**Resisting the Debt System**

**Éric Toussaint - Ashley Smith**

**The combination of the pandemic, sharp global recession, inflation and interest rate hikes by central banks has triggered a new debt crisis throughout the Global South. The United Nations recently released a** [**new report**](https://news.un.org/en/story/2023/07/1138597) **that found a total of fifty-two countries, nearly 40 percent of the developing world, in “serious debt trouble.” Already, the International Monetary Fund and World Bank are renegotiating their debt—not to abolish it, but to grant more loans and reschedule their loan payments—all to preserve the debt system that keeps the Global South under the yoke of Western capital.**

**Ashley Smith interviews Éric Toussaint about the history of this debt system and the new debt crisis.**

**Ashley Smith:** **Sovereign debt has long been a critical issue for the Global South. What are the causes and history of this problem? How have the Western imperialist powers and their international financial institutions used the debt crisis to advance their interests? What impact has this had?**

**Éric Toussaint:** Imperialist States have used debt throughout the history of capitalism to subordinate countries. Several Marxists analysed this, beginning with Karl Marx himself and followed most importantly by [Rosa Luxemburg](https://www.cadtm.org/Rosa-Luxemburg-and-debt-as-an-imperialist-instrument), along with many others. I expanded on their work in my book [*The Debt System*](https://www.haymarketbooks.org/books/1234-the-debt-system).

The great powers created this system after States won their independence from colonial rule. In Latin America, great struggles against the Spanish empire led by José de San Martin and Simón Bolívar established newly independent States in the early nineteenth century. British capitalists offered them loans, trapping them in debt from their birth. From then on, these States were oppressed by Western imperialism and big finance.

Britain and other powers then used these States’ failure to make debt repayments to justify military intervention. They thus imposed free trade agreements to open up local markets for their corporations.

Luxemburg examined this in her book [*The Accumulation of Capital*.](https://www.marxists.org/archive/luxemburg/1913/accumulation-capital/) One of her examples was British imperialism’s conquest and subordination of Egypt in 1882. She looked at several other examples in Latin America and Asia, especially China.

Thus, European imperialist powers as well as the United States established the debt system in the nineteenth century and expanded it throughout the world, including inside Europe itself against its less developed States. For example, [British capital trapped Greece in debt after it established its independence in 1830 and used that as leverage to dictate the country’s economics and politics,](https://www.cadtm.org/Newly-Independent-Greece-had-an) in connivance with France and Tsarist Russia.

In the early twentieth century, the United States in particular took advantage of countries’ failure to pay their debts to carry out military interventions throughout Latin America and the Caribbean. For instance, Washington used this alibi to invade Haiti in 1915, occupy it until 1934 and force it to make payments. So, debt was paired with military intervention as two key tools of imperial domination.

**Ashley Smith:** **How did this debt system change during the Great Depression?**

**Éric Toussaint :** The debt system was thrown into crisis in the 1930s. Germany suspended its loan payments in 1931, followed by Great Britain, Belgium, Italy and France, who all stopped making payments to the United States. Fourteen Latin American countries did the same. Thus, during the Great Depression, there was a general situation of suspension of payments on sovereign debt.

**The debt system was thrown into crisis in the 1930s. Thus, during the Great Depression, there was a general situation of suspension of payments on sovereign debt.**

[This was one of the main reasons that the United States created the World Bank and the International Monetary Fund (IMF).](https://www.cadtm.org/Concerning-the-founding-of-the-Bretton-Woods-Institutions) During the Second World War, the Franklin D. Roosevelt Administration recognized that financial markets were in crisis and decided that the United States needed to develop new international institutions to enforce payment and finance the reconstruction of Europe.

They were also designed to maintain US imperial domination of countries that became independent through national liberation struggles and decolonization after the war. In essence, they set up the World Bank and the IMF as their economic gendarmes for global domination over their former rivals and the Third World.

To give them some veneer of legitimacy, they were established as multilateral institutions that incorporated all the other great powers as well as the debtor countries. But the United States rigged those institutions with a weighted voting system that gave it the greatest share of votes, guaranteeing that they would serve its interests.

After the war, the IMF and World Bank convinced many newly independent countries to take on more debt with the promise of development. Of course, the loans came with conditionalities that disciplined debtor countries to remain open to US and European capital.

**Ashley Smith:** **How did the United States use the IMF and World Bank against the attempt by Third World States to liberate themselves from imperial dominance?**

**Éric Toussaint:** The United States deployed them against attempts by States to implement endogenous processes of industrialization. Lázaro Cárdenas in Mexico, Juan Perón in Argentina, Gamal Abdel Nasser in Egypt, Mohammad Mosaddegh in Iran, Kwame Nkrumah in Ghana, Patrice Lumumba in Congo, Julius Nyerere in Tanzania, Jawaharlal Nehru in India and Sukarno in Indonesia all tried to pursue a strategy of import substitution in the hopes of independent development, free of the shackles of the imperial powers.

The Chinese and Cuban revolutions set even more radical precedents for breaking free of the imperialist debt system. All the States took advantage of the suspension of payments during the interwar period to advance this project.

The United States and other imperialist powers used the World Bank and IMF as instruments of revenge, a means to launch a counteroffensive against this Third World challenge to their dominance. As in the past, they combined economic coercion and military intervention.

**The United States and other imperialist powers used the World Bank and IMF as instruments of revenge**

The United States in particular mastered the art of creating policies of economic and social destabilization to facilitate military coups against radical governments. When faced with a leftist government in an underdeveloped country, Washington would get the World Bank and IMF to suspend their line of credit, wreaking economic havoc.

It then supported a military coup to bring “order” to the society. Afterwards, it would get the World Bank and IMF to reopen the spigot of loans, pumping money into the new dictatorships. Examples of this strategy are legion.

Washington overthrew Mosaddegh in Iran in 1953 and Jacobo Árbenz in Guatemala in 1954 and backed military putsches in Brazil in 1964, Chile in 1973 and a sequence of them in Argentina. They carried out similar operations in Asia and Africa, often backing brutal dictators like Mobutu Sese Seko in Zaire. Thus, while economic destabilization was key, Washington’s main instruments to reimpose their rule over the Third World were CIA operations, assassinations and direct military interventions.

**Washington overthrew Mosaddegh in Iran in 1953 and Jacobo Árbenz in Guatemala in 1954 and backed military putsches in Brazil in 1964, Chile in 1973 and a sequence of them in Argentina**

Robert McNamara is the best example of how these two arms of imperialism—the financial and the military—worked together to advance US interests. In the 1960s, he led the escalation of US intervention in Vietnam. After the Tet Offensive in 1968, he was nominated to be president of the World Bank, where he increased loans to Third World countries twelve-fold, mostly to dictatorships in Asia, Africa and Latin America.

By the time he resigned in 1980, his loan programme had set up whole swathes of the world for the debt crisis and the neoliberal offensive. Amid economic stagnation and rampant inflation, Federal Reserve Bank Chair, Paul Volker, raised interest rates to nearly 18 percent in the United States. This triggered a deep recession undermining prices for key commodities, hammering Third World countries.

**Robert McNamara is the best example of how these two arms of imperialism—the financial and the military—worked together to advance US interests.**

As a result, scores of countries could no longer afford their loan payments. The World Bank and IMF renegotiated their debts, granting them yet more loans on the condition that countries implement a programme of neoliberal structural adjustment—privatization, deregulation, cuts to their welfare states and opening their markets to multinational capital.

To combat this neoliberal offensive, [Fidel Castro launched an international campaign for debt cancellation in 1985](http://www.cadtm.org/Fidel-Castro-The-debt-is-unpayable). It was endorsed by others including [Thomas Sankara](https://www.marxists.org/archive/sankara/1987/july/29.htm)’s government in Burkina Faso. But they could not win over the bourgeois governments in the rest of the developing world.

As a result, the United States, joined by the European powers and Japan, successfully carried out their global neoliberal offensive. After the implosion of the Soviet Union, this was extended into Eastern Europe through shock therapy, establishing the integrated chains of production, delivery and sale of today’s global capitalism in the process.

**Ashley Smith:** **Since the Great Recession, the debt crisis has grown even more acute. Why? What impact has this had on the most indebted economies?**

**Éric Toussaint:** We are in a new conjuncture, a new debt crisis of enormous proportions that has been caused by four shocks to global capitalism. First was the coronavirus pandemic, which caused huge numbers of deaths throughout the world.

Second, the economic crisis triggered by the pandemic. This undermined economies in the developing world from Latin America to Asia to Africa. Countries like Sri Lanka and Cuba that had adopted an economic strategy based on tourism were particularly damaged when air travel was shut down.

These two shocks interacted, laying foundations for the new sovereign debt crisis. Right at the moment that States had to increase public expenditure to bail out businesses and support workers faced with unemployment caused by lockdowns and layoffs, their economies went into recession, drying up tax revenues. As a result, sovereign debt exploded.

The third shock was the Russian invasion of Ukraine. Right away, it set off massive speculative price increases in cereals like wheat. I say speculative because during the first few months of the war, there was no drop in cereal exports from Ukraine and Russia. Soon, however, exports were interrupted, choking supplies and driving up prices even more, until a deal was orchestrated to allow shipments to recommence. That agreement was called into question at the end of July 2023. There have also been price hikes for chemical fertilizer, oil and gas.

Nevertheless, prices spiked throughout the world and especially in countries that imported most of their food. In countries in Asia and Africa, inflation put enormous burdens on people, already impoverished by the recession, and now faced with the increased price of food.

The fourth shock was the unilateral decision by the US Federal Reserve, European Central Bank and Bank of England to raise their interest rates. In the United States, the Fed hiked their rates from near 0 to 5,25 percent, Bank of England did the same while the European Central Bank increased its own rate to 4 percent.

These hikes had a devastating effect on countries in the Global South. Financial capital, which had been buying sovereign bonds in those countries, realized that raised interest rates in the Global North meant they could make a higher rate of return by purchasing such bonds in the United States, Europe and Britain. Thus, we have seen a repatriation of finance capital from the South to the North.

Even worse, investment funds told States in the South that if they wanted to refinance their debt they would have to pay 9 to 15 percent interest rates; otherwise the funds wouldn’t buy their bonds. While countries had little choice but to agree, many are quite unable to make their payments at such high rates. As a result, we have a new sovereign debt crisis.

It has got so bad that even the World Bank and IMF are calling attention to the crisis. They are now arguing that it is necessary to reduce some of the debt or postpone payments so that countries can continue to pay back their loans. Thus, despite their crocodile tears, their aim is to protect and preserve their debt system, not abolish it.

**Ashley Smith:** **In the past, sovereign debt in the Global South has been held predominantly by the United States, Europe, Japan, their banks, investment funds and the international financial institutions. Now China is a big holder of such debt. Why is that the case? How has that caused a schism between the Western powers and China over debt? Why has China been reluctant to agree to debt restructuring?**

**Éric Toussaint:** The first thing to say is that China, despite all the media hype, is not the main creditor for the Global South. Private creditors like investment funds and big banks hold more than 50 percent of the developing countries’ sovereign debt. The other holders are the multilateral predators including the World Bank, the IMF and the traditional imperial powers in the Club of Paris.

China has now established itself as a new creditor. Its State banks, State-owned enterprises and private enterprises have dramatically increased their loans to the Global South, becoming holders of large amounts of sovereign debt.

Unlike the World Bank and IMF, however, China does not impose neoliberal conditionalities and structural adjustment programmes. But let’s be clear, it is not philanthropy. It is a new capitalist superpower locked in competition against the United States, the European powers and Japan.

As such, it uses its loans to advance its interests. It funds countries to develop industries to export raw materials to China, open their markets to Chinese companies and secure their allegiance geopolitically.

Regarding the new debt crisis, the IMF and the World Bank have told China to reduce its holdings and renegotiate them. China has responded by saying that it is already reducing some debts, restructuring them and postponing payments. They are doing so to get indebted countries to adhere to their foreign policy dictates.

For instance, China has convinced fifteen to twenty countries in Africa to renounce recognition of Taiwan and force Taipei to close its embassies. As a result, there is only one country on the continent that recognizes Taiwan as an independent country.

At the same time, China has exposed the hypocrisy of the World Bank and the IMF’s claims that they cancel debt. It has pointed out that while the international financial institutions reduce portions of debt, they never cancel it. It has thus called the other powers’ bluff and exposed all their debt renegotiation as a charade.

China is right. Take the example of the Democratic Republic of Congo. The IMF and World Bank claim to have stopped the country’s repayment of its debt, but they are lying. In reality, they have set up a trust in which imperialist powers like France, Belgium and the Netherlands deposit funds for the DRC. The IMF and the World Bank then draw funds from that trust for repayment of their loans.

China has also objected to the imbalance of power in the IMF and World Bank. They have highlighted that the United States still holds more than 15 percent of the votes, enabling Washington to effectively control both of them. By contrast, China, despite its status as the world’s second largest economy, has only 6 percent. China has therefore requested the redistribution of voting rights.

Frustrated with Washington’s refusal to accede to its request, China has joined Brazil, Russia, India and South Africa to establish the BRICS Bank—the New Development Bank. It is headquartered in Shanghai and its new president is the former president of Brazil, Dilma Rousseff. China claims that it is an alternative to the World Bank and the IMF. It is not. It funds exactly the same kind of extractivist projects that Western capital has backed in the developing world.

Despite opening this multilateral bank, China’s main way of granting loans to countries is not through it, but through its State banks, State companies and private corporations. Why? Because China knows, just as the United States does, that while multilateral banks are useful, the best way to control countries is through bilateral financial relations. So China’s banks and corporations remain central to their international lending operations.

They are adopting and adapting the strategy established by the United States with the Marshall Plan after the Second World War. Washington provided grants and loans to countries in a bilateral fashion to fund reconstruction and secure its geopolitical influence against the Soviet Union. China is doing the same to secure allegiance from the Global South and compete with the old imperialist powers.

While we should call attention to this, we must avoid any demonization of China. It is no worse than the United States, France or Britain.

**Ashley Smith: The Committee for the Abolition of Illegitimate Debt (CADTM), of which you are a key leader, has made debt cancellation one of its central missions over the last few decades. What do you advocate and how is the movement for a debt jubilee faring?**

**Éric Toussaint:** The movement for debt cancellation is in a difficult situation. We were inspired by Castro’s call for abolition of the debt in 1985 and have campaigned for it ever since. We have made the demand central to global discussions but have also suffered some profound setbacks like [Syriza’s capitulation to the European Central Bank and the international financial institutions in 2015.](https://www.cadtm.org/The-Work-and-Lessons-of-the-Truth)

Over the thirty-year period from 1985 to 2015, we have seen massive waves of struggle, reaching a high point through the Global Justice Movement of the early 2000s through 2008 when Ecuador under Rafael Correa suspended its debt repayments. In 2000, we organized 30,000 people to march against the World Bank in Washington and mobilized similar or more numbers against other summits of the international financial institutions and great powers.

Since Syriza’s capitulation in 2015, it has been more difficult to mobilize movements for cancellation, with some exceptions like Argentina, where hundreds of thousands of people protested in the streets against the IMF. But in general, States have balked at cancelling their debt and our movement has not been able to build popular mobilization on the scale of the early 2000s.

At the same time, the international network of the CADTM has actually expanded our geographical implantation and capacity. For example, a big Mexican coalition of more than twenty organizations just affiliated with us. It includes trade unionists as well as Zapatistas, feminist groups, peasant organizations, ex-Maoists, Trotskyists and others critically supporting Andrés Manuel López Obrador’s so-called progressive government.

We have a very active organization in the U.S. colony of Puerto Rico and have built a large network in North Africa called the North African Network for Food Sovereignty. In addition to our long-established organizations in the French-speaking countries of West Africa, we have recently added new ones in East Africa, welcoming a group in Kenya, a pivotal English-speaking country in the struggle against debt.

As a result, we now have affiliates in over thirty countries. In general, the organizations are not massive, but they are militant and activist in nature. And our website receives over 200,000 visits a month.

We are bringing all our affiliates and partners in the struggle together [in a counter-summit of social movements this October against the next assembly of the World Bank and IMF in Marrakesh, Morocco.](https://linktr.ee/morocco23) It will be challenging to organize because of the repressive nature of the monarchy that rules the country. We have an organization there called ATTAC-CADTM Morocco that shares the international secretariat with CADTM- Belgium that will host the counter-summit. They are doing a remarkable job of preparation and mobilization and is associated with a number of organizations in Morocco and the Arabic-speaking region.

But, as an indication of the difficulties we face, ATTAC-CADTM Morocco has not been able to renew its legal status since 2002 and one of its members, [Omar Radi,](https://en.wikipedia.org/wiki/Omar_Radi) was sentenced to six years in jail for activism and his work as an investigative journalist. He has already served three of those years. Unfortunately, there is a clear risk that the monarchy will try to interfere with our counter-summit.

Some members of civil society, led by people known to have collaborated with the present government in the past, have called for a citizens’ initiative in parallel to the IMF-WB summit. They are trying to cause confusion and division among those involved in the international preparation of the counter-summit and to organize a summit that would be agreeable to the two institutions and the regime.

Not for nothing is this coalition from civil society called “International Parallel Summit to IMF and WB Meetings”. They have invited leaders of the IMF and World Bank to participate in a dialogue. They want to work with the international financial institutions, not challenge them or undermine their legitimacy. Thus will some of those participating in that alternative summit receive aid to attend and be coopted by the repressive Moroccan monarchy.

Let us recall that the Moroccan regime does not respect the right of peoples to self-determination, cracks down on social protest, does not respect freedom of speech, helps Fortress Europe to consolidate its inhuman migration policies and has recently officialized and stepped up its partnership with Israel, turning its back on the Palestinian people.

Despite the competition from civil society allied to the monarchy, we think we will be successful in organizing our counter-summit, because up until now the monarchy has balked at repressing foreigners from countries of the North. Of course, we expect the repressive regime to create problems for us, interfering with our ability to secure venues, but not to resort to overt repression.

In fact, we will use the counter-summit to help our comrades who have been repressed and jailed by the monarchy. We will bolster the campaign to free all the political prisoners in the country. So, we are confident and enthusiastic about exercising our civic rights and posing a challenge to the monarchy, the IMF and the World Bank.

**Ashley Smith: Ukraine has come to the fore as one of the battlegrounds of this struggle for debt cancellation. Russia has laid waste to whole sections of the country in its imperialist invasion. Ukraine is already deeply in debt, an odious debt imposed since the 1990s. Many fear that the reconstruction of the country will only increase its indebtedness and play into the hands of multinational corporations. What is the alternative to such a neoliberal reconstruction of the country?**

**Éric Toussaint:** [The struggle for debt cancellation in Ukraine must be seen as a central part of our overall movement](https://www.cadtm.org/Ukraine-Resisting-creditors). It suffered a version of shock therapy at the hands of the Western powers after its independence in 1990 and, after eighteen agreements with the IMF and World Bank, saw its debt grow to $15 billion to the IMF and another $4 billion to the World Bank.

So these two institutions hold close to $20 billion of Ukraine’s external debt. They have every intention of using this debt to impose ever more radical neoliberal policies on the country—more privatization, more deregulation, more austerity and more openings for multinational capital. Cancelling the debt is really a precondition for any progressive reconstruction of the country after the war.

Already, the vultures of international capital are circling over Ukraine. The two biggest corporations positioning themselves to benefit from the country’s reconstruction are BlackRock and JP Morgan Chase. These two were central players at the recent [Ukraine Recovery Conference](https://www.gov.uk/government/topical-events/ukraine-recovery-conference-2023) held in Britain.

BlackRock wants to fund extractivist industries, especially in minerals, while JP Morgan is focusing on becoming central to the country’s finances. The entire process of the country’s reconstruction is designed to be controlled by big capitalist corporations and big capitalist powers. We should totally oppose this kind of reconstruction.

That also raises critical questions about Volodymyr Zelensky’s government. It has imposed its own neoliberal policies during the war, undermining in particular workers’ rights to unionization and endorsing the Western powers’ predatory plans for rebuilding Ukraine. We must work with our comrades in [Sotsіalnyi Rukh,](https://rev.org.ua/sotsialnyi-rukh-who-we-are/) the Ukrainian Social Movement, to provide an alternative plan for a progressive reconstruction of the country.

From outside Ukraine, we have to convince international organizations in the movement for debt cancellation to oppose the Western powers and their neoliberal programme. In the United States, we have to pressure Jubilee USA, which tends to follow Washington’s lead, to join us in this opposition.

**Ashley Smith: Why should the left and the international movement for debt cancellation support Ukraine’s struggle for self-determination and a progressive reconstruction of the country? How can such unity from below throughout the world be built?**

**Éric Toussaint:** We have faced real challenges in building solidarity with Ukraine. This should not be surprising. People look at how the Western powers have supported Ukraine and accepted refugees, while they have refused to extend similar solidarity to other struggles for self-determination like Palestine’s and have blocked refugees from what are seen as racialized countries.

That hypocrisy makes some ask why they should support Ukraine’s struggle for self-determination and demand the cancellation of its debt when Ukrainians are privileged. Our task is to convince the international left, in particular in Latin America, Africa and Asia, that the imperialist powers are not in fact generous to the people of Ukraine.

The United States and other NATO powers are providing weapons to Ukraine as a proxy to weaken Russia. And they are granting it money to create dependency and impose their neoliberal programme on it. In reality, they are trying to manipulate and exploit Ukraine and its people.

But it’s not easy to convince people in countries who, quite rightly, see the United States and the European powers as their main enemy. This is why, in West Africa, some of those marching in demonstrations against Western imperialists carry Russian flags. Of course, they are not supporters of Vladimir Putin and Russian imperialism, but they see the Russian flag as some kind of alternative to the West and, in the case of countries like Mali, Burkina Faso and Niger, as an alternative to French imperialism.

We have to demonstrate that Russia is just another imperialist power, albeit a less powerful one. We will try to advance this argument at our counter-summit in Morocco. We have invited the Ukrainian socialist [Yuliya Yurchenko](https://spectrejournal.com/fighting-for-ukrainian-self-determination/) as one of the speakers to make the case for solidarity with Ukraine.

This will be an important opportunity to build unity from below against imperialism, neoliberalism and illegitimate debt. But it won’t be easy. Twenty or thirty years ago, the global justice movement was more united and was not predisposed to supporting this or that imperialist power or camp.

But we will try to rebuild unity to resist both US and Russian propaganda and their appeal to sections of anti-imperialist movements. We must reject them both. To do this we need more education and a frankly Marxist analysis of imperialism today so that people can come together and build a common movement against the debt system without any exceptions.

We will try to do this at our counter-summit in Morocco and at the next World Social Forum in Nepal in February 2024. We are already working with our comrades from South Asia who understand that we must oppose both Russian imperialism and US/NATO imperialism. They are both enemies of the labouring classes of the world and of our collective struggle to abolish debt.

Source : <https://spectrejournal.com/resisting-the-debt-system/>

**Author:** [**Ashley Smith**](https://spectrejournal.com/author/ashley-smith/)

Ashley Smith is a socialist writer and activist in Burlington, Vermont. He has written in numerous publications including *Truthout, International Socialist Review, Socialist Worker, ZNet, Jacobin, New Politics, Harpers* and many other online and print publications. He is currently working on a book for Haymarket entitled *Socialism and Anti-Imperialism.*