FROM DEBT AUDITS TO DEBT JUSTICE: DRAWING LESSONS FROM THE GLOBAL SOUTH IN DEVELOPMENT EDUCATION IN IRELAND

Nessa Ni Chasaide

Ireland’s new status as a highly indebted country has fundamentally changed the context for development education work in Ireland on economic justice issues. This new context presents a set of challenges and opportunities to the development education organisations working on economic justice. The key challenge is one of maintaining relevance and credibility in Ireland, where people are suffering increased economic hardship, while educating people on the need for economic justice in the global South. The main opportunity presented by this new context is to engage with this moment in Ireland in a way that succeeds in linking learning and action for greater justice at home and in the wider world.

As an organisation primarily focused on the theme of debt injustice in the global South, Ireland’s debt crisis presents this challenge and opportunity to Debt and Development Coalition Ireland (DDCI) in a particularly immediate way. This article sets out the steps which DDCI has undertaken to respond to this challenge and opportunity. This is in order to share DDCI’s early experience with the development education sector of bridging the gap between local and global learning and action.

The Case of Debt and Development Coalition Ireland

Researchers and debt justice activists’ work on debts of the countries of the global South have for some time highlighted the impending ‘first world debt crisis’. This work warned that the mounting debt in the global North would lead to unsustainable debt levels, while also becoming a major cause of economic instability in the global South (Pettifor, 2006). However, mainstream public discourse, especially in the media, did not highlight this concern, not least because the Northern debt crisis had not been forecast by key financial overseers, including the International Monetary Fund (IMF) (Independent Evaluation Unit, IMF, 2011). However, when Ireland became a recipient of European Union (EU)-IMF loans in December 2010, members of the public and the media in Ireland began to actively compare the European debt crisis with experiences of debt crises around the world, such as Argentina and Ecuador, and sought to draw lessons from the global South. Principles of debt justice, long debated within the global debt justice movement, became part of mainstream public debate.
DDCI engaged with this new context in a range of ways that included producing and sharing analysis drawing lessons from the South. These steps were important in firstly, supporting DDCI to remain credible in a changing context in Ireland, and secondly in enabling DDCI to support a response from those sections of independent civil society in Ireland which did not have a public position on the problem. These steps are outlined below.

**Learning about the Irish Debt Crisis**

In December 2010, DDCI produced analysis comparing the debt policies applied by lenders in the Eurozone to those being applied in Southern countries (DDCI, 2010). The purpose of this work was two-fold. Firstly, to initiate a process of learning and debate among its members (faith-based, education and development organisations) that had previously only focused their education and campaigning energies on the debt problems of countries of the global South. And secondly, to support learning among other civil society groups, especially within the community sector, who represent the people in Ireland hardest hit by the debt crisis, but who organisationally had not previously worked on debt justice issues.

Through this analysis, DDCI identified three key policy issues that are central to its members’ concerns regarding international debt justice, and that mirrored the concerns being raised about the debt problems of Southern countries: the scale of Ireland’s debt; the impact of loan policy conditions on Irish society; and the legitimacy, or otherwise, of Ireland’s debt. Drawing these analytical comparisons was an important educational process for DDCI members in order to fully recognise the relevance to Ireland of learning from Southern countries’ experience of debt crises.

The next section deals briefly with the scale of Ireland’s debt and the impact of loan policy conditions on Irish society, and then specifically focuses on the legitimacy question, which is the area of most interest to DDCI as a debt justice organisation. This is because the legitimacy question goes to the heart of issues of international responsibility in relation to the creation of unjust debts both in the global South and North.

**Mirroring Issues with the global South**

**The Scale of the Debt**

The increasing scale of the debts in countries of the global South is a core concern of the international debt justice movement. This is because the outflows of debt repayments continue to represent a massive expenditure for Southern states already facing major budgetary shortfalls. The continued high
debtor distress levels of Southern states also points to a deeper problem of the multi-faceted nature of economic underdevelopment which is causing Southern states to continually run up high levels of sovereign and private debt. By 2008, the combined debt of borrowing Southern countries stood at US$2.85 trillion, up from US$1.3 trillion in 1990 (Eurodad, 2008). By 2011, Ireland’s debt had actually surpassed that of the sovereign debt levels of many Southern countries. The IMF, using conservative measures, estimates that Ireland’s debt will reach 115 per cent of gross domestic product (GDP) by 2012 (Taft, 2011). By comparison, the average public debt of Caribbean states combined is estimated at 108 per cent of GDP (Hurley, 2010). The comparison between Ireland and that Southern region is particularly striking, as Southern nations are currently of most concern to the IMF and United Nations (UN) in terms of their public debt distress levels (Ibid).

**Loan Policy Conditions**

The debt justice movement has carried out significant research on the impact of loan policy conditions promoted by the World Bank and IMF in Southern countries. The evidence from countries of the South is stark – that loan policy conditions have contributed to increased poverty and suffering among vulnerable groups, and have weakened the capacity of states to deliver public services for their people. This is due to high levels of privatisation of public services, and the erosion of accountability between governments and citizens due to the dominant influence of external lenders in policy-making processes (DDCI, 2010). The debt justice movement is therefore deeply concerned about the content of loan policy conditions and the way in which they are agreed between lenders and governments.

In December 2010, Ireland signed a Programme of Agreement with the EU-IMF lenders based on a wide set of loan policy conditions including cuts to social welfare, pensions, university grants, jobs in the public sector, among many others (Ibid: 20). Like people living in heavily indebted Southern countries, the Irish public are now facing the challenge of analysing the social and economic impact of the types of policy conditions attached to the Agreement. This includes analysing the processes through which the Irish government and its lenders arrived at an agreement on an economic plan for Ireland.

**The Legitimacy of Debt**

By 2011, as a result of massive and sustained campaigning around the world, US$122 billion of Southern debt was cancelled through multi-lateral agreements (World Bank and IMF, 2011). By agreeing to some debt cancellation, lenders
acknowledged that some Southern debt was not payable. However, they did not address the fact that lenders and borrowers had acted irresponsibly, and regularly in a knowingly exploitative manner. The global debt justice movement therefore worked to incorporate the concept of illegitimate debt into the international debt justice debate.

The concept builds on the idea of ‘odious debts’ developed by early 20th century law professor, Alexander Sack. Sack applied the argument to despotic regimes, and to loans that do not serve the people paying for them. Sack proposed four key points relating to odious loan contracts. First, a condition of legality of a loan is that ‘it is employed for the needs and in the interests of the state’. Second, that odious debts fall with an (odious) regime and are not owed by successors. Third, that debts can be considered odious if they are used for personal rather than state purposes, and fourth, that creditors commit a hostile act when they make an odious loan (Hanlon, 2002).

The concept of ‘illegitimate debt’ or ‘unjust debt’ further developed the odious debt argument to apply to situations beyond despotic scenarios. The illegitimate debt concept captures a range of moral problems that have resulted from various types of irresponsible loans. The concept has been formulated drawing upon evidence-based experience of the large variety of recorded circumstances that have created failed loans. This evidence has revealed that these circumstances include: loans given to repressive regimes and/or to known corrupt officials; loans extended for dubious purposes and/or obviously useless projects; loans for damaging or overpriced projects; or those granted on unacceptable terms and conditions (See for example Christian Aid, 2007; Eurodad, 2007; Hanlon, 2002; Mandel, 2006). A review of concrete cases of illegitimate debts extended ‘for development purposes’ to Southern countries by the governments of Canada, France, Germany, Japan, Italy, United Kingdom (UK) and United States (USA) found that:

“In many cases, these governments lent money to regimes they knew to be corrupt or repressive in order to buy political allegiance, or they were loans designed to help rich country companies do business abroad and development was never their original purpose. In still other cases, loans were provided at exorbitant interest rates. Under the current system, these debts must always be repaid and there is no consideration of whether these loans were responsibly extended by creditors or the funds responsibly used by debtors... In national law...it is the responsibility of the creditor to exercise ‘due diligence’ when he/she extends a loan to an individual (for example a bank must
ensure that the client has a sound business plan or sufficient income with which to repay the loan)” (Eurodad, 2007: 3).

**The Case of Ireland and Illegitimate Debt**

It has been acknowledged by the Independent Commission of Investigation into the Banking Sector in Ireland, and the new governor of the Irish Central Bank, among others, that Ireland’s sovereign debts are causing systemic economic instability in Ireland and that a range of actors, including the banks, the Financial Regulator, the Irish Central Bank, and the previous Irish government, including the Department of Finance, were involved in the irresponsible accumulation of unsustainable bank debt (Commission of Investigation, 2011). The Commission of Investigation also highlights a dangerous international erosion of credit standards, and a herd mentality between financial and public institutions and groupthink within them, reinforced by a widespread international faith in the efficiency of financial markets (Commission Of Investigation Into The Banking Sector In Ireland, 2011: i). Specifically, the Commission pointed to the lower credit standards adopted in Ireland and internationally and the ‘speculative mania’ in Ireland in the property market where ‘even obvious warning signs went unheeded in the belief that the world had changed and that a stable economy was somehow automatically guaranteed’ (Ibid). The Commission also termed external auditing companies who were responsible for monitoring the accounts of the banks that subsequently required emergency lending assistance, as ‘silent observers’ and public authorities as ‘enablers’ in creating the crisis.

Ireland’s large debt is due to the socialisation of unpayable private debt by Irish banks. This socialisation happened as the Irish government decided to guarantee the deposits and senior bondholder debt of six pillar Irish banks, thus socialising commercial debts, meaning that people in Ireland were made responsible for repaying the bank debt for years to come. The social impact of this debt burden and the impact of the loan policy conditions accompanying international ‘bailout’ loans has been disastrous. Andy Storey argues that:

“The social price being paid is catastrophic, not least because the austerity policies are sending the economy into a tailspin: national income is already down over 15% from its peak level. Unemployment stands at almost 15%, close to half a million people... Emigration is estimated to be running at 40,000 per annum. The economy is mired in recession, with investment down from over €48 billion in each of 2006 and 2007 to a little over €18 billion in 2010. Bank loan
approval rates fell from 95% in 2007 to 55% in 2010.... Meanwhile, Irish banks, despite their newly cautious lending practices, are highly dependent on short-term loans of over €150 billion from the ECB and the Irish Central Bank as bank deposits have fallen steadily. If Ireland were to try and return to the private financial markets, it could probably only borrow at a very high rate of interest” (Storey, 2012).

The decisions that led to the socialisation of private debt, and the social impacts thereof have raised serious questions regarding the justice or legitimacy of Ireland’s debts. From a debt justice perspective, the key question that arises is how responsibilities for dealing with this unjust debt could or should be shared fairly.

**Co-responsibility of Failed Loans?**

In sovereign debt crises, lenders currently function as judge and jury regarding whether a debt can or should be repaid. This is because there is no international legal mechanism to deal with unpayable or illegitimate sovereign debts. Lenders argue that debts should always be repaid without any shared responsibility when they prove difficult to pay or when the loan had a negative social impact. This is because lenders wish to ensure that repayments of debts are prioritised and that the rules of the lending – borrowing system are not undermined. A notable exception to this trend is the government of Norway which cancelled some US$80 million of debt owed to Norway by five Southern countries as a result of a Norwegian Ship Export Campaign (1976-80). The Norwegian government declared its ‘shared responsibility’ in creating a ‘development policy failure’ (Norwegian Ministry of Foreign Affairs, 2006) and called for the establishment of a United Nations (UN) taskforce on illegitimate debts (Norwegian Ministry of Foreign Affairs, 2009). This led to deepening discussions at the UN on the problem of illegitimate debt.

As a result, the United Nations Conference on Trade and Development (UNCTAD) has initiated a programme called Responsible, Sovereign Lending and Borrowing which includes as a core part of its objectives, the development of guidelines and criteria for assessing the legitimacy of both past and future sovereign debts (UNCTAD, 2009). In December 2011, the UN Annual Resolution indicated that ‘creditors and borrowers should share responsibility for the creation of unsustainable debt situations’ in Southern countries (UN General Assembly, 17 October 2011). These official views in support of shared responsibilities have given rise to a focus on debt audits in countries of the global South. Debt audits have become important instruments
to ascertain the circumstances of loan agreements, the scale of the debt, the content of lending contracts, and the impacts of the use of loans.

**Learning from the global South**

Debt audits have been carried out by citizens groups in the global South such as in the Philippines. One national, government-led, debt audit has been carried out, by the government of Ecuador, the first government in the global South to establish a national debt audit commission to examine the scale, nature and legitimacy or otherwise of the country’s debts contracted between the period 1976-2006 (Comisión Para La Auditoría Integral Del Crédito Público, 2008). Interestingly, the audit examined the scale of Ecuador’s debt but also its political nature, such as the social impact of loans to Ecuador during that period. Ricardo Patiño, former Economy and Finance Minister in Ecuador and key backer of the independent audit outlined the audit’s intended wide-ranging nature:

“[The audit] will consider all relevant legal, political and economic factors which have led to the accumulation of illegitimate debt in this country. The audit commission must also consider social and environmental damages to the local populations caused by debt. Debts which are found to be illegitimate must not be paid. Debts which are legitimate must be reimbursed.”

The audit report details a litany of lending failures and exploitative loan contracts and after the audit, the Ecuadorian government refused to repay two global bonds worth about US$30 million, not because of an inability to repay, but because the government believed they were illegitimate and should not repaid (Ibid; Hurley, 2007).

**Education and Action in Ireland**

Inspired by Ecuador’s example, Debt and Development Coalition Ireland, Action from Ireland (Afri) and the trade union Unite commissioned an independent financial audit of Ireland’s debts as a first step toward enabling people in Ireland to understand the scale and nature of Ireland’s national debt (Killian, Garvey and Shaw, 2010). Working with a team of researchers from the University of Limerick, this was the first time that DDCI had worked with local and global justice groups on an Irish economic issue. The purpose of DDCI’s involvement was to support the development of the debt audit approach within the context of unjust debt situations, and to support greater transparency in Ireland on the debt question. This would support future action for debt justice.
in Ireland, which would in turn enable the international debt justice movement to learn lessons from the Irish case.

The findings of the Audit of Irish Debt (addressing the period up to the first quarter of 2011) found that Ireland’s debt, including contingent liabilities, had reached a staggering €371.1 billion (Ibid). Andy Storey of Afri highlighted the commissioning groups’ political interpretation of the audit project results:

“This [the 371.1 billion] is equivalent to almost 300% of Irish national income. Of this, €279.3 billion (over 75%) is accounted for by the state-covered debts of the Irish banks, and this, as the audit notes, is before taking into account the likelihood that much of the direct government debt of €91.8 billion may itself have arisen from the banking crisis. In other words, the audit proves conclusively that the Irish debt crisis is a crisis of private (subsequently socialised) debt, not public debt – the allegedly ‘bloated’ nature of the Irish public service, or ‘generous’ welfare entitlements, did not cause this crisis. As the audit puts it, ‘it is clear that the bulk of Irish government debt has arisen directly from the banking crisis, the decision in September 2008 to rescue all of the Irish banks’.

He continued:

“Alarmingly, the audit notes that the headline figure of €371.1 billion may be an underestimate. For example, the audit does not count unguaranteed bonds issued by the banks (and therefore not legally the responsibility of the Irish state) as part of the debt but, to date, the Irish government, presumably at ECB insistence, has been repaying these bonds also. As recently as Wednesday of this week, the government repaid in full a debt (unguaranteed) of $1 billion (approximately €731 million) owed by a now defunct bank to an unknown creditor, a debt which had been traded on the secondary market for little over half of its value i.e., an anonymous speculator has just made an enormous profit. And the Irish government seems insistent that it will not seek any debt relief despite such relief having been extended to Greece” (Storey, 2011).

The Irish debt audit was valuable for three reasons. It provided clear evidence from independent researchers that the Irish debt crisis was caused by
the socialisation of commercial banking debt. Secondly, the audit outlined the various facets of Ireland’s complex sovereign debt. Thirdly, it highlighted that while much of Ireland’s debt is resulting from debt owed to private bondholders, it was not possible to identify who the bondholders are.

Lessons for Development Education Work

The audit provided a clear evidence based piece of research with which to engage DDCI members and civil society organisations more widely. As a result, DDCI, along with many organisations in its membership worked to form a new network in Ireland of local and global justice groups called Debt Justice Action (DJA). DJA is an unprecedented coalition of organisations – including from community, global justice, faith-based, environmental, academic and trade union perspectives. The grouping also includes committed individuals as members and has embarked on education and campaigning work relating to what DJA view as a particularly immoral facet of Ireland’s debt – that of Anglo Irish Bank/Irish Nationwide Building Society. This now nationalised bank, which is being closed down, lent recklessly to Irish property developers and borrowed recklessly from international banks who if repaid in full will cost people in Ireland at least €47.9 billion (McDonnell, 2012).

In order to reach a stage of public campaigning work, the organisations involved engaged in intensive learning on the Anglo debt issue, by planning technical education sessions with economists and sharing their knowledge with each other – on how Southern countries have dealt with their debt problems and on the ways that communities in Ireland are coping with the debt. Since the launch of DJA, international debt justice organisations from around Europe and in the global South have also engaged with DJA to learn about Ireland’s debt situation, and to take action in solidarity with people in Ireland, including by carrying out solidarity work against the Anglo debt in Argentina, in the UK, Germany and the USA.

This formation of DJA has been one of intensive dialogue between its members which has challenged isolated ways of working for the organisations involved. It is a nascent initiative and time will tell if DJA’s approach is a sustainable mode of working. However, in a relatively short timeframe, it has demonstrated that sharing lessons from the global South has resulted in important new working relationships between local and global justice groups, and in concrete education and campaigning actions in Ireland. DDCI hopes that this will support increased solidarity among people in Ireland and in the wider world in achieving international debt justice.
References


