

ECONOMY

## **A new euro crisis strategy: deny the debt**

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ATHENS— It's always hard to discern a message during a riot, amid fistfights and tear gas, but an undercurrent of ideas runs through street protests in the debtor countries of Europe. When demonstrators scream "Make the bankers pay," or the equivalent in Greek, Spanish, or Italian, many of them are embracing a concept that has gained popularity during the crisis. It's a deceptively simple way of dealing with a crushing sovereign debt: Declare the loans illegal, or "odious."

The doctrine of odious debt was first proposed in 1927 by an obscure legal scholar named Alexander Sack, but did not gain currency until the late 1990s when poverty activists started applying the term to Third World debts. The argument is that when a lender knowingly gives money to a corrupt or dictatorial regime for purposes that don't benefit the country, the debt should be erased when the tyrant falls.

Iraq invoked the term to shrug off the debts of Saddam Hussein; Ecuador used similar logic when it defaulted on some foreign creditors in 2008.

Now the term has spread to Europe, finding its way into speeches by politicians -both left- and right-wing - as they face rising frustration from voters about the belt-tightening required to keep their countries out of bankruptcy.

None of Europe's finance ministers have proposed anything of the kind, but they have been forced to explain why not. Peter Matthews, an accountant who serves as a member of parliament for the centre-right Fine Gael, the biggest faction in Ireland's coalition government, challenged his own party's policy when he made a public appeal last month for the European Central Bank to write down \$75-billion of his country's loans, calling them "odious."

Ireland's Finance Minister quickly dismissed the proposal as "deranged and crazy," but Mr. Matthews stood by his position, saying that many Irish taxpayers sense that the European lenders are more interested in squeezing money from the public coffers than finding a practical recovery plan for their country.

"They've been browbeaten by the bankers," Mr. Matthews said in an interview. "That's the true problem across Europe."

On the other side of the continent, and the opposite end of the political spectrum, left-wing Greek parties have emerged as leading champions of debt denial. Two major political parties have dominated Greek politics since the 1970s, both of which gave their endorsement on Nov. 16 to an interim coalition that has declared it will enforce unpopular austerity measures. But even those involved in the new coalition say that a backlash against the policies may hurt them in the coming elections.

"Our party will take it on the chin, but we all make sacrifices," said Kyriakos Mitsotakis, a member of parliament from the New Democracy party, the second-largest faction in the new government. He acknowledged that voters may drift toward those who favour the "odious debt" idea, such as Alexis

Tsipras, head of the left-wing party Syriza.

“The problem is that Tsipras doesn’t have any credible solutions,” Mr. Mitsotakis said. “His ideas are something like you’d find in North Korea, or maybe Cuba.”

For his part, Mr. Tsipras says his proposal to repudiate the debt represents the only fair outcome after the “orgy of corruption” in recent years. His party calls for an audit of the debt, to determine which loans were handed out improperly - for example, to fund corrupt deals surrounding the recent Olympics, or for the purchase of submarines, tanks, and other unnecessary weapons.

“There are other countries who refused to pay a large part of their debt, because it came as a result of corruption and scandalous contracts,” Mr. Tsipras said.

Such ideas have been popularized by the documentary film *Debtocracy*, and by lobby groups - the Jubilee Debt Campaign, and the Committee for the Abolition of Third World Debt - that previously focused their attention on the developing world.

Eric Toussaint, president of CADTM Belgium, said his group’s website has seen a 30-per-cent increase in traffic during the crisis and their latest book, *La Dette ou la Vie*, has almost sold out; they’re working on another volume for release next spring.

“In polls across Europe, you can see a growing majority that rejects the austerity measures,” Mr. Toussaint said. There is also a growing consensus, he said, that the International Monetary Fund doesn’t always have the best prescriptions.

“The IMF said that Canada did not deregulate its banks enough,” he said. “You didn’t follow their advice, and look at how well it turned out for you.”

Despite the rush of enthusiasm for the concept of odious debt, the doctrine remains highly controversial among legal experts. In an acidly funny paper titled “A Convenient Untruth: Fact and Fantasy in the Doctrine of Odious Debts,” in a 2007 issue of the *Virginia Journal of International Law*, the authors note that the idea attracted few admirers for more than a half-century after it was first proposed.

“The doctrine of odious debts was either overlooked by reviewers or criticized by those who noticed it,” the journal concluded.

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**P.S.**

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<http://www.theglobeandmail.com/news/world/a-new-euro-crisis-strategy-deny-the-debt/article2242826/>