austerity it is little wonder that the gap between the rich and poor has grown wider. Jamaica ranks as the second worst for **inequality** in

income distribution among the 23 countries in the Americas – scoring 59.9 on the Gini co-efficient, worse than Haiti and only outranked by Suriname.<sup>40</sup>

Jamaica is now borrowing again to repay the interest on its previous loans. It is a vicious cycle. According to the US-based Centre for Economic and Policy Research (CEPR), debt servicing represents “a consistent transfer of output from taxpayers to domestic and foreign creditors, and a serious impediment to the formulation and implementation of a development agenda. As long as creditors are prioritised over the country as a whole, Jamaica will remain heavily indebted with persistently low growth.”

## Resistance and the demands of activists

With sustained low growth rates, an increasing reliance on borrowing and growing poverty it comes as no surprise that on the pages of Jamaica’s main newspapers and across the airwaves the debate about the country’s debilitating debt rages.

**“Much of the debt is odious and illegitimate as any debt audit would reveal. We need a moratorium on both local and foreign debt servicing – it is the only way forward.**

**“Then we can begin to believe in ourselves and finally make emancipation and independence a reality.”**

CSEJ (LEAFLET – NO TO DEBT SLAVERY, NO TO THE IMF)

Activists from the CSEJ, who have been behind a number of the high profile public protests against the terms of the IMF bailouts, have called for a forensic **debt audit** as part of a comprehensive programme to set Jamaica on a new course.

Among their demands are: putting a **moratorium** on debt payments and stopping borrowing; holding a forensic **audit** of the debt to determine who has corruptly enriched themselves at the public expense; stopping public sector cuts and lay-offs; **repudiating** the large amount of **debt** which is odious/illegitimate; collecting unpaid taxes and **taxing** the banks and the rich (additional tax on incomes of over J\$5m was introduced but for only one year, then abolished).

CSEJ claims that the aim of a forensic audit is to make people more aware of how corruption blights their social existence, in that it represents a method of transferring wealth from the poor to the rich. CSEJ say “If only 50% of the debt is corrupt, it lends a moral force to the argument as to why the debt cannot be repaid on the backs of the workers and poor. It is a tool for negotiating debt repudiation.”

Professor James Petras of Binghampton University believes that 70% of Jamaica’s debt is **illegitimate**. Activists claim subsidies were paid to profitable tourism companies such as Sandals resorts – especially the US\$120m taxpayer-funded building cost of Sandals Whitehouse which was then sold to the company for US\$40m. In 2009, UK bridge-building company Mabey and Johnson pleaded guilty to paying bribes to secure a contract,<sup>41</sup> which was funded with loans guaranteed by the UK government’s UK Export Finance. And J\$100m earmarked for infrastructure projects was used to refurbish the offices of the National Works Agency. The contract was given to a Chinese company in line with the conditions imposed by Chinese lenders. In another infamous case the National Commercial Bank was bailed out by taxpayers before being sold to the private sector at less than its market value.<sup>42</sup>

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# Egypt

## Introduction

Amid the current political turmoil, Egyptians continue to suffer from rising prices, growing poverty, mushrooming unemployment, malnutrition, food insecurity and power, fuel and water shortages.

Barely a year before Egypt's 2011 revolution exploded on to the streets the IMF were praising Hosni Mubarak's pro-market economic reforms as "*bold*" and "*impressive*". After all, he was cutting taxes for the rich, privatising industry, driving down wages, cutting health and education spending and attacking workers' rights.

The revolution's slogan of '*bread, freedom and social justice*' was a direct response to increasing **austerity, unemployment and privatisation**. And much of the anger was directed at the IMF and lending institutions who were complicit in keeping Egypt's poor facing the dire consequences of a spiral of debt and falling living standards.

## Origin of debt crisis

Like many countries, Egypt was lent large amounts in the 1970s, including to fund the military,<sup>43</sup> due to Egypt's role as a frontline state against Israel. Much

of the lending was initially from Arab states with large amounts of dollars gained from high oil prices. Loans also came from the United States, which saw both Israel and Egypt as strategically vital. The US provided \$1.3 billion of loans and grants in 1977 alone.<sup>44</sup>

In 1979, Egypt signed a peace agreement with Israel, for which it regained full control of Sinai. Arab states withdrew their extensive financial support in opposition to the treaty. To help keep the country's economy going, the western world disbursed more in loans, including UK loans for military equipment, even though they knew Mubarak's government would struggle to pay the debt.<sup>45</sup>

By 1986, government foreign debt payments reached a gigantic 50% of export revenues,<sup>46</sup> and Egypt was given more time to make payments on some debt owed to Western governments. By now the economy had stagnated under the weight of the payments, and the debt spiralled to over 100% of national income in 1988.

In 1990 and 1991, the Mubarak regime supported the war on Iraq. In return, the US and allies announced they would cancel \$20 billion of the country's debt, showing that creditors can quickly decide to wipe out debts when they decide it is in their interests.<sup>47</sup> However, the total debt owed only fell by around \$10 billion,<sup>48</sup> probably due to the US counting cancelled interest payments as cancelled debt.

Since the early 1990s, the absolute size of the debt has stayed around \$30 billion. Inflation and economic growth gradually reduced the relative size of the external debt, from 65% of national income in 1992 to 15% by 2010. Between 1993 and 2010, the Egyptian government was lent \$23 billion and repaid \$38 billion, yet the total amount owed increased slightly from \$28 billion to \$32 billion in 2010.<sup>49</sup> The total external debt is now \$39 billion and growing rapidly. The Egyptian government also has a very large debt owed to domestic creditors, making total public debt 75 per cent of GDP.<sup>50</sup>

**"Egypt's debt is Mubarak's debt. It is not the Egyptian people's. Egyptians never had a say in the borrowing that was done in their name, let alone borrowing to buy arms."**

DINA MAKRAM, POPULAR CAMPAIGN TO DROP EGYPT'S DEBT

### Government external debt:

- \$39 billion
- 13% of GDP

### Private external debt:

- Not available

### Government external annual debt payments:

- \$3.3 billion
- 6.6% of revenue
- 6.2% of exports

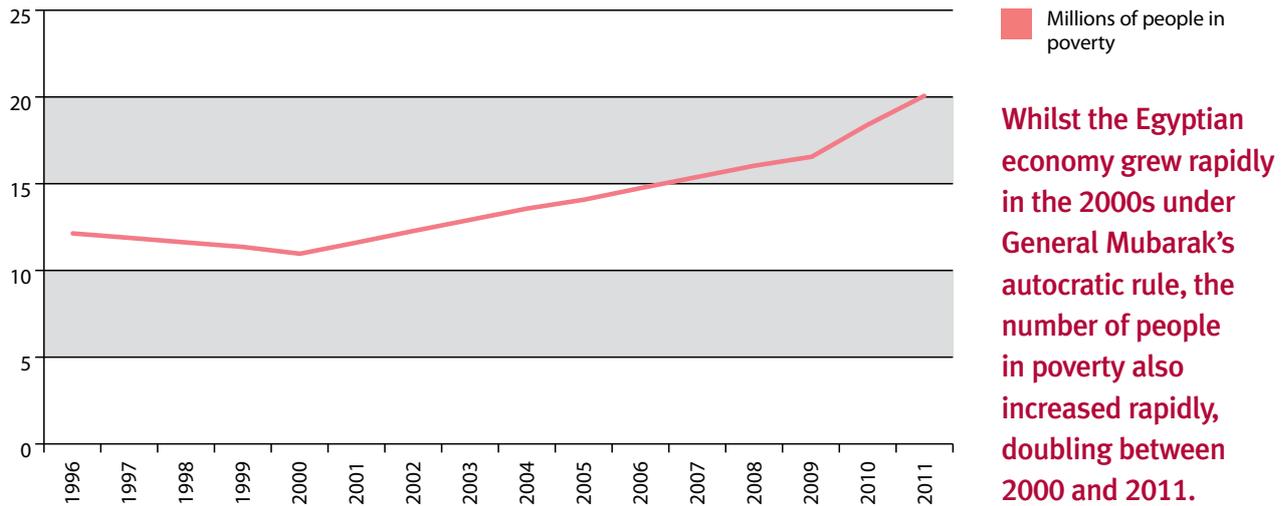


Figure C4: Egyptian population in poverty, national poverty line (millions of people)<sup>51</sup>

Since the revolution began, the Egyptian government's reserves of foreign currency have halved, as income from tourists and foreign investment declined. The debt further increased when \$12 billion in loans and grants was pledged by Middle Eastern states in July 2013, follow the deposing of Morsi from power.<sup>52</sup> The fact that creditors insist debts continue to be paid during political crises, means new loans are taken out – without any transparency or accountability – to cover ongoing debt payments.

Since 2011, Egyptian governments have been discussing taking out new IMF loans worth between \$3 and \$5 billion – simply to meet payments on Mubarak's debt as it falls due. The closest the loans came to being signed was in November 2012, when IMF staff agreed a loan, but the deal collapsed before it was signed off by the IMF Board. Amr Adly, from the Egyptian Initiative for Personal Rights, said: "Many fear that a new era of dependency will start, even after the revolution. The IMF loan won't be approved without giving concessions that completely contradict the promises of a new development model, and thus undermine the potential for social justice measures after the revolution."

An IMF loan may open the door to further loans from institutions such as the World Bank and European Bank for Reconstruction and Development. Oxfam's Dr Mohga Kamal-Yanni says this means that "many Egyptians fear that the loan will just lead to deeper debts without generating the jobs and economic growth necessary to repay the debt and achieve societal goals".

## Life and debt in Egypt

While the economy supposedly improved in the 2000s, this was not reflected in the lives of ordinary people. The number of people living in **poverty** increased, and the proportion of national income spent on public health and education fell – from 7.3% in 2003 to 5.8% by 2008. When the revolution began in 2011, a quarter of young people were unemployed.<sup>53</sup>

In December 2012, the *Al Masa'a* newspaper reported that poverty had even driven an Egyptian woman to kill her eight-month-old daughter by putting rat poison in



Photo: Flickr/Gigi Ibrahim

Protest in Cairo against the proposed IMF loan to Egypt, August 2012.

her milk. Yet the IMF continues to insist on deep cuts to subsidies for fuel and bread – on which millions of ordinary people depend.<sup>54</sup> The IMF claim that this would be a progressive move, as subsidies also benefit the rich, and money saved could be spent elsewhere. But removing subsidies to enable debts to be paid would take food and fuel away from the poor, whilst leaving nothing behind to be redistributed.

The IMF also demanded the raising of regressive indirect **taxes** on a range of everyday goods and foodstuffs. The Egyptian Food Observatory found that in September 2012, 86% of households were already unable to meet their basic needs – a 12% increase in just three months.

**Devaluation** has also made it harder to import fuel, resulting in daily shortages and long queues. Many have had to turn to the black market where fuel prices are up to 80% higher and quality so poor engines and machines get wrecked. The result is that the price of many goods has doubled since autumn 2012.

*“It’s not a matter of availability. It’s a question of access. Many families no longer have the economic means to put food on the table for their families,”* admits Abeer Etefa, of the UN World Food Programme’s (WFP) Middle East and North Africa office.

The consequence is growing **food insecurity** and a child health crisis. According to the WFP an estimated 13.7m people (17% of the population) suffered from food insecurity in 2011, up from 14% in 2009. They blame people’s inability to afford adequate and nutritious food on rising poverty rates.

As a result, **malnutrition** is up, with 31% of children under the age of five suffering stunted growth – up from 23% in 2005. Just over half of children are also estimated by WHO to suffer from anaemia, a ‘severe public health problem’ made worse by cuts to the proportion of GDP spent on education and health. *“Stunting, reflecting chronic malnutrition, is irreversible and stops children reaching their full physical and mental potential,”* said the WFP.

## Resistance and the demands of activists

It was the betrayal of the revolution’s demands – and a continuation of the failed programme of austerity and liberalisation – which provoked renewed demonstrations, ultimately leading to the fall of Mohammed Morsi’s government in July 2013. A huge wave of **strikes** and **protests** over rising prices, power and water cuts, job cuts and factory closures fed in to the Tamarod ‘Rebel’ campaign which collected over 20 million signatures calling for Morsi to resign. It was in

## Campaigning to drop the debt

In the wake of the revolution, activists created the Popular Campaign to Drop Egypt’s Debt, leading calls for a debt audit and seeking to pressure lending countries and institutions, locally and internationally, to drop Egypt’s debt.

The Popular Campaign to Drop Egypt’s Debt argues:

*“The economic policies applied by Mubarak’s regime have left us with enormous internal and external debts – leaving Egyptians captive to lending countries and institutions. The interest payments on these debts represents one of the biggest items of public expenditure in Egypt; this means that significant amounts of money are channelled towards already wealthy financial institutions rather than towards guaranteeing that every Egyptian can achieve a dignified standard of life”.*

Among their demands are for a line-by-line audit *“of the loan terms and usage, to determine: whether the loan was made with the consent of the people, whether it serves the interests of the people and to what extent it was wasted through corruption. All debts that are determined to be illegitimate must then be dropped by the lending country/institution”.*

the face of growing street protests against austerity and poverty that the army then launched its coup.

The Tamarod uprising was captured by the military who returned to power. But less told is the story of economic resistance post-Mubarak. Strikes by workers against privatisation and for social justice spread like wildfire. Nearly 1,000 independent **trade unions** have been created since the 2011 revolution. According to the International Development Centre in Cairo, Egypt saw a record number of 9,427 protests during Morsi’s first year in office. On average there were more than 1,100 protests per month in 2013 – more than 1,000 strikes and 800 sit-ins backed up by non-payment campaigns (eg of electricity bills), and more than 500 marches and other protests such as road-blocks. Morsi’s response was to pass laws criminalising strikes and protests and a wave of repression against workers.

Alongside a growing number of protests for an increase in the minimum wage, doctors, pharmacists, dentists and physiotherapists staged a high profile strike calling for increased health spending, to 15% of GDP, and against low salaries and falling pensions. Instead of refusing treatment, medical staff refused to collect fees for the care they dispensed.

Protests and strikes – by water workers, teachers and textile mill workers at Mahalla al-Kubra, among others



Photo: © Crown copyright 2012

In the 1980s the UK government backed loans to General Mubarak to buy Rapier missiles, a more modern version of which are shown here. Loans for arms sales to General Mubarak make up one-quarter of Egypt's debt to the UK.

– have also broken out over plans to privatise public sector companies, a process which over decades has reallocated public resources for private gain to an already affluent domestic and international elite, at the expense of local jobs and wages.

Amid all the protests the country's debt, and the possibility of further IMF-imposed austerity measures,

have been at the forefront. In August 2012 there were mass protests against the IMF loan outside meetings between the government and Christine Lagarde, with placards declaring “no to international loans over the rights of the poor people”, “we'll never pay Mubarak's or Morsi's debts” and “your money impoverishes us”.

Street protests throughout November and December 2012 against a proposed new IMF deal forced the government to back down on additional planned austerity measures and tax rises, scuppering the talks.

Civil society organisations, including the Egyptian Centre for Economic and Social Justice (ECESR), Egyptians for a Debt Audit and the Popular Campaign to Drop Egypt's Debt have united around calls for a range of **social justice measures**. They include a fairer distribution of the costs of restructuring, higher taxes on the rich, good labour laws, stopping privatisation, taxing capital revenues, imposing a system of progressive taxation, raising the minimum wage and setting a limit on the maximum wage and increasing budget allocations for education, housing and health – measures that could lift Egypt out of its crisis – but would likely be rejected by the IMF.

They also want an investigation into the possibilities of **recovering assets** stolen by the Mubarak regime and full transparency in any negotiations for new loans. The ECESR filed a lawsuit over the secretive nature of recent IMF talks – calling on the government to publish the national economic plan it was submitting to the IMF, including loan conditions and austerity measures.

Activists believe the perspective of debt can help connect up workers' struggles and the campaigns for a freer society waged by many revolutionary activists, cutting through serious divisions to create a fairer society less attached to the economic orthodoxy which has damaged so many countries since the late 1970s, and less dependent on Western patronage.

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# Portugal

## Introduction

Even on its own terms Portugal's austerity programme has been a spectacular failure. One government has collapsed. The current one, in the face of mass social protests, four general strikes and the biggest protest movement since the revolution of 1974, is teetering on the brink – rocked by the resignations in June 2013 of two prominent ministers, including finance minister Vitor Gaspar, seen as the architect of the austerity programme, who quit because of the lack of support for cuts.

GDP is expected to shrink for the third straight year in 2013. Tough austerity measures are making things worse. The human cost of the drastic cuts is being paid in falling wages, fewer jobs, a loss of social protections and plummeting public spending on health and education.

## Origin of debt crisis

Following a recession in 1993, Portugal's economy grew strongly in the mid-to-late 1990s. However, much of this growth was due to large amounts of foreign lending into the economy, both to the government and

private sector, following the creation of the European Monetary Union

Interest rates fell to bring them into line with those in the centre of the European economy, and the common currency encouraged more lending by European banks, to enable Portugal to buy exports from countries like Germany. The government had a deficit of 4% of GDP, on average, between 1996 and 2007, fuelling some – but not all – of the foreign loans coming into the country. While this system helped the growth of Western European banks, it is questionable how much it benefited ordinary people in Portugal, who themselves became much more indebted.

At the turn of the millennium growth stagnated. Unemployment doubled to 8% between 2000 and 2007. In the absence of growth, more loans were taken on to enable the payment of old loans.

By 2008, Portugal was heavily indebted. The external debt of the public and private sector totalled 200% of GDP.<sup>55</sup> A large majority was owed by the private sector – 154% of GDP – with 55% of GDP owed by the public sector.<sup>56</sup>

When the global financial crisis hit in 2008, foreign lending to Portugal's banks fell dramatically, fuelling the recession. GDP fell by 3% in 2009 alone. The decline in tax revenues and increase in welfare payments pushed up government borrowing.<sup>57</sup> In the spring of 2010, lenders began to become more concerned about the Portuguese government's ability to pay its debts. Interest rates on new debt issued by the government shot up, reaching more than 10% on 10-year loans by February 2011.<sup>58</sup>

Portugal's government could effectively no longer borrow the money needed to repay debts falling due. This meant the government faced defaulting on the debt, in which case reckless bank lenders would not be repaid. Instead, the EU and IMF agreed a package of bailout loans to ensure lenders were paid in full, while keeping the huge debt owed by the Portuguese government. This bailout was primarily in the interests of banks in other EU countries.

### Government external debt:

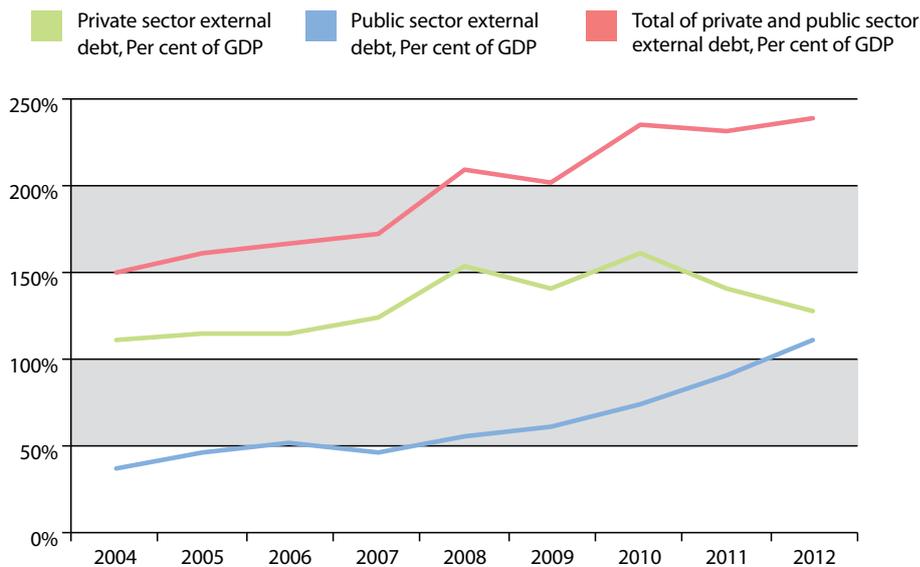
- \$236 billion
- 108% of GDP

### Private external debt:

- \$277 billion
- 128% of GDP

### Government external annual debt payments:

- \$17.8 billion
- 20% of revenue
- 21% of exports



In the run-up to the global financial crisis, much of Portuguese external debt was owed by the private sector rather than the government. Since the crisis began, government debt levels have increased to cope with the impacts of the bust of private borrowing and lending.

Figure C5.1: Portugal external debt (per cent of GDP)<sup>59</sup>

## Life and debt in Portugal

**Unemployment** has ballooned from 8.8% in 2008 to 18.2%, with more than 42% of young workers jobless, a situation that would be worse but for the fact that 120,000 people have emigrated each year since 2010, in search of work. As well as rising joblessness, **poverty** is on the increase as a result of massive tax hikes and cuts in social protections. A quarter of Portugal’s population is now living below the poverty line.<sup>60</sup>

**“In Portugal we have to live under the rules dictated by this enormously powerful troika, making us bow to a global financial system that is unscrupulous and completely heartless and that forces us to surrender our country to that pack of vultures that are the large banks.”**

MARINA OLIVEIRA, UNEMPLOYED PSYCHOLOGIST

**Salaries** are on average 20% lower and working hours are longer than when the crisis began.<sup>61</sup> VAT has increased from 13% to 23%. Income tax hikes have cost the average wage earner one month’s pay. The European Commission predicts a further fall in incomes in 2013. Electricity, transport, tuition and water costs have spiraled. New fees to access **healthcare** – €5 for a doctor’s appointment, €20 for emergency treatment – have been introduced while spending has decreased. **Education** spending has been cut, with more than 60,000 teachers sacked or placed in mandatory relocation schemes.

For those in work, wages have been cut, pensions frozen, holidays reduced and working hours increased. The retirement age has been raised to 66. **Workers’ rights** have also been under attack with a reduced scope for national collective bargaining, a 50% reduction in overtime payments and annual bonuses. Attempts to introduce new laws making it easier to sack workers with lower compensation have been rejected by the constitutional court. As part of the 2013 budget a further 30,000 public sector job cuts were announced as a result of deep cuts to spending in public health, education and social security.

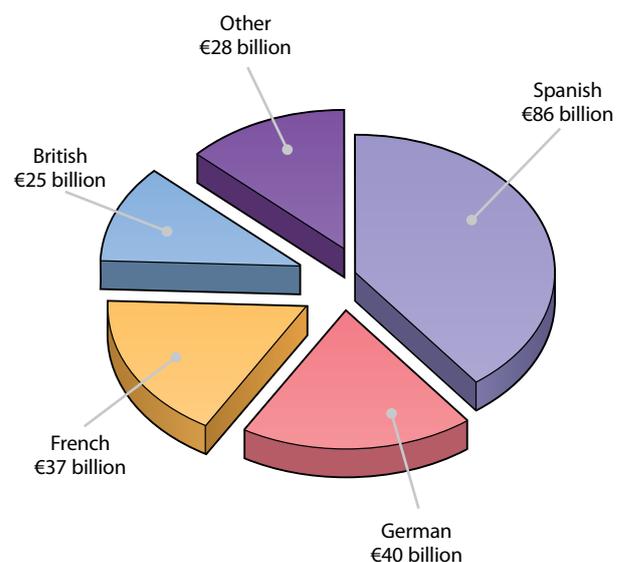


Figure C5.2: European Bank lending to Portuguese economy (Public and Private sectors) (€ billion, as of December 2010)<sup>62</sup>

When workers do lose their jobs they are facing greater poverty. **Redundancy payments** have been cut from 30 days to 10 days per year for new contracts. The maximum period of unemployment benefit has been halved. Cuts have been accompanied by a fire sale of state assets, with the electricity grid and power generating companies having been sold off to Chinese state investors. More are to follow.

**“This government has left the people on bread and water, selling off state assets for peanuts to pay back debts that were contracted by corrupt politicians to benefit bankers.”**

FABIO CARVALHO, FILM-MAKER.

The situation would be even worse but for some successes in forcing the government to back down. In September 2012 the de Coelho government announced an increase in workers’ social security contributions, from 11% to 18%, while lowering employers’ contributions from 23.75% to 18%. The measure amounted to the equivalent of a loss of one month’s wages for many workers – the equivalent of a €2.3bn transfer directly from the pockets of workers to the bank accounts of their employers. More than a million people took to the streets in up to 40 cities and the government backed down. Other austerity measures were struck out by the constitutional court.

**“This policy is applied only to social areas, never affecting the benefits of the wealthiest one percent. It is aimed at pleasing creditors and perpetuating Portugal’s dependence on the financial system.”**

JOURNALIST JOSE VITOR MALHEIROS, *PUBLICA DE LISBOA* NEWSPAPER

Despite its failure, the troika is pushing for more of the same – a further €4.8bn of **spending cuts** are to be announced in late 2013. Up to 50,000 jobs could go. The IMF is advocating a new austerity drive claiming unemployment benefit is still *“too long and too high”*, that public sector wages should be cut by up to a further 7% and that 20% of public sector jobs should be axed, along with cuts in pensions, overtime pay and an increase in medical fees.

Poverty levels have risen to unimaginable levels in Portugal. This new poverty, caused by unemployment and the inability to repay bank loans, is also driving up the number of suicides. According to the National Statistics Institute, in 2012, a fifth of all Portuguese



Photo: Rafael Marchante / REUTERS

A man holds a placard during a protest against austerity, in front of Portugal’s parliament in Lisbon, November 2012.

people were living on less than €358 a month, well under the legal minimum wage of €485 a month.

**Soup kitchens** have sprung up across Lisbon, bringing back memories of the *sopa dos pobres* (soup of the poor), served out by Catholic organisations to feed the impoverished of the late 1950s. Today, long lines of people queue outside charity centres, waiting to receive their only hot meal of the day. Teachers around the country report alarming cases of children coming to school on an empty stomach, dizzy and even fainting from hunger.

## Resistance and the demands of activists

As representatives of the troika met government officials in March 2013 more than 1.5 million people took to the streets in 40 cities, up to 750,000 in Lisbon alone. When the troika returned in June 2013, a general **strike** by Portugal’s two main union federations brought the country to a virtual halt.

It wasn't the first mass demonstration against austerity and the policies imposed by the troika, and unions, social movements and anti-debt campaigners say it will not be the last. Since November 2011 there have been four general strikes, hundreds of protests – including the largest demonstrations to hit the country since the revolution of 1974 – and growing calls to cancel the debt amid rising poverty and unemployment.

**Protests** against austerity policies forced the resignation of José Sócrates as Prime Minister in March 2011. On 15 September 2012 more than a million people took to the streets in dozens of cities and towns amid strike action across the public sector.

Anti-austerity flash-mobs have disrupted several ministers' public appearances and angry citizens have resorted to throwing eggs or tomatoes, shaking official cars and shouting the popular insult *gafunos* (thieves) wherever the supporters of austerity appear in public. Some of these methods are borrowed directly from previous struggles against debt in Latin America.

In February 2013, anti-austerity activists disrupted the parliamentary speech of Prime Minister Passos de Coelho by singing *Grandola* from the public gallery, the hymn which signaled the beginning of the 1974 revolution with the line “*the people have the most power*”. For days afterwards government ministers had to face singing crowds wherever they went.

Behind many of these protests has been the group Screw the Troika (*Que Se Lixe a Troika*). In their founding statement the group says: “*We stand indignant with the theft of retirement pensions, with the threat of firings and lay-offs, with each job destroyed... we stand indignant with increases in the price of bread and milk, water, electricity and gas, public transport. We are revolted to know of another friend who is forced to leave Portugal, of another family who lost their home, of another hungry child.*”

As the streets echo to the calls for an alternative to debt and poverty, activists are making the case for a **debt audit** and the repudiation of illegitimate and odious debts. Under the slogan *We Don't Owe! We Won't Pay!* the Committee for the Abolition of

Portuguese Public Debt and The Initiative for a Citizens' Audit of Public Debt, founded in December 2011, call for the immediate suspension of the payment of debt, an audit, and the cancellation of illegal, odious or illegitimate debt.

Isabel Castro, of the CADPP, says the purpose of the audit would be to expose the debt, who contracted it and why, the terms and who benefited: “*Public debt exists because the state gave priority to banks and decided to cover the losses and damages which the financial system racked up over the years as a result of their speculation, greed and even criminal activities. Portuguese public debt is not sustainable. The audit would check whether the debts accrue benefits to the general population. If not, the debt is illegitimate.*”

“*No debt which violates our human rights should be paid. No debt should be paid which requires the state not to honour its contract with citizens to ensure education, healthcare, protection in old age. No debt should be paid if it means ignoring democratic procedures and does not allow for citizen participation in the decision-making process.*”

As part of their attempts to tackle debt and austerity, activists have called for an end to privatisation and cuts, for an increase in wages and pensions, for the imposition of taxes on financial transactions, for higher taxes on the banks and luxury wealth, for limitations on speculative finance and capital movements, for a fair tax system and for control of the economy to be in the hands of citizens, not the financial sector.

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# The Philippines

## Introduction

Decades of debt, corruption and loans wasted on useless or fraudulent projects have left a devastating ‘social debt’ in the Philippines. Generations have paid the price for the government’s inability to adequately fulfil the basic needs of the population, namely healthcare, education and housing. What the Philippines spends on debt payments each year exceeds the budget for public health and education combined.

## Origin of debt crisis

The Philippines gained independence from the United States at the end of the Second World War, having earlier been a colony of Spain. In 1965, President Marcos was elected and in 1972 he declared martial law after having been constitutionally barred from seeking a third term of office. The Marcos dictatorship maintained itself in power through substantial outside assistance from the US and Western countries, because he was on their side during the Cold War. One of the main forms of support was loans from governments and international institutions such as the World Bank.

During his rule, Marcos is thought to have stolen up to \$10 billion. At the same time, between 1970 and 1980, government external debt increased rapidly. In the early 1980s US interest rates increased and the prices of export commodities fell. Annual debt payments doubled in a few years. The Philippine economy stagnated, then entered a huge recession.

Through the course of Marcos’s dictatorship, the IMF and World Bank lent the regime \$5.5 billion, with a further \$3.5 billion coming from foreign governments such as the United States.<sup>63</sup> One notorious deal was US government-backed loans for the Bataan Nuclear Power Plant, built by US company Westinghouse. Marcos, his cronies and Westinghouse all did well financially out of the plant. But it never produced *any* electricity and was built on an earthquake fault line at the foot of a volcano. Hundreds of millions of dollars were spent by the Filipino people on repaying the loans.

Popular opposition to the Marcos regime increased through the 1980s and, in 1986, he was ousted from power during the ‘Edsa Revolution’. New President Aquino, in a speech to the US Congress in September 1986, announced all debts would be honoured. A subsequent law was passed prioritising all debt payments over *any* other government spending. Since 1970 the Philippines government has been lent \$110 billion and has repaid \$125 billion, but is still said today to owe \$45 billion.<sup>64</sup>

Since the mid-2000s, the Philippines government has itself been lending large amounts of money, by building up its foreign currency reserves. The government effectively lends to other governments, such as the United States, through buying their government bonds. Today, the Philippines government is *owed more than it owes* in foreign debt.<sup>65</sup> But the debt it owes, and the payments on it, are still extremely high, accounting for over 20% of government revenue. One significant difference is that the interest rate paid by the Philippines government is much higher than the interest rate it receives from the US government. This lending has little benefit for Filipinos, who can’t spend the money on genuine development projects, and represents a means of transferring wealth from the Philippines to the US.

In trying to protect itself from a volatile global economy, by saving large foreign currency reserves rather than increasing spending, the Philippines has, in effect, been practising a further kind of austerity.

### Government external debt:

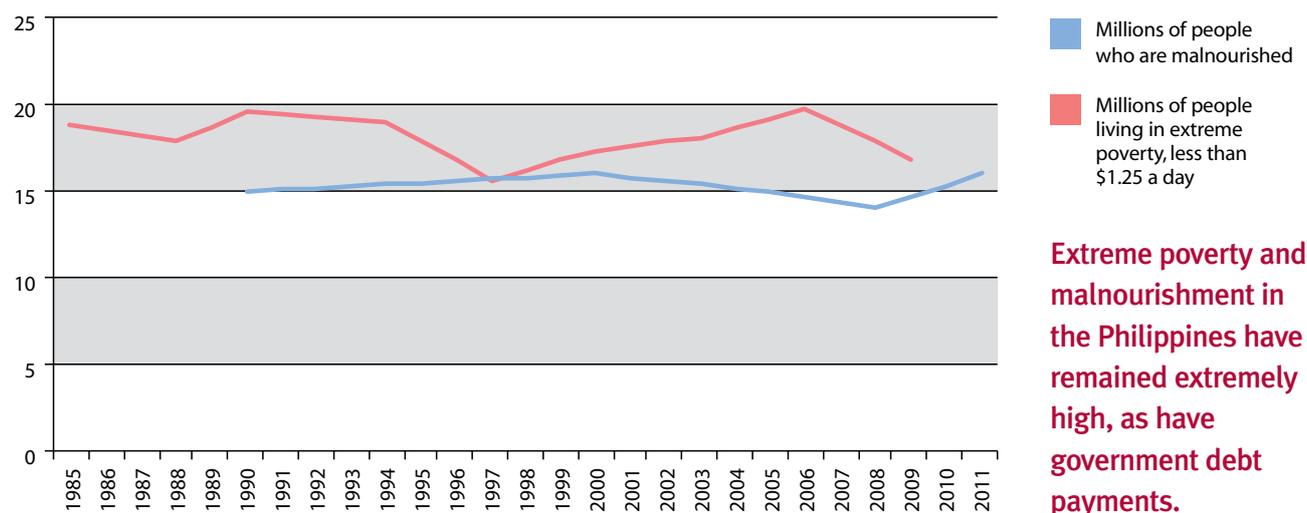
- \$46 billion
- 20% of GDP

### Private external debt:

- \$22 billion
- 10% of GDP

### Government external annual debt payments:

- \$7.7 billion
- 24% of revenue
- 11% of exports



**Extreme poverty and malnourishment in the Philippines have remained extremely high, as have government debt payments.**

Figure C6.1: Hunger and poverty in the Philippines (millions of people)<sup>66</sup>

## Life and debt in the Philippines

While per-person economic growth has been high, **extreme poverty** and hunger have not fallen (see figures 6.1 and 6.2) and unemployment has increased.<sup>67</sup> Since the global financial crisis began, the number of people malnourished has increased from 14 million to 16 million, back above the levels of hunger experienced in 1990.<sup>68</sup>

The Philippines own agriculture sector has been a story of riches to rags, with free market liberalisation and loan conditions killing off local producers through heavily-subsidised foreign competition, and reducing the country from being an exporter of rice in the 1970s to being an importer today, leaving people increasingly vulnerable to rising global food prices.

**Education** funding is woeful – at 2.2% of GNP in 2012, it falls far short of the UNESCO benchmark of 6% for developing countries, and is also below regional averages. Of 29 million Filipino children, more than six million are out of school, says the Freedom from Debt Coalition (FDC). According to the ILO, some 5.5m children, from as young as five years old, are working – many in rubbish dumps or in agriculture and mining – in jobs that are often highly dangerous.

Those that remain in school are languishing in a system that is of a quality campaigners call “remorseful”, and with a dropout rate that is staggering. Figures for 2008 show that of youngsters from the poorest 20% of society, 38% did not graduate from elementary school and only 2% graduated from college.<sup>69</sup> The Teachers’ Dignity Coalition says its staff in the public system have a perennial lack of basic resources, such as books and learning materials, chairs, classrooms and toilets, not to mention inadequate numbers of teachers.

**Healthcare** in the Philippines also remains out of reach for much of the population, thanks to a long-standing lack of investment in public services. Six out of 10 Filipinos who become sick die without ever seeing a doctor.

Government spending on public health was 0.56% of GDP in 2012, which is shamefully shy of the 5% recommended by the World Health Organization (WHO). Members of the public bear the brunt of health costs, and increasing fees and privatisation puts services out of reach for millions. For many, becoming ill is a financial disaster that cannot be contemplated, and there is a heavy reliance on self-medication or alternative medicines. Those who do go to hospital will frequently find them ill-equipped and poorly staffed. Only 62% of births are attended by healthcare professionals, a figure that drops to 48% in rural areas,

### CHILDREN AT WORK

- Work for the 5.5m children includes agriculture, gold mines, deep-sea fishing, construction, markets and rubbish dumps.
- The ILO says three million of those work in hazardous conditions eg exposure to potentially harmful chemicals, toxins, dust or vapours, as well as bacteria, parasites and viruses. In ‘compression mining’ young boys descend into watery pits – using only a tube to breathe – to fill bags with ore. Long hours take their toll physically. Some are abused by their employers.
- Not all working children are out of school – indeed, 6.4% of those surveyed said they were working to pay for their own education.<sup>70</sup>

## Living in a dump: Payatas landfill site

*“The current political economy here effectively condemns children to a cycle of poverty, based on institutional failure. NGOs try to plug this gap and provide for the basic needs of the communities and people left behind, while campaigning for systemic change.*

*“One of the families we work with here is made up of three young boys and their grandparents. The eldest, John Dale, is 10 years old and his brothers are nine and seven. Their mother died several years ago and their father was murdered in 2012.*

*“All three siblings were previously working as ‘jumper boys’ – kids who would climb inside the moving garbage*

*trucks and pick out the trash on top of the pile before jumping off and sorting through it. They could earn about P50 (\$1.10) a day doing this and had dropped out of school because, given the quality of education and the prospects for the kids, it was useless to them – they could earn money for the family’s most basic needs immediately.*

*“Now we sponsor their education and cover their basic needs so they can concentrate on school and not have to worry about everything else.”<sup>71</sup>*

Roy Moore, Fairplay for all Foundation

according to the National Demographic and Health Survey 2008.

When it comes to **housing**, the government has again neglected its duty to provide its citizens with their rights to adequate shelter. There is a particular issue with security of land tenure, with an estimated 30% of the country’s urban population (around three million families) having been forced to informally settle on public and private lands, says FDC. Many are living dangerously in makeshift houses, along railway lines and highly-polluted river banks. Many of these are also in areas most vulnerable to the impacts of flooding due to climate change.

## Resistance and the demands of activists

The Philippines has one of the longest running active debt campaigns in the world, having established the Freedom from Debt Coalition (FDC) in 1987. Many of the activists who had been involved in the overthrow of the notorious Marcos dictatorship formed the organisation which went on to become one of the founding organisations of Jubilee South.

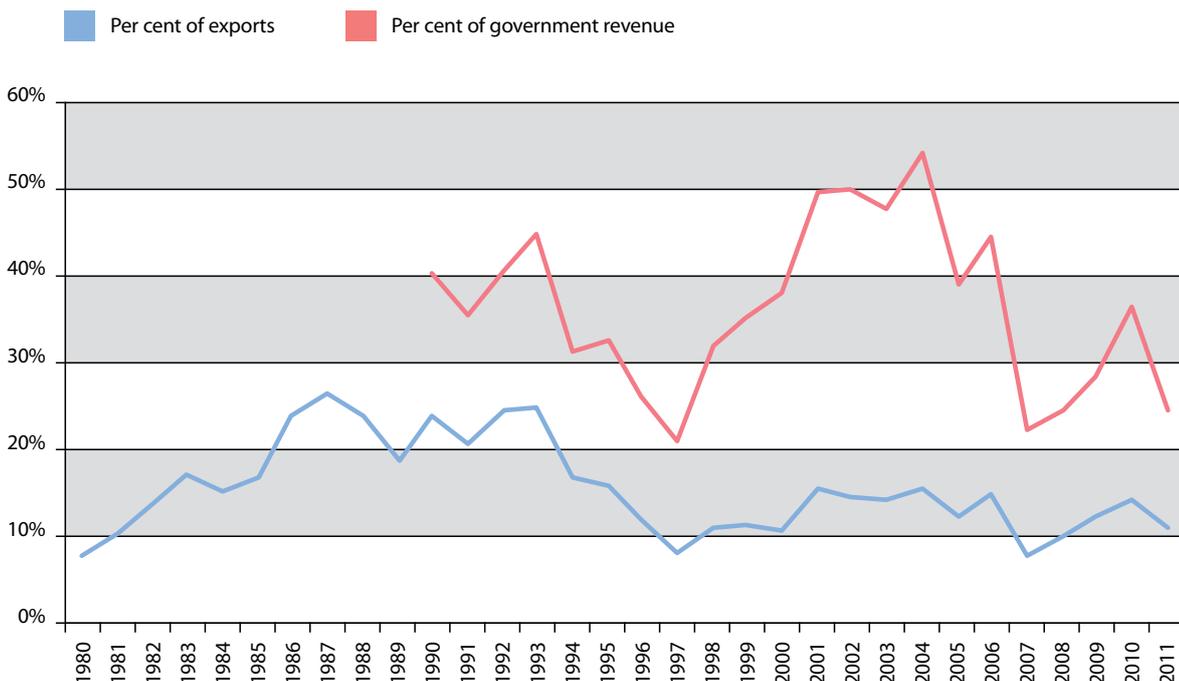


Figure 6.2: Government foreign debt payments<sup>72</sup>

FDC has two core demands:

- That the people – who have to pay for the debt – should know every detail of where that debt comes from. This should be carried out via a **debt audit**.
- That **debt payments should be adjusted** to allow for higher growth and reductions in poverty. In the Philippines paying government debts is automatic by law and is placed ahead of any other spending – legislation that campaigners want to be repealed.

A debt audit would be the crucial first step towards freeing people from burdensome, unnecessary and unacceptable debts, many of which are illegitimate. To these ends, FDC wants to conduct both an Official Government Audit and a Citizen's Debt Audit.

The focus on exposing **illegitimate debt** by campaigners has led to an increase in public and political debate and activity. 2007 saw the formation of several FDC-led campaign groups – the Stop Toxic Debt! campaign group, a faith-based group that went on to become the Congress Against Immoral Debts, the People Against Illegitimate Debt, and a strengthening of the Youth Against Debt campaign.

In the 2008 national government budget deliberations, campaigners' calls were heeded and a provision agreed to suspend payments on debts "*challenged as fraudulent, wasteful or useless*", including 11 specific cases. But the decision was vetoed by then president Gloria Arroyo, who has since been implicated in various anomalous loan projects.

Thanks to decades of action by campaigners, the mainstream conversation moved from 'how can we afford to pay these debts?' to '*should we be paying these debts?*'

FDC mobilized to document, publicise and rally around a catalogue of fraudulent programmes and project loan agreements. In one case 80,000 people rallied amid uproar about a loan-funded government IT project which was riddled with a lack of transparency and beset by incompetence.

## Waste not, want not – the Austrian medical waste incinerator project

In 1997 the Philippine government used a loan from the Bank of Austria to buy what turned out to be substandard medical waste incinerators for use in 26 public hospitals. This was despite a clear conflict of interest, in that the Bank of Austria owned 10% of the shares of VAMED, the manufacturer of the incinerators.

The project was rushed, ignoring safety procedures, and the issue of toxic emissions and hazardous residues was underestimated. At the same time they were being shipped to the Philippines, the EU began decommissioning those same incinerators. Due to the Philippine Clean Air Act 1999, the 26 incinerators were banned from use, and have been out of action since. Numerous tests declared them to be hazardous to health.

Ten years later a number of groups came together to call for the non-payment of the loan, which continues to blow a hole in the government's budget, and lobbying also took place in Austria. It was one of 11 illegitimate loans to which payments were to be suspended by Congress in 2008, but the decision was vetoed by President Arroyo.<sup>73</sup>

In 2011, the House Committee on Ways and Means, together with the Congressional Budget Planning Department (CPBD) and FDC, started a debt audit initiative that is meant to review policies on debt financing and propose ways to correct its flaws. But the committee chairman was sacked by the Aquino administration following several disagreements, including on the debt audit. With the FDC preparing a new strategy and campaign, the struggle is far from over.

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71 Roy Moore lives and works in the district of Payatas, in Manila, which is home to the largest open dumpsite in the Philippines. From there he runs the charity Fairplay for all Foundation, which runs a drop-in centre, an urban farm, and football teams for street children and the urban poor.

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# Pakistan

## Introduction

Development in Pakistan is being strangled by one of the longest running vicious cycles of debt in the world. The needs of the people are subordinated to the demands of lenders, with over half the country – more than 100 million people – still living on less than \$2 a day. Loan conditions and debt payments have led to regressive tax reforms, privatisation, price hikes, job losses, pay freezes and cuts and the wholesale neglect of public services – all of which hit the poor hardest. Abdul Khaliq, coordinator of CADTM-Pakistan (Committee for the Abolition of Third World Debt-Pakistan), says: *“Successive governments and regimes, instead of taking care of their people, have been continuously and shamelessly shifting the debt burden, under the dictations of the international financial institutions, on to the working classes of Pakistan.”*

## Origin of debt crisis

Pakistan became highly indebted in the 1970s, when the government borrowed to cope with global oil price spikes. Ever since, the people have suffered as a result of the large external debt. In response successive governments have continuously sought bailout loans

from the International Monetary Fund (IMF). For 30 of the last 42 years, Pakistan has received IMF loans, one of the most sustained periods of lending to any country.<sup>75</sup>

The bailout loans have resulted in the debt being passed down the generations, giving the IMF enormous power over Pakistan’s development, through the economic conditions placed upon the country. Lending and grants have also been a means to prop up military governments supported by the Western world in Pakistan, including the regimes of General Musharraf (1999–2008) and Zia-ul-Haq (1977–1988).

Through the 1980s and 1990s Pakistan increased sales tax at the behest of the IMF, while reducing taxes on imports. As a percentage of tax revenue, regressive sales taxes in Pakistan increased from 7% in 1980 to almost 30% by 2000. Overall taxes increased by 7% for the poorest households, while falling by 15% for the richest.<sup>76</sup> Yet in 2010, the IMF was once again pushing the Pakistan government to increase sales tax or replace it with VAT, also at higher rates. Shahid Hassan Siddiqui from the Research Institute of Islamic Banking said in 2010 that IMF tax conditions hurt the poor.<sup>77</sup>

Much of the ‘aid’ received by Pakistan has also been in the form of loans. Between 1998 and 2005, the World Bank, Asian Development Bank and Japanese government lent over \$500 million for a National Drainage Program. The project was supposed to improve Pakistan’s irrigation system. However, following complaints by local people in the Sindh region, a World Bank Inspection Panel found that the project had led to widespread environmental harm and suffering among local communities, violating six of the World Bank’s safeguard policies.<sup>78</sup> In 2003, increased flooding, partially *caused* by the project, claimed more than 300 lives.<sup>79</sup> Over \$100 million of interest and principal has been repaid on the loans so far, with hundreds of millions still to be paid.

Pakistan’s debt burden increased again because of the disastrous floods in 2010, and the impact of the global financial crisis, such as the rise in the cost of imported oil. \$8 billion of new loans from the IMF were secured, which are due to be paid between 2013 and 2015. Consequently, Pakistan’s debt payments will shoot up again to over 20% of exports.

The IMF made its 2008–2010 loans conditional on sizeable cuts in public spending, including phasing out energy subsidies, an increase in General Sales

### Government external debt:

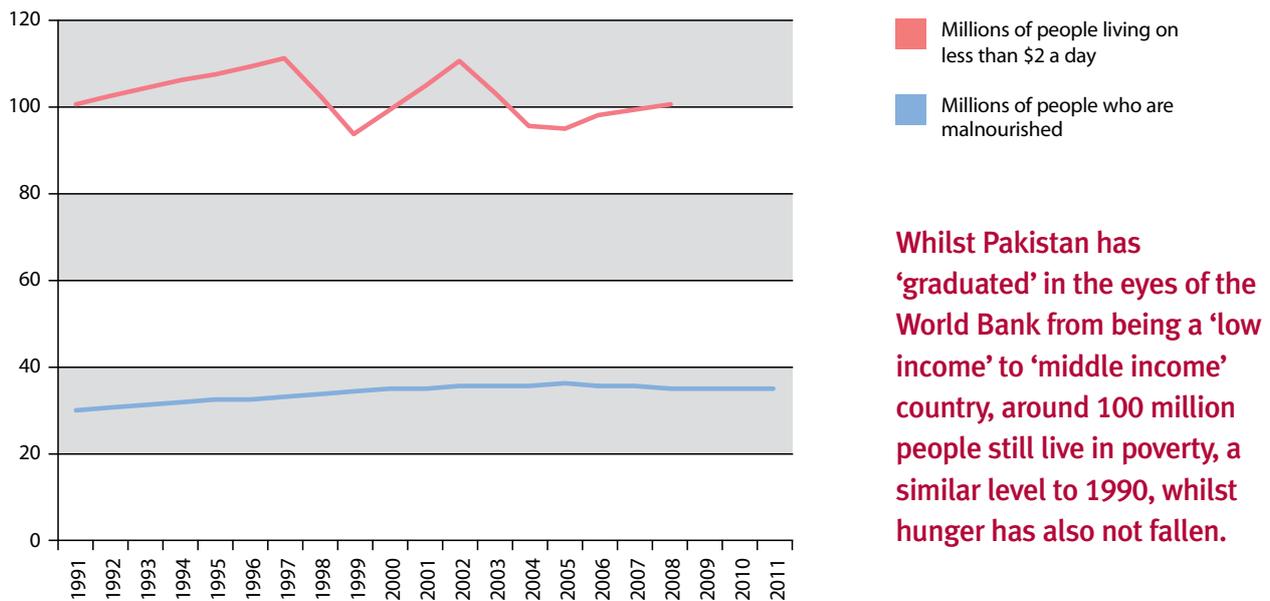
- \$53 billion
- 22% of GDP<sup>74</sup>

### Private external debt:

- No figures available

### Government external annual debt payments:

- \$2.1 million
- 8% of revenue
- 7% of exports (rising to over 20% in 2013 and 2014)



**Whilst Pakistan has ‘graduated’ in the eyes of the World Bank from being a ‘low income’ to ‘middle income’ country, around 100 million people still live in poverty, a similar level to 1990, whilst hunger has also not fallen.**

Figure C7: Hunger and poverty in Pakistan (millions of people)<sup>82</sup>

Tax, and the tightening of monetary policy. However, while staying on track with meeting IMF conditions, Pakistan’s economy performed far worse than predicted by the Fund. The economy grew 1.7% in 2009, rather than the 5.0% the IMF predicted. Growth lagged behind predictions again in 2010, when the country was hit by devastating floods.<sup>80</sup>

In early 2011, the Pakistan government was on the edge of collapse when the junior coalition partner threatened to withdraw over rising energy costs. The government stopped the phasing out of fuel subsidies, and the IMF terminated the lending programme.

In September 2013, the IMF announced it had agreed loans of up-to \$6.6 billion over three years, to enable Pakistan to keep making debt payments. The full conditions of the loan had not been released at the time of going to press, but include trade liberalisation, cuts in government spending, privatisation and removing regulations on businesses.<sup>81</sup>

## Life and debt in Pakistan

Growing debt payments currently add up to more than half of what is spent on health and education combined. And because people come second to debt, Pakistan is unlikely to meet many of the MDGs, specifically those aiming to:

- Halve the proportion of people going hungry
- Ensure all children are able to complete a full course of primary schooling
- Eliminate gender disparity at all levels of education
- Reduce by two-thirds the child mortality rate

- Reduce by three-quarters the maternal mortality rate
- Halve the proportion of people without access to basic sanitation

Among those services suffering neglect is the public **health system**, which is in a dire state. Those who can pay are often forced to turn to the private sector, while those who can’t rely on self-medication or unqualified local healers, putting their health at risk. For example, a lack of available vaccinations has seen hundreds of children dying during a measles outbreak in the regions of Punjab and Sindh this year, says CADTM-Pakistan.

Many poor people resort to **suicide** to escape their situation – the government banned the sale of rat poison pills because so many people were using it as a cheap way to end their lives and, in some cases, those of their entire families.

**“Previously I’d never seen poverty and hunger as used to exist in former East Pakistan (now Bangladesh) and the remoter pockets of West Pakistan. Now I see it everywhere.”**

NAJMA SADEQUE

The level of **food insecurity** is alarming, not least in flood-hit areas, with almost half of people being without access to sufficient food. Prices have rocketed because of the global rise in the cost of fuel and staples like wheat and lentils. According to campaigning journalist Najma Sadeque, many poor people are being

forced to eat raw food because they cannot afford cooking oil, and some survive only on bread and tea.

In common with other indebted countries, Pakistan has bent over backwards to meet lenders' **loan conditions**, with most policies disproportionately affecting those who can least afford it. In July 2013, **sales tax** on imported *and* domestic second-hand clothes, largely consumed by the poor, rose from 2% to 5%. In the same government budget, income tax on asset management firms was cut by 10%, a gradual reduction in the corporate tax rate was announced, and a 10% increase in defence spending was proposed.

**“It seems that the IMF’s official recognition of the importance of fair tax systems has been subordinated to the more pressing need to increase revenues in the traditional way – through consumption taxes that hurt the poor.”**

ANALYSIS BY ACTIONAID PAKISTAN AND UK, JUNE 2011

The under-taxation of the wealthy elite, including politically powerful rural landlords, is something that IMF conditions have not addressed. Pakistan collects

less in taxes as a percentage of its economy than almost any other country of its size. While Pakistan has failed to meet many of the lenders' demands to increase its overall tax revenue, the government managed to find a way to push through reforms of its sales tax, doubling it to 16%. This year's budget (2013–2014) put it up a further 1%.

Meanwhile the Pakistan government has sacrificed hundreds of thousands of **workers' jobs** since the 1990s in the name of IMF liberalisation demands that called for the **privatisation** of industry on a massive scale. According to CADTM, many industrial units were simply asset-stripped then closed, and almost all of the proceeds were either misused or spent on debt servicing, with only about 10% going to poverty alleviation programmes.

In addition, years of mismanagement, under-investment and corruption – amid growing demand – have caused a **power crisis** that has left the country short of the energy it needs and is damaging lives and livelihoods. Unpaid bills – many of which are being defaulted by the government – lead to frequent outages of up to 18 hours a day, often endured in blistering summer heat. The crisis, which began in 2007, has worsened to the point where educational



Photo: Akhtar Soomro/REUTERS

Twelve-year-old Hamza collects wood for fuel from a dumping ground during the early morning in a Karachi slum, February 2011.

institutes are being closed, hospital operating theatres are suspending their work and workers are being laid off, with a number of working class areas suffering a parallel water shortage.

**“People are at the mercy of the ruthless weather. The government defers payments to IPPs [Independent Power Providers] but it did not defer even a single instalment to the IMF or other creditors.”**

ABDUL KHALIQ, CADTM

To compound its problems, Pakistan has been deluged by a series of **catastrophes**, including the devastating 2005 Kashmir earthquake, cyclone Yemyin in 2007 and the 2010 floods that displaced 20 million people and destroyed infrastructure. But through all these disasters, the debt kept being paid.

Some of Pakistan’s worst natural disasters in history have coincided with a prolonged commitment to the US-led ‘**war on terror**’, which has cost the Pakistan government between \$68bn and \$80bn, and killed and displaced thousands of people.

## Resistance and the demands of activists

Pakistan has an established, active and growing anti-debt movement, largely led by CADTM-Pakistan. A major priority is calling for a **public audit** of Pakistan’s debt.

The 2010 floods in the country re-galvanised the campaign and brought the debt debate into the mainstream. An **alliance** of social movements, trade unions and civil society groups came together to push the government to seek debt relief to help cope with the enormous impact of the disaster, and to highlight the issue of illegitimate and odious debts that were holding back development.

Under the leadership of the Pakistan Debt Cancellation Campaign (PDCC) – and with huge participation by

flood-affected communities, and support from Oxfam Novib – they organised rallies in major cities, plus local assemblies, demonstrations, seminars, conferences, petitions and media coverage. The involvement of lawyers, academics, intellectuals, social activists and the media helped to raise the profile of the campaign. A three-day hunger strike camp was held by flood-affected people in front of the World Bank building in Islamabad.

Thousands were mobilised around the issue, prompting the Senate to pass a resolution to seek **debt relief**, although it has since been evasive on the issue. Both the former government and opposition parties agreed to a bi-partisan debt examination. In 2012 Pakistan’s national assembly formed a committee to begin an investigation, amid campaigners’ reservations that its mandate and scope was too limited. However, the committee did not make public any report before its tenure ended in May 2013.

Campaigners are demanding that instead of borrowing more money, Pakistan needs to check corruption, **tax the rich** and cut the military budget. They argue that all resources should then be ploughed in to proper social protection systems for the poor, ending the energy crisis and creating jobs.

Meanwhile Pakistan’s long-pursued policy of privatisation has been resisted by workers. In the 1990s an anti-privatisation alliance was formed by the trade unions and, thanks to workers’ resistance, the first attempt to sell off Pakistan Steel Mills was suspended by the Supreme Court in 2006.

There has also been a rise in **protests over food prices and power outages**. In 2012, the house of a Pakistani politician was stormed by thousands of rioters amid public fury at the government’s inability to maintain electricity supplies during sweltering summer conditions. The public had – not for the first time – lost patience with rising levels of debt that render the government unable to pay electricity providers, and protested for several days.

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# Latvia

## Introduction

Latvia is the poster boy of the IMF – praised for tackling its budget deficit and returning to growth. The reality however, is far from the spin of the pro-austerity brigade. Dubbed *internal devaluation* or *competitive austerity* Latvia had just one blunt instrument in response to the global financial crisis; push down spending and wages through mass unemployment in order to make the country more ‘competitive’. This was despite the fact the government’s debt was extremely low. The debt causing a problem was that of the banks and their Scandinavian owners.

## Origin of debt crisis

After gaining independence from the Soviet Union in 1991, Latvia’s economy crashed as Soviet demand for its exports dried up. The economy began to recover in 1994, but, in 1995, fraud and bad loans by Banka Baltija led to a banking crisis.

Steady economic growth in the late 1990s and early 2000s saw unemployment gradually falling. In 2004, Latvia joined the EU and as part of the process of accession all controls on the movement of capital in and out of the country were removed. With the Lat

via tied to the Euro from 2005, Western banks were given confidence in the Latvian economy and large amounts of loans flooded into the country through the banking sector, particularly from Scandinavian banks. Four banks came to dominate the economy with 75% of the lending – Hansabanka (owned by Swedish Swedbank), Parex Banka, SEB Banka (Swedish) and Nordea (Scandinavian-owned bank listed in Denmark, Finland and Sweden).

The loans funded the purchase of assets such as property and increased consumption, fuelling a boom. However, inequality also increased. In 1998, for every €1 earned by the poorest 10 per cent, the richest received €14. By 2008, this had increased to €17.<sup>83</sup>

Between 2005 and 2007, the foreign-owned debts of the private sector rose from \$14 billion (90% of GDP) to \$37 billion (130% of GDP). Throughout the boom public sector debt remained extremely low, with government external debt at 5% of GDP in 2007, and total public debt at 9% of GDP.

When the global banking crisis erupted in 2008, foreign loans effectively ended, and the debt led to a net drain of resources out of the country. Lacking the foreign loans which had funded the boom, the economy crashed. Between late 2007 and late 2009, Latvia’s economy shrank by about 24%.<sup>84</sup>

Parex bank went bust. Rather than allowing foreign creditors to pay the price for their **reckless lending**, the Latvian government bailed out the bank, to the tune of 1.2 billion lats<sup>85</sup> (\$2.2 billion) to enable the bank to keep paying its creditors. This bailout was partly funded by loans from the IMF and EU to the Latvian government.

Despite having low public sector debt, large cuts in public spending and increases in taxation were introduced, with the aim of forcing down wages and consumption, to make the country ‘competitive’. Unemployment increased to 20% by 2010. Taking account of people involuntarily working part-time, and those who had given up looking for work, underemployment reached 30% in 2010.

It is estimated 200,000 people have left the country seeking work elsewhere; one-tenth of the population (the equivalent of 6 million people leaving the UK). More than 12% of the overall population now works abroad and specialist workers are in short supply.

### Government external debt:

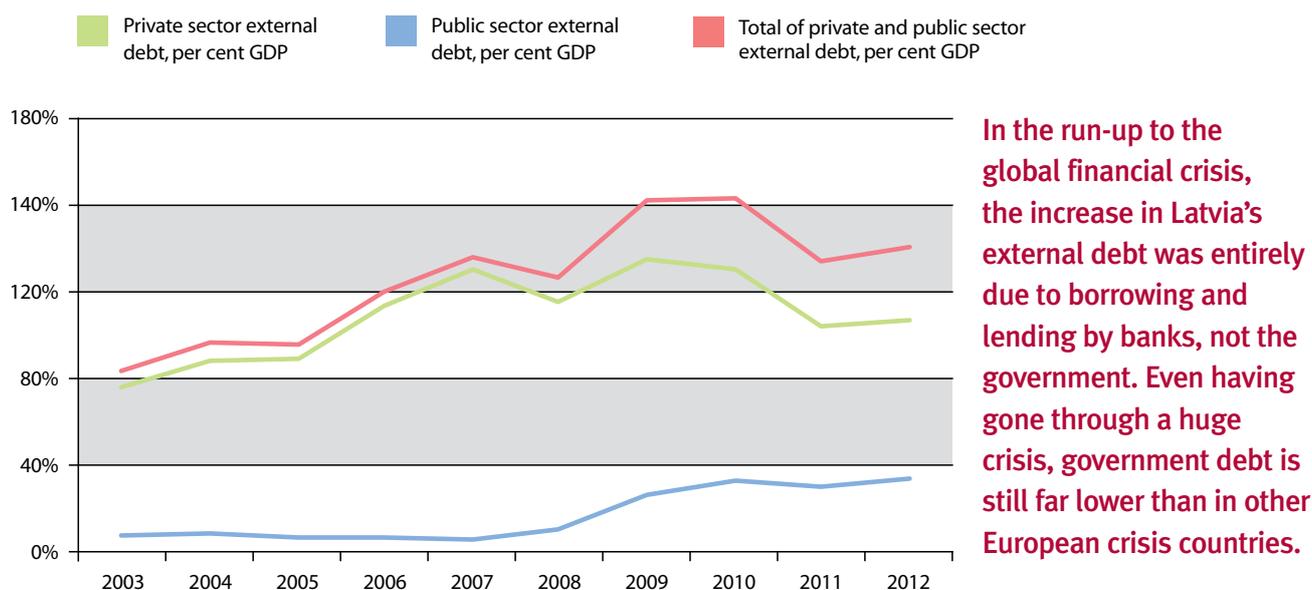
- \$9.5 billion
- 33% of GDP

### Private external debt:

- \$30.3 billion
- 107% of GDP

### Government external annual debt payments:

- \$625 million
- 6% of revenue
- 4% of exports

Figure C8.1: Latvia external debt (per cent of GDP)<sup>86</sup>

Austerity has created demographic losses exceeding Stalin's deportations in the 1940s. With poverty rates rising, the birth rate has declined, meaning Latvia's population is ageing much faster than elsewhere in Europe.

Most of the austerity measures were introduced in 2009, when the economy collapsed far more dramatically than predicted by the IMF. When agreeing the lending programme in 2008, the IMF had expected the economy to contract by 5% in 2009; in fact it fell 17%. Unemployment had been expected by the IMF to increase to 9%; in reality it reached 17%. In 2010, Latvia failed to adopt the further cuts demanded by the IMF.<sup>87</sup>

## Life and debt in Latvia

Latvia's austerity programme was brutal and front-loaded. 15% of GDP was cut over three years but around 9% in 2009 alone. Public services – especially health and education – have borne the brunt of massive **spending cuts**. In late 2008, 10% of public sector staff were dismissed. The number of health workers fell by 2,700 – a loss of 8%. 115 schools (12%) were closed, with school staff falling by 14%. Through the course of the IMF programme, the number of civil servants was cut by 30% and public sector salaries fell by 40%.

Spending on **education** fell 25% in 2009 compared with 2008. In 2009–2010 Latvia fired one-third of its teachers. To make matters worse pay cuts of almost one-third were forced on teachers in September 2009,

with gross monthly wages plummeting from €494 to €358. Pension entitlements were slashed.

Rocketing unemployment led to a drastic **fall in wages** across the public and private sectors. From 1 July 2009 wages for public sector employees were cut by between 15 and 20%, while at the same time the level of untaxed minimum earnings was cut by 39%. Public sector wages were slashed three times between mid-2008 and July 2009. Frank Gill, from credit ratings agency Standard and Poor's said in February 2010 that public sector wage packages had fallen around 45% on the year and private sector salaries had fallen between 5% and 30% in just 18 months.

At the same time income **tax** rates increased from 23% to 26% and VAT from 18% to 21% – then later to 22%. There has been a severe worsening of working conditions with an increase in precarious work, collective agreements being ignored, a massive growth in unpaid overtime, greater stress, a growing number of hidden accidents at work and working hours laws being disregarded.

**Workers' rights** to paid sick leave have been reduced from 14 days to 10.

Further changes to labour laws in 2010 made it easier to sack workers by enabling employers to release employees from their contracts if they have been unable to work for periods of longer than six consecutive months or, intermittently, for a period of one year and three months.

While wage cuts have led to a massive hike in poverty among workers, for those relying on **benefits** the story is just as brutal. In July 2009, child benefit was

reduced to a flat rate of \$8 per family, regardless of the number of children a family has. Stricter qualifying conditions were introduced for unemployment benefit, with payments available for a maximum of nine months. As a consequence, the at-risk-of-poverty rate for the unemployed is now over 50%, according to the European Commission.

Government attempts in July 2009 to enforce cuts in old-age and service **pensions** – which were to be decreased by 10%, and by 70% for working pensioners – alongside plans to axe by half the early retirement pension for people who retire after 1 July 2009, were ruled unconstitutional by the courts. However the government has pushed ahead with plans to increase the retirement age from 2014.

Between 2008 and 2011, the European Commission says the percentage of the Latvian population living with ‘severe material deprivation’ increased from 19% to 31%, the second highest level in Europe, after Bulgaria.<sup>88</sup> Latvia also experienced a 15% increase in the number of suicides between 2009 and 2012.

Latvia is touted as an IMF success story. It is not. According to the Latvian Free Trade Union (LBAS), the total number of poor people doubled in the first half of 2010. According to investigative news outlet *Re:Baltica*, Latvia has “*the largest wage inequality in the EU*”. Is that what success looks like to the IMF?

**“The idea of a Latvian ‘success story’ is ridiculous. Latvia is not a model for anyone.”**

ALF VANGAS, DIRECTOR, BALTIC INTERNATIONAL CENTRE FOR ECONOMIC POLICY STUDIES.

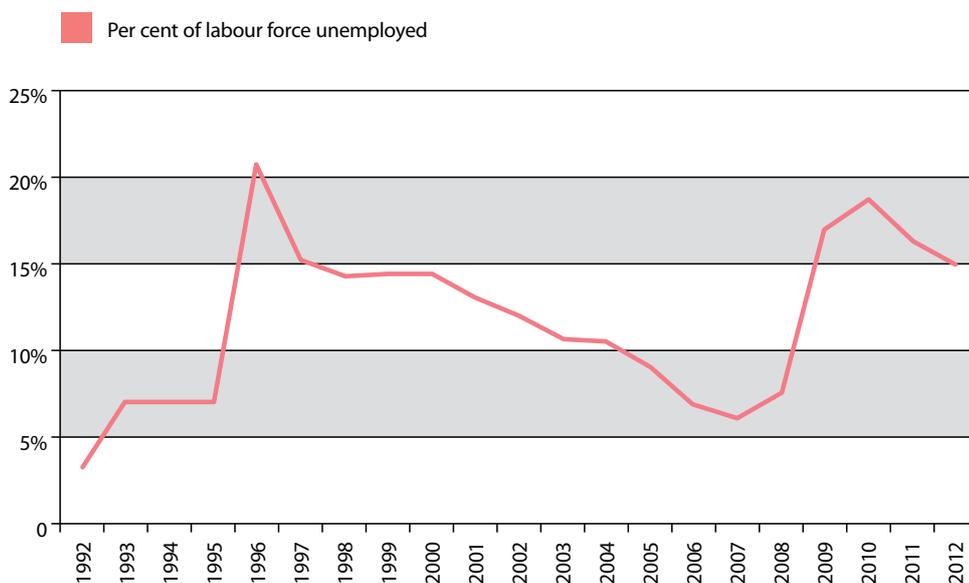
## Resistance and the demands of activists

The severe deterioration of living conditions as a result of the brutal austerity measures implemented in 2008–2009 led to a surge of **protests** throughout 2009. In January, the largest protest in Latvia’s post-independence history was held. In the face of the demonstrations the coalition parties withdrew their support from the government and Prime Minister Ivars Godmanis resigned on 20 February.

But the move failed to quell public unrest and further **demonstrations** against the austerity measures took place, including a series of protests, strikes and work stoppages in the public sector. In particular, the Latvian Police Union organised protests against changes to working practices and wage cuts and doctors took to the streets to demand a halt to cuts in health funding, while teachers and parents protested against cuts to schools and teachers’ pay.

On 19 June, the LBAS demonstrated alongside civil society organisations “*For Social Justice – Against Poverty*” outside the Cabinet of Ministers. Protestors demanded a fair tax policy, jobs, employment guarantees for young people, increased pensions and rights to safe and decent working conditions.

Throughout 2010 there were fewer national protests as workers fell victim to rising unemployment and the daily struggle to make ends meet. However, while the industrial struggle ebbed, the LBAS successfully organised a “*no – more austerity, yes – growth!*”



**Latvia’s unemployment rate shot up to 20 per cent of the labour force following the banking crisis in the mid-1990s. Despite the high growth, it only slowly fell through the 2000s, before increasing rapidly again with the latest banking crisis caused by reckless lending.**

Figure C8.2: Latvia unemployment (per cent of labour force, 1992–2012)

## Latvia: health emergency

Latvia is facing a healthcare emergency with hospitals closed, operations cancelled, new restrictions on access to healthcare, longer waiting times and a lack of availability of affordable medicines. Little wonder that mortality rates are now the highest in the EU and maternal death rates are significantly higher than the EU average.

But the crisis is set to get worse. Funding for healthcare in 2013 was the “*smallest in the last decade*” according to the Latvian Free Trade Union. “*This is the cause for large patient payments, long queues for medical assistance, high mortality rate and low doctors’ salaries. The government is fine with this, but we are not*” said Valdis Keris of the Latvian Health and Social Care Workers Trade Union.

Health funding has been declining since the IMF austerity programme was launched in 2008. Health expenditure, adjusted for inflation, fell 25% between 2008 and 2010.

26 hospitals, including Latvia’s largest – Rigas Prima Slimnca with 650 beds – were closed. 11 emergency care hospitals were shut in 2009. The decrease in hospital admissions led to a sharp increase of women and men with disabilities – 40% more cases per 100,000 inhabitants in 2009 compared to 2006.

The cuts have provoked demonstrations, protests and petitions. Health unions, patients’ organisations and disability groups have demanded the government honour its promise to increase funding for healthcare. Thanks to recent campaigns an amendment to the 2013 budget was won, allocating an additional €99.6 million including €34.1 million for healthcare infrastructure.

protest in Riga and four other cities – Liepaja, Valmiera, Daugavpils and Jelgava – followed later that year by a civil society People’s Assembly protest against the proposed 2011 budget, which called for no increased taxes on the poor and no more cuts in social welfare guarantees and benefits.

In 2012, the state subsidy to public transport providers was cut by 10%. In June that year, Latvian Passenger Transport Association (LPPA) chairman, Peteris Salkazanovs, announced that passenger carriers intended to call a strike in July 2012 over falling government subsidies – forcing the government to approve a €4.41 million additional subsidy for public transport. Probation workers threatened a strike over a 12-hour cut (from 40 to 28 hours) to their working week and pay – their action secured an improvement to a 36-hour week.

The main focus of protests so far in 2013 has been against government plans to bring forward an agreed rise in the retirement age, from 2016 to 2014. Workers and pensioners’ groups are also rallying against a new government proposal that people will have to pay into an insurance scheme for longer – 20 years instead of the current 10, by 2020 – before being eligible for a pension. Campaigners are threatening to trigger a national referendum on the issue.

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# Tunisia

## Introduction

Holding an audit of Tunisia's mountain of debt was one of the main demands of the 2011 revolution. People had had enough of **unemployment, poverty** and lack of opportunity. They were tired of the **corruption** and of the policies that made ordinary people pay the price for debts they did not choose to be saddled with. More than two years on they are still fighting for many of those basic demands of 'bread, freedom and social justice'.

## Origin of debt crisis

Tunisia is no stranger to the power of debt or the connection between debt and empire. In the second half of the 19th century, European banks lent large amounts of money to Tunisia to buy military and infrastructure exports from European countries. These loans came with high interest, and payments increased rapidly. In 1869, Tunisia defaulted on its debt, and European creditors, led by France, took over running the Tunisian economy. By 1881, France had claimed Tunisia as a colony. The French government ended attempts to develop Tunisian industries, limiting development to agriculture and minerals for

export, and ensuring that Tunisia continued to buy manufactured goods from France and Europe.<sup>89</sup>

After a struggle lasting many decades, independence was achieved in 1956, but the new state inherited the debt of the colonial regime. During the 1970s, the country's debt began to increase as high oil prices meant banks were awash with money, and looking to lend it to developing countries. At the start of the 1980s, debt payments increased with the rise in US interest rates, and the global economy contracted. As debt payments shot up, the Tunisian economy stalled. There were increasing protests against the economic situation, with bread riots in 1984, which were violently suppressed by then head of the security forces General Ben Ali.

By 1986, the government could no longer afford to pay its foreign-owed debts. The IMF agreed bailout loans to pay off the creditors, while insisting that the Tunisian government bring in a structural adjustment programme. In the midst of the economic crisis the un-elected President Habib Bourguiba was judged to be incapacitated and Ben Ali seized power.

Throughout Ben Ali's regime, repression increased to keep his hold on power. After several years of austerity and stagnation, in the mid-1990s the economy began to improve. In 1995, Tunisia became the first country in North Africa to sign a free trade agreement with the EU, which required Tunisia to open up to more trade from the EU for the decade up to 2008. In return, Tunisia received significant financial support.

Tunisia became seen as one of the success stories of Africa, with the country growing and on track to meet many of the millennium development goals. But under Ben Ali's western-supported free market economic policies, unemployment remained high, with youth unemployment stuck at 30%, despite increasing levels of education. Inequality increased. While the external debt fell as a proportion of GDP, it did so slowly, and by the start of the global financial crisis, the government still spent 10% of revenue on foreign debt payments (see Figure C9).

In December 2010, large-scale protests against unemployment, corruption and the Ben Ali regime erupted. The protests began after Mohammed Bouazizi, a street vendor, set himself on fire after having his goods confiscated and suffering harassment from a municipal official. On 14 January 2011, Ben Ali fled to Saudi Arabia, leaving behind a \$15 billion

### Government external debt:

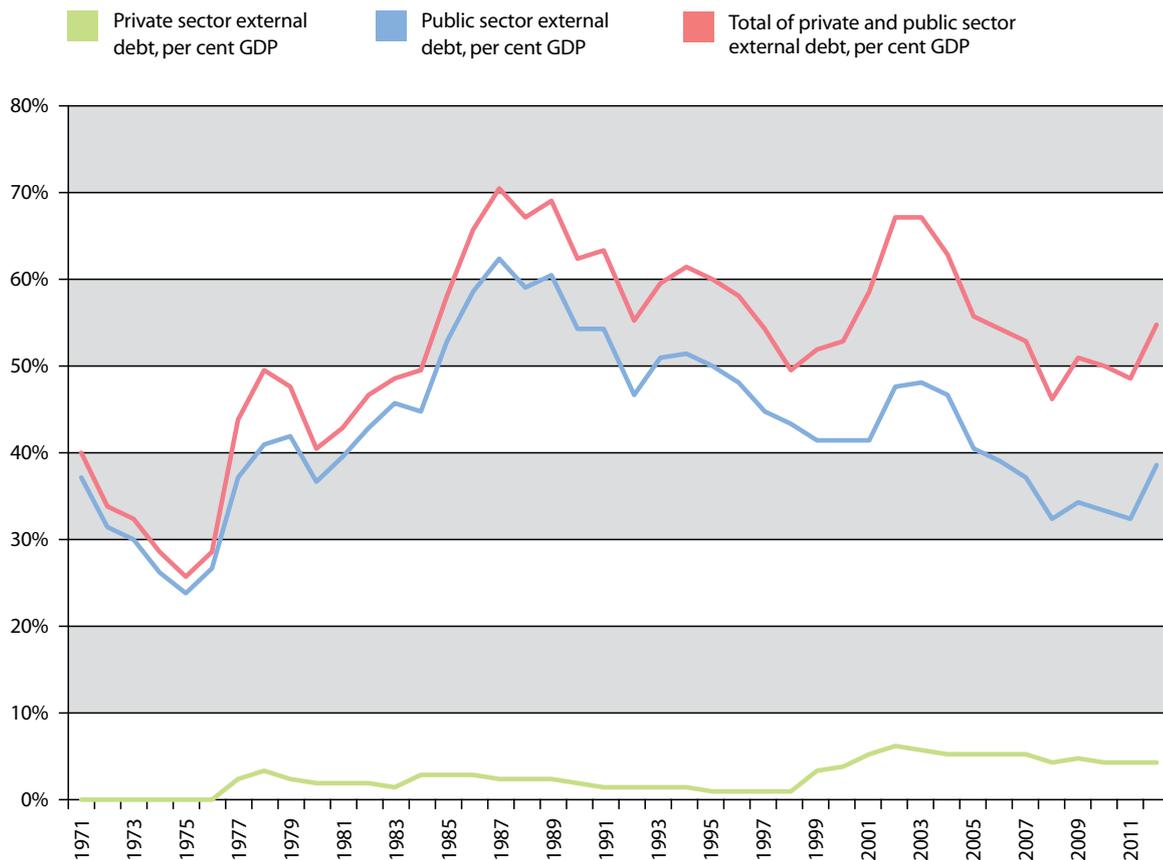
- \$17.2 billion
- 38% of GDP

### Private external debt:

- \$11.6 billion
- 26% of GDP

### Government external annual debt payments:

- \$2.3 billion
- 16% of revenue
- 10% of exports



The Tunisian government’s external debt increased rapidly in the 1970s and 1980s. It remained high throughout Ben Ali’s dictatorship; a large debt which is now being imposed on the Tunisian people.

The African Development Bank summarises that: “Despite the country’s comparative economic success, key social and development challenges had not been addressed. The combination of youth graduate unemployment, conspicuous and predatory corruption as well as political and economic disenfranchisement had created an untenable condition of discontent among Tunisians.”<sup>91</sup>

Figure C9: Tunisia external debt (per cent of GDP)<sup>90</sup>

government foreign-owed debt. Since the revolution, the government has been using up foreign currency reserves to pay the debt inherited from Ben Ali. In June 2013, the IMF agreed a bailout loan, of \$1.75 billion over two years, to help Tunisia to keep making debt payments, with austerity and liberalisation conditions attached. Just as in the 19th Century, debt threatens to take away Tunisians’ rights to make decisions over their economic future.

## Life and debt in Tunisia

Despite the initial success of the revolution, excessive debt continues to have an impact on the chances of improving the lives of ordinary Tunisians. The Tunisian government spent \$2.3 billion on foreign

debt payments in 2011, the equivalent of 16% of government revenue. In comparison, the Tunisian government spends \$2.8 billion on public education (19% of government revenue) and \$1.5 billion on public health (10% of government revenue).

Public services suffer from a **lack of investment**, the **tax system** remains unjust, inadequate and full of loopholes, standards of living are dropping, **inflation** is rising and the cost of essential goods like fuel and milk are going up and up.

One of the most profound sources of discontent for Tunisians is **unemployment**, especially for skilled labour, which remained high even in times of relatively healthy growth before the global financial crisis. Around 17% of Tunisians are currently out of work nationally, with the rate climbing to 30% or

more among young people and in some of the more neglected interior regions such as Kasserine and Gafsa.

Disillusioned young people, who are out of work and poor, are often risking their lives to get out of Tunisia and find work abroad, including thousands who have taken boats to the Italian island of Lampedusa – a perilous crossing during which an estimated 20,000 migrants have died in the last two decades, including 500 in 2012 and more than 40 this year.<sup>92</sup>

In the year after the revolution there was a reported five-fold increase in the number of people – mostly unemployed young men – setting fire to themselves in desperation.<sup>93</sup> Many had complained to local authorities about corruption or the lack of work, in cases similar to the suicide of Mohammed Bouazizi.

**Walid Trabelsi told the BBC that he had taken a boat to Lampedusa, in Italy, to find work illegally. He stayed for a year, working in agriculture, before being arrested and sent back to Tunisia because he had no papers. “I’m now unemployed. I need to find about 1,000 Tunisian dinars so I can go again. I’m not afraid. I’m already dead here.”<sup>94</sup>**

Debt campaigner Fathi Chamkhi, spokesperson for RAID-ATTAC and CADTM (Committee for the Abolition of Third World Debt), said debt was the single-most damaging aspect of life in Tunisia. Calling for the suspension of the repayment of external public debts, shortly after the revolution, he said: *“Tunisia urgently needs to marshal all of its financial resources to meet immediate needs, including extreme poverty, benefits for the unemployed and improving workers’ material conditions.”*

Meanwhile, the revolution in Tunisia is seen by international financial institutions as an opportunity to further open the country up to foreign business and finance. A key way of doing this is through the **privatisation** of Tunisian public utilities and projects. So-called public-private partnerships (PPPs) may bring a degree of private capital into a country, but the public lose control of basic services and elements of the economy essential to development. What’s more, PPPs have left a legacy of debt for countries that have utilised them (notably the UK).

**“The IMF is dictating economic policy and people are unhappy because there is no social justice, freedom or jobs.”**

MOHAMED SGHAIER, UGTT UNION FEDERATION, TUNISIA, SPEAKING AT THE WORLD SOCIAL FORUM IN TUNISIA, MARCH 2013.

## Holding on to water

Campaigners fear new IMF loan conditions will result in further privatisations, among them Tunisia’s water and sanitation company.

*“Until the revolution, the International Monetary Fund had promoted the authoritarian state as a structural adjustment poster child. When the revolution erupted, Ben Ali, who had already privatised 160 state-owned enterprises since the late 80s, was about to start selling off the country’s water and sanitation services, SONEDE.*

*“Now, it appears that what Ben Ali failed to achieve, Ennahda will pursue. Despite the well-documented evidence about the negative impacts of water privatisation, the Tunisian government appears to be pursuing the privatization of the water and sanitation utility. Fourti Ridha a representative of SONEDE claims the public utility is one of the country’s few success stories, providing drinking water to 100% of those living in urban areas and more than 90% of rural Tunisia achieving the highest access rate in the entire MENA region. As a result, it is coveted by multinational water companies who would be able to walk in and claim the market with little investment. It appears that Tunisia’s economic policies continue to be written by bankers rather than for the Mohammed Bouazizis of the world.”*

Water rights campaigner Meera Karunanathan, April 2013

Currently, the World Bank, the European Investment Bank and the African Development Bank (AfDB) are supporting – or imposing – new legislation in Tunisia to create “a legal and institutional framework favourable to public-private partnerships”. During the initial discussion of this legislation one Tunisian MP suggested the legislation had been entirely drafted by foreign institutions, saying: “This draft bill is a translation, it is incomprehensible.” For the international community, in the reported words of an African Development Bank official “Tunisia = business”.<sup>95</sup>

## Resistance and the demands of activists

The revolution gave Tunisian people the confidence to fight for what they deserve. Under the banner ‘*we don’t owe, we don’t pay*’, activists continually challenge the current debt regime with proposed exit strategies from the ‘straitjacket of debt’. A **debt audit** would begin to assess the origins and legitimacy of the debt.

In July 2012, a proposed bill for a debt audit was submitted to the National Constituent Assembly, and the president later said an audit would be held to determine if any of the loans were stolen through corrupt activities during Ben Ali's regime. That same year, Tunisia sought advice from Ecuador on how to audit debts.

But for now the debts are still being paid. Under pressure from foreign governments and institutions, the government has stalled any further progress through parliament of the debt audit bill.

Trade unions and civil society groups have frequently come together to protest against the government's failure to prioritise joblessness and lack of investment in services for the people. Different groups, representing the unemployed, women, students and lawyers, have become involved and new unions have been formed.

Several regional general **strikes** as well as sector and industry-based stoppages have been staged, as well as **protests**, sit-ins, road-**blocks** and **rallies** against unemployment and gaping regional inequalities. During a protest in the deprived town of Siliana in December 2012, some 300 people were injured when the police used shotguns and tear gas against demonstrators who were calling for investment in the region.

Many hundreds of strikes have been held since 2011, including by teachers, government staff and post office workers, as well as workers in the oil and energy industries, mining, ports and transport. In January 2013 a regional general strike shut down the majority of industry and businesses in the governate of El Kef. In the same month oil workers went on strike for three days in Tataouine.

A national strike by school teachers in April 2013 – the latest in a series of walkouts – was massively supported. The strikers were protesting at poor conditions and pay that has been devalued by rampant inflation, as well as increases in working hours and class sizes – which are reaching 60–70 in the public sector. A major issue for the unions is the growing **privatisation of education** and the creation of a two-tier system.

Last year hundreds of unemployed protesters from the phosphate mining region of Gafsa – where unemployment is more than double the national average – marched in Tunis to demand jobs. Two men from the mining town of Om Larayes tried to kill themselves during the demonstration, said Mohamed Sghaier Saihi of the union federation UGTT.

Many of the strikes are co-ordinated by UGTT, which took an active role in the revolution and continues to push for change – both for an improvement in the lives of workers and the unemployed, and for a truly democratic transition in Tunisia.

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## Our vision

Inspired by the ancient concept of 'jubilee', we campaign for a world where debt is no longer used as a form of power by which the rich exploit the poor. Freedom from debt slavery is a necessary step towards a world in which our common resources are used to realise equality, justice and human dignity.

## Our mission

Jubilee Debt Campaign is part of a global movement demanding freedom from the slavery of unjust debts and a new financial system that puts people first.

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