

# WHY WE SHOULDN'T PAY THE DEBT: REASONS AND ALTERNATIVES



CITIZENS' DEBT AUDIT PLATFORM,  
WE DON'T OWE, WE WON'T PAY!  
(coordinators)

# WHY WE SHOULDN'T PAY THE DEBT

Reasons and alternatives



Icaria ✿ ASACO

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marc rodríguez porcell 2011

# Prologue

PERE CASALDÀLIGA

## To the anonymous pyrate

Greed upon greed upon greed  
upon the World Bank of the open sea,  
heart closed to justice,  
blind eye resisting all light.

Death for glory and the jaundice  
of gold for health, in the settling  
of accounts between empires your prowess  
as thief of thieves makes port.

Transnational wolf, foul vampire  
sucking our blood for the First World  
and on the reefs of clairvoyant profits.

Mercenary of the God of Mistral,  
great-great grandfather of the Foreign Debt,  
ancestor of the IMF.

Unpublished, a small page in  
*Todavía estas palabras*

Pere Casaldàliga, is a priest and practitioner of Liberation Theology, born in Balserany (Barcelona) on 16th February 1928. He turned the Prelate of São Félix do Araguaia (Mato Grosso), where he exercised as bishop, into a trench in the line of defence of the excluded, at a time when many opponents of the dictatorship ended up imprisoned, tortured or murdered. He faced military repression in Brazil and hired gunmen in the pay of the landowners. He escaped death in 1976, when the bullet intended for him took the life of the Jesuit father João Bosco Burnier. Pere Casaldàliga continues to accompany the people in the transformations imposed by globalisation and he has been a tireless warrior in the fight against the oppression of the debt wherever that oppression is experienced.



# I

## Debt around the world

GRISELDA PIÑERO and IOLANDA FRESNILLO

### **What does debt mean for the peoples of the world?**

The Spanish population, like that of Greece or Portugal, is currently suffering the criminal consequences of the austerity packages being imposed under the auspices of the debt. This debt crisis, currently overwhelming the countries on the periphery of Europe, is very similar to the ongoing crises experienced by many African, Asian and Latin American countries.

The debt has been, and continues to be, a mechanism for the domination of the debtors by the money lenders. It has served as a lever for imposing an economic model based on Neoliberalism: through the so-called structural adjustment plans, which in Europe are being called austerity packages, the debt causes poverty in the affected populations; it undermines economic, social and cultural rights; and ultimately, it leads to an increase in inequality.

## **The debt crisis in impoverished countries is not over**

According to the International Monetary Fund (IMF), almost a third of low-income countries are at risk of over-indebtedness, despite having in many cases received significant debt relief. In fact, the total debt of “developing countries” has gone from \$2.1 billion dollars in 2000 to \$4.9 billion in 2011. In the context of the global economic crisis, many countries have fallen deeper into debt in order to face the impacts the crisis is having on their economies. Impoverished countries have seen income from exports reduced, prices of raw materials have become extremely volatile, income from remittances has fallen, and multinationals have increased the repatriation of profits, and continue to evade taxes, deepening capital flight, and meaning less and less resources are available to these countries. In this context, the substantial increase in private debt in some poor countries is especially worrying. While in 2000 the public debt in developing countries stood at \$1.3 billion dollars and private debt at only \$0.5 billion, by the end of 2011, public debt had risen to \$1.76 billion and private to \$1.71 billion (long-term debt). Some financial media are reporting that the private credit bubble in Asia could mean the start of a new debt crisis.

## The price of “forgiving” the debt

Following years of social mobilisations, “debt relief” initiatives were created for the poorest and most deeply indebted countries, with the aim of reducing those countries’ debts to “sustainable levels”. However, the cancellations offered could only be received in exchange for proof of the implementation of adjustment programmes controlled by the IMF. Measures including privatisations, financial liberalisation, elimination of subsidies, reduction of salaries for civil servants, and cuts to health and education, among many others, were imposed on countries such as Mali, Haiti, Cameroon, Tanzania or Bangladesh, in exchange for “forgiving” a part of their debt. In Mali, Malawi or Haiti, for example, the elimination of subsidies on cotton, fertilizer and rice respectively, combined with the obligation to open up their markets and privatise public agricultural companies, did not only mean the ruin of millions of peasant farmers, but also poses a serious threat to the food sovereignty of the populations of those countries.

These policies perpetuate the dependence of the countries that are supposed to be the beneficiaries, and are totally inefficient and insufficient in the long term. After receiving the partial cancellation of their debts, governments continue to resort to loans, in many cases from the IMF, creating new cycles of over-indebtedness.

## **Debt Laundering, from Latin America to Europe**

In Latin America the debt crisis in the 1980s led to various rounds of refinancing, one of the most common responses to situations of over-indebtedness. From South-East Asia, Ecuador or Argentina at the end of the 1990s, to Greece and Ireland today, the response has been to refinance the debt. This type of refinancing does nothing more than perpetuate the debt problem and acts as a lever for imposing the IMF's structural adjustment plans. Furthermore, refinancing fails to take into account the original source of the debt, in many cases resulting in the laundering of illegitimate, odious and unpayable debts.

### **Laundering and perpetuating bank debts. The case of Ireland**

In 2006, before the crisis hit, the Irish public debt stood at \$43,766 million dollars, 24.6 % of GDP, and the country was in a state of fiscal surplus. At one time considered to be proof of the success of the Neoliberal model, the “Celtic Tiger” passed from one extreme to the other: from Boom to Bailout. The Anglo Irish Bank, which had participated in the inflation of the Irish property bubble, was bailed out by the Irish Government in 2010, tripling the public debt, and shooting the fiscal deficit up by 30.9 %, in a clear example of the collectivisation of private debts. This situation led the Irish Government to request a bailout of

€0,000 million from the IMF and the European Union (EU), which basically went towards the recapitalisation of the banks, while a brutal austerity package was imposed on the country.

By the first quarter of 2013, the public debt had increased to 125 % of GDP. In January of that same year, on the verge of ceasing payments, the Irish Government agreed to a refinancing of their debt with the European Central Bank (ECB), swapping debt payments in the short term (at 8 % interest) for long term State bonds at much lower interest. Despite media pressure to view the refinancing of the debt as a successful process, the *Anglo, not our debt* campaign condemned the fact that the swap represented the laundering of an illegitimate debt “accumulated to pay the speculators who gambled money as part of an irresponsible bank that is now under criminal investigation”.

### **Greece, debt relief and new debts; refinancing a la Latin America perpetuating debt and austerity**

Before the crisis, the Greek public debt was already higher than that of any of their European neighbours. In part this was due to the legacy of the Dictatorship, which quadrupled the public debt between 1967 and 1974: an odious debt that would later be passed on to Greek democracy. The Olympic Games in Athens in 2004, high military spending, and a series of high-profile corruption cases are also among the factors that led to

elevated levels of public debt in Greece.

Greece also experienced a bubble of private debt. Following the arrival of the financial crisis, which cut the flow of credit to Greek banks, many banks were bailed out, increasing the public debt even further. In 2010, faced with the prospect of a suspension of payments, the Troika (made up of the International Monetary Fund, the European Commission, and the European Central Bank) approved the first “bailout”: the memorandum signed with the *Troika* approved a €10,000 million loan, combined with a draconian austerity package. Each payment in the “bailout” requires the conditions in the first memorandum to be met, undermining Greek sovereignty on a daily basis. It is important to highlight that of the 23 instalments of the Greek “bailout” received since 2010, 77 % of the resources have been destined for the financial sector.

Nevertheless, just a year and a half after the first “bailout”, Greece was back in the same situation: facing an unpayable debt. In March 2012 the Troika approved the second “bailout” on the condition that the private creditors accept debt relief, that is to say, the non-payment of a part of the debt. Faced with the prospect of not receiving anything, 95.7 % of the holders of private bonds accepted a swap for new bonds under British guarantee and jurisdiction, with relief of up to 78.5 % of the real value of the debt. Nevertheless, the Greek public debt continues to grow. The IMF prediction is that it will reach 176 % of GDP in 2013. In Greece, GDP has

decreased by 25 % since 2007, unemployment rates have reached 27 % €more than 57 % among young people and almost half of the population is at risk of poverty.

## **The risks of non-payment: Argentina and the vulture funds**

Argentina suspended payment of its debt in 2001, after decades following the dictates of the IMF and driving its economy (and its population) to the brink of the abyss. The country took advantage of the temporary suspension of payments to renegotiate the private debt and part of its bilateral debt and, at the same time, to accumulate sufficient reserves to be able to pay its debt with the IMF. Nevertheless, instead of repudiating the odious debt contracted by the dictatorship and analysing, through an audit process, the illegitimacy of later debts, the Government opted for offering the market two debt-for-bond swaps, in 2005 and 2010, with a significant debt relief programme and a delaying of maturities.

Ninety-three percent of the holders of bonds (private creditors) accepted the debt relief and lost part of their investment (up to 75 % in some cases). The creditors who did not accept the relief sold their bonds to the “vulture funds”, which, after buying them at 2 % of their nominal value, appealed to the tribunals in 2012 calling for the country to return 100 % of the nominal value of those bonds. An unfavourable sentence for Argentina, like the one returned in August 2013 by a court in New

York, not only puts the country back on the ropes, but also threatens other debt restructuring processes such as those of Greece, Jamaica or Belize.

### **The debt in the Caribbean; condemned to poverty**

Looking at the debt situation outside Europe, the experiences of the small, insular countries of the Caribbean are particularly noteworthy. Since 2010, Antigua and Barbuda, Belize, Saint Christopher and Nevis, Granada, and Jamaica have restructured their sovereign debts, which have increased without pause since the 1990s, reaching public debt levels even higher than those of Greece. Saint Christopher and Nevis has a public debt of close to 200 % of GDP and Jamaica 143 %. The global economic crisis, the impact of the drop in tourism (on which they are heavily dependent) and the economic effects of hurricanes and storms are some of the key factors that explain this rising debt.

Since the 1990s, the IMF has been deploying its adjustment programmes in the region. In the context of the current crisis these programmes have been renewed and in some cases, such as Jamaica, the conditions have become even stricter. If they continue under the dictates of the IMF, the small Caribbean states face years of adjustments and austerity, with all the poverty, inequality and rights violations that entails.

In April of 2013, having reached a limit situation, Jamaica agreed on a new “bailout” with the IMF of 930



million dollars and a restructuring of their internal debt. According to the Jamaican Campaign for Economic and Social Justice (CESJ), which is calling for an audit of the country's debt, a good part of the Jamaican debt is illegitimate: corrupt debts derived from the bailout of the banks in the nineties, or debt corresponding to mega projects and major infrastructures that only benefited the tourist industry.

### **The debt and the IMF: two more obstacles for the Arab revolutions**

In the months prior to the Arab revolts, the IMF published a series of reports into the economic policies, adjustments and social cuts undertaken by the governments of Egypt, Libya, Algeria and Bahrain. Both the IMF and the World Bank (WB) valued very positively the economic advances made by the countries of North Africa, ignoring the poverty faced by the majority of the population, the denial of economic, social and cultural rights, human rights violations, the lack of democracy and deepening inequalities.

In Egypt, the IMF and WB loans to the Mubarak regime were a lever for imposing the so-called Egyptian Economic Reform, which contributed to impoverishing the population, de-structuring the middle class and deepening inequality. In a short amount of time the Government froze salaries, eliminated extraordinary payments and made drastic cuts to investments in pu-

blic services such as health and education. Meanwhile the debt increased. The structural adjustment policies, combined with financial speculation which caused dramatic price increases for basic goods in 2008, and the corruption and despotism of the Mubarak regime, were what fuelled the Egyptian revolution.

By 31st March 2013, the Egyptian foreign debt had reached \$38,385 million dollars, 87.33 % of GDP. Almost 30 % of the budget was going towards servicing the debt. After the fall of Mubarak, the IMF came back on the scene, offering a \$4,800 million dollar loan to the Mohamed Morsi Government, in exchange, once again, for the implementation of an adjustment programme that included fiscal reforms, deficit adjustments, cuts to subsidies for raw materials such as natural gas, and tax increases on basic goods. The Egyptian interim Government, which emerged from the *coup d'état* of July 2013, is currently rejecting re-establishing negotiations with the IMF.

In Tunisia, by the end of 2011, the debt had reached \$22,335 million dollars, of which \$14,958 million was public debt. Much of this debt was inherited from the Ben Ali regime, and can therefore be classified as odious debt. Just as in the Egyptian case, after the fall of Ben Ali, the IMF, which has never thought twice about doing business with dictators, rushed to offer credit to the new Tunisian Government. A loan of \$1,636 million dollars was granted in June 2013, accompanied by direct control and the by now familiar policies imposed by the IMF.

One of the key demands of activists in the Tunisian revolution was for an Audit of the debt to be carried out, amidst calls for Ben Ali's odious debt not to be paid. This demand was taken up by all of the political parties in the October 2011 election, in the wake of the revolution. In 2012 the Tunisian Parliament became the first African parliament in history to pass a law setting up an Audit of the debt, placing responsibility in the hands of the National Constituent Assembly. However, the Assembly has sidelined this audit project, and it is currently at a standstill.

## **Attacking debt and austerity beyond our own borders**

As we have seen, debt is a key element in allowing economic, social and cultural rights to be violated, not only here in Spain, and on the periphery of Europe, but in countries on every continent around the world. Debt crises are recurrent in Capitalism, and it is only by attacking the systemic causes that we will be able to overcome them. It is also undeniable that, unless we break the infernal debt spiral, human development is impossible, stunted as it is by the dependence on financial markets and international financial institutions that the debt creates. That is why it is essential to join forces and reinforce international alliances for a coordinated fight against debt and austerity, against the economic and political systems that generate them, and for the alternatives that will enable us to go beyond those systems.

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## II

# The debt in Spain

SERGI CUTILLAS and ULI WESSLING

### How have we got where we are today?

The current global economic crisis was unleashed as a result of the bursting of the property bubble in the United States, which paralysed the world credit market in 2008, spreading the crisis to Europe and, especially, to Spain, where there was also a great property-credit bubble. Circumstances coincided to create the “perfect storm”, what some call the *Minsky moment* (Minsky was an economist who predicted the financial crisis). Both countries had actively participated in generating the circumstances that unleashed this crisis, which has been dogging us for the past six years without any real sign of the ‘green shoots’ of recovery that both Governments assure us they are seeing.

The two countries travelled parallel roads in the years prior to the crisis: first they applied policies deregulating the financial and property sector. In the 1980s deregulatory laws were approved in the United States which, even then, provoked a serious mortgage crisis. Fruit of the influence of the financial elites over governments, these laws eventually eliminated the separation between

retail and investment banks at the end of the 1990s, and removed restrictions on derivatives transactions, among other measures. From this point on a bank could use the money deposited by families to speculate on the financial markets. Furthermore, these measures facilitated the mortgage banks in creating “financial engineering” products, which, to cut a long story short, allowed them to cut up mortgages they had issued and sell them on to other banks around the world, removing the risk they represented from their balance sheets. That, in turn, enabled them to issue new mortgages, cut them up, and sell them on... Deregulation in Spain was more “old school”, though that did not make it any less effective. It was carried out through new laws liberalising land and the *cajas* (the savings banks) at the end of the 1990s. These laws enabled land speculation, and facilitated indiscriminate construction; easy credit from abroad was the factor which gave the final boost to the property bubble.

Low interest rates facilitated the flooding of both economies with loaned money. In the United States, low interest rates (that fell from 6.50 % in July 2000 to 1.75 % in December 2001) were set by Alan Greenspan, Governor of the Federal Reserve (the US Central Bank), in order to stimulate the economy in the wake of the “dot-com” crisis and 9-11. However, he kept them too low too long. In Spain, interest rates fell from 9 % in 1996 to 4.25 % in 2000, as a result of entry into the Euro, which eliminated the risk of currency devaluation and increased confidence in the country’s solvency, encouraging foreign

banks to lend large sums to Spanish banks. This credit, which came flooding in in the early years of the 21st Century, came principally from German, British and French banks.

A business dynamic in which companies and banks focus on making profits from activities unconnected to production (so-called financialisation), together with political deregulation, and low interest rates facilitated by the central banks, combined to create economic booms in both countries, shooting up house prices. The driving force of their economies became a sector dependent on unlimited price rises in order to continue to grow. As soon as house prices could not increase any further, the collapse of the property credit market began, creating huge holes in the bank's balance sheets. In 2008, property derivatives and their insurers collapsed in the US, dragging down gigantic entities such as Lehman Brothers, whose bankruptcy sowed panic, spreading the crisis around the world. In Spain, major property promoters such as Martinsa-Fadesa declared bankruptcy. From then on, in a bid to save the global economy from collapse, Governments of countries in crisis (or those using crisis as a pretext) have been bailing out private companies with public money. At the same time, appealing to a supposed "excess in public spending", those same countries have begun to dismantle their Welfare States through a series of cuts to the main items of social spending, which means those public services that are essential for the lives of their citizens.

## How are we doing right now?

Public debt currently stands at around 114 % of Gross Domestic Product (GDP), which is the combined money earned by all Spanish people in a year (data from the Bank of Spain: *Cuentas Financieras de la Economía española*). In 2007 it was only 44 % of GDP (as opposed to debts of 65 % of GDP owed by Germany and France that same year). This means that every single Spanish citizen currently owes around €5,000 in public debt.

Despite this sharp increase in public debt, private debt still far out-reaches these figures, standing at around 325 % of GDP. Of this, 126 % is owed by non-financial companies, 113 % by financial companies and 85 % is family debt. These figures demonstrate that the crisis in Spain was caused, as in most countries immersed in the present crisis, by an excess of private, NOT PUBLIC, debt. During these years of crisis, in which the over-indebted private sector neither consumes nor invests, because it is trying to save in order to digest these debt excesses, public sector debt grows. Faced with a sharp fall in income, public spending is sustaining the economy (both through the under-financed public institutions and through the bailouts). The part of this spending that surpasses income must be borrowed. This difference between income and spending is called the *deficit* (or *surplus* if income turns out to be greater than spending), and is the same as what we call *losses* (or *profits*) when we talk about a company. These losses are taken on by



the citizens in the form of debt repayments.

The principal reason for the disproportionate rise in public debt has been the annual deficit, fruit of a fiscal policy that has not permitted adequate sustained income. If the State's "losses" in times of crisis were dedicated to financing the services and infrastructure most needed by the citizenry; if the State tried to collect more tax from those who have most; and if the economic game were a just one that guaranteed reasonable levels of equality, there would be no legitimacy problem with this debt. However, we see that that is not the case: the State doesn't tax those who have the most; it spends money on unnecessary things (exaggerated military spending, High Speed Trains without passengers, airports without aeroplanes, etc.), while it makes cuts to basic social rights and gives money to private companies in the form of bailouts and subsidies, so that major fortunes don't have to face their losses. Meanwhile, those bailed-out are constantly threatening us with the total collapse of the economy if they don't get what they need.

Between 2008 and 2012 the average annual deficit was around 9 % of GDP, which meant an increase of debt from an accumulated debt of 50 % of GDP in 2008 to 102 % in 2012 and 114 % by September 2013 (data from the Bank of Spain: *Cuentas Financieras de la Economía española*). Nevertheless, a large part of these accumulated deficits have been caused by the direct and indirect costs of aid to the banks in different forms: capital injections (bailouts from the FROB), guarantees

and endorsements, liquidity for the Bank of Spain, the acquisition of over-valued assets (by the Bad Bank), asset purchase protection schemes, and tax deductions. We will look at this issue of aid to the Banks in more detail in the next section.

Furthermore, as a consequence of rising debt and interest rates, annual interest on the debt has gone up from €8,600 million in 2008 to almost €10,000 million in 2013. This payment of interest is one of the biggest items of the budget (greater than costs stemming from unemployment, which stand at €10,000 million). The interest is paid to the financial firms who hold the titles to the debt (the money-lenders). Approximately 60 % of these are Spanish banks and the remaining 40 %, are foreign creditors.

However, there are other, more “human” macroeconomic figures, and these are also getting worse: for example, unemployment, now over six million, or the number of people being evicted from their homes, which we will discuss later on. It is these figures that should be prioritised when making policy decisions, and they don’t look like they will be improving any time soon. It is difficult to believe the Prime Minister Rajoy when he states that “Spain is getting better” at the same time as the ex-Treasurer of his party, Luis Bárcenas, testifies before a Judge that between 2009 and 2010 Rajoy and other high-ranking Government figures received undeclared bonus payments and bribes from big business in exchange for concessions.

## Fiscal policies that turn their back on the citizenry

Why do we say the deficit is “the income that doesn’t come in to cover spending” and not that we “have spent beyond our income”? Because, without a doubt, Spain has a problem with fiscal income (on this both the Left and the Right can agree) and not with spending (although on this there is not the same consensus).

As Vicenç Navarro suggests in his book *Hay alternativas* (There are alternatives), Spain spends a lot less on the public sector than it should in terms of GDP. While *per capita* GDP is 94 % of the EU-15 average, public spending only reaches 72 % of the EU-15 average. To reach the equivalent of 94 % of the EU-15 average a further €6,000 million per year should be put towards public spending, improving the existing welfare system and lowering unemployment.

The State doesn’t spend this money because it doesn’t want to collect it. It doesn’t collect it because of the country’s regressive tax policy (whereby the heaviest tax burden falls to those who earn least). This is something Spain has in common with all the other countries where financial interventions have taken place. If we make a comparison between Spain and Sweden, looking at the taxes paid by different population groups according to their income, we see that while a salaried worker in Spain pays 26 % less tax than someone from the same group in Sweden, the richest 1 % of the Spanish population pays 80 % less than in Sweden. Spain’s

regressive fiscal policy has led to the State having to ask Europe for money and to over-indebtedness caused by the annual deficit, because the State has preferred taking out loans to collecting this money in taxes.

According to the 2013 budget, predicted tax income from the various Spanish public administrations is around €20,000 million, which is about 32 % of GDP, while average tax income for a European country is around 38 %. The taxes collected come mainly from Income Tax (IRPF) (37 %), VAT (27 %), Business Tax (9 %) and other taxes including those on products such as petrol, tobacco and alcohol (27 %). That means that the citizens contribute 91 % of taxes, while companies contribute only 9 %.

The relative income coming from corporation tax has decreased notably since 2007 (when it was 19 % of the total) to the most recent confirmed figure from 2011, which puts it at 9 % of the total. In part this is due to reduced income for companies, and the fall, or complete absence of profits. Nevertheless, in recent years, although there has been a marked increase in unemployment, the percentage of revenue collected from Income Tax has significantly increased, from 31 % in 2007 to 37 % of all revenue in 2011.

Low rates of revenue coming from taxing corporations cannot only be attributed to a fall in profits. Business tax is set at 30 % of profits for large companies and 25 % for Small and Medium Enterprises (SMEs). However, tax “deductions” and “compensation” mean

that large businesses may in reality pay only 10 % on their profits. If financial, industrial and service companies had paid 28.5 % of their profits (considered by the Spanish Inland Revenue, *la Agencia Tributaria*, to be the average nominal rate of taxation) and not only 11.9 %, as was the case in reality, between 2007 and 2011 €5,000 million more would have been collected each year. This figure is more than the total cuts made in recent years, which have been between €0,000 and €0,000 million per year.

On the other hand, it is estimated that the black economy (that which does not appear on anyone's books) represents around 20-25 % of GDP in Spain (similar to levels in Greece and Italy) whereas the EU-15 average is closer to 10 %. A graphic indication of this is that, in Spain, cash represents 10 % of GDP, as against 5 % in the Eurozone, and, in 2007, 64 % of the total money in circulation was in the form of €00 notes.

This may give the impression that in Spain we are all con artists, however, if we look at who commits tax fraud we can see that the major portion of fiscal fraud, around 72 %, is committed by large companies and major fortunes, while SMEs represent 17 % and self-employed workers around 9 % (even Carlos Cruzado, president of the Office of Treasury Technicians (*Sindicato de Técnicos de Hacienda*), Gestha, has urged for the commonly held and erroneous belief that most tax fraud is committed by self-employed workers and SMEs to be banished). If tax fraud by the holders of

major fortunes were to be eliminated, the State would collect an additional €4,000 million per year, and if total fraud were reduced to the European average, up to €8,500 million per year would come into the State coffers (income that would already have covered the costs required to reduce the fraud).

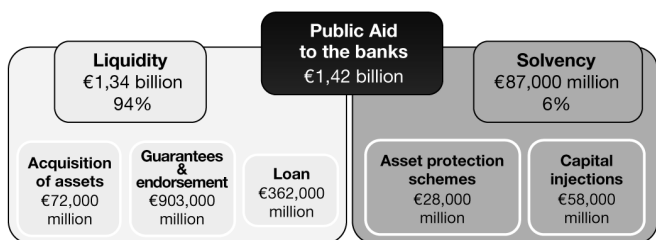
As you can see, the money is there. Nevertheless, the Governments of this country, instead of tackling the problem at the root to reduce the deficit (reducing tax deductions for Business Tax and fighting large-scale fraud) take measures that go in the other direction. To balance income with spending, the State is raising Income Tax and VAT, and reducing public spending, particularly social spending, while at the same time maintaining an elevated military budget, increasing public spending on bailouts and rising interest payments to service the growing debt.

Vicenç Navarro indicates some examples where more income could have been collected instead of spending less: the elimination of tax deductions for companies earning more than €50 million per year would lead to a €600 million increase in annual income, rendering the €1,000 million cuts to healthcare unnecessary; an increase in tax on Variable Capital Investment Companies (SICAVs by their Spanish initials) would remove the need for co-payment of healthcare; increasing business tax to 35 % for companies earning more than €1 million would increase income to the administration by €4,000 million making the rise in

VAT unnecessary. VAT affects the working classes and reduces consumption. A tax on financial transactions could bring in €8,000 million and would render the cuts to public-sector jobs unnecessary; reducing tax fraud (to EU-15 average levels) would increase income by €8,500 million, rendering all the cuts to the Welfare State being made by regional administrations unnecessary.

## **How we bailed out the banks**

As we have seen, public debt just keeps on growing. This is because, among other factors, of the absorption of private debt by the public sector. The implementation of public aid mechanisms to bail out the banks was a determining factor for the deterioration of public finances. Loans were made to the banks, their solvency was assured, guarantees were made and toxic assets were bought at prices far in excess of their value. Many different types of aid have been given to the banks, and lumping them together does not give a clear picture of the effect each of them has had on the rise in public debt and interest payments. According to the estimates of Carlos Sánchez Mato, the total figure for aid given to the banks is \$1.42 billion – 1.4 times GDP. The following table helps to better understand how that was done:



Source: Sánchez Mato (2013).

Solvency measures came in two forms. Firstly, capital injections, comprising approximately €8,000 million. Of these, €4,000 million correspond to money given up until 2011 by the State to the retail banks through the Fund for Orderly Bank Restructuring (FROB). The remaining €4,000 million correspond to the loan, or “financial bailout” given by the EU States to the Spanish State, through the European Stability Mechanism (ESM), the European fund set up to handle this kind of aid. This money has also passed through the FROB into the hands of the banks. The EU money was given in exchange for the signing by Spain of the Memorandum of Understanding, in July 2012, detailing the conditions demanded in exchange for the bailout, which included labour reforms to reduce salaries, and various other measures. The agreement authorised the European bailout fund to hand over up to €100,000 million if deemed necessary, although, to date, only €4,000 million have been paid out.



Secondly we have the Share Protection Schemes, with €8,000 million provided by the State to cover the losses of the banks which have, through a process of mergers, absorbed bankrupt organisations. In total €7,000 million has been paid out which will never be returned, meaning it is no longer available for other sections of the budget. Although the State insists that this money was an investment and not a gift, at the end of July 2013 the FROB presented its financial results with losses of more than €6,000 million and a €1,000 million hole in its assets that will have to be repaid from public funds.

During the same period, two major mechanisms have been applied to the purchase of the banks' toxic assets: the first was the Financial Assets Acquisition Fund (FAAF), created in 2008, which bought up assets to a value of €1,000 million; the second was the Company for the Management of Assets proceeding from Restructuring of the Banking System (SAREB by its Spanish initials), also known as the Bad Bank. Created in 2012 as a condition of the European bailout, SAREB has, in recent months, bought property reaching a value of €1,000 million. The State's plan is to resell these assets and recover at least part of the money they have shelled out, although there are likely to be serious losses, just as there were with the FROB, because SAREB bought properties and loans for more than they were worth, and their value continues to fall and shows no sign of stopping.

In terms of guarantees and endorsements, we can distinguish between two main groups. The first, implicit guarantees, which include State guarantees covering losses stemming from mortgages and bankruptcies, which protect citizens' savings in the banks up to a value of €100,000. These guarantees amount to around €92,000 million. The second type of guarantees are explicit guarantees, including loans created by the banks and underwritten by the State, amounting to €11,000 million. In total the State is underwriting savings and loans to a value of €103,000 million, which is approximately 90 % of Spanish GDP. These guarantees don't have to be paid unless bankruptcies occur, however, they do affect the solvency and credibility of the State when the banks get into trouble as they are now. In times of financial instability, these guarantees, for which the State will be ultimately responsible, mean that when the State asks the markets for money, those offering credit see that the State may have problems returning that money, and demand higher rates of interest, (the risk premium increases). This is why servicing the debt is currently so expensive, and more money is going towards paying interest (€10,000 million in the 2013 budget) than to other important budget items such as unemployment (€10,000 million).

The banks have also received aid in the form of liquidity. The CBE has loaned the Spanish banks up to €57,000 million through the Bank of Spain, the public body that underwrites this debt if the banks

cannot repay it. The banks have also made use of other mechanisms, such as preferential bonds and various lines of State credit amounting to €5,000 million more. The total sum is around €62,000 million.

The striking thing about these figures is that, although all this aid comes from the public sector, of which we, the citizens, are owners, it is we, the citizens, that are being punished. Employment becomes more vulnerable and social spending is cut because, we are told, there is no money to pay basic and priority services such as health, education or pensions. Meanwhile, the banks continue with their dynamic of exploitation, evicting families in economic trouble who cannot meet their mortgage payments, sacking their own workers, increasing bank charges to clients, ripping off savers with ill-intentioned financial products such as preferred stocks, cutting credit to SMEs, and speculating with the public debt of this and other States in economic difficulties.

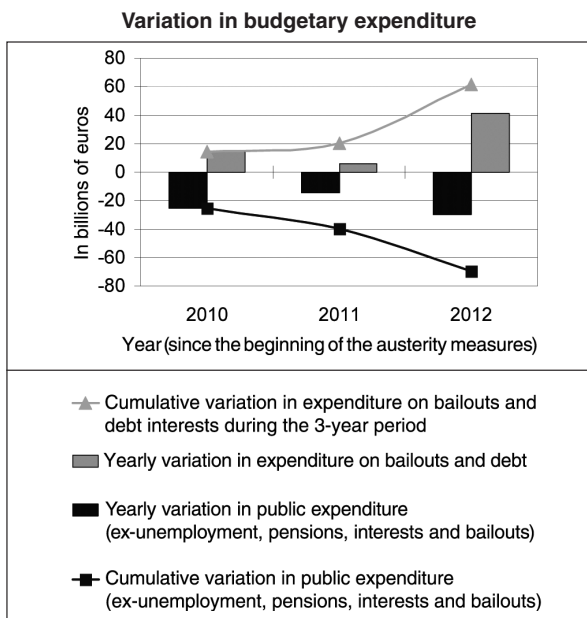
## Conclusions

Given that the debt was private, not public, it is worth asking where the bailout of the banks, the buying up of their trash shares, the lack of tax income, permissiveness in the face of tax fraud, the continued deficit and the rise in debt got us? As we all know, the current situation is that the cuts are being justified as necessary because of the State's reduced income and in order to "curtail"

the deficit. However, in reality public spending in the Spanish State is far below the EU-15 average. We don't have a spending problem, we have an income problem.

Revenue generated by increases to Income Tax (IRPF) and Value Added Tax (IVA) are principally being destined to paying interest to financial entities (or to directly bailing out struggling financial entities). We're facing a situation in which the population, through taxation, is financing and subsidising those who have most.

Coincidentally, the value of the cuts made between 2010 and 2012 (€0,000 million) coincides with the value of the bailouts and the rising cost of servicing the debt (€2.000 million). That is to say that the State justifies the cuts by not collecting tax income, and they take more from the citizens and make cuts to social spending in order to have sufficient money to pay the financial institutions.



Source: Own creation based on data from Eurostat.

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# III

## Impacts of the debt crisis

### Introduction

Paying the public debt absorbs more and more public money, requiring reductions to public spending in other areas. Payment of interest on the debt in 2013 amounted to €8,590 million<sup>1</sup>, this figure has risen by €742 million since 2012. To compensate in part for this rise in spending on interest payments, the Government has carried out a series of cuts to social spending, and plans to continue in that vein in the years to come. It is therefore necessary to highlight two issues, the first is that the key element for understanding this rise in public debt is the bailout of the banks, which has, directly and indirectly, cost €4 billion. Secondly, it is important to note that the selection of the sectors to which the cuts are to be applied has not been neutral, and in many cases the cuts have served to impose a new economic model, as has been the case with the privatisation of access to

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1. <http://www.eleconomista.es/ecomotor/formula-1/noticias/4745304/04/13/El-19-del-PIB-para-abonar-la-deuda-y-sus-intereses-en-2013.html>

health and education. Privatisations create new niches in the market, turning people's needs into commodities.

In order to feed the insatiable hunger of capital, we are sacrificing the already weak welfare system. Although it is sometimes difficult to see the links, we can infer that the bailout of the Spanish banks will ultimately be paid for by a reduction in social protection for the working classes, more work falling to unpaid women, projects that impact on the environment, and the dismantling of development cooperation projects in the Global South, among other measures. While we continue to pay the same or even higher taxes – for example VAT – the return we receive for our taxes becomes less and less. What this amounts to is a redistribution of wealth from the most vulnerable people in our society to the richest.

In this way, the “debtocracy”, by which we mean the regime imposed by the money lenders, whose maximum representation is the Troika, decides what economic policies will be applied in Spain. Alongside the cuts there has also been a labour reform that has decimated hard-won workers rights; employment and industrial policies have been abandoned, creating misery for an ever-growing unemployed sector of the population, and marginalising the owners of SMEs.

The Basic Rights contained in the United Nations Charter of Human Rights, or in the Spanish Constitution, become barely worth the paper they are written on, made subject, as they are, to commercial rights and debt contracts. One of the most serious examples, in



the Spanish case, is the right to shelter and to live with dignity. The debt crisis, closely linked to the construction boom, generated private debt, both for families and for the banks. However, the response to the problem of mortgage over-indebtedness has been different for some than for others. While successive Governments have bailed out the Spanish banks and, indirectly, the European banks, those same Governments have turned their backs on the hundreds of families who are being evicted. Indeed, it is the very security forces of the State that have been carrying out the evictions in cases where there has been resistance. At the same time, the purchase with public money of property shares in banks and building societies has not led to an increase in the housing available to citizens. Instead these properties, which were bought at more than their market value, have been sold at low prices, and at a loss, to companies and investment funds.

Below we consider some of the impacts the debt crisis has had on the country. We cannot include them all here, however, we hope that this serves as an example and may form the basis for ongoing study.

# **The handling of the financial crisis and its effects on education: Towards a change of educational model?**

MARCEL PAGÈS, TONI VERGER and XAVIER BONAL\*

## **Introduction**

In this chapter we offer a concise review of how the debt crisis has affected education. Our analysis takes into account the State as a whole, although the case of Catalonia is used as a reference, as it is one of the education systems where the most severe adjustments have been made. We look at four basic aspects of the education system: financing, teaching staff, grants and access.

## **The scale of the impact**

### **Financing**

Funding for education has drastically decreased in recent years. State and regional governments have substantially reduced their education budgets both in relative and absolute terms.

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Table 1  
**Public spending on education in Spain**

	2007	2008	2009	2010	2011	2012
Total (million €)	46,459.30	50,880.40	53,092.20	52,714.50	52,025.00	51,055.90
Variation		8,69	4,17	-0,72	-1,33	-1,90
% GDP	4,41	4,68	5,07	5,03	4,89	4,81
Students	8,588.537	8,665.004	8,947.901	9,164.394	9,380.909	9,460.648
Per capita spending	5,41	5,87	5,93	5,75	5,55	5,39

Source: Ministry of Education, Culture and Sport. Data for the academic year 2012/2013.

As we can see in Table 1, after a decade of expansion in education, from 2009 on, education budgets start to decline. By 2012 accumulated cuts to education amounted to 4 %. We can also see how spending on education as a percentage of State wealth has contracted. Data relating to student numbers shows that this reduction in spending is not a response to demographic changes, as the student population has not stopped growing. The education of more students combined with less investment represents an intensification of the pressure on the education system, which has a clear impact on results and on the quality of education.

In the Catalan case, the economic pressure to adjust is very clear. Reductions also started around 2009 and, in absolute terms, the figures are not significantly different from those of the Ministry of Education. Nevertheless, if we look at the reductions from year to year, we see that between 2010 and 2012 there are accumulated cuts of 17.58 % (see Table 2). Cuts of similar magnitude can

only be found in Greece, putting Catalonia at the very top of the table for education cuts in Europe.

Table 2  
**Budget spending by the Catalan Department of  
Education (Departament d'Ensenyament)**

2007	2008	2009	2010	2011	2012
4,653.1	5,070.4	5,393.1	5,282.2	5,019.4	4,490.5
million	million	million	million	million	million
Euros	Euros	Euros	Euros	Euros	Euros
	+8,96%	+6,36%	-2,06%	-4,98%	-10,54%

Source: Own creation based on data from the Catalan Department of Education and the Department of Economy and Knowledge.

At a regulatory level, the reform of Article 135 of the Constitution establishes the legal framework to justify adjustments to the parts of the budget destined for education and other areas. Nevertheless, it is important to note that these reforms are in conflict with other articles of that same Constitution establishing the right to education, including point 5 of Article 27 which states that “the political powers will guarantee the right of all to an education”.

## Teaching Staff

Policy on teaching staff – working conditions and changes to the workforce – has been the area hardest hit by the budget cuts. Teacher’s pay tends to account for around 70 % of the education budget, making pay cuts and the freezing of salaries the fundamental strategy for

the adjustment process.

The so-called Wert decree establishes a minimum working week of 25 hours for Primary School teachers, making the working day two hours longer than the previous model. New criteria for substitutions are defined, only providing substitute teachers from the tenth day of sick leave, and the fourth day in the case of other kinds of absences, rather than from day-one has had previously been the case. The same decree sets an increase of up to 20 % in class sizes and Teacher-Pupil ratios, which the Minister, Wert, defended by saying it would encourage children to socialise. These staff cuts, particularly affecting temporary contracts, mean serious overwork for teachers and less attention to pupils than is their due. The Unions have condemned the fact that, in Catalonia, around 3,000 teaching contracts have been cancelled in the past academic year. At the same time, according to a report by the Spanish Union CCOO, it is calculated that up to 62,000 teaching jobs have been lost in public education across the Spanish State.

In terms of pay, Spain reduced teacher's salaries in the 2010-2011 academic year by up to 5 %, and then froze them the following year.

## **Grants**

Another key area to be affected by the cuts, which is of particular relevance because of the impact it has on educational inequalities, is in the field of scholarships and financial help for students. The Ministry's decree

on grants, in force since the 2012-2013 academic year, established new criteria for access. These restrictions have led to at least 12 % of scholars losing their grants, and a saving of around €10 million for the Ministry.

The situation in Catalonia is not much better. As we can see in Table 3, less and less students receive grants, only around 11 % in recent years. This can be contrasted with high levels of infant poverty, standing at around 24.3 % in 2011.

Table 3  
**Students receiving Grants in Catalonia**

	2006	2007	2008	2009	2010	2011	2012
Students	1,076.576	1,112.151	1,161.532	1,201.018	1,231.778	1,261.346	1,294.654
Scholars	168,296	188,623	112,740	136,646	126,216	140,771	143,834
Percentage	15,63%	16,96%	9,71%	11,38%	10,25%	11,16%	11,11%

Source: Own creation based on data from the Catalan Department of Education and the Spanish Ministry for Education, Culture and Sports.

## Access to education and Privatisation

Another issue which stands out because of its importance for equality is that of access to education. It is clear that rising tuition fees for Universities and Vocational Studies could become an obstacle to accessing education. In fact in 2012-13 the number of students enrolled on undergraduate and official masters courses has decreased for the first time in many years. In Catalonia university fees reached a maximum of 66 % and, for the first time, a fee of €60 was charged for higher level vocational education. On the other hand, direct cuts to the functioning

of educational centres have also had an adverse effect on access, as centres have less funds to support scholars and finance basic running costs.

These policies feed the tendency towards the privatisation of educational finance as the costs of education fall more and more to private funders (particularly students' families). In fact, recent indicators suggest that, despite the current crisis, there is a tendency for families to increase their spending on education. Privatisation is also affecting education provision, which can clearly be seen in the Catalan context where the Department of Education announced the closure of 61 P3 groups in State Schools, as against 10 or 12 in the state-subsidised private schools that are also eliminating groups at this level. The cancellation of these budgets will mean the closure of two centres, the reconversion of two schools into secondary education centres and the progressive closure of three more schools. Despite these State school closures, the Department is maintaining and broadening private concessions for post-obligatory education. These tendencies point towards a deterioration in public education and the consolidation of private and state-subsidised private options.

Privatisation is probably at its strongest in higher education. There has not been a new public university created in Spain in the past 15 years, and it seems that the crisis will only deepen and accentuate this tendency. On the other hand, since the crisis hit in 2008, six new private universities have been created and two more are under way.

## Conclusions

The economic and financial crisis we are going through, and the way it is being handled by those who govern us, has led to drastic changes in the field of education. The clearest demonstration of these changes has its origins in the reduction of public spending on education and the resultant constriction of direct investment in teaching staff and grants, among other things. One result of this reduction to grants, and the rise in fees at different educational levels is that a major part of financing education now falls to the students and their families. These changes introduce new barriers to access to education and have negative implications for quality and equality in education.

**The debt is not owed to the banks, it is owed to women!**

PACD FEMINISMS COMMITTEE

The fact that the consequences of an economic crisis like the current one result in differentiated impacts on people according to sex is nothing more than the confirmation that we live in a patriarchal economic and social system: a system which imposes a social, political and economic role on women that subjugates them to the role of men.



It is therefore to be expected, in a patriarchal, but also capitalist and racist society, that the costs of the crisis be transmitted through the chains of power to ultimately have a more profound effect on women, the working classes and immigrants. This is a structural, and not a circumstantial issue.

On the other hand, policies destined to improve the situation of women, and campaigns to analyse and raise awareness of chauvinism, continue to be considered policies that affect only women, and which are, in any case, of secondary importance. For us, questions of gender violence, division of labour and equal opportunities are not issues that affect women alone. They are concerns that we should be approaching as a society. To consider them secondary, inconsequential issues demonstrates a cultural construction of social priorities; a construction which supports the interests of the (male, rich, white and heterosexual) elites, but which has been taken on board by other social sectors through a variety of mechanisms.

Cuts to gender policies are the result of successive governments' failure to prioritise this kind of policy. However, as we will see later on, the context of the crisis has also been used to financially stifle some the most politically "annoying" sectors. Feminist demands are not limited to issues of patriarchy. There are also strong links with movements fighting for economic and social justice. Some feminist organisations call for fundamental change to a model that prioritises life over the accumulation of capital. They are therefore considered "enemies" by the

groups and individuals who represent and defend the dominant patriarchal capitalist model.

If we analyse the situation at the beginning of the crisis, looking at the conditions in which men and women faced the world of work, it was far from being a model of equal opportunities. In 2008, indicators such as average working life, average annual salary or rates of temporary employment, provide a picture of far greater precarity for women in the world of work. To this we must add the greater participation of women in domestic and care work. The labour reform of February 2012 worsened this situation, creating yet more precarious conditions for part-time contracts; reducing the Minimum Wage, which is very widespread in feminised sectors such as domestic service; and suspending the extension of paternity leave. In this sense, feminist economists argue that the capitalist system is based, to a large extent, on the unpaid work of women. Women's domestic and care work means the working classes can be paid lower salaries, and tasks are unequally distributed within families. For these reasons, feminists have argued that there is a debt owed to women; a patriarchal debt, of time, but also of social and political rights. We don't believe this debt can be calculated or repaid, but it must cease to grow.

In addition to the unequal distribution of time and work, we would like to focus on the issue of gender violence, which continues to be one of the biggest social problems in the Spanish State. As reports on gender violence from the Ministry of Health and Social Po-

licy show, between 2003 and 2012, 614 women were killed at the hands of their partners. According to data from the Women's Institute, in 2009 there were 4,976 crimes of abuse, harassment and sexual aggression. We consider this to be a major problem for Spanish society which has worsened with the current deterioration of the economic climate. In addition to creating tension in many families because of the economic difficulties they face, it also means that many couples cannot afford to separate. There are also indications that many women do not dare to report harassment for fear of losing their job or not being able to find employment.

The debt crisis nationalised the financial sector's losses, creating pressure to reduce public spending, particularly social spending. Cuts since 2009, when the total budget for equality and gender violence was €6,018,510, have meant that by 2013 this had been reduced to €1,150,150, €4,868,360 less, representing a cut of 37.7%.

The Law on Dependency, passed in 2006, recognised the work of 150,000 non-professional carers, the immense majority of whom were women, and began to make Social Security (National Insurance) payments for these unofficial care workers. Following a cut of €83 million in 2011, and delays in benefits payments to 400,000 dependent persons that same year, a Government decree (20/2012) eliminated Social Security payments for non-professional carers, made cuts of 15% to benefits payments, and reduced by a further 13%

the contribution made by the State to the Autonomous Communities (regional governments) for dependency. In total these cuts amount to around €1,000 million. In his cuts plan for 2013, Rajoy has promised Brussels further reductions of more than €1,100 million in this area, which amounts to more than the total €1,087 million budgeted for 2013. In effect this means we are expecting to see the complete disappearance of public support for dependency.

Other measures are being justified, which are not directly related to reducing costs, but which take advantage of the politically favourable climate in which the right-wing PP has an absolute majority. These include Gallardón's proposed reform of the abortion laws, pending approval, which will drastically reduce the circumstances in which abortion is legally permitted and publicly financed; or the reform that limits access for lesbians and single women to assisted reproduction; and the elimination in law of fines for harassment, which is often the first step in detecting cases of abuse. Another extremely worrying issue is that the Royal Decree RD 16/2012 leaves some of the most vulnerable and at-risk groups – women, girls and illegal migrants – without access to the public health system.

On the other hand, bearing the brunt of job losses in the public sector, and worsening conditions for those who stay on have increased the risk of poverty among women, as it is a broadly feminine sector. Furthermore, services previously offered through the health care system

or support for financing school dinners in the interests of children's nutrition have been privatised, increasing the workload for housewives.

It is clear that it is the poorest sectors of society who really end up paying for the losses in the financial sector, with less political rights, less protection for their basic needs, increased precarity and increased workload. It is their resources, or the resources that legitimately belong to them, that are being transferred to pay for the bailout of the banks. We don't want to finish this chapter without highlighting the role of women in conserving quality of life in times of crisis. A number of initiatives in Spain and other countries in the South of Europe, led by women, are opposing the "austerity" packages, and defending life and dignity. There are networks to protect the health of people without papers, initiatives for community childcare, or for looking after the elderly, and networks where women share skills, time and work, so that life can go on in decent conditions in times of crisis.

So, to conclude, we remind you that the debt is to women and not to the banks, yet the debt that is recognised, the payment of which is being imposed with little regard for the consequences, is the bank debt, while the debt owed to women is being forgotten. Or worse, the cuts being applied to pay the financial debt and the labour reforms being applied in the context of capitalism, generate a far greater workload for women, increasing the patriarchal debt.

## The debt and health: Who owes what to whom and why?

ALBANO DANTE FACHIN POZZI\*

Catalonia was one of the first Autonomous Communities to do its “duty”: in 2011 the *Generalitat* began to apply the scissors to the health budget. Although there are some local nuances, the impact of these cuts can be extrapolated to the situation being experienced in healthcare throughout Spain, where debt payments are threatening the universal right to public healthcare on which millions of people depend. These cuts are putting lives at risk. Health, which represents more than 30 % of total public spending in Catalonia, has been one of the budget areas to suffer most from the cuts. The budget for CatSalut went from €5,547 million in 2010 to €5,506 million in 2012.

Parallel to this, the years between 2010 and 2012 have seen an inverse evolution of the money dedicated by the *Generalitat* to paying interest on its debt: while in 2010 €50 million went towards servicing debts, in 2012 this figure was €1,994 million. For 2013 it is expected that interest payments will reach €2,200 million. It could be said that the €1,000 million that were taken out of the public health system have gone directly to pay the interest on the *Generalitat*’s debt. The huge impact this is having, both on the citizens who use the public health system and on workers within that system, merits

a careful analysis of the situation.

Firstly we should consider the impact the cuts are having on the system. Artur Mas himself, who in the beginning referred to the cuts to healthcare as “adjustments to guarantee the sustainability of the system” was forced to admit, in 2013, that the cuts have now “reached the bone”. The reality is, of course, much starker. A look at the system’s functioning reveals something more than a bone that has been “reached”; more like a bone that has been broken. Entire wards are being closed in public hospitals while patients fill the hallways of Accident and Emergency (A&E) Departments. Dozens of operating theatres remain closed while waiting lists mount up. Between 2011 and 2012 the number of people on waiting lists in Catalonia grew by 35 %. Across Spain waiting lists grew by 24 %, affecting more than half a million people.

Diagnostic tests, medical transportation, primary care, A&E: no area of healthcare has escaped the cuts which hit vulnerable groups particularly hard. The response of the *Generalitat*’s Health Councillor, Boi Ruiz, has been to use public television to “recommend that people take out private health care policies”<sup>2</sup>. These policies are normally totally unaffordable to those people

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\* Editor of the magazine *cafeamblllet* and author of the book *Artur Mas: Where is my money? (Artur Mas: ¿Dónde está mi dinero?)*

2. <http://www.324.cat/noticia/1015526/barcelona/El-conseller-de-Salut-recomana-als-ciutadans-que-es-facin-duna-mutua>.

who are most vulnerable and at risk.

At a State level, in 2012 the right-wing *Partido Popular* (PP) Government dealt a hard blow to the Spanish healthcare model with the passing of the Royal Decree-Law RD 16/2012 that meant “the exclusion of hundreds of thousands of people from receiving health care”, in a move condemned by the platforms *Yo SÍ, sanidad universal* (I’m for universal healthcare) and *Dempeus per la Salut Pública* (Catalan collective defending public health), and by the NGO that, through the Committee for Economic, Social and Cultural Rights, has asked for access to health services be assured for all people resident in Spain, regardless of their legal status.

At street level, the effects of the cuts are beginning to hit hard. The case of the Senegalese citizen Alpha Pam, who died of tuberculosis left untreated by the health service in Balears, sounded alarms and made evident a situation that is not only affecting the immigrant population, but also leaves thousands of Spanish citizens without health cover, for example anyone over 26 years old who has not yet begun to make Social Security payments. Meanwhile, healthcare workers are entering a spiral of unprecedented erosion of workers rights and earning power. According to the Spanish Medical Association, in 2012 salaries for doctors in the province of Girona fell by an average of 25 %<sup>3</sup>.

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3. <http://www.diaridegirona.cat/comarques/2012/02/07/salari-dels-metges-gironins-ha-caigut-20-30-mitjana-any/545864.html>.



Faced with this panorama, the first question we must ask ourselves is: what have we spent so much on? Although lack of transparency in this country makes it difficult to answer that question, what is clear is that the spending excesses have not been in healthcare. According to data from Eurostat, in 2009 Catalonia invested almost 6 % of GDP in healthcare. That same year, the whole of Spain invested one percentage point more and met the UE-27 average of 7.5 %. That said, part of the accumulated Catalan debt is related to the financing of the healthcare system, which, as we mentioned above, is one of the largest sections of the public spending budget.

This means there is a second question we must ask ourselves: how was the healthcare budget spent? The answer is, badly. Once again, Catalonia can serve as an example to illustrate the way in which our healthcare budget has been spent. A significant part was spent on infrastructure, and, as is always the case when we talk about infrastructure in Spain, the wastage and the irregularities are plain to see: inexplicable overspending, oversized projects, defective building work, doubtful (if not scandalous) contracts and a long list of etceteras that has been dealt with in some detail by institutions as far from being radical anti-capitalists as the Catalan Office of Auditors, which has detected and documented irregularities in dozens of hospitals, or the National Court of Auditors, where serious cases are investigated, such as that of CiU deputy Xavier Crespo, implicated in a network that caused losses of €4.4 million in two public

hospitals in the province of Girona.

One case that makes the way in which the health care budget has been mishandled abundantly clear is that of the construction, in Barcelona, of the new Hospital de Sant Pau. In July 2009 a new building was inaugurated for this Hospital that cost Generalitat around €500 million, €200 million of which corresponds to the financial costs that the investment will continue to generate until 2032. Although this debt will be paid with public money, the building is not public property, as the Generalitat passed ownership to the Private Foundation of the Hospital de Sant Pau.

In the whole of the Spanish State, the debt owed to private service providers is almost €10,000 million. Among these providers we find, for example, the pharmaceuticals industry which exerts constant pressure on politicians to defend its business interests. Although, according to the OECD, Spain is has one of the highest consumptions of pharmaceuticals in the world (second only to France, and far higher than countries such as Sweden, Germany, Finland or Holland), the owners of the Pharmaceuticals industry are campaigning against generic medications, and criticise attempts to reduce spending on Pharmaceuticals, putting pressure on politicians to pay their bills, arguing that paying the debts will “reassure international shareholders”. There is also a significant debt owed to manufacturers of healthcare technology and we must not forget that many of those machines are now standing idle because there are no

funds for their use. Or worse, the machines bought with public money are being made available to the clients of private health providers, as is the case in Catalonia.

This health debt also includes invoices issued by private health companies who work for the public health service. Infinite studies show that providing public healthcare through the private health system is more expensive. A clear example of this can be seen in the study by the Valencian Office of Auditors which shows that magnetic resonance imaging managed by the private sector is 138 % more expensive than when it is handled by the public sector.

While public money is being used to pay private companies, public services are being shut down; and how many of these private companies are owned by “friends” of those responsible for managing our health system? The opacity of the system prevents us from knowing for sure, however, many well known and well documented cases in Catalonia show that suspicions of nepotism are well founded. The propaganda machine orchestrated by the financial powers is already getting stuck in to the destruction of our healthcare system. For example, on 11th June 2011 the newspaper *La Razón* ran the headline: “The Healthcare System accumulates record debts of 9,390 million” and in the strap line it declared: “In a context of economic crisis as severe as the current one, the Spanish Healthcare System is simply unsustainable”.

This is why there is an urgent need for a citizens’

audit that permits us to understand the true impact of the debt on our society and to throw light on the fallacies that are being used to promote the destruction of the public health system. They are trying to turn us into clients, so the need to be citizens becomes more pressing than ever.

## The debt crisis, driving poverty in Spain

ALBERT SALES and INÉS MARCO\*

According to the Survey on Living Conditions carried out by the National Institute of Statistics (INE by its Spanish initials), in the Spanish State, the number of people “at risk of poverty and social exclusion” stood at around 21.1 % at the end of 2012, showing a small decrease compared to 2011 when it was 21.8 %. In the press release issued by the Spanish agency for statistics they celebrated the fact that this decrease could be attributable to the relatively good economic conditions enjoyed by people over 65 years of age, and to a lower incidence of poverty in that age group. Surprisingly, retired persons at risk of poverty, who, in 2011, comprised 20.8 % of the total retired population, only amounted to 16.9 % at the end of 2012.

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\* RETS.

The INE showed itself to be ill-equipped to interpret data in a context of no economic growth. The “poverty line”, or threshold for determining risk of poverty is a relative figure, which changes according to the average income of the population. It is set at 60 % of the average income of all the homes in the country. In accordance with the fall in average income for Spanish homes, this threshold has been falling since 2009. A pensioner who in 2011 had an income of €5,500 per year was below the poverty line. In 2012, although his or her income had not changed, that same pensioner would no longer be situated below the poverty line, because the income of the rest of the population had fallen. Each year you have to be poorer to be considered poor in Spain.

In absolute terms, the fall in average income for Spanish homes has been unstoppable since 2008. From €6,500 per year in 2008 to €4,609 in 2011, family incomes have fallen as a result of massive job losses and reductions to welfare payments.

Austerity measures have distributed the impact of the crisis taking it out on the most vulnerable and imposing anti-social policies that worsen the already sorry state of social protection. Some sectors of the population, for whom it is impossible to find paid work, are being cast inexorably into permanent poverty. In the first stages of the recession young people, middle-aged women and migrant workers bore the brunt of job losses, and it is precisely these groups that have made the least Social Security payments and are least protected against

unemployment. This, combined with cuts to all kinds of social welfare and health programmes, has dramatically increased the risk of poverty for the families of people requiring full-time care, and has made infants and the elderly far more vulnerable.

The labour reform, a basic pillar of the “austerity” under which we now live, has accelerated the destruction of what we could consider “quality” jobs. In previous crises, the Spanish labour market has shown itself to be highly “dualised”, with the destruction of jobs principally affecting young people and women, while middle-aged men retained their jobs or received early retirement packages that enabled them to continue as the “principal providers” in the home. From a generational and a gender perspective, it was a highly unequal system, although it did slow the descent of many homes into poverty. The resounding failure of the Spanish economic model, the depth of the recession we are now suffering, and the reforms to labour legislation means that we are now facing a new and far gloomier situation. In the first quarter of 2013, it was calculated that there were 1.9 million families in which no one of working age had employment, and that 2 million unemployed were receiving no benefits or income whatsoever. Furthermore, an increasing number of people in employment are nevertheless finding themselves facing poverty, and 12 % of the employed population live in homes that are below the poverty line.

To the problems of unemployment or precarious

employment, we must add the financial burdens many families must face, among which mortgage repayments figure particularly highly. Evictions are a visible demonstration of the magnitude of this problem. However, most poverty is lived out in the privacy of people's homes and is invisible to the rest of society: 14 % of homes only make it to the end of the month with extreme difficulty, 20 % with difficulty and 29 % with some difficulty; 40 % of families in the Spanish State said that they do not have the available cash to face unexpected problems such as the breakdown of an electrical appliance.

The IMF report on Spain, published in August 2013, leaves no room for doubt. The future that the international and national elites have planned for Spanish society is based on social polarisation and a worsening of living conditions for the majority of the population. The report states that salaries need to fall by a further 10 %, and that spending on health and education also needs to be reduced; taxes such as VAT need to increase and the public administration at all levels needs to be thinned down. The best case scenario is that these measures would, according to the IMF, slow rising unemployment, freezing it at a desperate 20 %.

Alongside this “austericide”, we have the stifling official discourse which aims to turn the fight against poverty into some kind of capricious leisure activity in which all social actors should take part. The neoliberal destruction of the welfare state is taking place alongside charitable activity of all types and an increasingly

dangerous discourse blaming poor people for their poverty. The impoverishment of the middle classes is being accepted as though it were the result of a natural disaster for which no one is to blame, whilst the extreme vulnerability of the working classes is attributed to problems derived from their bad habits, vices and lack of work ethic.

The dismantling of the precarious Spanish benefits system and the end of *welfare* is happening alongside the imposition of *workfare*. According to the spokespeople of Neoliberalism, the alleged benevolence of unemployment subsidies means that the unemployed lack incentives to seek new work. Joan Rosell, president of the Spanish Confederation of Industrial Organizations, has repeatedly stated without shame that the unemployed will wait until their subsidy has run out before accepting a job offer.

Suspicious are continually being cast on the use made by the most socially vulnerable homes of the frankly pathetic public subsidies they receive. In a context of cuts, the idea is transmitted to the citizenry that there is constant competition for scarce public resources and that these should be used to help those who want to work, thus subjecting the “official poor”, the users of social services, to constant scrutiny and surveillance, to ensure that that they do not cease in their efforts to achieve “reinsertion in the workplace”.

It is not just a case of reducing the expression of the State to an absolute minimum. The crisis has served to



consolidate the transition to *workfare* which began in the 1990s. People who will not accept the insecurity of *minijobs* and other casualised employment options and precarious living conditions lose their right to benefits. As in other countries subjected to the policies of the Troika, the tendency towards generalised poverty accelerates with each imposition applied.

## IV

# Illegitimate debt

PABLO MARTÍNEZ, IOLANDA FRESNILLO,  
INÉS MARCO and GEMMA TARAFÁ

### **The concept of illegitimate debt: experiences from the Global South**

For decades, civil society organisations have created strategies to seek a social way out from the tyranny of the debt, particularly in countries in the Global South. Among these strategies, the conclusion has been reached that the cancellation of the debt is not only meaningful as a strategy for liberating resources for social spending, but is also an important question of justice. The debt undermines the welfare of the population and serves the interests of the few. At the heart of this injustice we find the concept of illegitimate debt.

The definition of what constitutes illegitimate debt is still a matter for debate among social and academic organisations. Even some Governments, for example, Norway or Ecuador, and institutions such as the United Nations Conference on Trade and Development (UNCTAD) have worked on this question. Between them a certain amount of consensus can be found on definitions. For example, Ecuador's Public Debt Audit

Commission (the CAIC), which carried out an audit of the Ecuadorian debt between 2007 and 2008, argued that “the illegitimate debt is those loans contracted by the State under unacceptable conditions, which have violated Economic, Social, Cultural and Environmental rights and have made viable the plundering, appropriation or undue exploitation (via privatisation) of natural resources”.

The Observatory on the Debt in Globalisation (ODG), together with the Network “Who Owes Who?” have worked on a definition that considers illegitimate all debts accumulated from loans that, directly or indirectly, compromise the dignity of the citizenry or threaten peaceful coexistence between peoples. Such debt comes from financial agreements that violate the human and civil rights recognised by countries all over the world, or which ignore the international laws regulating relations between States and between peoples.

At an institutional level, both UNCTAD and the WB published reports in 2008 on the concept of odious debt. Unlike illegitimate debt, odious debt is a legal term. It originated in 1898 to define the Cuban debt contracted under the Spanish Colonial Regime. Shortly afterwards, the Russian lawyer Alexander Sack defined odious debt as debt contracted: a) by a despotic regime in order to consolidate its power; b) against the interests of the citizenry and in the interests of those close to power; and, c) in full knowledge of the lenders. Although this falls short of the definitions being used by civil society,

the debate about odious debt represents an important step towards recognising the concept of illegitimate debt. The UNCTAD document, “The concept of odious debt in International Public Law”, led to the approval in May 2012, of the Principles on Promoting of Responsible Sovereign Lending and Borrowing. This too falls short of meeting the expectations of social organisations, who tend to call for the application of more ambitious and binding principles. Nevertheless, the approval of these principles represents a new milestone in the struggle for more just North-South finances that do not systematically generate illegitimate debt.

In 2009, Cephas Lumina, independent expert for the United Nations on the impact of foreign debt on human rights, published a report in which he analysed the question of illegitimate debt and called for “a lot of work to be done to formulate the concept of illegitimate debt as an internationally accepted legal term with precise criteria”. In 2012 Lumina also presented the Guiding Principles on foreign debt and human rights, which were approved by the United Nations Human Rights Council.

Most of the debate around illegitimate debt has been related to the legal basis for the concept. While this is important for its recognition at an institutional level, the concept of illegitimate debt cannot be restricted to the limitations of international case law. If we consider legislation to be a body in evolution, we can see how it has repeatedly been modified in response to social

demands, as in the case of women's right to vote or the workers' right to an 8-hour day.

(Il)legitimacy is the a step before (il)legality. It is how awareness is raised of particular situations, behaviours or structures that should be modified because they are immoral, arbitrary or biased, or because they are abusive, undesirable, pernicious, unjustifiable or inconsistent in their nature; in summary, because they are unjust. Illegitimacy expresses generalised consensus on a particularly unjust reality. Our principal reference is therefore justice, not legality.

### **The PACD proposal: when is a debt illegitimate?**

At the Citizens Debt Audit Platform (PACD by its Spanish initials) we share the principal ideas that have emerged from the movements against the debt in the countries of the Global South. However, we are also conscious that the concept of illegitimate debt is an ideological one in constant evolution, and that it is very dependent on the context and reality to which it is referring. We therefore believe that the definition of what is legitimate and illegitimate should be made according to the concerns, realities and sensitivities of the population and the economic context in question.

Here we present the definition of *illegitimate debt* as constructed by the PACD. This is not an attempt to create a complete or closed definition. Our hope is that it will serve as a starting point for generating debate,

involving a broad range of collectives, and that it can lead to consensus on a definition of illegitimate debt.

The basic idea comes from historic debates on the issue: an illegitimate debt is one which was contracted by a government which has not used the resources generated to benefit of the population. Elite debts that serve to finance unnecessary infrastructures, bringing profits to construction companies and the politicians of the day, are one example of this. All debts that have led to violations of human rights or destruction of the environment are also illegitimate. When the resources a State must put towards paying the debt prevent it from meeting the basic needs of its population that debt also becomes illegitimate. To these basic points the PACD has added a third, related to the fiscal policy of the State. We consider any debt derived from a regressive fiscal policy, or one that is permissive with tax fraud, resulting in a reduction to State revenue, to be illegitimate.

In a more detailed analysis we classify the different sources of illegitimate debt, according to a time line. Firstly, there are those debts that were illegitimate from their very beginnings, secondly those whose illegitimacy stems from the acquisition process, and finally, those that became illegitimate during their implementation.

### **Illegitimacy of origin**

In the case of debts that start life illegitimate, we distinguish between two different groups. Firstly, debts contracted through mechanisms that facilitate indebtedness,

particularly through the reduction of tax revenue. The case of the Spanish State is paradigmatic, as revenue comes principally from income tax, whereas taxation of capital is scarce. Entities such as the SICAVs, which pay only 1 % tax on large capital, and permissiveness towards multinational companies, which end up paying around 5 % (as opposed to the established 30 %), keep tax income low, meaning that governments must incur debts in order to fund their spending. Fiscal fraud in the Spanish State, calculated at around €80,000 million per year, together with the lack of interest displayed by successive governments in tackling this issue, also has a negative impact on public finances. Another mechanism that has facilitated indebtedness is privatisation, which has handed monopolies or oligarchies of strategic interest over to the private sector, as it has also eliminated an important source of State income.

We must also refer here to debts contracted under threat or pressure from institutions that were not democratically elected, such as the European Community, the ECB or the IMF, and which entail the imposition of regressive and antisocial measures. The bottom line is that the “bailout” of the banks is an example of debt contracted under coercion.

The second way of generating debts that are illegitimate in their origins is related to public spending that is not in the interests of the population. Under this heading we include debts generated to finance projects that violate human, economic, social and cultural rights,

and those which directly or indirectly generate social inequality, gender inequality or impacts on the environment. One example would be the spending derived from the 19 Special Armaments Programmes (PEAs by their Spanish initials). According to the Delás Centre, these represent 3 % of GDP, or €1,631.8 million. The budget just to cover administrative costs for the PEAs in 2012 was €0.9 million. Furthermore, a common characteristic of armaments budgets is that they tend to continually expand. In the case of the PEAs this has meant an increase of 32 % compared to the initial sum proposed. These programmes create deficit and are financed through the issuing of debt.

For the Spanish State, since the onset of the financial crisis in 2007, the most notable example of spending that benefits the elites to the detriment of the majority is the financial bailouts and public aid to the banks. According to Carlos Sánchez Mato, in 2012 public aid to the banks amounted to €1,42 billion. This is one of the clearest examples of illegitimate debt in Spain.

### **Illegitimacy of process**

Following our time line, we find debts that become illegitimate as a result of the process through which they were contracted. Here we can find a range of causes of illegitimacy stemming from the way the debts were produced, for example all those debts whose contracts contained abusive clauses (such as excessively high rates of interest – usury – generating a “snowball effect” whereby



the debtor is unable to meet the debt repayments except by taking out further loans) or illegal clauses (where the clauses directly violate any of the country's laws).

Any debt contracted without due transparency should also be considered illegitimate. This means debts where part or all of the information pertaining to the contract process are kept hidden from public scrutiny, or where this information may have existed initially, but can no longer be accessed.

In this section we should also include debt generated by badly designed projects, the famous “white elephants”, infrastructures that cost far more than originally projected and don't meet the specifications of the project, and which do not benefit the population in a way proportional to the impact they have on the public coffers. The City of the Arts in Valencia, the City of Culture in Santiago de Compostela or the Airports of Castellón, Ciudad Real or el Guaire are just a few among many examples of this type of project.

Finally there are the debts resulting from spending relating to irregularities committed by the administration when awarding contracts, which brings us back to debts resulting from corruption.

### **Illegitimacy of implementation**

Finally, we have those debts that are illegitimate independent of their origin or the use to which the resources are put. The Vienna Convention on the Law of Treaties (1969) establishes what is called the *pacta sunt servanda*,

or the obligatory nature of a pact, or, to put it another way, agreements must be kept. This is a basic principle, however, the same Convention also established that under certain conditions a pact may be broken. Specifically (a) when the pact breaks international law, such as the Universal Declaration on Human Rights, (b) when there is a State of Necessity, or (c) when there has been a fundamental change in the circumstances, *rebus sic stantibus*.

When a debt contract violates Human Rights, the protection of those rights should legally come before compliance with the contract. The same is the case for the State of Necessity, when interest payments become excessive, and prevent essential social spending creating poverty in the population.

The links between the nationalisation of losses in the financial sector and cuts to social spending in Spain are evident, as are the violations of Human Rights resulting from the cuts. The exclusion of some people, such as immigrants without papers from basic health cover, is a clear example of this. Thus, the payment of the debt, independent of its origin or the process by which it was contracted, amounts to a violation of Human Rights. This form of illegitimacy also applies when payment of the debt implies an undermining of a people's sovereignty, as we can see in the case of making Spain subject to the interests of the EU.

In the case of a fundamental change of circumstances, there are a number of ways this can occur. The

speculative pressure that was applied to sovereign debts on the periphery of Europe (Portugal, Greece, Spain, Italy, Ireland...) pushed up the interest these countries had to pay to obtain finance on the markets. That could be considered a fundamental change of circumstances. The economic context of recession, rising unemployment and the resulting increase in social need we have encountered since the beginnings of the crisis in 2008 would also constitute a fundamental change of circumstances.

### **An evolving concept**

At the PACD, as part of the Citizens' Audit process we are undertaking, we have begun to sketch some basic ideas of what might constitute illegitimate debt. We hope that these ideas will feed into a deeper debate, during which we can collectively decide, through citizens' audits, what it is just to pay or not to pay, and through that process, make progress towards a better and more just society.

# V

## Auditing the debt

PACD BARCELONA

Faced with the illegitimacy of the debt and need to tackle its cancellation or even repudiation, social movements around the world have, for decades, been applying a wide range of strategies, including auditing the debt.

These Audits are proposed not as an end in themselves, but as a tool to demonstrate the illegitimacy of these debts. The Audits, in their different forms, seek proof, and arguments in order to build the collective strength to demand the non-payment of debts that should not be paid. A number of experiences exist, and although objectives and methodologies may differ, they provide valuable lessons for facing the illegitimate debt problem in our country.

The public Audit carried out by the Government of Ecuador in 2007 and 2008, the Audit carried out by the judge Jorge Ballesterio in Argentina in 2000 or the one that the Norwegian Government has just held to audit the debts to which Norway is creditor, are all far from the idea of a citizens' audit that we are proposing. However, the precedents set by other experiences, emerging from

social movements in countries such as Brazil or the Philippines are important. In Egypt, Tunisia, Greece, Portugal and Ireland, social movements have initiated processes for carrying out Citizens' Audits, or calling for public auditing of the debt. All these cases have one demand in common: to know how the debts were generated, who is responsible and what the impacts of those debts have been, in order to be able to call people to account and build alternatives to the debt.

## **The Citizens' Audit as a way to build alternatives**

In our country the irresponsibility of the ruling elites and the current state of social and cultural rights as a consequence of the illegitimate debt, mean that the citizenry is being forced to seek alternatives to the current political and economic system. Right now it seems clearer than ever that we are facing a system that, in addition to generating social inequalities and promoting a dynamic of constant growth that destroys the planet's resources, is based on a constantly growing debt, which is unsustainable in the long term.

The nationalisation of debts generated by the financial system is a consequence of decisions made by the political parties in power without any public consultation. This is unacceptable when we consider the seriousness of the consequences we are seeing today. Since the nationalisation of the banking debt, in which

private debts became public, the supposed moral obligation of the debtors to the creditors is often invoked, with the implication that debt should be repaid whatever the circumstances. Since August 2011, following the modification of Article 135 of the Spanish Constitution, debt and interest repayments have been given maximum priority, ensuring their payment before any other State spending. The economic policies that accompany this situation, particularly reductions to social spending, are condemning the population to a progressive loss of economic, social and cultural rights, and to systematic poverty.

## **The aims of the PACD**

The Citizens' Audits we are proposing at the Citizens' Debt Audit Platform "We don't owe, we won't pay!" are a work in progress, requiring the participation of a wide range of groups. Alongside an analysis of the State's debt, we want to carry out audits of specific sectors (health, education, the environment, gender, electricity...) or of different areas (municipal, regional and state-wide). Each citizens' movement, each sectoral struggle, each workers committee, each local assembly constitutes a source of first hand information about the debt process and its effects on the different public institutions. They also provide information about the principal impacts of the debt and the austerity measures being imposed to pay that debt.

In a step towards the construction of alternatives, the PACD is proposing a permanent, open, collective, and decentralised audit process, one of the principal aims of which is to raise awareness of the causes and consequences of the debt crisis, which have, in most cases, been systematically covered up by the mass media. We want to show that the debt problem in this country is a result of private over-indebtedness, the differential treatment by governments of family debt and banking debt, and the pressure exerted by European governments, particularly the ones whose banks are creditors to the Spanish banks, on the Spanish government.

Alongside this task of investigating and raising awareness of the situation, another of the aims of the PACD is to work for the right to information and, above all, to promote the empowerment of the citizenry on political, economic and social questions. We know that on many occasions, information is not available, or the documents available to the citizens are rendered incomprehensible by the complexity of the language used.

The idea of a Citizens' Audit is that it should not be limited to an analysis by experts. On the contrary, we are all potential auditors, in the sense that we can all request information, demand explanations of the administration, share this information and our responses to it, analyse the data from our own point of view, denounce irregularities and propose alternatives. The Audit can only be empowering if it is carried out by the citizens.

We understand that through this process of collective

analysis we not only make progress towards the non-payment of illegitimate debts and to the holding of those truly responsible for the crisis to account, but we also make progress in the construction of alternatives. The aim of the audit process is therefore not only to establish the difference between legitimate and illegitimate debts, but also to denounce the irregularities of the current financial system and the way the institutions function, which, despite supposedly being democratic, threatens the welfare and rights of the population. Only through a collective understanding of how we have reached this situation can we propose alternatives that really respond to the needs and interests of the population (and not to those of the markets, the economic elites and the money lenders). The Citizens' Audit process therefore seeks to contribute to people's sovereignty through spaces for learning and participatory democracy.

Furthermore, the Citizens' Audit we are proposing cannot be limited to a financial analysis. It must respond to the complexity of the situation. Working together, each of us bringing the particular experiences we have lived to the process, we can apply a broader and deeper analysis that takes into account the cuts and violations of fundamental gender, cultural, social, economic and political rights when assessing the measures taken or the projects financed by the loans.

We aim to do this without limiting ourselves to a single territorial space (a single state, autonomous region or local area). Instead we aim to approach the different



areas of institutional debt, uncovering the fact that this problem is the result of an economic and political dynamic that goes beyond our borders. Our crisis is that of Greece, Cyprus, Portugal or Iceland, but also that of Argentina, Jamaica or Tunisia. If the debtocracy is global, the audit process must also be global, and for that we must coordinate at a grassroots level with other, similar movements, through networks such as ICAN (the International Citizens' Debt Audit Network).

### **Different phases in the citizens' audit process**

The Citizens' Audit is comprised of the following phases, which do not have to be consecutive.

*Access to information:* As we will see further on, access to information is one of first phases in carrying out a citizens' audit. Without data it is difficult to achieve the aims of the process. We need to understand the functioning, time frame, and conditions for participation in the decision making process of the public administrations. Once we know the deadlines and legal procedures for presenting applications, allegations, motions, etc., we will throw ourselves into the task of obtaining as much information as possible to analyse and provide evidence of any irregularities. Issues of illegitimacy, lack of transparency and other relevant questions will emerge during this process of review and analysis.

For example, the information that should be available to the citizenry in a workable format includes:

- Complete Budget Dossiers (containing previsions, approved modifications and quarterly executions) and Statements of Changes in Financial Position.
- Standardisation of budget items so that budgets can be compared from year to year.
- The contracts signed, with all their modifications and records of allocations (provisos, public tenders, bank loans, guarantees and other banking contracts...)
- Open publication of studies by the Office of Auditors and the Court of Auditors, including all documentation.
- A public database complete with all the applicable laws (throughout the entire process, including the votes that passed them and when they were passed), ordered by date, issue, region and when they came into force...

*Data analysis:* This is the work of obtaining and analysing the evidence that will serve as proof in the arguments used to establish the illegitimacy of the debt and defend its non-payment. Once we have found the information to analyse, we must set the priorities for that analysis, so that we begin by addressing the most relevant issues or cases. It is important that we obtain evidence and carefully document the cases that we assess. This analysis should not be left to the experts, we should all be able to access the relevant information in a format that is intelligible to a broad sector of the population,

and thus we will be able to carry out the most collective analysis possible. As we have said before, this analysis should not just focus on technical or financial questions. For example, the social or environmental impact of a given project should be assessed by talking to the people living in the area who are affected by the project.

*Actions to influence policy:* During the process as many actions as deemed necessary can be carried out in order to achieve our objectives. Current examples of this include motions presented to town councils calling for citizens' audits, and the transparency and accessibility of budgets...

*Building networks:* Success will depend, in a large part, on the critical mass we can achieve, to support and carry out these actions and analyses together. As we will see, it is necessary to open the citizens' audit processes up to the broadest group of citizens possible.

*Awareness raising:* It is essential to communicate and make public the work being done and the results obtained. It is important that our communications demonstrate that the Citizens' Audit is a replicable process. It is also important to call for transparency in the public administrations, and we must therefore also demonstrate transparency in our own work. Articles, bulletins, communiques and press releases, short reports, recordings of actions, spreading the information on the social networks, and getting out onto the streets with information stalls are just some of the communications strategies available to us.

*Popular education:* This is about empowering society through understanding of the financial reality. By identifying the role of the debt and the mechanisms that generate it, we aim to shine a spotlight on the truth about the system and generate protest against the illegitimate debt, calling for accountability and change towards a new system based on transparency, democracy and social justice.

*Demanding accountability:* Identify those responsible and ensure that they are made accountable, through the courts if the case warrants it.

## **Transparency and Information**

Given that the first phase of any audit is a request for information, we believe that as citizens we are all potential auditors. It requires nothing more than wanting to know. Although it may seem simple, wanting to know and feeling we have the right to ask, are the most important steps towards generating a grassroots audit process. The information is there and we have the legal right to access it. One of the objectives of the PACD is to fight for transparency, we want to contribute to questions of public interest being subject to complete control by the citizens, through mechanisms such as binding electoral programmes, recall referendums or participatory budgets (particularly at a local level).

Although it is important to focus our work on influencing transparency and access to information,

we should also aim to translate that focus into actions that influence the institutions, popular education and empowerment. The case of CaféambLlet is an example of citizens' auditing that has served to point the finger and stain the political credibility of those responsible – the figures implicated by CaféambLlet<sup>1</sup> are today facing court processes – while at the same time raising social awareness of institutional corruption. Little by little, thanks to these examples, we begin to understand that real alternatives will not come through reforms or changes to those in power within the institutions, but through a full transformation that takes the maximum expression of democratic values as the basic element of control and justice.

In approaching the question of transparency and access to information, we often find high levels of disinformation within the public administrations themselves, and we need to take action against this. Participatory processes have been bureaucratised, turning access to information into complex legal processes, and the information itself is inaccessible and unintelligible. We often lack the information we need or find that it is incomplete, inaccessible or confusing. On occasion we also encounter attitudes within the administrations that obstruct access to information. There is little culture of transparency and we are met

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1. [www.cafeamballet.com](http://www.cafeamballet.com).

with reactionary responses to direct, and legitimate questions put to civil servants. It seems that a fear of sharing overcomes those who should be serving the citizenry and it is precisely this culture of transparency that we need to be working on.

We must therefore be capable of demonstrating this lack of transparency in the public administrations, denouncing it raising public awareness of it. We need to create ways of accessing information in order to make it public and open to the citizens through different mechanisms. Some examples of this are the cases of citizens organising against unnecessary bureaucracy such as the Municipal Citizens Observatories<sup>2</sup> or *tuderechoasaber* (yourrighttoknow)<sup>3</sup>. There is popular pressure on the streets, calling for transparency at all levels and in all kinds of public organisations (including Public Administrations, but also Public and Mixed Companies), and pressure being put on the Office of Auditors, Public Defenders or the Court of Auditors to make their reports and the information at their disposal publicly accessible. There are also routes through the courts to demand that the public administration meet its responsibilities to the citizens in terms of access to information. Finally, there are the ordinary legal routes through the national, European and international courts, which serve to demand do-

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2. [www.ocax.net](http://www.ocax.net).

3. [www.tuderechoasaber.es](http://www.tuderechoasaber.es).

cumentation that is of social interest, and to condemn processes considered illegitimate and, of course, illegal, thus strengthening the citizens' claims against the illegitimate or corrupt practices of the State.

In 2012 we collaborated in the presentation of citizens' petitions in Sant Joan Despí, Sant Adrià del Besós and El Masnou which served to increase the transparency of their town councils. We have won some victories in recent months, and on Tuesday 25th June this year, we experienced an historic moment: The Town Council of Badalona, in response to a motion presented in collaboration with the Badalona Debt Audit Group, became the first Council ever in the Spanish State to declare part of the debt to be illegitimate. It was recognised that this debt was contracted without considering the interests of the citizens. We have also been able to introduce the question of illegitimacy into the political discourse, through motions declaring part of the debt to be illegitimate. To date, such motions have been passed by a number of municipalities in the Autonomous regions of Catalonia and Valencia declaring the interests generated by the Payment Plan for payments to ICO-Providers to be illegitimate.

## **Aliances with other movements**

The mobilisations by groups in the sectors that are suffering most from the cuts, principally workers and users of public services such as health and education,

and platforms mobilising for basic rights or in response to major frauds like the preferential shares scandal, all have a common nexus: the struggle against the cuts and for budgets that respond to basic needs. These issues are closely related to the non-payment of illegitimate debts.

The cuts are consistently justified as being a necessary policy in the face of the unsustainable state of public finances. The work of the PACD extend reflections on the significance of the concept *illegitimate debt*, providing information about experiences in other countries; and acting as a link between different movements and organisations that want to carry out specific sectoral studies into areas such as electricity, water privatisations, or hospital management. We can provide arguments that expose the official lies, and tools to help group and disseminate the arguments and achieve our aims. By working together we can empower society, generating and strengthening debate into what economic, political and social model we want, and building new alternatives to the current system that respond to the interests and needs of the population.

No single action, however much potential it may seem to have, will be enough, in isolation, to generate real change in the administrations. The only thing that will enable real change is a succession of different and diverse actions. It is therefore necessary to coordinate between movements and collectives that are fighting austerity and, by extension, are fighting for the non-payment of the debt.

If the demands of the majority are to permit the “non-payment of the illegitimate debt and the condemnation



of those responsible”, as citizens we must all to exercise our right to demand information and carry out Citizens’ Audits.

We are Citizen Auditors, are you?



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Ajuntament  
de Sant Cugat



*Solidaritat*

