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‘Sooner or later, there will be a new financial crisis’

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Regulators, governments to blame, says Eric Toussaint of the Committee for the Abolition of Illegitimate Debt.

The recent bubbles in the stock exchanges and financial markets foretell an imminent financial crisis that would likely be stronger and more dangerous than in the past, according to Eric Toussaint, historian, political scientist and a spokesman of the Committee for the Abolition of Illegitimate Debt (CADTM).

In an interview to *The Hindu*, Mr. Toussaint, who was recently in Sri Lanka for a regional seminar on debt, spoke on the risks of banks engaging in speculative activities.

Charging regulatory authorities of being “very lenient” with the banks, he said that governments and regulatory authorities were supposed to moralise the banking system, separate commercial banks from investment banks, end exorbitant salaries and bonuses, and finally finance the real economy. “Instead... all we have had is a long list of misappropriations that have been brought to light by a series of bank failures and big scams.”

The CADTM is an international network of activists working on cancellation of illegitimate debt. Based in Belgium and Morocco, its activists work on developing alternatives to help communities tackle the pile up of debt, with particular focus on the global south. Mr. Toussaint’s book ‘Bankocracy’, published in 2015, drew global attention for its analysis of the role of banks and governments in enlarging public debt.

Now, he warns of a “new crisis”, consequent to a series of misjudgements in policy in recent years.

Central banks — the U.S. Federal reserve, the European Central Bank, the Bank of England, the Bank of Japan — implemented a policy of Quantitative Easing, injecting a lot of liquidity into banks, and buying “very toxic” products like mortgage-backed securities and asset backed-securities.

While the central banks bought such products, giving banks “a lot of money” in return, the banks did not lend it to producers or households. Instead, they used it for further speculative activities leading to “a new bubble” in stock markets for about four years.

“It is absolutely evident that the capitalisation of the stock exchange is totally exaggerated, that it does not correspond with the real value of the assets of the big corporations. Sooner or later, there will be a new financial crisis,” he said.

Private debt

There is also a big concern with the private debt of big financial and non-financial corporations, with their indebtedness increasing tremendously in recent years. "There is a new bubble in this segment of the financial market and that is another possibility of crisis."

On the banking sector crisis in India and the demand from sections for its further privatisation, Mr. Toussaint said the problem does not come from the public character of the banks, but from them having adopted a behaviour similar to the private sector's.

"The public banking sector, like the private banking sector, is in favour of secrecy and doesn't want to be controlled. The challenge for us is to improve and to materialise the public character of the banking sector — and in the case of India, to defend the public banking sector, but to change it profoundly."

'Socialisation of banks'

Mr. Toussaint advocated the "socialisation of the banks" where citizens, the banks' employees and local authorities control the activities of banks. "The public banks should intervene in the local economy and help it develop and coincide with the needs of the people."

On microcredit and its presence in Latin America, Africa and Asia, he said there was a huge propaganda campaign and very strong institutional support — right from the World Bank to most national governments — to microfinance.

From his research, he found that there were more than 120 million borrowers of microcredit loans, 81% of whom were women.

"My visit... has showed me how fast the microcredit industry developed its activity in the country after the end of the war in 2009 and how brutal it could be – it is impossible for people to repay a debt if they should pay 40% to 60% interest rates."

Excerpts from the interview:

In your book *Bankocracy*, published in 2015, you talk about how governments and banks across the world are colluding to dramatically increase public debt. How do you view the crisis now?

First, it is very clear that the big banks in the US, North America, Western Europe did not clean their assets. They were supposed to clean their balance sheets reducing toxic products they hold, to reduce non-performing loans, to increase the ratio between their equities and their overall assets. In reality, they did not take the necessary decisions to do that and to stop very dangerous and speculative activity. Regulatory authorities were supposed to strengthen their control on the banks, but we saw in the last two years that they are very lenient with the banks. Governments and regulatory authorities were supposed to moralise the banking system, separate commercial banks from investment banks, end exorbitant salaries and bonuses, and finally finance the real economy. Instead of a moralising of the banking system, all we have had is a long list of misappropriations that have been brought to light by a series of bank failures and big scams.

During Obama's Presidency, the US Congress adopted a law – the Dodd-Frank Act to strengthen the regulation and control on the US banks. And now Trump is dismantling it and eliminating the few policies and regulatory measures taken in the name of the Dodd-Frank Act.

Second, the central banks – the US Federal reserve, the European Central Bank, the Bank of England, the Bank of Japan – implemented a policy of Quantitative Easing: it consists of injecting a

lot of liquidity into the banks, buying very toxic products like MBS (mortgage-backed securities) and ABS (asset backed-securities). The central banks bought these products from the banks and gave them a lot of money in exchange. But these banks did not use it to lend money to producers – small or middle level producers or households. They are using this money to increase speculative activities – for instance, to buy back their own shares in the stock exchange. This has led to the development of a new bubble in the stock exchanges for around four years. There is a real risk of a new stock market crash in the near future. It is difficult to predict when this will happen, but it is absolutely evident that the capitalisation of the stock exchange is totally exaggerated, that it does not correspond with the real value of the assets of the big corporations. Sooner or later, there will be a new financial crisis. There is also a big concern with the private debt of the big financial and non-financial corporations. The debt of these corporations increased tremendously in the recent years, so there is another bubble in the segment of corporate bond markets. These bonds are issued by big corporations to borrow money on a long term basis.

There is a new bubble in this segment of the financial market and that is another possibility of crisis. The previous big crash on the bond market happened in 1987. In the future, we will probably have a crisis in this sector which will be stronger and more dangerous than what happened then.

Coming to the Committee for the Abolition of Illegitimate Debt (CADTM) and the work you have been doing. You say that a lot of existing debt is illegitimate debt, taking into account where the funds go, whether it is used for the majority of the population's requirements. When we take the question of debt, internationally or nationally, governments or banks are seldom willing to share information, it is at times guarded with secrecy legislation. They are not very transparent about where the money goes In India, it is only after the Right To Information Act in 2005 that citizens are able to demand some information. How do we get a real sense of this illegitimate debt?

There are many instruments to get the information, even though it is clear that the banks and the public authorities try to avoid disclosure of such details. Nevertheless, you can find a lot of data on the internet. The problem is to correctly interpret the information given on the websites of the Central Banks. We can also use the information given by the research departments of several big banks, investment firms and auditing firms like KPMG, PwC, etc. The challenge is to convince more and more citizens of the necessity of trying to understand how debt is used for which purpose, at which interest rates, who exactly receives the money, what were the conditionalities imposed by multilateral institutions like the World Bank, ADB, IMF. It is important to analyse these contracts and the conditions imposed by the creditors, and to understand the real sense of the policy implemented by the governments. They can say: "We are borrowing money for that purpose", when in reality they use it for another purpose. As CADTM members, our challenge is to help the citizens trying to question the accumulation of debt in order to reach a conclusion about the legitimacy or illegitimacy of debt.

For instance, in collaboration with the President in the Greek parliament, the CADTM coordinated the truth committee on public debt in Greece. The CADTM has an international network, published a manual for the citizen to audit the debt, participated in the audit of debt in Ecuador in 2007-08, and then in Paraguay in 2008. In Spain, we work with new political forces coming from citizen mobilisations like the anti-austerity movement organised around public squares in 2011. After they defeated the traditional parties in many municipal elections, these forces are willing to enforce citizen debt audits. Despite the willingness of these new political forces, we are convinced that this objective can only be implemented under the pressure of popular movements – this is the meaning of our work there.

The massive level of public debt reduces the capacity of public authorities to guarantee to citizens

the satisfaction of human rights at the level of education, health, security, jobs. Therefore, tackling the problem of the huge amounts of public money used to pay back the debt is vital if we want to free major parts of the budget to satisfy the needs of the people.

You are saying that huge amounts of public debt weaken public institutions, governance etc. Could you talk a bit about the possible political fallout to this trend? In the last few years, in many parts of Europe and elsewhere, we see ultra nationalist forces gaining more political ground. Is there a link between the financial crisis, the weakening of public institutions due to mounting debt and the rise of the ultra-right?

Yes, it is clear that there is a link. At the same time, I am not sure that the general trend is always in favour of right wing policy. It depends on the situation. In Europe and in North America it is clear that the majority of the citizens are not satisfied with the traditional parties.

Right-wing parties succeed in gathering popular support denouncing the [current economic] situation and proposing nationalist, chauvinist, racist, anti-migrant policies. But at the same time, when real progressive forces try to explain to the citizens another alternative they can gather important support. An example of that is Jeremy Corbyn's campaign in Britain last year. The Tories precipitated the elections thinking that they would have a victory one year after Brexit. As a militant on the left of the Labour Party, Corbyn proposed a radical policy of nationalisation of the railways, of the postal services, of finding a solution to the problem of student debt, of the debt of municipalities and defending an anti-racist, internationalist position. The votes in favour of the Labour Party increased and he won 30 seats in the parliament while Theresa May lost 13 seats! Now the Left is gaining space in Britain and right-wing parties are not.

In the US, the situation was contradictory. If the Democratic Party had decided to support Bernie Sanders as a presidential candidate, it would have won the election against Trump. In the eyes of the people, Hilary Clinton represented the establishment. Trump represented a possibility of change and Sanders too – if Sanders had been selected by the Democratic party he would surely have been victorious, given that Sanders's engagement in favour of the people is clearly more authentic than Trump's theatrical gesticulations.

It is clear that so-called right-wing populist campaigns are gaining space because of the scandalous evolution of finance and the influence of the big corporations and bankers on the traditional parties. But the situation is not so much in favour of the right when the left is capable of presenting another perspective. Then, the left really has the possibility to be victorious.

In the wake of the banking sector crisis in India - marked by huge scams to the tune of billions of dollars - many economists, policy makers argue that there has never been a better time for further privatisation of the banking sector. Do you think that would work?

The real problem is that the current public banks are not really acting in favour of the majority of the population. The problem does not come from the public character of these banks, but from them having adopted a behaviour similar to the private sector's. They are not taking the responsibility of service to the public upon themselves. And there is a lack of citizen control on the public banking sector. The public banking sector, like the private banking sector, is in favour of secrecy and doesn't want to be controlled. The challenge for us is to improve and to materialise the public character of the banking sector – and in the case of India, to defend the public banking sector, but to change it profoundly. It should stop speculative activities and clientelism and it should give loans to households, to municipal authorities for useful projects to improve the economy and living conditions of the population. I am advocating the socialisation of the banks. It means that the citizens, the banks' employees and the local authorities should control the activities of the banks. The public

banks should intervene in the local economy and help it develop and coincide with the needs of the people.

In Sri Lanka there is an increased awareness about microcredit and indebtedness. Is this a trend in the global south? It seems prevalent in South Asia.

Microcredit is extending its activities in Latin America, in Africa, in Asia, everywhere in the global south. There is a huge propaganda campaign and very strong institutional support – right from the World Bank to most national governments – to microfinance, which is depicted as the solution for the poor through their connection to the market. Big private banks are more and more involved in microfinance. We can really speak of an industry of microcredit. It is internationally developed, supported and organised. You have now more than 120 million borrowers of microcredit loans in the world and 81 per cent are women.

But why is it more widespread in the global south, almost as if it targeted these countries that have aspirations for development?

On the global scale, two billion adults don't have yet a bank account, and most of them live in the global south. Microfinance aims to connect these adults to the financial markets. Microcredit is the link to connect them to the globalisation of the economy. It is a tool to incorporate them fully to the capitalist system or the mercantile system.

When we spoke about the rise of the ultra-right, you said it was possible for progressive forces to present an alternative. You have also said earlier that there is a need for working class movements and trade unions to widen their struggle to incorporate questions on indebtedness.

Yes! We on the left decayed since Thatcher and Reagan came to power in the beginning of the 1980s. There has been a general offensive of big capital against social rights. The traditional working class has been affected. More and more workers or employees have a very precarious job. The sector of the working class which is in the formal sector is a minority in most of the countries – you know it in India. This trend is also true in countries like the USA and a majority of countries in Europe – precarious, part-time jobs increase. More and more people are indebted, because the wages are going down. To maintain the possibility of consumption, more and more people get indebted.

It was very clear, for instance in the US, with the subprime crisis. After the explosion of the subprime crisis in 2006-2007, 14 million indebted families in the US were evicted from their homes.

My visit to Sri Lanka has showed me how fast the microcredit industry developed its activity in the country after the end of the war in 2009 and how brutal it could be – it is impossible for people to repay a debt if they should pay 40 to 60 percent interest rates. Giving micro loans at this rate is creating a condition of over-indebtedness. People have to take more microcredit loans to pay back previous ones. It is a vicious cycle which causes tremendous problems for the victims of this situation, a majority of whom are women. It is incredible to listen to the testimonies – women telling us that microfinance agencies are giving loans to people who have no earning. It is impossible to repay a debt without any earning, so they will lose the few assets they can have – if they have a house, a small land where they cultivate vegetables, they will lose them to pay back the debt.

Both in the global north and in the global south, the challenge for the workers' movements is to take into account the question of private debt of the households, because it is more complicated to participate in social movements and in strikes for people who are under enormous pressure because

they need to repay their debt.

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