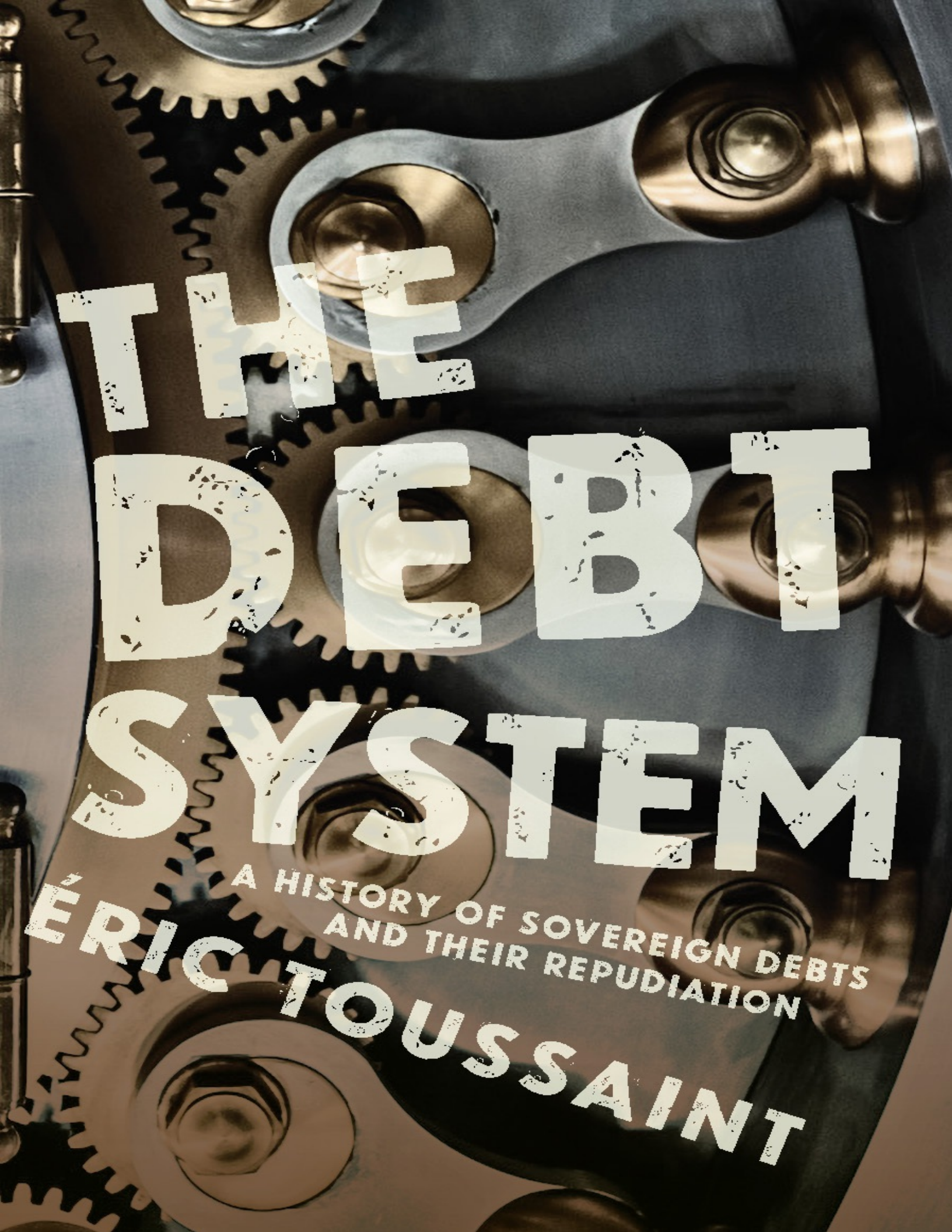
THE
DEBT
SYSTEM
A HISTORY OF SOVEREIGN DEBTS
AND THEIR REPUDIATION
ÉRIC TOUSSAINT

THE DEBT SYSTEM

A History of Sovereign Debts and Their Repudiation

Éric Toussaint

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Preface

Patrick Saurin

Éric Toussaint has an acute and thorough knowledge of public debt issues, thanks not only to his theoretical research work but also to his involvement in the field (notably in Ecuador and Greece). As he takes us through world history from the nineteenth century to the twenty-first, we notice that this painstakingly documented examination gives a version of historical events at odds with the mainstream discourse developed by those in power, those same people whose crimes are exposed in these pages.

As he patiently follows the thread of public debts, the author sheds new light on the eventful history of nations, on their complex relationships, and above all on their underlying logic. North–South relationships illustrate a process that is consubstantial to the capitalist system and its determination to develop, extend, and dominate. Public debts are an essential cog in the structure of capitalism. The debt system as a tool to subdue and dominate is capitalism's economic architecture, as it were. Examples are many: Tunisia, Egypt, Portugal, Cuba, Costa Rica, Mexico, Russia, and Greece (today and in the past) illustrate and support the author's analysis. With a thoroughly documented approach, based on a source criticism that is a model of its kind, he unfolds a detailed and impressive analysis of the odious debt doctrine, the basis of which was laid out by Alexander Nahum Sack. This gives Éric Toussaint the opportunity to recall the essential role of the Committee for the Abolition of Illegitimate Debt (CADTM) in better defining the notion of odious debt.

From one chapter to the next, we encounter little-known moments in history, as bewildering as they are true. We meet the historic actors: Toussaint allows us to eavesdrop on the conversation that took place when Emiliano Zapata and Pancho Villa met in Mexico City on December 4, 1914. He takes us into the hotel room of Walter Rathenau, then German minister of foreign affairs, on April 16, 1922, when the members of the German delegation to the Genoa negotiations were awakened at one o'clock in the morning by the members of the Russian delegation to negotiate, in pajamas, a separate agreement. The agreement that was signed on the

same day is known as the Treaty of Rapallo. Archival documents, official reports on meetings between delegations, and press articles are among the first-hand material used by the author to reopen these cases, not only to question the misleading narratives of the orthodoxy but also to propose a new and carefully documented version of what really happened.

Beyond their narrative dimension, all these elements draw a strikingly faithful picture of the vocation and features of what has come to be called the debt system. While public debts serve as a prism to reflect the actual relationships between states, between capitalist finance and populations, between social classes, the author rightly points out at the end of his study:

> Repudiation of illegitimate debts is not enough. To be of real use to society, repudiation must be part of a coherent set of political, economic, cultural, and social measures that can enable the country to evolve toward a society free of the different forms of oppression and exploitation.

The struggle to do away with odious, illegitimate, illegal, and unsustainable debts must be part and parcel of our necessary fight against the various forms of domination that are the very essence of capitalism. Éric Toussaint's work is an essential contribution to this everyday struggle.

Chapter 1

How the South Paid for the North's Crises and for Its Own Subjugation

The debt crises in the peripheral countries and the crises of the central capitalist countries are joint means of subordinating states to their creditors' will. What follows is a historical perspective on debt crises in countries of the periphery in the nineteenth and twentieth centuries. From Latin America to China, Greece, Tunisia, Egypt, and the Ottoman Empire, the ruling classes in the global North have used debt as a means of accumulating wealth and as a weapon of domination over debtor countries.

External debt as a means of domination and subordination

Throughout the nineteenth century, domination through external debt was a significant part of the imperialist policies of the major capitalist powers; it continues to plague the twenty-first century in new forms. As a fledgling nation during the period 1820–1830, Greece capitulated to the dictates of creditor powers (especially Britain and France). Though Haiti was liberated from France during the French Revolution and proclaimed its independence in 1804, debt again enslaved it to France in 1825.[1] France invaded the indebted Tunisia in 1881 and turned it into a protectorate. Great Britain led Egypt to the same fate in 1882. From 1881, the Ottoman Empire's direct submission to its creditors (Great Britain, France, Germany, Italy, and others)[2] stepped up its disintegration. In the nineteenth century, creditors forced China to grant territorial concessions and to fully open up its market. The heavily indebted tsarist Russia might also have become the prey of creditor powers had the October Revolution not led to the unilateral debt repudiation of 1918.

During the second half of the nineteenth century, certain peripheral powers[3]—the Ottoman Empire, Egypt, the Russian Empire, China, and Japan—had the potential to become imperialist capitalist powers. Only Japan succeeded.[4] In fact,

Japan had almost no recourse to external debt for its noteworthy economic development on its way to becoming an international power in the second half of the nineteenth century and underwent significant autonomous capitalist development following the reforms of the Meiji period (introduced in 1868). It imported the most advanced Western production techniques prevailing at that time, prevented foreign interests from making financial inroads into its territory, rejected external loans, and eliminated internal obstacles to the movement of indigenous capital. At the end of the nineteenth century, Japan transformed its status from one of centuries-old self-sufficiency to that of a robust imperialist power. The absence of external debt was not the only reason why Japan became a major imperialist power through vigorous capitalist development and aggressive foreign policy. Other factors, too numerous to catalog here, mattered equally. However, the lack of external debt evidently played a fundamental role.[5]

In contrast, while China surged ahead with its impressive development until the 1830s to become a leading economic power,[6] its recourse to external debt allowed the European powers and the US to gradually marginalize and control it. Again, other factors were involved, such as wars launched by Britain and France to impose free trade in China and force the country to import opium. However, external debt and its damaging consequences still played a major role. In fact, China had to grant land and port concessions to foreign powers so that it could repay its external commitments. Rosa Luxemburg writes that one of the methods used by the Western capitalist powers to dominate China was "heavy war contributions" that "necessitated a public debt, China taking up European loans, resulting in European control over her finances and occupation of her fortifications; the opening of free ports was enforced, railway concessions to European capitalists extorted."[7] Nearly a century after Rosa Luxemburg, Joseph Stiglitz took up the issue in his book *Globalization and Its Discontents*.[8]

The Latin American countries went into debt as soon as they became independent

Starting in the 1820s, the governments of Latin American countries embarked on a borrowing spree after emerging from wars of independence. European bankers were enthusiastically seeking opportunities to lend to these new states and make big profits. At first the loans backed the war effort to ensure and consolidate independence. During the 1820s, the external debt was in the form of debt

securities issued by governments through brokers or bankers in London. From the 1830s, the lure of high yields attracted French bankers, who became very active competitors to the London Stock Exchange. Over the following decades, other financial centers—Frankfurt, Berlin, Antwerp, Amsterdam, Milan, Vienna, and others—joined the party. The bankers' risks were limited since any suspension of payment affected only the bondholders. Had the bankers lent directly to the states, the situation would have been different.[9] However, when the bankers themselves acquired securities they later attempted to sell, they faced difficulties when payment was suspended. Moreover, the bankers freely manipulated the bearer securities market and made huge profits.

As a rule the bonds were sold at a price that was lower than their nominal value.[10] Moreover, the bankers who were issuing the loans often pocketed a commission. Let's imagine a country that tried to borrow funds by issuing securities having a face value of £100. These securities were likely to be sold at below their face value—for example, for £80. The bank issuing the securities deducted a commission, for example, £15. Thus, the debtor country, having issued a security that had a face value of £100, in fact received only £65. But the interest owed to the holder of the security was calculated on the basis of the face value. This means that if the interest rate was 6 percent, the debtor country would pay a coupon of £6 each year to the security holder. For the holder, this is a good deal; since he or she only paid £80, the actual return is 7.5 percent. For the debtor state, which only received £65 after the bank's commission had been deducted, this practice quickly became unsustainable.

Recourse to external debt became counterproductive for the countries concerned, especially since these loans favored the creditors immensely. Payments were often suspended, and the creditor countries repeatedly resorted to military interventions to impose repayment. All the debt restructurings served the interests of the creditors and the big powers behind them, who pushed the debtor countries into a vicious circle of debt, dependence, and "development of underdevelopment," to cite the economist Andre Gunder Frank.[11]

Debt has been used as a weapon for suppressing and subordinating indebted countries. Rosa Luxemburg wrote in 1913 that loans "are yet the surest ties by which the old capitalist states maintain their influence, exercise financial control and exert pressure on the customs and foreign and commercial policy of the young capitalist states."[12]

Mexico has been fortunate enough to win two victories against its creditors—the first in 1867, under the presidency of Benito Juárez. The second was in the wake of

the Mexican Revolution that started in 1910; debt payments were suspended as of 1914, and in 1942 most of the debt was canceled. Brazil also successfully rebuffed its creditors between 1931 and 1943, as did Ecuador between 2007 and 2009. And we mustn't forget Cuba's resistance of the Paris Club[13] since 1985. With a new debt crisis looming in Latin America, it is essential to learn the lessons of the past two centuries. Otherwise we are destined to relive a disastrous past.

Latin America's external debt crises: nineteenth to twenty-first century

Since they gained independence in the 1820s, Latin American countries have experienced four debt crises. The first began in 1826, ensuing from the first major international capitalist crisis originating in London in December 1825, and continued until 1850. The second broke out in 1876 and ended in the early twentieth century.[14] The third began in 1931, following the 1929 US crisis, and lasted until the late 1940s. The fourth crisis broke out in 1982, caused both by critical decisions on interest rates by the US Federal Reserve and by plunging commodity prices. This crisis ended in 2003–2004, when hard-currency revenues underwent significant growth thanks to increased commodity prices. Latin America also benefited from international interest rates, which were drastically lowered by the Fed, joined by the European Central Bank and the Bank of England, when the banking crisis erupted in 2008–2009 in the countries of the global North.

A fifth crisis has been brewing since commodity prices nosedived in 2013–2014, along with the way major imperialist economies, which now include China, are reacting. (The likelihood of the Fed increasing interest rates and the swelling of the speculative bubble caused a repatriation of capital to the US, Europe, and possibly China.) Puerto Rico is already facing the crisis head on, and that is a portent of things to come.[15] However, should a new crisis break out, Venezuela and Argentina might add fuel to the fire, especially as they are presently borrowing from China, now an important player in Latin America.

When and how these crises break out is closely linked to the global economy, and to the most industrialized economies in particular. Each debt crisis has been preceded by a boom in the central economies when a part of the surplus capital was recycled into the peripheral economies. Each preparatory phase of a crisis (during which debt increases sharply) corresponds to the end of a long expansionary period in the most industrialized countries. That has not happened in the current crisis,

because this time only China and other BRICS (Brazil, Russia, India, China, South Africa) countries have been through a long expansionary period. Usually the crisis in indebted peripheral countries is caused by external factors—for instance, a recession or a financial crash striking the major industrialized economies, or a policy change in interest rates implemented by the central banks of the major powers of the period.

The above observations contradict the dominant narrative propagated by the economic-historical schools of thought[16] and transmitted by the mainstream media and governments. According to this narrative, the crisis that erupted in London in December 1825 and spread to other capitalist powers resulted from the overindebtedness of Latin American countries; the crisis of 1870 from the indebtedness of Latin America, Egypt, and the Ottoman Empire; that of 1890, which nearly caused the bankruptcy of one of the principal British banks, from Argentina's overindebtedness; and that of the 2010s from the overindebtedness of Greece and more generally the "PIGS" (Portugal, Italy, Greece, Spain) countries. This narrative is false.

Debt crises and the long waves of the international capitalist economy

The outbreaks of these four crises and the long waves of capitalism are interwoven. Several authors have analyzed those waves since the early nineteenth century. One of them was Ernest Mandel, whose analysis, although unfinished,[17] contributed hugely to understanding the impact of political factors on the progression and outcome of the long waves. Mandel proposed the following chronology for the long waves (each long wave comprises one long phase of accelerated growth and one long phase of slower growth) from the late eighteenth century to the early twentieth century[18] (see also the box later in this chapter):

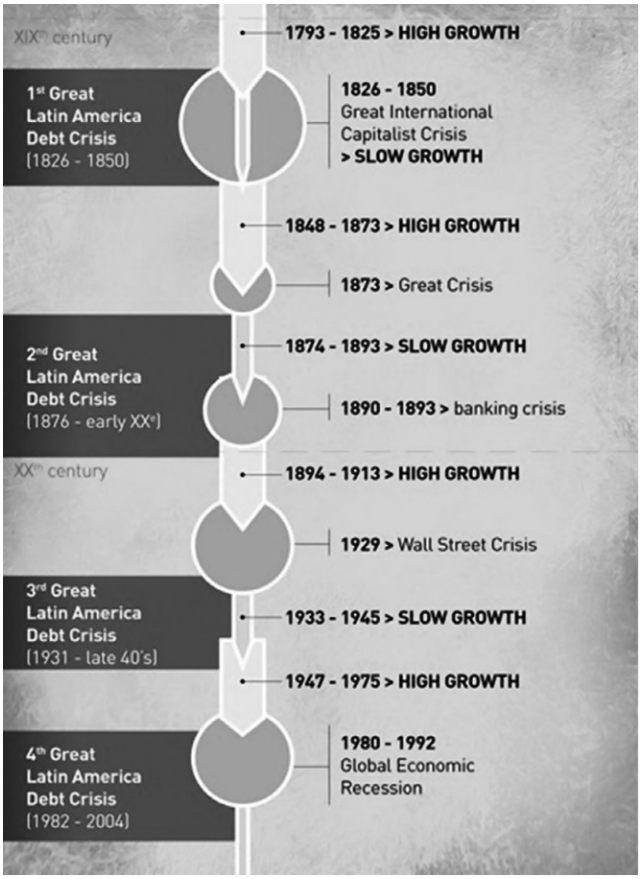
1793–1825: a period of accelerated growth, ending with a major crisis in 1825
1826–1847: a period of slower growth, with a major crisis from 1846–1847
1848–1873: a period of accelerated growth, with a major crisis in 1873
1874–1893: a period of slower growth, with a major banking crisis from 1890–1893
1894–1913: a period of accelerated growth, followed by the First World War

The phases of both kinds of expansion are, in turn, subdivided into shorter waves, varying from seven to ten years, ending with crises. After the London Stock Exchange crashed in December 1825, the first modern crisis of the overproduction

of commodities (1826) paved the way for a long slow growth wave (1826–1847) and Latin America's first debt crisis (commencing in 1826–1827). The second crisis broke out in 1873, after the stock market crashed first in Vienna then in New York. The long depression (1873–1893) of the industrialized economies and Latin America's debt crisis (during the 1870s) followed.

Like the other crises, the 1929 Wall Street crisis and the depression of the world economy during the 1930s were again accompanied by a debt crisis in Latin America. However, the aftermath of the latter was different from the previous crises. In fact, when fourteen countries on the continent decided to suspend debt payment, the crisis led to a prolonged industrial boom in the largest countries (especially Brazil and Mexico), in stark contrast to the crisis of the central countries. The fourth crisis, in 1982, was the combined effect of the impact of the second postwar global economic recession (1980–1982), the drop in commodity prices, and the increase in interest rates by the Federal Reserve System in 1979.

Debt repayments were frequently suspended during these crises. Between 1826 and 1850, during the first crisis, almost all countries suspended payment. In Latin America, eleven countries suspended debt payment in 1876, and in the 1930s eleven declared a moratorium. Between 1982 and 2003, Mexico, Bolivia, Peru, Ecuador, Brazil, Argentina, Cuba, and others suspended repayment at one time or another, for a period of several months to several years. Between late 2001 and March 2005, Argentina's suspension of debt repayment in an amount of almost $90 billion led to sustained economic development. Payment suspensions are usually followed by debt restructurings in the creditors' interests. Very few peripheral states have successfully repudiated their debts, but they do exist. Mexico did so during the mandate of the liberal Benito Juárez. Examples of states conducting a debt audit in order to challenge repayment, as Ecuador did in 2007–2008, are also very rare. These examples are enlightening.



The first four crises lasted from fifteen to thirty years. They affected almost all the independent states of Latin America and the Caribbean. The fifth is in the making. (Source: CADTM)

'HE LONG WAVES IN THE HISTORY OF CAPITALISM

ichel Husson writes:

> Mandel had already discussed the theory of long waves in chapter 4 of *Late Capitalism* (1972) before elaborating them in a series of lectures at Cambridge in 1978, followed by the publication of *The Long Waves of Capitalist Development* in 1980. One of the cornerstones of this theory is that the history of capitalism does not follow a cyclical order. It goes through a series of historical periods marked by distinguishable features, fluctuating between expansive and recessive phases. This alternation is not mechanical: it is not just a period of waiting twenty-five or thirty years for a turnaround. If Mandel spoke of waves rather than cycles, it's better not to connect his approach to a theory generally attributed—probably wrongly—to Kondratiev, of regular and alternating movements of prices and production.
>
> One of the highlights of the long-wave theory is to reject the symmetry of turning points: The transition from the expansive phase to the depressive phase is "endogenous," in other words, it results from the system's internal mechanisms. On the contrary, the transition from the depressive phase to the expansive phase is exogenous and not automatic. It requires a reorganization of the social and institutional environment. The key idea here is that the transition to the expansionary phase is not predetermined and it must reconstruct a new "productive order." It takes time; therefore it is not a matter of a cycle similar to the "cycle of conjuncture," the duration of which is linked to the lifespan of the fixed capital. That is why this approach does not give any preference to technological innovations; rather, social transformations (relationship of forces between capital and labor, degree of socialization, working conditions, etc.) provide the key to the logic of this new productive order.[19]

n adaptation of Ernest Mandel's chronological tabulation would read as follows:[20]

789–1848: Period of the Industrial Revolution, of the great bourgeois revolutions, of the Napoleonic Wars, and of the constitution of the world market for industrial goods: producing high growth in the wave from 1789 to 1825; with slower growth from 1826 to 1848.

848–1893: Period of laissez-faire industrial capitalism: with intensive growth 1848–1873, and with slower growth 1873–1893 ("long depression free-competition capitalism").

893–1913: Heyday of classical imperialism and finance capital: a phase of accelerated growth.

914–1940: Beginning of the decline of capitalism, of the epoch of imperialist wars, revolutions, and counter revolutions: a phase of slow growth with crises of enormous magnitude.

om 1940 onward in the US and Latin America, and in post–World War II Europe: A phase of intensive growth for late capitalism (called *capitalismo tardio* in Spanish) "born out of . . . the great defeats of the working class in the 1930s." This phase of intensive growth (commonly called the Trente Glorieuses, or "glorious thirty" in France) ended in the US in the late 1960s and in Europe during the 1970s. From the early 1980s we entered a period of reduced growth. The fourth debt crisis in Latin America (and more generally in the

developing countries) erupted in 1982.

› return to Michel Husson:

Since the publication of Ernest Mandel's book, the world's economy has vastly transformed. With the increasing number of "emerging" economies, there has been a real "global shift" that can be gauged with a few figures. In 2012, for example, exports from emerging countries were equivalent to half of all global industrial exports, compared to only 30 percent in early 1990. Since the early 2000s, all growth in industrial production at the global level has been in the emerging countries. It seems that capitalism has found a second wind by relocating production to countries where significant productivity gains have been made and where wages are low.

The "old" capitalist countries or the entire world economy can no longer be explained as before. Since the early twenty-first century it is in the global South that increases in production (including industrial production), productivity gains, and the development of the working class are located. More than one desynchronization can be explained by specific factors.

In short, what is true for the old Northern capitalist countries, namely the inability to pave the way for a new "expansionary long wave," does not quite seem to apply to a host of countries who, after all, account for a significant portion of the human race. In fact we might well speak of an expansionary long wave where they are concerned. The fact that the growth in question is barbaric and inegalitarian (in fact reminiscent of England's rise to power in the nineteenth century) is another issue. The decisive point is that in the countries concerned, capital accumulation and employment growth demonstrate an impressive dynamism.

This major shift challenges the classical theories of imperialism. Lenin saw the exportation of capital as one of the defining criteria of imperialism, yet today the United States is a net importer of capital. Bukharin established a close correspondence between states and their national capital, but the production of goods now increasingly takes place in more than one country at a time. All the dependency theories of the second half of the twentieth century saw the dependent countries as being confined within the role of suppliers of raw materials and victims of the spoliation of the Third World and advanced the theory of the "development of underdevelopment."[21]

I would like to add that since 2014 and 2015, the strong upturn in the emerging countries (with China in the lead) and in a considerable number of developing countries has been showing signs of a decline or slowdown, while the economies of the old industrialized countries remain bogged down in slow growth.

This chapter intends to show, among other things, that the booming expansive phases are closely linked to debt accumulation in the peripheral countries (including Latin America), particularly boosted by the desire of the strongest capitalist economies (present-day China must now be considered to be among

them) to increase capital flow to the periphery. The turning point of the high-growth phase usually leads to (it is not exaggeration to say "provokes") a debt crisis in the periphery. We are currently passing through a transitional period of history (without the high growth in the old capitalist economies) that could lead to a new debt crisis in Latin America and other peripheral countries (in Africa and Asia). Countries that are highly dependent on the export of raw materials to repay their debt will be the first to bear the brunt, followed by the peripheral countries within or on the margins of Europe (Greece, Portugal, Spain, Ireland, Cyprus, Ukraine, other countries of the former Eastern bloc, and so on) or the US (Puerto Rico).

Chapter 2

How Debt and Free Trade Subordinated Independent Latin America

Contrary to dominant discourse, the debt crises in Latin America in the nineteenth century are not the reason for the problems experienced by banks in the North. With the first debt crisis in Latin America, which was directly related to the crisis at the London Stock Exchange, it was obvious that the crisis was the result of European banks' policies. On the other hand, the combination of external debt and the adoption of free trade policies is the key mechanism used to subjugate Latin America from the nineteenth century onward.

The independence period and the debt trap (1820–1850)

Between 1820 and 1825, Britain, and especially the financial sector in London, was agitated by an investment mania driven by the thirst for high profits. Speculation reached its apogee in 1824–1825. The new states that came into existence in South America following the military victories of the liberation movements against the Spanish crown became a favorite destination for the London Stock Exchange's surplus liquidities. The loans granted to the "Principality of Poyais" are the best illustration of this mania. In 1822, a Scottish adventurer, Gregor MacGregor,[1] successfully launched bonds issued by a nonexistent country that he called the Principality of Poyais and of which he was the self-proclaimed monarch (cacique). He managed to skim off two hundred thousand pounds sterling on the London Stock Exchange on behalf of this principality. He enticed British colonists to sail to the fabulous country. By the time it became known that the country was fictitious, MacGregor had disappeared.

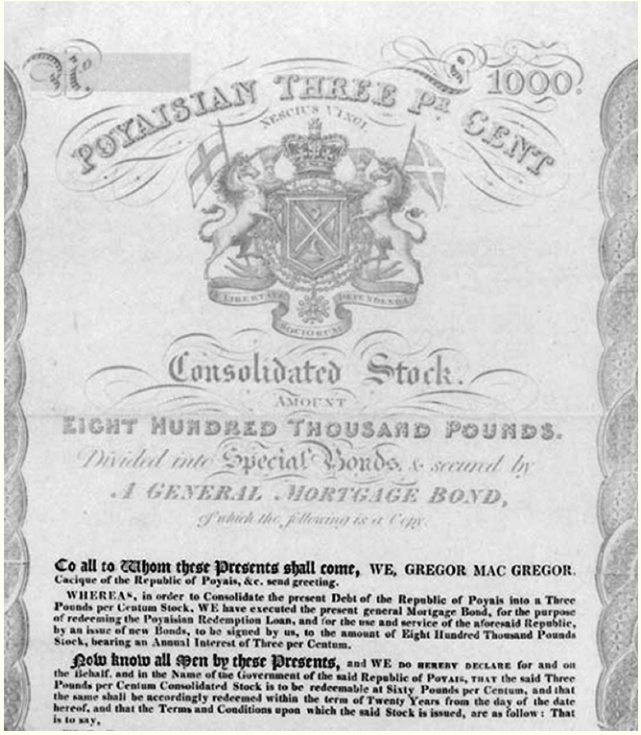
'HE POYAIS SWINDLE

1817, Gregor MacGregor was a general in the liberation army of Francisco de Miranda, Simón olívar's predecessor.[2] His relationship with Bolívar had turned sour and they parted company. acGregor took to piracy in the Caribbean before returning to London, where he proclaimed mself cacique of Poyais, situated on the Caribbean coast of Nicaragua and Honduras, in the rritory of the Miskito people.

In 1822 MacGregor launched a huge sales campaign to promote investments in the principality. cording to the propaganda, the capital of Poyais, St. Joseph, had a population of twenty thousand, aved streets, an opera house, a cathedral, a central bank, a parliament, a royal palace, and other nenities. The climate was particularly healthy and had become an attraction to Caribbean colonials ishing to improve their health. The inhabitants of Poyais were pro-British, and future colonists ould hope for three harvests of cereal grains a year. MacGregor printed and issued paper money, 'oyais dollars," which he exchanged with future colonists for pounds sterling.

He also sold land. He had a sense of detail—a cobbler prepared to emigrate was granted the title y appointment to the Poyais Crown." Of the 250 colonists who departed after purchasing land om MacGregor, about 80 survived, 50 of whom returned to England in 1823. MacGregor had not companied them on the voyage.

In 1827 MacGregor returned to London, after a period in France, and again convinced a London anker to float a new bond issue in the name of the Republic of Poyais for eight hundred thousand ounds. It was a fiasco.



POYAISIAN THREE PR CENT 1000

Consolidated Stock.

AMOUNT

EIGHT HUNDRED THOUSAND POUNDS.

Divided into Special Bonds, & secured by

A GENERAL MORTGAGE BOND,

of which the following is a Copy.

To all to Whom these Presents shall come, WE, GREGOR MAC GREGOR, Cacique of the Republic of Poyais, &c. send greeting.

WHEREAS, in order to Consolidate the present Debt of the Republic of Poyais into a Three Pounds per Centum Stock, WE have executed the present general Mortgage Bond, for the purpose of redeeming the Poyaisian Redemption Loan, and for the use and service of the aforesaid Republic, by an issue of new Bonds, to be signed by us, to the amount of Eight Hundred Thousand Pounds Stock, bearing an Annual Interest of Three per Centum.

Now know all Men by these Presents, and WE DO HEREBY DECLARE for and on the Behalf, and in the Name of the Government of the said Republic of POYAIS, THAT the said Three Pounds per Centum Consolidated Stock is to be redeemable at Sixty Pounds per Centum, and that the same shall be accordingly redeemed within the term of Twenty Years from the day of the date hereof, and that the Terms and Conditions upon which the said Stock is issued, are as follow: That is to say,

Poyaisian bond from 1827

In 1824–1825 alone, in the thick of economic euphoria, 624 new limited liability companies were created in London, of which 46 were specialized in commercial transactions, credit, and investments in South American mines. The part of the foreign investment boom that was directed to Latin America was by far the largest —the capital of the 46 companies amounted to fully half the total capital of all 624 new companies. Another sign of the attraction of Latin America: of the £24 million worth of bonds sold on the London market in 1824–1825, a little more than two-thirds, £17 million, were issued in the names of new Latin American states.[3]

At Ayacucho, Peru, in December 1824, the Latin American independence army won the final victory of their fifteen-year war against Spanish domination.[4] From Mexico to Argentina, new republics were born. The British, who since the end of the Napoleonic Wars had joined the Holy Alliance along with the monarchies of the Austro-Hungarian Empire, France, Russia, Prussia, and Spain, were supposed to defend their allies from threats.[5] However, the British government gave more and more discreet support to independence movements, hoping to spread its influence in this vast region rich in mineral, industrial, agricultural, and commercial resources. The fact that the United States, Britain's main competitor for influence in the region, recognized independent Colombia in 1822 accelerated London's change of

priorities.[6]

Simón Bolívar, one of the principal Latin American leaders, was well aware of the situation. While negotiating a loan for the purchase of arms with London, he wrote to Antonio Sucre, another Latin American leader, in May 1823:

> England is the first to be interested in this transaction [a loan for Peru] because she desires to form a league with all the free nations of America and Europe against the Holy Alliance, in order to put herself at the head of all these peoples and rule the world . . . It is not in England's interest that . . . Spain maintain a possession like Peru in America, and therefore prefers that she [Peru] be independent, albeit weak and with a fragile government.[7]

The British bankers were quite prepared to take risks organizing loans for the new states, especially since they only acted as intermediaries. They issued the bonds on the London Stock Exchange in exchange for juicy commissions. While interest rates at the time were around 3 percent, the Latin American countries had to promise 6 percent (the actual yield was higher still), and the commissions charged by the bankers were around 8 to 10 percent of the amounts effectively realized.

A critical analysis of the conditions imposed by the bankers on the bond-issuing country clearly shows the conditions to be unfair—excessive interest rates, multiple and abusive commissions, low remittances to the borrowing states in comparison to the debt incurred.[8] Five London banks controlled the Latin American debt market: Barclay[9]; B. A. Goldschmidt & Co. (see below regarding their behavior concerning the first Mexican loan); Herring, Powles, and Graham; Baring Bros.; and Rothschild. Some of these banks were also involved in Latin American mining.

The first great crisis of world capitalism began on the London Stock Exchange in December 1825 after the bursting of the speculative bubble created over the previous years. This crisis caused the failure of hundreds of banks, a sharp drop in economic activity, and an aversion to risk among the bankers. British bankers, quickly followed by European bankers, cut off foreign as well as domestic lending. The new states that counted on borrowing to repay their existing debts were unable to find bankers, in London or in Paris, to grant them loans. The crisis affected all the European financial markets. After London and Paris the effects spread to Frankfurt, Berlin, Vienna, Brussels, Amsterdam, Milan, Bologna, Rome, Dublin, and St. Petersburg.

It is important to note that at the moment the crisis broke out in London, the newly formed Latin American countries were still making their debt repayments. It

was over the following year that several countries (Peru and Gran Colombia, which included Colombia, Venezuela, and Ecuador; and in Europe, Greece) had no other option than to suspend payments once their sources of funding had dried up and the drop in international trade had reduced demand for their produce, and consequently their revenues. The Latin American states did not cause the crisis, but they did nevertheless suffer from it.

By 1828 all the Latin American countries, from Mexico to Argentina, had suspended payments. For some countries the suspension lasted for fifteen to thirty years. This does not mean that no payments at all were made during that period. The Latin American governments made partial payments when their treasury situation permitted them to do so. However, the drop in international trade (with slow growth in Europe in particular and the world in general between 1826 and 1847) did not permit them to collect the foreign currency needed to repay consistently, even if negotiations took place from time to time.

'HE ABCs OF BOND ISSUES

ondon bankers and brokers issued sovereign bonds on the stock exchange on behalf of the orrowing states. It is important to realize that most often the bonds were sold at a price that was wer than their nominal value.

he 1824 Mexican issue

1824, B. A. Goldschmidt & Co. in London issued Mexican bonds for a total value of £3.2 million. ne price paid for a £100 bond was only £58. The nominal interest rate was 5 percent; thus the ond paid a coupon of £5 each year. A yield of £5 on a £58 bond is in fact 8.6 percent.

ond issues as seen by bondholders

ondholders are most often bankers or private investors. If Mexico honors its repayments regularly, e value of the bond will probably improve on the market. The buyer at £58 may possibly sell at 70 and make a good profit. The purchaser at £70 also does well, because the coupon being at 5 ercent, the yield is 7.1 percent. But should Mexico encounter problems in repaying, the value may o down, or crash completely—perhaps to as low as £10 on the secondary market. The purchaser £10 can make an enormous profit if Mexico, after one year, resumes coupon payments. A oupon at £5 for an outlay of £10 represents a yield of 50 percent. As soon as Mexico resumes oupon payments, the value of the bonds on the secondary market can rise sharply, perhaps to as uch as £50. In this case the purchaser at £10 may, after cashing in a coupon, resell at £50 and so ake a 400 percent profit.

The purchaser at £50 is also looking for profits. If Mexico pays the £5 coupon the following year, e purchaser obtains a yield of 10 percent, and if at maturity Mexico fully pays up the initial bond ice of £100 as promised, the purchaser will obtain a profit of 100 percent.

It is useful to keep this explanation in mind if one is to understand the manipulations and eculation on upward or downward movements on the prices of bonds, which are the essence of ow bankers and brokers enrich themselves. This frenzied activity does not create any real value; it simply a dangerous and unstable way of transferring funds.

Of course, there are winners and losers on the bond market. Usually it is the small portfolios that ay the costs of the debts. The bankers and investors buy and sell at the right moment. Since they old vast quantities of bonds, they can sell heavily and force the price down in order to buy at a wer price and sell when the price rises.

Up to now the explanations have been from the point of view of the holder of the bond, who ay decide either to hold or to sell it. Now let's look at the other side of the coin, the point of view the banks who are the intermediaries between buyers and sellers on the London Stock change.

he Mexican bond issue as seen by the bank selling the securities n the London Stock Exchange

A. Goldschmidt & Co. informed Mexico that it had sold the securities at 58 percent of their face lue; that is, it had collected £1.85 million. Moreover, it had deducted £750,000 in commissions d other fees. Mexico received £1.1 million, while its debt amounted to £3.2 million.[10]

The bank itself does not run any risk if the debt is not repaid, since it sold the bonds to third rties. It only runs some risk if it keeps some of the bonds. It can very well decide not to sell them if it reckons that a bond issued at £58 for a face value of £100 will increase in value. In this case, hen the price increases, the bank can sell the bonds it had been holding. It can also happen that it unable to sell all the bonds of an issue because it is not attractive enough.

ond issues as seen by the borrower state

e Mexican state was indebted for £3.2 million and received £1.1 million. Despite the suspension payment, Mexico paid £1 million in principal and £500,000 in interest between 1824 and 1831. owever, the country still had to pay at least £6 million in principal and interest. To achieve this possible task, evidently the country's resources had to be drained and new loans contracted in der to continue debt repayments.

ond issues as seen by the local ruling classes

e local ruling classes—composed of big landowners, wealthy merchants, clergy, the most affluent embers of the liberal professions, and wealthy mine owners—were in favor of dependence on ternal debt. It allowed them to avoid being taxed or at least pay a bare minimum. Without ternal debt the state would have needed to tax the ruling classes because the overwhelming ajority of the people, already staggering under the burden of various taxes (with an additional levy

n agricultural produce), could not finance large-scale government expenditure. The bond issues so empowered the state to purchase goods from the local dominant classes. A significant portion the funds was spent on imported goods, and the import and sale activity enriched the merchant ourgeoisie at the expense of the local productive sectors. The development of relations with reign countries permitted the big landowners to export a part of their produce and increase the lue of land and mineral resources coveted by foreign markets. Lastly, the local ruling classes multaneously bought external and internal debt securities.[11]

In short, the combined use of external borrowing and free trade (in other words, the bandonment of protectionism) with Great Britain was conducive to the interests of the comprador ourgeoisie (comprador means "buyer" in Spanish and Portuguese). The bourgeoisie was more terested in importing manufactured goods and exporting primary products (such as raw materials nd agricultural products) than in local production and manufacturing and industrial activities.

xternal loans as seen by the governments

the early years of the wars of independence, the independentists borrowed from abroad to buy e weapons and equipment necessary to achieve victory, not having the means to produce them. his averted conflicts with the local ruling classes that would have been inevitable, had the leaders the independence movement found it necessary to impose high taxes on them. This is what ventually happened to Simón Bolívar at the end of the independence wars. Gran Colombia's ruling asses abandoned him because he wanted them to contribute to the process of consolidating the ew state.

Most of the governments had close ties with the local ruling classes from which they originated. nce the nations were free and stabilized, they found it extremely convenient to keep borrowing om abroad because it allowed the wealthy to avoid taxation.

The external debt also facilitated government corruption, since the foreign bankers were willing to ay under-the-table commissions in order to secure deals.

Some Latin American rulers were an exception to the above rules, such as Benito Juárez in Mexico and Paraguay's governments under the rule of José Gaspar Rodríguez de Francia and his successors, between 1810 and 1865. Francia successfully implemented a self-sufficient development project without recourse to external debt. It was reminiscent of Muhammad Ali's policies in Egypt at the same time, although Francia and his successors never tried to expand Paraguay through conquests. Great Britain successfully forged a triple alliance among Argentina, Uruguay, and Brazil to halt the experiment through armed intervention. Paraguay had refused to grant free access to exports from Great Britain and its allies, and this was used by the triple alliance as a pretext (the same one used to wage the Opium Wars against China in the years 1839–1842 and 1860[12]) to launch a five-year war in 1865 that led to a genocide of the Paraguayan people. The population declined by

80 percent. Argentina and Brazil borrowed heavily from the British bankers during this abominable war of total destruction. Paraguay, which had undergone strong development until then, has still not recovered fully today.

Regarding debt payment in the nineteenth century, the government of Benito Juárez in Mexico in the 1860s was also a noteworthy Latin American exception to the rule.

External debt and free trade

During the first half of the nineteenth century, all Latin American governments except that of Francia's Paraguay adopted free trade policies under pressure from Great Britain.

Since the local ruling classes did not invest in processing or manufacturing activities for the domestic market, the implementation of free trade did not threaten their interests. Consequently, free import of mainly British manufactured goods hindered the development of these countries' industrial fabric. The abandonment of protectionism destroyed a large part of the local factories and workshops, particularly in the textile sector.

It could be said that the combined use of external debt and free trade was the driving force behind the "development of underdevelopment" in Latin America. This is, of course, related to the social structure of Latin American countries. The local ruling classes, including the comprador bourgeoisie, made these choices in their own interest.

At the end of the eighteenth century, several Latin American regions, although still under colonial rule, accomplished a real artisanal and manufacturing development, mainly supplying local markets. Great Britain's support for the Latin American people's desire for independence stemmed from a desire for economic domination over the region. From the beginning Great Britain's condition for recognizing independent states was clear: they had to allow free entry of English goods into their territory (the aim was to limit import duties to about 5 percent). Most new states agreed, and the local producers, particularly artisans and small entrepreneurs, were put into great difficulty.[13] British goods invaded the local markets.

The British authorities practiced highly protectionist policies until 1846.[14] This propelled the rise of Britain as the foremost industrial, financial, commercial, and military power during the nineteenth century. Whereas from 1810 to 1820 they had entered into agreements with the independentist Latin American leaders to open

the economies of the still-developing new states to British goods and investments,[15] the British authorities were protective of their own industries and trade. Britain remained at the forefront by strongly protecting its market and its booming industries, while destroying the industries (for example, India's textile industry) of its competitors. Only once British industry had achieved a prominent technological lead did Britain embrace free trade, since it no longer needed to worry about any serious competition. Paul Bairoch writes that starting from the late 1840s, "the most highly developed country had become the most liberal, which made it easy to equate economic success with a free trade system, whereas in fact this causal link had been just the opposite."[16] Bairoch adds that "before 1860 only a few small Continental countries, representing only 4 percent of Europe's population, had adopted a truly liberal trade policy."[17] These were the Netherlands, Denmark, Portugal, Switzerland, Sweden, and Belgium. Let us not forget that the United States remained protectionist throughout the nineteenth century (and during most of the twentieth century).

George Canning, a prominent British politician,[18] wrote in 1824: "The deed is done, the nail is driven, Spanish America is free; and if we do not mismanage our affairs sadly, she is English." Thirteen years later, Woodbine Parish, the British consul in La Plata, described a gaucho from the Argentine pampas in the following way: "Take his whole equipment—examine everything about him—and what is there not of raw hide that is not British? If his wife has a gown, ten to one it is made in Manchester."[19]

Great Britain did not need to depend on military conquests to achieve this (although it did not hesitate to use force whenever it felt it necessary). It used two very effective economic weapons—granting international credits and imposing the abandonment of protectionism.

In 1827, the prominent Swiss economist Jean de Sismondi clearly explained Britain's interest in lending to the newly independent states because the latter would buy English goods with the loans:

> The opening up of the immense market afforded by Spanish America to industrial producers seemed to offer a good opportunity to relieve British manufacture. The British government were of that opinion, and in the seven years following the crisis of 1818, displayed unheard-of activity to carry English commerce to penetrate the remotest districts of Mexico, Colombia, Brazil, Rio de la Plata, Chile and Peru. Before the government decided to

> recognize these new states, it had to protect English commerce by frequent calls of battleships whose captains had a diplomatic rather than a military mission. In consequence, it had defied the clamors of the Holy Alliance[20] and recognized the new republics at a moment when the whole of Europe, on the contrary, was plotting their ruin. But however big the demand afforded by free America, yet it would not have been enough to absorb all the goods England had produced over and above the needs of consumption, had not their means for buying English merchandise been suddenly increased beyond all bounds by the loans to the new republics. Every American state borrowed from England an amount sufficient to consolidate its government. Although they were capital loans, they were immediately spent in the course of the year like income, that is to say they were used up entirely to buy English goods on behalf of the treasury, or to pay for those which had been dispatched on private orders. At the same time, numerous companies with immense capitals were formed to exploit all the American mines, but all the money they spent found its way back to England, either to pay for the machinery which they immediately used, or else for the goods sent to the localities where they were to work.[21]

Sismondi adds later that this policy backfired on Britain because the newly overindebted states purportedly squandered money (as the above citation shows) and were forced to suspend debt repayment. Now, adopting Carlos Marichal's view, we have mentioned before that payment suspensions did not cause the crisis in London. In fact it was the other way around: the crisis in London caused a shutdown of financial flows in the form of credits to Latin America. Consequently, the indebted states could not borrow in order to repay. Remember that the Latin American states were servicing their debts normally when the crisis broke out in December 1825. It was over the next two years that they partially suspended payments. That said, Sismondi's analysis is very interesting because he points out Britain's enormous interest in lending to the new independent states. Britain stood to gain on many levels, as Sismondi says. The new states could now afford to buy goods (weapons, uniforms for troops, etc.) from England with the loans they procured at high rates of interest. The circle was completed as the money lent by England returned to England.

Sismondi could not have known, in 1827, what the eventual outcome would be: England and other European powers would take advantage of the suspension of payments to impose a series of conditions on the indebted countries.

IMÓN BOLÍVAR IN THE DEBT LABYRINTH

om the start of the struggle for independence, Simón Bolívar, like other independentist leaders, unched a policy of internal indebtedness (which ended up benefiting the local ruling class) and ternal indebtedness toward Britain and its bankers. In order to borrow abroad, he engaged part of e nation's wealth as collateral and agreed to free trade agreements with Britain. The bulk of the ıms borrowed never reached Latin America because the bankers in London skimmed off ormous commissions, charged actual interest rates that were abusive, and sold the securities for ell below their face value. Certain Latin American representatives appointed by the independentist aders also withheld large commissions at the source or else simply stole part of the amounts orrowed. As for the rest, another large share of proceeds from the bonds was used directly to urchase weapons and military equipment from British merchants at exorbitant prices. Out of what ventually made it to Latin America—that is, only a small percentage of the bond-issue amounts—rge sums were misappropriated by certain of the new authorities, military leaders, and the local ominant classes. A series of quotations from Simón Bolívar, accompanied by commentary by Luis itto García,[22] clearly show that the *Libertador* gradually became aware of the debt trap into which e and the new independent states had fallen. Simón Bolívar did not seek to enrich himself ersonally by taking advantage of his functions as head of state, unlike many leaders who came to ower thanks to struggles for independence.

he terms of external indebtedness were highly favorable to ritain

November 1817, Simón Bolívar appointed a special envoy to London to obtain external financing n credit. In the letter of accreditation he wrote, he granted enormous powers:

> And in order that he may propose, negotiate, adapt, conclude and sign in the name and under the authority of the Republic of Venezuela any pact, convention and treaty founded on the principle of its recognition as a free and independent state, and in order to provide support and protection, stipulating to that end all the necessary conditions for indemnifying Great Britain for its generous sacrifices and provide it with the most positive and solemn proofs of a noble gratitude and perfect reciprocity of services and of sentiments.[23]

Luis Britto García makes the following comment: "The accreditation is conceived in very broad rms: it is possible to agree to 'any condition necessary.' The representative and the lenders may ake use of it with the greatest freedom."[24] Initially, the debts contracted were exclusively to serve e war effort.

Referring to the creation of Gran Colombia (Venezuela, Colombia, Panama, and Ecuador) in 319, Britto García notes:

> This integration has as its consequence the amalgamation of the debts contracted by each of the political bodies. Accordingly, Article 8 of the Constitution clearly stipulates: "All debts which the two peoples have contracted separately shall be recognized jointly and severally as the national debt of Colombia; and all the goods of the Republic shall be collateral for their repayment."

itto García continues:

> Not only were the debts constitutionally consolidated; by virtue of the Constitution, all public commodities of the nascent political body were to constitute guarantees. Unfortunately this operation was not carried out with the transparency that would have been desirable, since the registers of the operations were incomplete and confused.

he new elites profit from internal debt and refuse to pay taxes

ıe British consul, Sir Robert Ker Porter, mentions conversations with Simón Bolívar in his journal, ıd in the entry for Wednesday, February 15, 1827, observes that "Bolívar confesses to an internal ebt of 71 millions of dollars, in paper, to be paid by the Govt. Hundreds of individuals have peculated deeply, and most usuriously in the paper." According to the consul, the paper was sold r US dollars by persons in urgent need, at 60 percent of its value, and in certain cases at 25 ercent and even 5 percent of its face value. He goes on to explain that according to his sources most no officials had kept any cash, spending it all in this "immoral and antipatriotic speculation." e notes that Vice President Santander is said to possess two million in these bonds, which he is ıid to have purchased for $200,000.[25] Luis Britto adds the following comment: "These speculators e in turn closely related to numerous officers and republican politicians, who are making large rtunes at the expense of the blood of their troops."[26] And he adds: "The mere announcement of gorous tax measures strikes fear into the hearts of civil servants like the Intendant Cristóbal endoza, who suddenly tendered his resignation."[27]

The national debt will oppress us"

ıe words written by Simón Bolívar in a letter sent on June 14, 1823, to vice president Francisco e Paula Santander (the one mentioned by the British consul in his notes in 1827) are striking: "In e end we will do everything, but the national debt will oppress us." And, referring to the members the local ruling class and the new powers, he writes:

> The national debt engenders a chaos of horrors, calamities and crimes and Monsieur Zea is the spirit of evil, and Méndez the spirit of error, and Colombia is a victim whose entrails these vultures are tearing to shreds: they have already devoured the sweat of the Colombian people; they have destroyed our moral credit, and in exchange we have received meagre support. Regardless of the decision taken regarding this debt, it will be horrible: if we recognize it, we cease to exist, and if we do not . . . this nation will be the object of opprobrium.[28]

We see clearly that Simón Bolívar, who had become aware of the debt trap, rejects the prospect

repudiation. Two months later, Bolívar again wrote to Vice President Santander on the subject of e debt and referred to the situation of the new authorities in Peru:

> The government of Riva Agüero is the government of a Catilina associated with that of a Chaos; you cannot imagine worse scoundrels or worse thieves than the ones Peru has at its head. They have devoured six million pesos in loans, scandalously. Riva Agüero, Santa Cruz and the Minister of War alone have stolen 700,000 pesos, solely in contracts let for equipping and embarking troops. The Congress has demanded to be shown accounts and has been treated like the Divan of Constantinople. The manner in which Riva Agüero has behaved is truly infamous. And the worst thing is that between the Spanish and the patriots, they have brought about the death of Peru through their repeated pillaging. The country is the most costly on earth and there is not a maravedí left for its maintenance. [29]

Simón Bolívar, pushed to the wall by the creditors, was prepared to cede public commodities to em. In 1825, he offered to repay the debt by transferring a part of Peru's mines, which had been ›andoned during the war of independence[30]; in 1827, he attempted to develop a quality tobacco op to sell to Britain to pay the debt[31]; in 1830 he offered to sell unused public land to the editors.[32]

imón Bolívar threatens to denounce the oppressive debt system o the people

n July 22, 1825, Simón Bolívar wrote to Hipólito Unanue, Peru's prime minister:

> The masters of the mines, the masters of the Andes of silver and gold, are seeking loans of millions in order to poorly pay their little army and their miserable administration. Let all this be told to the people, and let our abuses and our ineptness be forcefully denounced, so that it may not be said that government protects the abominable system that is ruining us. I repeat, let our abuses be denounced in the "Government Gazette"; and let pictures be painted there that offend the imagination of the citizens.[33]

In December 1830, Simón Bolívar died in Santa Marta (on the Caribbean coast of Colombia), at time when Gran Colombia was in strife and abandoned by the ruling classes of the region.

Conclusion

The first great Latin American debt crisis was born in London. Great Britain, followed by other powers such as France, used it to impose capitulation to the bankers' conditions and the Old World's interests in trade and industry on Latin America. The Latin American countries that had gained liberty from direct Spanish and Portuguese colonial rule[34] returned to a cycle of dependence, subordination, and destruction, masterminded by British capital and its French counterparts in collusion with their respective authorities. The big capital of the US, supported by

its government, intervened later—except in the case of Mexico, where it intervened constantly. Paraguay's initiative for a self-sufficient development was crushed between 1865 and 1870. In the 1860s, Mexico rebuffed a major offensive from the creditors but agreed to free trade. That thwarted its development. In the 1880s, the Mexican government again yielded to the creditors (see next chapter).

The weapon of debt and the withdrawal of protectionism were crucial factors behind the submission of states and the transfer of wealth from the peoples of the periphery to the capitalist classes of the center. The local ruling classes pocketed their commission in the process.

Chapter 3

In the Nineteenth Century, Mexico Proved That Debt Can Be Repudiated

Mexico is the only former colony that, through its own determination, won decisive victories over its creditors in the nineteenth century. But no victory is definitive and irreversible, a fortiori, if those who govern fail to defend it.

The local dominant classes lent to the colonial Spanish state

Spain conquered Mexico with fire and sword beginning in 1519.[1] Madrid called its colony "New Spain." The war of independence began in 1810 and ended in victory for independence in 1821. At the end of the eighteenth century, the local dominant classes, including the clergy, were lending to the colonial state and also to the home country at a rate of 5 percent. Mine owners, big landowners, rich Spanish merchants established in Mexico, and the Mexican clergy lent large sums to Madrid at an interest rate that varied between 5 and 6 percent. These loans were raised by selling Spanish bonds to Mexico's ruling classes to contribute to Spain's war against England in 1782 and against revolutionary France in 1793–1794. When Mexico's war of independence began in 1810–1811, the ruling classes cut off credit to the Spanish government in Mexico City and Madrid. The risks were too high.[2] Only the Spanish merchants residing in Mexico were still lending money to the colonial government in Mexico City in 1813, at a rate of 5 percent,[3] since they had every interest in seeing the independence movement defeated and because they were convinced that, should the Spanish camp be defeated, they would be compensated by Madrid.

The struggle for independence was conducted, with a few exceptions, by well-off sectors of the population who were of European origin and who, following the example of the rest of Latin America, wanted to rid themselves of the colonial yoke.[4] As throughout the continent during that period, the movement was led by

"creoles"—sons and daughters of parents of European origin, born in the Spanish colonies. The leaders of the independence movement had little regard for the indigenous populations, who accounted for some 80 percent of Mexico's six million inhabitants.[5] Following independence in 1821, Agustín de Iturbide, the new head of state, questioned whether or not the debt of the former colonial regime should be repaid. He envisaged three options: repudiate the debt, since it was accumulated in the interests of the colonial power that had exploited the country; confiscate the church's property and sell it to repay the debt; or issue bonds in London in order to pay off old debts.[6] In order to avoid conflict with the local ruling classes, who were the holders of a large portion of colonial debt, the president decided against repudiation. Similarly, to reassure the powerful clergy, he decided not to nationalize church property. So, against the interests of the people, Iturbide opted to borrow in London and devote a significant part of the proceeds from the bond issue to repaying colonial debt.

Mexico's ruling classes, or a large part thereof, had an interest in their country taking on foreign debt. Mexico's bond issues in London in 1824 and 1825 set off a chain of events that were to unfold over the entire nineteenth century and strongly affect the country's history in its relations with foreign powers.

The terms of the loans were clearly abusive, as was their management. In February 1824, Mexico issued bonds in London through the intermediary of the bank B. A. Goldschmidt & Co. The conditions were harsh, giving Goldschmidt abusive advantages. Whereas Mexico issued debt worth the equivalent of 16 million Mexican pesos (£3.2 million), the country actually received only 5.7 million pesos (approximately £1.14 million), or a mere 35 percent of the amount borrowed. Taking into account the interest to be paid, whereas it actually received 5.7 million pesos, Mexico in fact committed to repaying 40 million pesos (16 million pesos in capital and another 24 million pesos in interest, since the rate was fixed at 5 percent) over a period of thirty years. To express it simply, Mexico received one and had to pay back seven. Even at the time of the bond issue, Goldschmidt made enormous profits.

In 1825, Mexico borrowed the same amount (16 million pesos or £3.2 million) from another financial firm, Barclay & Co.,[7] and actually received 6.5 million pesos (£1.3 million). Again, over thirty years, Mexico committed to repaying 44.8 million pesos (16 million pesos in capital plus 28.8 million pesos in interest, since the rate was set at 6 percent).

Despite what the official Western narrative claims, the suspension of debt

repayment by Mexico and numerous other countries beginning in 1827 was not the cause of the London financial-market crisis. It was the consequence, as was explained earlier.

The firms Goldschmidt and Barclay & Co. eventually went bankrupt, in February and August 1826, respectively.[8] Clearly, Mexico was not responsible for the failures; rather, it was one of the victims. Goldschmidt and Barclay had made considerable profits at the country's expense. It should also be pointed out that Goldschmidt had skimmed off the interest and the repayment of the capital corresponding to the years 1824–1825 from the 1824 issue. In addition, a quarter of the amount of the 1825 issue, made through Barclay, was used to repay Goldschmidt for the year 1826! Goldschmidt speculated on the Mexican bonds. Whereas the bank had purchased them from Mexico at 50 percent of their nominal value, it sold a great number to third parties at 58 percent of their value. Later, in early 1825 when the market euphoria was at its height, the firm was selling them at 83 percent of their face value.[9] Due to Barclay's failure, Mexico lost £304,000 that had been skimmed off by the firm to prepay the interest and the beginning of repayment of capital for the entire year 1826 and part of 1827.

As for other Latin American states at the time, the conditions Mexico had agreed to regarding the loans made it impossible for them to continue repayment without new loans. In other words, the credit conditions of 1824–1825 were so unfavorable to the newly independent debtor countries that they were unable to repay without further borrowing, and therefore without entering an infernal spiral of debt.

Mexico—Chronology

1810: Beginning of the war for independence, led by the local ruling classes (creoles).

1821: Victory for the independentists. Iturbide becomes the new head of state. He decides to repay the colonial debt and contracts loans in London in 1824 and 1825.

1824: Bonds issued by Goldschmidt & Co.; 16 million pesos issued and 5.7 million pesos (35 percent) received; total amount to be repaid (capital plus 5 percent interest) 40 million pesos.

1825: Bonds issued by Barclay & Co.; 16 million pesos issued and 6.5 million pesos received; total amount to be repaid (capital plus 6 percent interest) 44.8 million pesos.

Goldschmidt and Barclay bonds

1825 (Dec): Financial crisis in London.

1826: The two banks Goldschmidt & Co. and Barclay & Co. go bankrupt.

1827 (Oct 1): Mexico suspends repayment (other Latin American countries, as well as Greece, also suspend repayment).

1828: Mexico borrows from the local ruling classes at very high interest rates: 232 percent, 536 percent, and so on.

1831: First renegotiation of the Goldschmidt and Barclay bonds as a consequence of an agreement with creditors. The amount of the debt still to be repaid is increased from £6.4 million to £6.85 million, without any further transfer of funds to Mexico.

1832: New suspension of repayment.

1837: Second renegotiation of the Goldschmidt and Barclay bonds as a consequence of a new agreement with creditors. The amount of the debt still to be repaid is increased from £6.85 million to £9.3 million.

1846: Third renegotiation of the Goldschmidt and Barclay bonds. The amount of the debt still to be paid is increased from £9.3 million to £10 million.

1847: US invasion of Mexico and annexation of extensive territory. The US subsequently pays £3 million in compensation, which was mainly used to repay external and internal debts.

1855: Ayutla revolution; the Liberals come to power.

1858: The Liberal president Benito Juárez is overthrown by Conservative generals. The Conservative general and usurper Zuloaga issues new bonds to restructure the internal debt. Bonds are issued totaling 57 million pesos: 443,000 pesos (less than 1 percent) was actually received.

1859: Bonds totaling 15 million pesos are issued by the Swiss banker Jecker, then a resident of Mexico; 618,927 pesos (4 percent) received.

1861: Benito Juárez comes back to power with substantial popular support. Bonds issued from 1858 to 1860 are repudiated and debt repayment is suspended for two years.

1862: French invasion.

1863: Maximilian of Austria becomes emperor of Mexico, taking his orders from France: acknowledgment of the Jecker bonds (the Swiss banker had acquired French citizenship in 1862); new loans from Paris in 1863, 1864, and 1865; bonds issued for 560 million francs, 34 million francs actually received.

1867: French defeat. Benito Juárez returns to power. Repudiation of external debts contracted by Maximilian and repudiation of internal debts for 1858–1860. The Goldschmidt and Barclay bonds are not repudiated, but payment is suspended until 1886.

1876: Porfirio Díaz comes to power. His authoritarian Liberal regime, called the "Porfiriato," lasts until 1910.

1883: Decree on Mexico's debt confirming Benito Juárez's debt repudiation, renegotiation of old debts that had not been repudiated, strict framework for any bond issues; they must respect national sovereignty.

1884: New agreement with creditors that violates the 1883 decree.

1888–1910: New international bond issues (1888, 1889, 1893, 1899, 1904, and 1910). From 1888 to 1910, Mexico's external debt multiplies 8.5-fold. The debt rises from 52.5 million to 441.4 million pesos. The internal debt doubles.

Domestic and foreign debt are closely linked

In contrast with the loans they granted to the Spanish colonial state at rates of 5 to 6 percent, the local ruling classes extracted usurious rates (12 to 30 percent, and even more[10]) from the new Mexican state, with foreign loans serving in part to repay the domestic debt. The rich Mexicans (big landowners, known as latifundistas; powerful merchants; and owners of mines) who lent to the state had every interest in seeing the Mexican authorities continue to seek foreign loans. These loans were then used in large part to repay internal debt. And they had other advantages: They were a source of profit for Mexico's ruling classes, who themselves purchased the Mexican bonds abroad. They were a source of the foreign hard currency needed by Mexican capitalists for importing foreign products (capital goods, consumer goods, armaments, and so on).

By financing a whole range of the state's activities through borrowing, the Mexico authorities avoided increasing the taxes paid by those same wealthy citizens. The use to which the two bond issues of 1824–1825 were put provides a good illustration of this: 25 percent of the total amount went to repay internal debt; 15 percent was used for arms purchases in London; 8 percent went to purchase tobacco from major Mexican producers (the tobacco was then resold by the state); and 52 percent was used to pay the state's current expenditures (payment of back wages, pensions, administrative expenditure).[11] This means that 0 percent was used for investments in development or for social expenditure.

The debt restructurings of 1830 and 1840

As pointed out above, Mexico suspended repayment of its foreign debt (the Goldschmidt and Barclay loans in October 1827), and its government attempted to make use of internal debt by agreeing, in 1828, to extremely high interest rates—the local ruling classes were very demanding: on June 1, 1828, the Mexican capitalist Manuel Lizardi granted a loan at an annual rate of 536 percent; on July 23, 1828, Ángel González lent at 232 percent.[12] We should add that nine years later, in London, Lizardi's financial firm served as intermediary between the Mexican government and the holders of Goldschmidt and Barclay securities, pocketing substantial commissions.[13]

The country entered into negotiations with London creditors, who in 1829 had created a Committee of Mexican Bondholders. In 1831, the Mexican authorities made enormous concessions to creditors. Whereas the arrears of interest for the period between October 1827 and April 1831 amounted to £1.1 million, they agreed to that interest being turned into a debt of £1.6 million (this is called capitalization of interest or transformation of unpaid interest into outstanding capital).

How did things stand after the 1831 agreement between Mexico and the creditors?

In the case of the Goldschmidt loan of 1824, between February 1824 and July 1827 Mexico paid back £1.57 million, whereas it had received only £1.13 million in all.[14] Mexico should have repudiated the loan due to the unconscionable nature of the contract. Yet in 1831 Mexico recognized an outstanding debt of £2.76 million on the Goldschmidt loan.[15]

The outcome of the negotiations between Mexico and its creditors was clearly to Mexico's disadvantage: in 1831, it found itself with a debt that had increased from £6.4 million to £6.85 million. Mexico resumed foreign-debt repayments from 1831 to 1832 before suspending them once more. In 1837, it struck a new agreement with the creditors in London. The debt grew yet again—from £6.85 million to £9.3 million. Mexico made interest and capital repayments from 1842 to 1844.

New negotiations took place in 1846, during which Lizardi reaped considerable—and fraudulent—profits from his country for the benefit of the bondholders' committee. Despite the payments made in 1842–1844, Mexico's debt increased from £9.3 million to a little over £10 million. This was purely an accounting trick

that increased the outstanding debt for the creditors' benefit while giving Mexico some semblance of relief. The additional commission that went to Manuel Lizardi totaled £876,000. After pocketing that sum, Lizardi dissolved his financial firm in order to escape future litigation.

It is worth highlighting that throughout all these negotiations, after which Mexico's debt had increased by almost £4 million, not a single new credit line was granted to Mexico.

Territories lost by Mexico in favor of the United States in 1848

In 1847, the US waged war on Mexico in order to annex an enormous portion of its territory. The US took half of Mexico, annexing what are today the states of Nevada, Utah, Colorado, New Mexico, Arizona, and California. Troops occupied the capital, Mexico City, for a time.

After the war, Washington paid compensation for the annexed territories (15 million Mexican pesos, or approximately £3 million). A large part of that amount then went to repay the internal debt to the local ruling classes and to resume repayment of foreign debt between 1851 and 1853 (still in repayment of the 1824–1825 loans).

The disastrous international conventions signed by Mexico between 1851 and 1853 with Britain, France, and Spain

Mexican capitalists took on British or French citizenship to avail themselves of the protection of the London or Paris governments. The pretext used by France, Britain, and Spain to justify invading Mexico in late 1861 was precisely the necessity of securing repayment of the debts owed by Mexico to French, British, or Spanish citizens. In fact, some of those citizens were in reality rich Mexicans residing in Mexico who had adopted a European nationality to obtain the support of the

European powers in their conflict against their own state. In the literal sense, they were what is called in Spanish *vende patria* ("those who sell out their country").

In December 1851, Mexico agreed to sign an international convention with Britain under which it recognized a debt and declared that it was ready to indemnify British subjects and firms who had suffered losses in the past when the Mexican authorities had suspended repayments on internal debt that had been bought up by British firms. This convention was imposed by coercion: if Mexico wanted to issue new bonds in London, it had to sign this international treaty. If it refused, Mexico faced British military intervention on the pretext of obtaining justice for its subjects. Apart from the fact that this convention was weighted in favor of British subjects and companies, granting them excessively high repayments, it contained a measure that was even more harmful and scandalous and which deserves a brief explanation: a firm owned by a Mexican capitalist had obtained, using this convention, the guarantee of a large compensatory payment on the grounds that its owner, Martínez del Río, had acquired British citizenship in 1843. The Mexican firm that had purchased Mexican internal-debt bonds succeeded in internationalizing that debt through the naturalization of its owner.[16]

The same year, Mexico signed a similar convention with Spain. Two others were to follow during 1852–1853,[17] and between 1851 and 1853 Mexico entered into three such conventions with France.[18] According to Jan Bazant, half of the debt recognized by Mexico by virtue of these international conventions was in reality held by Mexican capitalists who had acquired British or Spanish nationality.

Britain, France, and Spain, in forcing these conventions on Mexico, created an international instrument of coercion. By signing it, Mexico relinquished part of its sovereignty and gave the foreign powers an argument for declaring war over unpaid debts. Until then, the Mexican courts had refused claims by British, Spanish, or French subjects concerning internal debt. And foreign courts did not deal with claims from their own citizens and firms if they involved the internal debt of a sovereign nation like Mexico. In agreeing to these conventions, Mexico was agreeing to turn part of its internal debt into external debt, and to allow foreign states to represent private citizens. As explained above, Mexico also agreed to allow Mexican subjects (capitalists, as it happens) who had acquired foreign nationality to have their interests defended by foreign powers.

Concretely, the domestic debts were replaced by Mexican government bonds that had international value and were repaid using customs revenues. The new external debt inherited from these conventions amounted to 14.2 million pesos (or

a little less than £3 million). It's important to make it clear that that amount does not correspond to any payment of funds to Mexico from foreign sources. Once again, it was simply a piece of accounting sleight of hand that transformed an internal debt into external debt. External debt, which before the conventions stood at 52.7 million pesos (a little more than £10 million),[19] corresponding to the unconscionable Goldschmidt and Barclay loan of 1824–1825, increased by 14.2 million pesos to 66.9 million pesos.[20]

Clearly, in signing these conventions, the Mexican authorities—comprising representatives of the local ruling classes—acted against the interests of their country and of Mexico's people. We will see what advantages the foreign powers sought to gain from these conventions in the 1860s. Ten years later, the threat dramatically took concrete form when Mexican capitalists, beginning in 1861–1862, supported the French, British, and Spanish invasion and backed France's imposition of an Austrian prince as emperor of Mexico. To permanently avoid the trap of international debt recognition conventions and the accompanying abandonment of sovereignty, the Mexican Congress adopted a decree prohibiting them in 1883 (see below).

The revolution of Ayutla and the struggle between Liberals and Conservatives

In 1855, the dictatorship of the Conservative Santa Anna was overthrown by the revolution of Ayutla, and the Liberal Party came to power.

In order to promote the development of a capitalist bourgeoisie in Mexico, the Liberals wanted to expropriate land belonging to the clergy and to the indigenous communities.[21] The laws passed to this effect are referred to as the Reform and were reaffirmed in the Constitution of 1857. In reaction, the Conservative Party, representing the interests of the clergy and large landowners, launched the War of the Reform against the Liberals in power, with the support of Pope Pius IX. The Liberal Benito Juárez, who had become president in 1858, was overthrown by Conservative generals. General Zuloaga, commander of the military garrison in the capital, usurped the presidency. Benito Juárez was forced to leave Mexico City; he organized armed resistance against the usurpers from the north, while enjoying support from all over the country. Between 1858 and January 1, 1861, two governments coexisted—the Conservative government, which remained in Mexico City, and the Liberal one, whose seat moved about as the war evolved.

The scandal of the Jecker bonds issued by General Zuloaga, the usurper president

In 1858, the finance minister of the Conservative president of the period attempted to conduct a major operation to restructure/convert the internal debt, for a total of 57 million pesos. The new bonds began to sell at 5 percent of their nominal value, after which the price fell to 0.5 percent! Mexico indebted itself to the tune of 57 million pesos and in return received only 443,000 pesos (less than 1 percent of the nominal value of the issue) and some older bonds. It was a total fiasco for the treasury but a gold mine for the bond purchasers—and, in particular, for the Swiss banker Jean-Baptiste Jecker, established in Mexico City since 1835. He was a large holder of shares in silver mines (the Taxco and Mineral Catorze mines) and had purchased a large number of bonds at between 0.5 percent and 5 percent of their value. One year later, Mexico issued more bonds internally, using Jecker's services. Jecker acquired bonds for a total value of 15 million pesos, and in exchange remitted to Mexico's public treasury 618,927 pesos (approximately 4 percent of the value of the bonds) and bonds issued the previous year with a nominal value of 14.4 million pesos, but which he had bought for next to nothing. The total cost of the operation (that is, the purchase of a large part of the bonds issued in 1858 and the new 15 million–peso issue of Jecker bonds) for Jecker was 1.5 million pesos.

On November 3, 1858, Benito Juárez issued a decree from the city of Veracruz, revealed to the citizens of Mexico City by the clandestine press, declaring:

> Benito Juárez, Constitutional interim President of the United States of Mexico, hereby informs all inhabitants of the Republic that: By virtue of the powers vested in me, I deem it appropriate to decree the following: Any person who, directly or indirectly, shall give aid to the individuals who have refused obedience to the supreme Constitutional government by supplying money, food, ammunition or horses, shall through that act alone forfeit the full value of the amounts or the goods that shall have been delivered to them, and will in addition be liable to pay the Treasury a fine amounting to twice the amount of money, or twice the value of the goods that shall have been supplied.
>
> Issued at the Palace of the General Government at Veracruz,
> 3 November, 1858.[22]

Jecker and the local capitalists who were financing the illegal government had been warned.

Repudiation of the internal debt and suspension of payment of the external debt in 1861

Having defeated the Conservatives' army, Benito Juárez triumphantly entered the capital on New Year's Day 1861. Juárez and his government repudiated the internal loans contracted by the usurpers between 1858 and the end of 1860.

Nevertheless, he offered to compensate Jecker for the amount he had actually spent, or 1.5 million pesos. Jecker refused and sought the support of France in order to guarantee maximum profit. Emperor Napoléon III was looking for a pretext for launching new colonial conquests. He wanted to take possession of Mexico (whose territory was three times the size of France) and its silver mines. The French government demanded that Mexico repay at face value the bonds[23] held by Jecker (who, remember, was a Swiss national) and Mexican bonds held by French citizens. The fallacious nature of the argument they used becomes even more obvious when we learn that France granted French citizenship to Jecker in March 1862, whereas the invasion had already begun three months earlier, in early January 1862.

Jecker went bankrupt in May 1860, and among his assets the liquidators found Mexican bonds from 1858 and 1859 for an amount of 68 million pesos, which means that Jecker had only sold a small number of them, despite what he claimed.[24] It should also be pointed out that the Duke of Morny, Napoléon III's half brother and president of the National Assembly, later acquired 30 percent of the Jecker bonds.[25]

As indicated earlier, Benito Juárez, after emerging victorious from the power struggle between Liberals and Conservatives in late 1860, attempted to restore order to the country's finances. Britain recognized him as president in February 1861 with the hope that his government would resume repayment of the debt stemming from the Goldschmidt (1824) and Barclay (1825) issues, honor the convention of 1851, and take on the debts contracted since then by the successors.[26] But in May 1861, Benito Juárez decided to suspend repayment of the debt outstanding from the Goldschmidt and Barclay loans for one year. In July 1861, he extended the suspension of payment to two years. No payments were made to Britain, France, or Spain, who had backed the usurping Conservative presidents between 1858 and 1860.

The French invasion and occupation of Mexico (1862–1867)

On October 31, 1861, Britain, France, and Spain entered into an international

convention under which the three colonial powers agreed to use force against Mexico to obtain payment of its debts.[27] The conventions signed by Mexico between 1851 and 1853 were cited as justification for the aggression. The US executive attempted mediation: Washington offered to lend Mexico the money it needed to resume payments to Britain, France, and Spain. But the US Senate ultimately rejected that proposal,[28] and preparations for invasion continued. The Spanish landed in December 1861, the British on January 4, 1862, and the French four days later. The French expeditionary corps was by far the largest. In the end, only France pursued the invasion. Britain and Spain were opposed to France's plan to conquer Mexico, abolish the republic, and install a monarchy. The British and Spanish officially objected to France's totally disproportionate demands and declared the convention of October 1861 null and void.

The British and Spanish withdrew from Mexico in April 1862. The French troops took a year to reach the capital and occupy it to install—with the support of part of the local ruling classes—a Catholic monarchy. Prince Maximilian of Austria was proclaimed emperor. During his reign, which lasted until 1867, he unsuccessfully sought popular support by launching certain social reforms. Maximilian of Austria was clearly a puppet emperor serving France's interests.

Recognition of the Jecker debts contracted by the Conservative presidents in 1858–1860 was among his first acts. Another was the launch of a new international bond issue in Paris and London worth 200 million French francs (40 million pesos, or £8 million).[29]

The new issue was successful only in Paris, where it was managed by two banks, the Crédit Mobilier and Fould-Oppenheim & Co. The Crédit Mobilier had been founded in 1852 and benefited from the protection of Bonaparte.[30] The Fould-Oppenheim bank was directly tied to Napoléon III's finance minister, Achille Fould, who was the brother of the bank's owner. The conditions of issuance were similar to those of the Goldschmidt bonds of 1824. Whereas Mexico indebted itself for 200 million francs, the sale of the bonds brought in only 100 million francs, a large part of which remained in France. Maximilian of Austria launched a second bond issue in Paris in April 1864, worth 110 million francs (22 million pesos). The entirety of that amount remained in France.[31] Maximilian launched a final bond issue in early 1865 for 250 million francs (50 million pesos).[32] Of the total debt of 560 million francs contracted by Mexico, only 34 million francs actually arrived in Mexico.[33] More than half of the amount borrowed went directly to the French ministry of finance. As for Jecker, he received 12.6 million francs.

The international military expedition sent by Napoléon III ended in bitter defeat; the French troops withdrew in February 1867.[34] During his brief reign, Maximilian, acting entirely as France's surrogate, tripled Mexico's foreign debt. Once Benito Juárez returned to the presidential palace in Mexico City and permanently ended the occupation, he repudiated all debts contracted by Maximilian of Austria and had him executed in June 1867. He also reaffirmed the repudiation of the interior debt contracted between late 1857 and late 1860 by the Conservative presidents Zuloaga and Miramón.

During the struggle against French occupation, in 1865 the government of Benito Juárez had contracted a debt with the United States amounting to 3 million pesos. That debt was honored. Clearly the regime of Benito Juárez needed Washington's support against the other colonial powers. It is also clear that Washington again adopted an imperialistic policy toward Mexico once the War of Secession was ended. The strategy used took the form of a policy of investments, in particular in railways. Later, Washington again resorted to military intervention after the Mexican Revolution broke out in 1910.

After Benito Juárez returned to power, Britain pressured him to resume repayment of the former foreign debt stemming from the convention of 1851. Mexico answered that this convention was no longer valid, since in the interim Britain had participated in a military expedition against Mexico in 1862 and then recognized the occupying regime of Maximilian of Austria.[35]

As for the outstanding debts corresponding to the Goldschmidt (1824) and Barclay (1825) loans, Mexico did not repudiate them but made no payments until 1886.

And regarding the convention of 1852–1853 with France, Mexico held that it was no longer valid in light of the invasion. Note that France eventually accepted Mexico's position, and that diplomatic relations were fully restored between the two countries in 1880 without France demanding that former debts be recognized. This constitutes an important victory for Mexico. France did not want to lose the possibility of investing in Mexico and understood that to persist in making unacceptable demands on Mexico would get it nowhere.

The Porfirio Díaz regime (1876–1910) and the return to massive indebtedness

A new period in Mexico's history began in 1876 when General Porfirio Díaz (a

Liberal who had served under Benito Juárez) violently overthrew the Liberal government of Sebastián Lerdo de Tejada, who had succeeded Benito Juárez in 1872. This was the beginning of the Porfiriato, an authoritarian Liberal regime that would "modernize" the country by opening it much more to foreign capital, encouraging the accumulation of capital by a national bourgeoisie through expropriation and the accelerated development of capitalist relations of production, without completely ending precapitalist forms of exploitation.

The Porfiriato extended the liberal reforms begun by Benito Juárez using even more authoritarian methods.[36] From that point of view there was continuity.[37] However, whereas Juárez and Mexico had defied creditors' demands for repayment of internal and external public debt, Porfirio Díaz adopted a policy that favored the creditors. His government recognized old debts, including some that had been repudiated by Congress and by the Juárez government. Between 1880 and 1884, Díaz handed power to General Manuel González, a faithful collaborator. During this period major debt restructuring was conducted, leading to a new cycle of massive indebtedness. The Porfiriato lasted until the revolution of 1910. Between 1888 (the date of the first international bond issue during the Porfiriato) and 1910, Mexico's external debt was multiplied by a factor of 8.5, increasing from 52.5 million to 441.4 million pesos, and internal public debt doubled.

A most edifying calculation: in 1883, when Mexico's Congress adopted the law establishing the limits of the debt to be renegotiated with the creditors, it came to approximately 100 million pesos. Between 1888 and 1911, Mexico paid approximately 200 million pesos in interest and capital repayment, and its total public debt (external and internal) reached 578 million pesos.[38] In other words, Mexico paid back twice what it owed and ended up six times more indebted. The amount actually received by Mexico was extremely small, because the increase in the debt was essentially the result of juggling accounts during successive restructurings. In addition, the funds actually received were very badly spent, generally in the form of subsidies to capitalist railway owners (see below).

Despite this catastrophic bottom line, several authors considered to be authorities on debt have praised the Porfiriato. William Wynne writes:

> The advent of President Díaz to power in 1877 marked the commencement of an era of peace and strong government, and in 1885–1886, a definitive and workable settlement of the early loans was embodied in a comprehensive scheme of financial readjustment. With this accomplished, a new chapter

> began to be written in the country's foreign debt history, indeed, in the whole social and economic life of the nation. A succession of new loans was contracted and applied in a fair measure to the building of railways and public works, while foreign capital in considerable amounts was employed privately in the exploitation of the rich natural resources.[39]

Jan Bazant, in the conclusion of his book on debt in Mexico, writes: "During the Porfiriato, material progress could not be attained by other methods than those employed—methods which consisted in considerable growth of foreign debt and foreign investments, as in other countries."[40]

These two citations clearly demonstrate their authors' bias. They do not hesitate to embellish the Porfiriato and the regime's policies of indebtedness, which in reality were catastrophic for the country and its population.

Caught again in the machinery of debt

Mexico ceased repayments of foreign debt in 1861 from Benito Juárez's arrival in Mexico City and through 1888.[41] Note that the Juárez government, in the late 1860s, had the good sense to buy back, at 10 percent of their value, a large quantity of the bonds affected by the conventions entered into with Britain in the early 1850s.[42] For one thing, the cost of repurchase was low, and also, since the operation removed the bonds from circulation, the country saved money on interest payments and avoided future claims.

After he took power, General Porfirio Díaz sought to restructure the old debts in order to enrich the Mexican capitalists who held a large share of them and to improve relations with the major foreign powers. This he managed to do in 1888.

Since the Mexican Constitution did not allow him to be reelected indefinitely, between 1880 and 1884 he passed the presidency to General Manuel González. González furthered negotiations with the creditors. In 1883, he succeeded in persuading the Mexican Congress to allow the government to negotiate new loans while acknowledging part of the old foreign debt—in particular that part related to the outstanding amounts of the Goldschmidt (1824) and Barclay (1825) bond issues. The decree adopted by the Congress on June 14, 1883,[43] clearly repudiated all debts contracted by the illegitimate (usurper) governments, those contracted by General Zuloaga and his successor, Miramón, between December 17, 1857, and December 24, 1860, and those contracted or renegotiated by Maximilian of Austria.[44]

One very important provision of the decree was that regardless of the origin of the credit and the nationality of the creditors, the debt must remain within Mexican jurisdiction, without the possibility of being granted any international dimension nor any revenue of the state being set aside to repay it. In including this provision, Congress wanted to deny the foreign powers the possibility of attacking Mexico under the pretext of forcing compliance with an international convention on external debt. Declaring that the debt must remain Mexican meant that in case of litigation with creditors, foreign or domestic, the only competent jurisdiction was Mexico's. Declaring that no particular revenue of the state could be seized in repayment of debt protected Mexico's right to make repayments only if it considered that it had the resources to do so.

The limitations set by the law clearly show that for the majority of the members of Congress and Mexican public opinion, it was inconceivable to resume repayment of certain debts that were deemed "illegitimate" or "impure," in the terms used in public debate by the main protagonists of the period.

The decree of June 14, 1883, then, has twofold significance: First, it authorized the government of Manuel González to renegotiate old foreign debt; second, the legislature established constraints limiting the concessions the government could make in meeting creditors' demands.

On June 1, 1884, the government of Manuel González violated the decree of June 14, 1883, by entering into an agreement with the international creditors in order to repay debts stemming from the conventions signed with Britain in the early 1850s.[45] The agreement with the creditors was finally submitted to Congress for ratification in November 1884. This caused major disturbances among parliamentarians and in the streets.[46] The members of Congress who opposed the agreement demanded a prior audit of the debts in order to determine their validity and legitimacy and decide what should be repudiated. The government attempted to force the agreement through Congress, causing major protests. Students led the demonstrations, and the repression resulted in one death. The debate in Congress was suspended, but that did not stop the González government, and then that of Porfirio Díaz, from entering into an agreement with the London Convention creditors, compensating them at a highly favorable rate and within a very short time.[47] As we have seen, at least half of the so-called London debt was held by Mexican capitalists. It is highly probable that 30 to 50 percent of the London bonds were held by Manuel González himself and by his brother-in-law, Ramon Fernandez, Mexico's ambassador to France.[48]

The difficulties González encountered in Congress at the end of his term of office and the street demonstrations, all echoed by the press of the period, clearly show that debt was a central element in the national debate and that the orientation adopted by the government was rejected by a large part of the population.

Following these major incidents, Porfirio Díaz began his second term on December 1, 1884, and further reinforced the budgetary policy aimed at repaying the debt and seeking new loans.

Restructuring of debt inherited from the Goldschmidt and Barclay loans in 1888

In 1888 Mexico again contracted foreign debt, two-thirds of the proceeds of which went to repay the balance of the Goldschmidt and Barclay debt, by then more than sixty years old.

In 1888, Mexico used £5.4 million (27 million pesos) to repay the balance of the Goldschmidt and Barclay debt. This was an out-and-out swindle. It went against the interests of the nation and served the narrow interests of the Mexican capitalists who held part of the old bonds.[49] Of course, foreign bondholders also benefited. And it was all at the expense of the Mexican treasury.

The 1888 bond issue, according to many major authors, such as Jan Bazant, put an end to the 1824–1825 debts, whereas in reality that old debt was replaced by a new debt of 34 million pesos,[50] which Mexico was forced to repay until 1910 and whose balance was included in the debt renegotiations that took place between 1922 and 1942.

We can in no way agree with Bazant's assessment. To wit: "With the 1888 loan the chapter of the 1824 and 1825 loans is closed . . .. We can conclude that despite the many complications these loans had brought about for the country, in the final analysis they were a beneficial operation."[51]

The 1824–1825 loans, restructured for the last time in 1888 (bearing in mind that they had already been restructured four times between 1830 and 1850),[52] were a terrible yoke borne by the Mexican people.

Consequences of the Porfiriato debt policies

During the Porfiriato, the government imposed budgetary measures in order to produce sufficient financial leeway to cover debt repayments. Austerity measures included lowering public sector wages, increasing taxes, and refusing any social spending.

Seven bond issues were floated. The first one, in 1888, was essentially, as we have seen, to cover the reimbursement of previous bond issues. Those of 1899 and 1910 were again for similar repayments. That of 1893 was for general government costs. The 1889, 1890, and 1904 borrowing went straight to funding Mexican and foreign investors building railways.

By observing the nationalities, the localities, and the names of the foreign banks handling the Porfiriato bond issues, we can trace the rise of big capital and the newly developing international financial centers. While the 1824–1825 issues were made in London by English bankers, or in Paris by French bankers, the 1888, 1893, and 1899 agreements were made in Berlin with German bankers (Bleichroeder, Deutsche Bank, Dresdner Bank). As of 1899 American banks make their presence felt, notably J. P. Morgan (now the biggest bank in the US), and in 1910 the French came back in force, under the banner of the Banque de Paris et des Pays-Bas (today the biggest bank in France, BNP Paribas).[53]

What is also striking is that the return of Mexico to the European financial markets in 1888 as a borrower coincides with a general rise in European bank lending to Latin American countries. Since 1873 and into the 1880s, European financial markets had been through a crisis that cut off the flows of credit and were only just finding a renewed interest in lending to peripheral countries. They were particularly drawn to feverish Latin American railway investments, whether in Argentina, Brazil, Uruguay, or Mexico.

Mexico's indebtedness was a source of regular, substantial income to Mexican and foreign capitalists holding Mexican debt—which, as we shall see, was used to lavish gifts on big private railway companies. These companies, after having provided their owners with quick profits, were nationalized at their own request, at great cost to the state. To cover these costs the state resorted to more indebtedness.

Contrary to claims that the state's foreign borrowing was beneficial, enabling the economy to open up and ensuring the construction of infrastructures, there are convincing arguments that it would have been possible to financially stimulate real development useful to the population without resorting to debt that was rife with extortion, fraud, and embezzlement. Old, illegitimate debts should have been canceled. (In this case the first two bond issues would have been unnecessary, and so would the second two, which were launched to service the first two). The private railway companies that built the infrastructure should not have been subsidized. Rather, the railways should have been built as a public service project with other priorities than the exportation of commodities and the importation of finished

products from Europe and the United States. Taxes could have been levied on the incomes and fortunes of the richest and on the profits of the mining companies in order to avoid, as far as possible, recourse to external debt. What needed to be done was to organize agrarian reform, stimulate domestic industrial production, promote the domestic market, and develop the educational system.

The Porfiriato agricultural policy

Under the Porfiriato, expropriation of land belonging to campesinos (peasant farmers), villages, and indigenous peoples was institutionalized and accelerated. The bourgeoisie, with the help of the police, the army, and private militias, waged a fierce war against the peasantry. Peasant rebellions were put down. The haciendas of the big landowners were extended over ever greater territories as their assaults on the villages continued. This process not only dispossessed the population of its common property but also created a class of peasantry possessing nothing but their labor power, which they were then forced to sell to capitalists in the towns or in the mines in order to survive.[54]

On the other hand, on the haciendas, most peasants were reduced to the condition of peon, a kind of slavery for debts that was imposed on indigenous people. Landowners could detain peons and force them to work for nothing under the pretext that they had to repay hereditary, somehow inextinguishable debts. Haciendas also called upon temporary workers, depending on market requirements.

The policy of developing large estates was favorable to exportation of monocultures such as sugar cane, coffee, tobacco, sisal, and more, as well as to extensive cattle and sheep raising, which resulted in the country's having to import essential staples that in the past had been produced in sufficient quantities—for instance, corn (maize).

In 1910 land ownership was highly concentrated. Mexico had a population of a little over 15 million in a territory of 197 million hectares (486 million acres). Eight hundred thirty-four land owners possessed nearly 168 million hectares (415 million acres) of that.[55]

The railways

During a gala dinner in Boston in 1880, General Ulysses S. Grant, former president of the United States and holder of a concession to build a railroad line from Mexico City to Oaxaca, declared:

> The Mexicans have a country of vast resources, and these [rail]roads will develop them to the mutual benefit of both republics. We are now buying . . . sugar, coffee, tobacco and numerous other articles from countries . . . where they are largely produced by slave labor. We are constantly paying into their treasuries a large amount annually for duties, and we give them back nothing but sterling exchange. . . . Mexico is not only our neighbor, but she is a Republic. If fostered, she can produce nearly all of those articles, and will take in exchange what our manufacturers produce. They will take from us cotton goods, locomotives, cars, railroad iron, rolling-stock, all the machinery necessary to the running of a railroad, agricultural implements, wagons, carriages, musical instruments, jewellery, clocks, watches, and a thousand and one other things too numerous to mention.[56]

In 1873, Porfirio Díaz allowed the US to build a railway line between the two countries, which his predecessor, though also a Liberal, had staunchly refused. The railway network was developed from 1880 onward to the end of the Porfiriato in 1910. The infrastructure grew from 1,086 km in 1880 to 19,205 km in 1910.[57] Construction and operation were entrusted to US and British companies that enjoyed many advantages—abundant state subsidies, free transfer of land, a low-wage, requisitioned workforce, exonerations from taxes and duties, and even a private police force.

Public subsidies regularly covered up to two-thirds of real construction costs. Grants were paid by the kilometer, and the money came from state revenue and debt. By 1890 half of the domestic debt (37 million pesos out of a debt of 74 million pesos) was allocated to subsidies to the capitalist owners of the railways.[58]

At the beginning of the 1900s, when most of the network was built, profitability decreased as subsidies were reduced. US and Mexican capitalists wanted to sell off their shares in the railways, and the state again had to borrow to purchase them.

In 1904 Mexico purchased one of the two main railway networks from the New York–based Speyer Bank for $9 million. Previously, the Mexican government had borrowed $40 million from this same bank, of which only $16 million ever reached the Mexican Treasury. This $40 million debt was to be repaid at 5 percent interest over a period of fifty years, the final repayment being scheduled for 1954.[59] In 1909 Mexico financed the purchase of the other major rail network from its US owners by borrowing from US banks associated with the railway's owners.

The Mexican state, then, had thus gone deep into debt to subsidize private

companies, then contracted further debts to purchase a railway network that had been built thanks to those subsidies.

Foreign investment

Foreign capital investments played a major role in industrializing the country:

> Around 1884, foreign investment in the country amounted to 110 million pesos. In 1911, it reached 3,400 million pesos. . . . These investments were in the following sectors: railways, 33.2 percent; mining, 24 percent; oil, 3.1 percent; public debt, 14.6 percent; commerce, 3.6 percent; banking, 4.9 percent; electricity and public services, 7 percent; agriculture, stock breeding, and forestry, 5.7 percent; processing industries, 3.9 percent. Sixty-two percent of total foreign investment came from Europe (90 percent of that British or French) and 38 percent from North America. However, Mexico represented only 5.5 percent of European foreign investment whereas it received 45.5 percent of US foreign investments.[60]

Toward the end of the Porfiriato, when drilling started for the oil that had been discovered in 1901, the investments came from Britain and the US.

The end of the Porfiriato and the beginning of the 1910 revolution

"For a generation Porfirio Díaz ruled Mexico with an iron hand. During that period he transformed a turbulent and bandit-ridden land into a peaceful and law-abiding country in which life and property were secure."[61]

For William Wynne, jurist and author of the above opinion, the rights to be defended are those of capitalists seeking to grab the resources of the country and its people. A dictatorship such as that of Porfirio Díaz helps this along and so gains his approval. In Wynne's opinion it is fundamental that the country go into debt and that the creditors be repaid, without the legitimacy or legality of the loans being contested. Wynne saw the Porfiriato measures as positive.

In fact, so extensive was the process of dispossession, spoliation, and exploitation that revolution was brewing and ready to break out. It started with a rejection of Porfirio Díaz's authoritarianism, but from the beginning it included social and identity issues. The communities of despoiled indigenous peasants wanted justice. They wanted the return of lands that had been stolen from them so that they could earn a living with dignity. Workers wanted better labor laws and political rights.

Other social sectors that were victims of capitalist development under the Porfiriato made demands and eventually joined the revolution that set its mark on the Mexico of the 1910s.

Revolution broke out in response to calls to resistance when in 1910 the by now very unpopular General Porfirio Díaz, at the age of eighty and in power since 1876, was again reelected. The calls were notably made by Francisco I. Madero, son of a wealthy capitalist family,[62] who had founded the National Anti-Reelection Party in 1909.

After a difficult start, the uprising, which had met its first successes in the north of the country, spread to other regions, notably to Morelos (south of the capital) where the indigenous leader Emiliano Zapata[63] and his companions fought for the restitution of common lands plundered by big landowners. The successes of the revolution forced Porfirio Díaz to resign in May 1911 and go into exile in Europe.[64]

Once elected president in October 1911, Madero tried to channel the ongoing revolution. He refused the agrarian reforms demanded by Emiliano Zapata and his partisans, but he also annoyed US conservatives. Madero was assassinated in February 1913 after a coup d'état set up by the US embassy and led by General Victoriano Huerta, whom Madero had appointed military commander of the capital. William H. Taft was president of the United States[65] and had direct interests in several US conglomerates active in Mexico.[66]

In 1911 and 1912 Mexico issued bonds for a total of $20 million via the Speyer Bank in New York, which, as we have seen, had granted credit to the Porfirio Díaz regime previously, in 1904 and 1909. The 1912 issue was used in part to pay the interest on the first one, and it had to be repaid in a very short time, in 1913. After Madero's assassination, the usurper, Huerta, managed to raise the equivalent of 58 million pesos in Paris in June 1913. The US banks were clearly becoming aware of the extent of the revolution and the dangers it represented for them, whereas European banks jumped at the chance to lend to the dictator during the euphoric period that preceded the First World War. French banks (mainly the Banque de Paris et des Pays-Bas and Société Générale) subscribed for 45 percent of the total amount, German banks (including Deutsche Bank) 19 percent, and an English bank also for 19 percent. The New York banks J. P. Morgan and Kuhn, Loeb & Co. only subscribed for 12 percent. Speyer did not take part in the issue, but supported it since the funds would be used to pay the loans it had granted in 1911–1912.

By January 1914 Huerta was in a financial stranglehold and suspended debt repayments.[67] Mexico did not resume payments until thirty years later, after having

won an enormous victory against its creditors. Mexico did not resort to foreign banks again until the second half of the 1950s (US banks became Mexico's principal lenders).

Chapter 4

Newly Independent Greece Had an Odious Debt Around Its Neck

Since 2010, Greece has been the center of attention. Yet the debt crisis, mainly the work of private banks, is nothing new in the history of independent Greece. The lives of Greeks have been blighted by major debt crises no less than four times since 1826. Each time, the European powers have conspired to force Greece to contract new debts to repay the previous ones. This coalition of powers dictated policies to Greece that served their own interests and those of a few big private banks they favored. Each time, those policies were designed to free up enough fiscal resources to service the debt by reducing social spending and public investment. Thus Greece and her people have, in a variety of ways, been denied the exercise of their sovereign rights, and Greece has been kept down with the status of a subordinate, peripheral country. The local ruling classes complied with this.

This chapter and the one following analyze the four major crises of Greek indebtedness, placing them in their international political and economic context—something that is systematically omitted from the dominant narrative and very rarely included in critical analyses.

To fund the independence war it waged against the Ottoman Empire starting in 1821, and to establish the new state, the provisional government of the Hellenic Republic contracted two loans from London, in 1824 and 1825. Bankers in London, by far the biggest financial center in the world at the time, hastened to set up the loan, seeing it as a means of making a huge profit.

Internationally, the capitalist system was in full speculative phase, which, throughout the history of capitalism, has generally been the final phase of a period of strong economic growth preceding a backlash. That backlash takes the form of bursting speculative bubbles and then a period of depression and/or slow growth.[1] Bankers in London, followed by those in Paris, Brussels, and other European finance centers, were in a frenzy to invest the enormous amounts of liquidity at

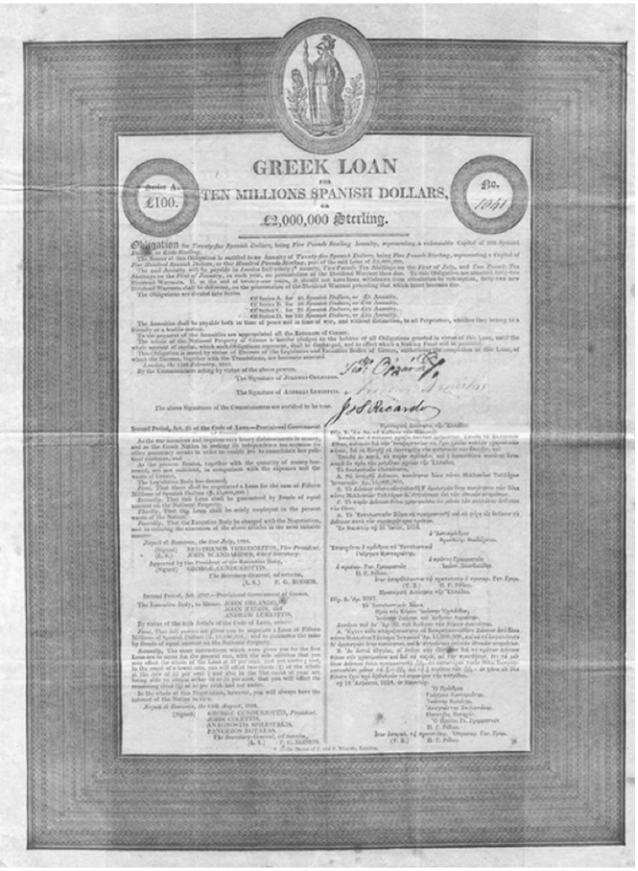
their disposal, as they did in Latin America. The two Greek loans of 1824 and 1825 came to a total of £2.8 million, or 120 percent of the country's GDP at the time.

Both in the case of Greece and in that of the young revolutionary independent governments of Latin America, the new states were barely emerging and did not yet have international recognition. Spain was opposed to European states giving financial support to the fledgling Latin American ones. After all, it could reasonably be supposed, at the time, that the independence struggles were not completely over. Last, loans were being granted to republics whereas hitherto only monarchies had been admitted to the club of sovereign borrowers.

All that goes to show just how eager bankers were to take financial risks. That banks would lend 120 percent of a country's entire annual product to the provisional government of a Greek state only just emerging under wartime conditions is a clear indication of a reckless desire to make juicy profits. Alongside the bankers, big industrial and commercial companies also supported this craze, as the amounts loaned were largely going to be used by the borrowers to buy the new armies weaponry, uniforms, and equipment of every sort from the United Kingdom.

The cost of credit was exorbitant for Greece

Each bond issued by London bankers on Greece's account for a face value of £100 was sold for £60 on the stock exchange in the City.[2] This meant that Greece obtained less than £60, once a hefty commission had been deducted by the issuing bank against an IOU of £100. This explains why for a loan valued at £2.8 million, Greece only received payment of £1.3 million. If the interest rate on the Greek bonds was 5 percent, it was calculated on the face value, meaning that the Greek government had to pay £5 a year to the bearer of a bond valued at £100, bringing a real profit of 8.33 percent. For the borrower state, the cost is exorbitant. In the case of Greece, the government received £1.3 million but had to pay interest each year on the £2.8 million ostensibly borrowed. That was not sustainable.


GREEK LOAN
FOR
TEN MILLIONS SPANISH DOLLARS,
OR
£2,000,000 Sterling.

£100.

No. 1061

1825 Greek government bond with a face value of £100

In 1826, the provisional government suspended debt payments. Studies of this period generally explain the suspension by citing the high cost of military operations and the continuing conflict.

In fact, the causes of Greece's default were not only internal; international factors, beyond the control of the Greek government, also played a very important role. For one thing, the first great global crisis of international capitalism began in December 1825, with the bursting of the speculative bubble created in the London Stock Exchange over the previous years. That crisis caused a fall in economic activity, bringing down numerous banks and creating an aversion to risk. International trade fell through the floor. British bankers, followed by other European bankers, ceased making foreign and domestic loans.

When the crisis broke in London in December 1825, Greece and the new Latin American states continued to repay their debts. However, over the course of 1826, several of these countries were obliged to suspend repayments. This was partly due to the refusal of banks to grant new loans, and partly because states' revenues were adversely affected by the deterioration of the economic situation, and of

international trade in particular.

In 1829, the provisional Hellenic government made the London creditors an offer to resume payments, on condition that the debt be reduced. The creditors refused, demanding 100 percent of the nominal value. No agreement was reached.

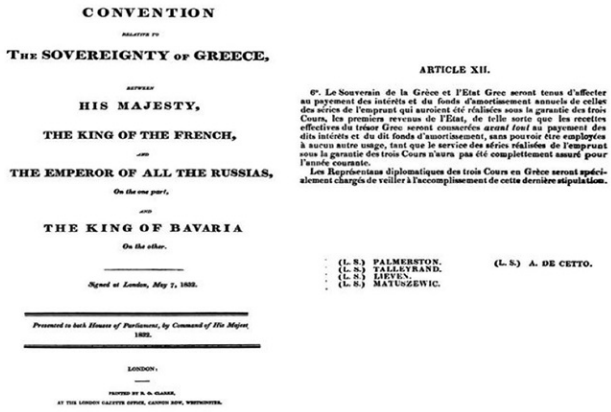
From 1830 on, three of Europe's major powers—the United Kingdom, France, and Russia[3]—formed the first troika in modern Greek history and decided to establish a monarchy in Greece, with a German prince at its head. Otto von Wittelsbach, at fifteen years of age, was chosen to be the king of Greece. At the same time, the three great powers agreed to give their support to British and other European banks that, through them, bought Greek bonds. The idea was also to exert pressure on the new Greek state to obtain full reimbursement of the loans of 1824 and 1825.

How did the troika of the United Kingdom, France, and Russia proceed?

The troika turned to French banks, asking them to issue a loan of 60 million French francs (FF), equivalent to about £2.4 million. The United Kingdom, France, and Russia acted as guarantors to the banks, promising to undertake repayment themselves should Greece default.[4] The troika added that they would take measures to ensure that the loans of 1824 and 1825 would also be repaid (see below). The agreement among the three powers was made in 1830, but the difficulties involved in carrying it out were such that it did not come into effect until 1833. The FF 60 million loan was made in 1833 and paid in three tranches.

It is particularly edifying to note what the first two tranches were used for. (The loan was issued in French francs and paid in Greek drachma [GDR] at the rate of one gold franc to 1.2 GDR.) Out of a total of 44.5 million GDR, only 9 million ended up in the Greek state treasury, or a mere 20 percent of the nominal amount borrowed. The Rothschild Bank in France deducted a commission of more than 10 percent, or 5 million GDR; those who bought the bonds, including Rothschild, received 7.6 million in advance interest for the period 1833–1835—more than 15 percent of the nominal amount; 12.5 million, or a little less than 30 percent of the nominal amount, was paid to the Ottoman Empire as compensation to offset their losses due to Greek independence; France, the United Kingdom, and Russia took 2 million GDR as creditors of Greece; over 15 percent of the nominal amount borrowed, or 7.4 million GDR, was paid to King Otto to cover payment and

traveling expenses for his suite of Bavarian dignitaries, who acted as regents,[5] and for the 3,500 mercenaries recruited in Bavaria as well as the 1 million GDR spent on arms.



CONVENTION

RELATIVE TO

THE SOVEREIGNTY OF GREECE,

BETWEEN

HIS MAJESTY,

THE KING OF THE FRENCH,

AND

THE EMPEROR OF ALL THE RUSSIAS,

On the one part,

AND

THE KING OF BAVARIA

On the other.

Signed at London, May 7, 1832.

Presented to both Houses of Parliament, by Command of His Majesty,
1832.

LONDON:

PRINTED BY T. R. H. CLARK,
AT THE LONDON GAZETTE OFFICE, CANNON ROW, WESTMINSTER.

ARTICLE XII.

6°. Le Souverain de la Grèce et l'Etat Grec seront tenus d'affecter au payement des intérêts et du fonds d'amortissement annuels de celles des séries de l'emprunt qui auroient été réalisées sous la garantie des trois Cours, les premiers revenus de l'Etat, de telle sorte que les recettes effectives du trésor Grec seront consacrées *avant tout* au payement des dits intérêts et du dit fonds d'amortissement, sans pouvoir être employées à aucun autre usage, tant que le service des séries réalisées de l'emprunt sous la garantie des trois Cours n'aura pas été complettement assuré pour l'année courante.

Les Représentans diplomatiques des trois Cours en Grèce seront spécialement chargés de veiller à l'accomplissement de cette dernière stipulation.

(L. S.) PALMERSTON.
(L. S.) TALLEYRAND.
(L. S.) LIEVEN.
(L. S.) MATUSZEWIC.

(L. S.) A. DE CETTO.

London protocol, 1832

On May 7, 1832, the great powers signed an agreement with the king of Bavaria—father of Otto, the future king of Greece—obliging the newly "independent" state to give absolute priority to debt repayment. It is clear from a reading of the convention, "signed at London, May 7, 1832,"[6] that the document was signed by the representatives of the British Crown (Lord Palmerston), the French monarchy (Ambassador Talleyrand), the tsar of all the Russias, and the king of Bavaria, acting on behalf of Greece, before Otto and his suite had even left Munich! Otto was not to arrive in Greece until January 1833. With this document, we have undeniable proof of the odious and illegal nature of the debt imputed to the Greek people as of 1833.

The troika exerted strict budgetary control over the state and its revenue collection. They regularly demanded that taxes and duties be increased and that spending be compressed. We note that the Fifth National Assembly, which met in December 1831, adopted a "Greek Constitution" whose Article 246 stipulated that the sovereign did not have the right to make decisions alone regarding taxes, duties, public spending, or revenue collection without observing laws or resolutions adopted by the legislative body.[7] The monarchy and the troika trampled this constitution underfoot without ever giving it due recognition.

In 1838 and 1843, the monarchy suspended debt payments, not having enough funds in the treasury to afford such heavy interest rates.[8] At the time of the 1843 default, when the interest to be paid represented 43 percent of state revenue, the

troika put maximum pressure on the monarchy to implement a radical austerity plan as dictated by the ambassadors of the three powers.

Such were the sacrifices imposed on the Greek population that it rebelled on several occasions. In 1843, the revolt was particularly strong. Already outraged by the pomp and extravagance of the ceremonial inauguration of the imposing royal palace (now the seat of the Hellenic Parliament), in September 1843 the population of Athens rose up against yet another tax increase and clamored for a constitutional regime. The United Kingdom went as far as threatening King Otto with military intervention if he did not increase taxes to fulfill his obligations toward the troika. The British and French navies occupied the Port of Piraeus for two years, starting in May 1854, as a very efficient way of laying hands on customs revenue levied in the port.

'HE MEMORANDUM IMPOSED BY THE TROIKA IN 843

June 1843, unable to afford the annual tranche of interest payments on the 1833 loan, Greece as forced to default. Faced with threats from the creditors, the government undertook to apply a utal austerity program to enable them to continue servicing their debt.

Greece then entered a phase of extreme austerity. Sources from the period report scenes of ass hardship, in town and country. In the capital, penniless citizens stopped paying their taxes to e point where there were no candidates for the once-coveted post of tax collector, previously tributed by auction!

Obviously it was impossible to collect money for debt servicing in a country where the majority the population was living in utter deprivation. Yet the creditors continued to demand the debt ayments. The situation led to a conference on Greece's debt, held in London, where the presentatives of the troika authored a statement condemning Greece (June 1843). The atement declared that Greece had failed to fulfill her obligations. The three ambassadors gave the overnment fifteen days to make even more drastic cuts in public spending to raise the sum of bout 4 million GDR. The cuts that the government had initially planned would have levied only 1 illion GDR.

After a month of discussions, a memorandum protocol was drawn up by the ambassadors and e Greek government. The agreement was ratified on September 2, giving rise to a storm of otest. The next day was the start of the revolution of September 3, 1843, which would result in a ew constitution that was still far from democratic.[9]

The principal measures taken by the Greek government in 1843 in application of the emorandum of that time included[10]:

1. Laying off one-third of civil servants and reducing the salaries of those remaining by 15 to 20 percent;
2. Suspension of retirement pension payments;
3. Considerable reduction of military spending;
4. Payment by all producers of an advance on tax called a tithe, corresponding to a tenth of the value of everything produced;
5. Increases in customs duties and stamp duties;
6. Laying off all civil servants in the national printing office, forest wardens, and most university professors (all but twenty-six!);
7. Closure of all state health services;
8. All state civil engineers laid off and all public works projects halted;
9. Cancellation of all diplomatic missions abroad;
10. Legalization of all illegal constructions and illegally appropriated land belonging to the state, upon payment of a fine;
11. Regularization of all pending tax fraud cases (to the value of 5 million GDR) on payment of a modest sum.

ırthermore, in line with the terms of the memorandum, the ambassadors of the troika countries of at time were present at all cabinet meetings where the measures were validated, and were sent etailed reports every month concerning their implementation and the monies collected.

Do you have a funny feeling that you've heard all this before—recently?

Otto was eventually overthrown and expelled by popular uprisings throughout the country in 1862. A new constitution was introduced that was only a limited restriction of regal powers. The troika looked for a new king and reached an agreement on a Danish prince by the name of Wilhelm of Schleswig-Holstein-Sonderburg-Glücksburg.

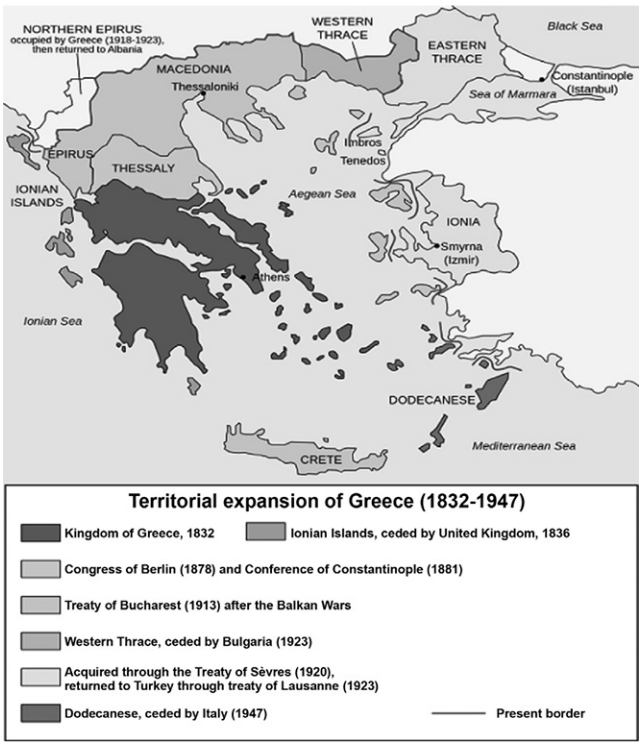
Since 1843, as promised to the banks, the troika had undertaken the repayments of Greek debt when Greek revenues were insufficient to cover capital and/or interest repayments. Troika repayments ended in 1871[11] and the creditors could be well satisfied: They had earned interest and their loans were repaid. The FF 60 million loan was expunged.

However, Greece continued to devote a part of its revenues to debt repayment. France, Russia, and the UK claimed from Greece the sums they had paid out to the bankers when Greece was unable to pay. These payments continued into the 1930s, although Russia received no further repayments after the 1917 revolution.

The 1878 debt restructuring: A windfall for Greece's creditors

It is worth remembering that repayments were suspended in 1826, and the creditors refused to come to an agreement with the provisional Greek government. The troika finally deposed and replaced the provisional government with a monarchy. The FF 60 million loan (the equivalent of 124 percent of Greece's GDP in 1833) did not replace the 1824 and 1825 loans (the equivalent of 120 percent of GDP in 1833). Once the FF 60 million had been repaid, the troika insisted that the matter of the 1824 and 1825 loans be settled. That is why, in 1878, Greece was pressed into an agreement with the bankers who held these loans. The old bonds were exchanged for new bonds worth £1.2 million. This was an excellent arrangement for the creditors, but more injustice for the Greek people. As the amount effectively transferred to Greece in the 1824–1825 loans was no more than £1.3 million, the creditors had every reason to be satisfied, especially since some of them had purchased their bonds for next to nothing. Bankers have continually speculated on Greek bonds, selling when they start to go down and buying back when they start to rise.

It is shocking to see how most of the superficial analysis of Greece's debt claims that Greece's public spending was too high and tax evasion was rife. However, a rigorous analysis of state budgets shows primary surpluses between 1837 and 1877, with only two exceptions. In other words, for thirty-nine of the forty-one years between 1837 and 1877, revenues were superior to expenditure before debt repayment was taken into account. Once debt repayment enters the picture, it becomes clear that it was the sole cause of the unsustainable debt burden.[12] We are not suggesting that the monarchy managed the state budget in the interests of the population. Throughout history, creditors have typically insisted upon having a primary budget surplus. A primary surplus is a guarantee to creditors that a debt can be repaid, as it provides the funds for repayment. The burden of debt repayment and the administrative supervision exercised by the big European powers are among the principal reasons why Greece has been unable to establish a growing economy.



Territorial Expansion of Greece from 1832 to 1947

Greece should not have repaid the debts it contracted in the nineteenth century

The 1824–1825 loans should be considered illegitimate and illegal because the terms in the contracts were unfair and the manipulations by the bankers clearly deceptive. The 1833 loan clearly falls into the category of odious debt.[13] The debt was taken on against the interests of the Greek people. The creditors were aware of and complicit in this situation. The refusal of the creditors and the great powers to abolish or reduce the debt has produced long-term effects that maintain Greece in submission and prohibit real economic development. The people of Greece have remained in the thrall of the odious debt that their country was born with.

EVERAL KEY ECONOMIC AND SOCIAL POINTS FOR NDERSTANDING THE HISTORICAL CONTEXT IN VHICH GREECE ATTAINED INDEPENDENCE IN THE INETEENTH CENTURY

onstantine Tsoucalas, while exiled in Paris in 1969 during the Greek colonels' dictatorship, wrote:

> In almost a century and a half of modern Greek history, foreign intervention or foreign support has almost always been responsible–to a greater or lesser extent—for the birth and outcome of every crisis. Domestic social and political forces have never been able to develop or function autonomously. The Greek people have long been powerless to take their destiny into their own hands: most flagrantly so when there was the most to win or lose. For, whatever the strategic and diplomatic line-up, Greece could not escape international attention because of her geographical situation . . . [and] always had to pay the price for the international interest she has provoked.[14]

oucalas's observation has its exceptions; the Greek people defeated the Nazi occupation through long, difficult, and heroic struggle. Nevertheless, the tragic events of 2015 confirm the political pects of these remarks made nearly half a century ago. The Western European powers once gain intervened in Greece for international political reasons: to prevent the success of an periment breaking with austerity policies, in order that it would not spread to other European untries, such as Spain and Portugal; and to prevent their project of European integration ominated by powerful economic interests from being called into question. The European stitutions and the IMF have terminated an experiment that could have changed the course of story.

To continue with Constantine Tsoucalas's description, which provides keys to understanding the nditions under which the first independent Greek state was born:

> The origins of the modern social and economic structure are deeply rooted in the long period of Ottoman rule. . . . The Ottoman ideology, with its rigid social divisions, maintained a disdainful attitude to mercantile activities; this enabled the Greeks . . . virtually to monopolize business life.

deed, Greeks "gained control of the greater part of economic transactions" and became redominant in the commercial, entrepreneurial and maritime activities." Some Greek bankers and erchants from Constantinople were even "called upon to play a significant political and dministrative part in the Ottoman power system." The "nascent Greek bourgeoisie" introduced "the ew revolutionary ideas fermenting in Europe, especially after 1789" to the Balkans.

> The idea of a movement for independence, leading to an All-Balkan federation, was spreading, mainly under the instigation of Russia, while the widespread decay of the Ottoman Empire roused strong hopes of approaching independence in all social classes throughout the Balkan peninsula.

The Greek revolution started in 1821, but by 1827 it was dying under the armed repression led the Ottoman Empire. Only through the military intervention of Russia, France, and Great Britain, hose "diplomatic interests converged for once [with popular pressure]," could Greece obtain its dependence.

> Russian policy was based on the idea of creating a large Balkan Greco-Slav state under her

protection, to ensure her a stronghold in the Mediterranean after the breakdown of Ottoman power. . . . By contrast, British policy was basically oriented towards the conservation of the Ottoman Empire, as a counterbalancing power against Russian expansionism. To the extent, however, that the growing centrifugal forces within the Empire made its disintegration unavoidable in the long run, Great Britain favoured the creation of an independent Greek state which would, however, be politically and economically dependent on Britain, and therefore openly antagonistic to the other ethnic groups in the Balkans.

ıe British view won when Greece became independent:

The restriction of the independent state's boundaries to a very small area, inhabited by a comparatively homogeneous population, made the new-born state absolutely dependent on foreign (that is British) economic and diplomatic support, and eventually led to antagonism between Greeks and Slavs. Thus, for more than a century, the Balkan peninsula was to be the most turbulent spot in Europe and the scene of continual struggles between interventionist powers.

In this regard, these powers benefited from the "Great Idea," a Greek political orientation favoring ı uncontrolled and intransigent nationalism that led to chauvinism.

ongstanding backward social and political structures

ɜr Tsoucalas:

After independence, the social and economic structure of Greece remained basically unchanged. The semi-feudal system prevailing under the Ottoman regime disappeared; but the land owned by Turkish feudal lords, amounting to about half the cultivated area of the country, passed in the main into the hands of the local chiefs and notables. . . . Admittedly local chieftains had not succeeded in ousting the Ottoman rulers. While agricultural production was increasingly based on small private farmsteads, local chieftains, who often owned considerable lands, exerted economic, and thus political, control on most farmers.

This, then, is Greece in 1832: a small country utterly devastated after a terrible war lasting almost ten years, with a 95 per cent peasant population and an archaic, semi-feudal structure. The new state is not even the centre of Hellenism. No city of any importance is included within its boundaries. Its cultural, religious, and economic centres are all abroad.

ıch was the case with Constantinople.

King Otto established a despotic monarchy that despised the Greeks:

Both the common people, who lived in a state of absolute misery, and the leading strata, who had emerged during and after the revolution (landowners, notables and military leaders), were intensely dissatisfied.

The constitution adopted after the uprising of 1843 did not bring about any real change:

The limitations imposed on the monarch's absolute powers were nominal, and therefore the

machinations of the three major parties openly representing the interests of the foreign "protectors" (characteristically named the English, French and Russian parties respectively) were openly and unequivocally directed towards acquiring the royal favour.

om 1860,

some progress is visible. A new political generation emerged and the first signs of early capitalist development were manifest. If industrial activity was still extremely limited, the boom in the merchant navy, tripled since 1838, and the spectacular growth of commerce resulted in the creation of a rising bourgeoisie. Though the main centres of economic and cultural activity were still abroad, the prestige of the national state was growing. A considerable amount of Greek-owned capital was invested in the country and began to constitute a strong pole of attraction for Greeks abroad.

Chapter 5

Debt as a Means for Continued Domination over Greece

The major powers kept Greece in a position of subordination, denying the Greek people the exercise of their sovereignty. The monarchy and the local ruling classes systematically attempted to divert popular discontent toward nationalism and hostilities with the Ottoman Empire.

According to the dominant version of history, whether untruthful or simply mistaken, during the 1880s Greece was readmitted to the financial markets, thanks to an 1878 agreement with the creditors who held their 1824–1825 debts and to policies of radical public expenditure reduction. Greece then made heavy use of fresh borrowing and significantly increased its public spending. This, the story goes, was the cause of the 1893 debt crisis and suspension of payments. Greece's inability to manage its borrowing responsibly is said to have led the major powers to impose a financial control commission to oversee the Greek budget. This story is false!

The following translated excerpt from the Paris daily *Le Monde,* dated July 16, 2015, is an example of the prevalent narrative:

> But, as today, the country was rife with clientelism and tax avoidance by the notables. Immediately after Greek independence, King Otto, the first king of Greece, who was imposed by the European Powers, introduced costly major works projects. The civil service took on any warm body, the army was superbly equipped. . . . It was all paid for by generous loans [*sic*] from western countries. The government lost control: In 1893, almost half of the country's tax revenues were devoted to paying the interest on the debt.[1]

Another example can be found in the June 20, 2015, issue of the Swiss financial magazine *Bilan*:

> Thanks to the agreement that was ratified in 1878, Greece could once again, in 1879, borrow on the financial markets. Over the next fourteen years Greece

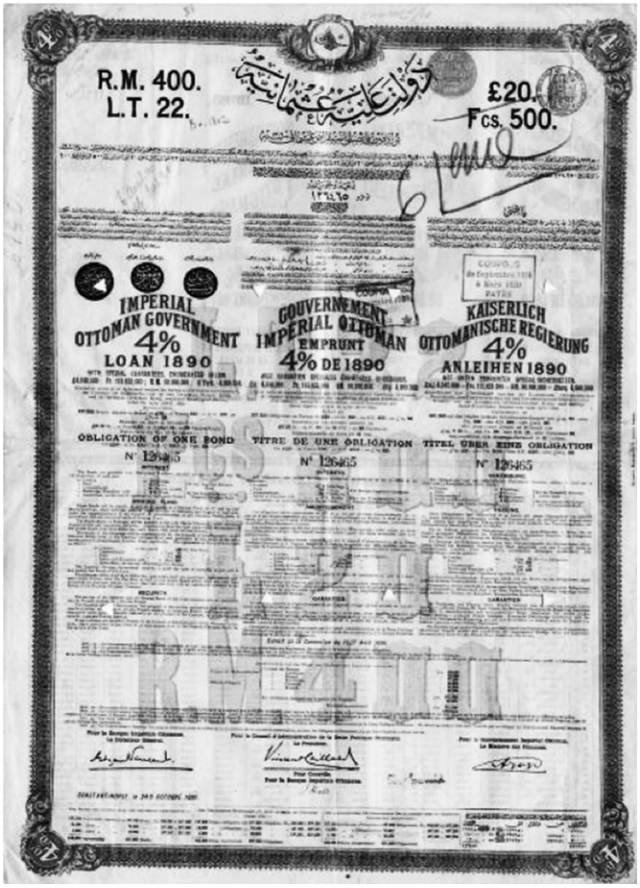
borrowed the equivalent of almost 530 million French francs from Paris, London, and Berlin creditors. Less than 25% of the sums were invested in infrastructures to develop the country. The rest went to military expenditure to finance Greece's confrontations with its neighbors (with mixed military fortunes).[2]

The true part of the story is that the bankers again lent money to Greece. It is also true that the monarchy spent freely and waged expensive military campaigns against the Ottoman Empire. Most commentators, ever ready to side with the creditors (like the journalist at *Le Monde*, who did not hesitate to mention "generous loans"—a real oxymoron), also point out that taxes were inefficiently collected.

Now let's see what really happened: during the 1880s the bankers of the great powers (British and French but also German, Belgian, Dutch, and others) were sympathetic to lending to countries that were normalizing their payment situations. They imposed one condition: the old outstanding debt must be restructured and repaid. Most of the countries that had had repayment defaults accepted these conditions, which were very favorable to creditors, who then opened their purses to lend money so that countries would have the means to repay old debts. Big capital, then experiencing a new phase of expansion in the dominant countries, was attracted to the new investment and lending possibilities offered by massive capital exports to peripheral countries. This was the beginning of the imperialist phase of world capitalism.[3]

Various cases of debt restructuring in 1878–1890

Between 1878 and 1890, debt restructuring occurred in countries that had suspended payment because creditors had stopped granting loans as a result of the 1873 financial crisis. For instance, in Latin America, the debts of Costa Rica and Paraguay were restructured in 1885, and Peru's in 1890. Such restructuring was always intended to enable indebted countries to resume repaying their creditors.



1890 Imperial Ottoman bond with a face value of £20 or 500 francs

In 1878, the outstanding Greek debts from 1824–1825 were restructured. The creditors forced Greece to agree to repay the equivalent of the amount received in 1824–1825. There was therefore no real debt reduction, and Greece resumed payments of interest and capital.[4] Between 1879 and 1890 Greece entirely repaid the restructured debt. The debt had not been reduced because new debts were taken on in order to pay the old ones, which meant that both series of debts were repaid during the 1880s.

Following a payment default by the Ottoman Empire in 1875, the debt was partially restructured in 1881. The creditors demanded maximum repayment. To achieve this, a financial commission of experts appointed by the "great powers" was established. As Louise Abellard wrote:

> An institution was created in 1881, by imperial decree, under the name of "The Ottoman Public Debt Administration." This Administration gained absolute and irrevocable control over several Imperial revenues (customs and excise, taxes on alcoholic beverages, stamp duties, fishing rights, tax on silk, tobacco

and salt monopolies, etc.). These revenues were to be allocated by the Administration to the payment of compensation to the creditors holding bonds issued before the default. The Administration was piloted by Europeans (British, Dutch, French, Germans, and Italians) directly representing their nations' creditors. Entirely independent of the Ottoman authorities, they were an instrument of absolute guarantee for the creditors who thus had the assurance that the old and the new investments would be reimbursed. Up to a point, the holders of the bonds, through the Administration, acted directly on Ottoman finances, in their own favor, until perceived prejudice was fully compensated (up to the end of the Empire). The Administration's prerogatives were progressively extended to the role of guarantor for infrastructure contract payments (particularly railways).[5]

Debt restructuring permitted the imperialist countries to launch a new cycle of indebtedness and capital expansion

The debt restructurings that were carried out during the 1880s and 1890s were one of the means by which the creditors embarked on a new phase of spreading the overabundant capital available in the central countries (UK, France, Belgium, Netherlands, Germany, and others) all around the world. The granting of new loans was aimed at setting the repayment pump back into motion, since the countries in default needed fresh liquidities in order to repay their defaulted debts. Investments and loans were the vehicles used. In several cases, restructuring took the form, in part, of property exchanged against outstanding loans. The principal criteria of the bankers and other investors was not at all the well-being of the debtor country and its ability to manage the funds it was loaned, or even the repayment of them, but the creation of maximum profitability. Their decisions were based on the necessity of investing all the funds at their disposal toward making maximum profit as well as maintaining the country in a state of indebtedness and financial dependence. The creditors were assured that in case of nonpayment their own countries' governments would intervene, by military means if necessary, to force the debtor country to keep up repayments and, if necessary, would colonize it.

In Tunisia, the Ottoman Empire, and Greece, international supervisory bodies with far-reaching authority were created by the creditor powers (among whom France and Britain always occupied important or even highly privileged positions). Greece was in this position from the very beginning, as illustrated by the 1832

convention with Britain, France, Russia, and the Kingdom of Bavaria, which created the Greek monarchy and gave absolute priority to debt repayment.[6] An International Finance Commission was imposed on Tunisia in 1869 before it went under direct French control in 1881. In the Ottoman Empire the creditor powers installed twenty local offices throughout the territory (from Yemen to Thessaloniki), and employed five thousand civil servants. Greece's subordination to the creditor powers—in fact written into its international "birth certificate"—has changed in form over time but still remains today: from the interference by the British, French, and Russian ambassadors in the council of ministers in 1843[7] to the creation of the International Financial Control Commission in 1898 (which functioned up to the Nazi invasion), not to mention the International Financial Commission of Inquiry, created in 1857 to watch over the repayment of the 1833 debt.

The impact of the international financial and economic crisis of 1890–1891 on Greece

In November 1890, the City of London was in a situation comparable to what occurred in the US in 2008 and triggered the failure of Lehman Brothers, a credit crunch, an international banking crisis, and a worldwide economic recession in 2009. On November 8, 1890, the London bankers held an emergency meeting to plan action, if Baring Brothers should fail. On November 10, the bankers met with the members of the government, who established contacts with the other major powers in order to coordinate reactions to the crisis. Baring Brothers (unlike Lehman Brothers) was saved, but the financial and economic crisis of 1891–1892 was profound. Among those that took part in saving Baring Brothers were the Rothschild Bank (present in London, Paris, and other European capitals and an important player in Greek debt), J. P. Morgan (already the biggest US bank), and J. S. Morgan (established in London and parent to J. P. Morgan, with which they later merged).[8]

Nowhere in the articles published by the chief organs of the international press on the 2015–2016 Greek debt crisis are references to the 1893 Greek debt crisis to be found, nor any link with the international financial and economic situation and the suspension of payments decreed by the Greek Parliament at the time. The crisis that had its origins in London caused an economic recession, a fall in international trade, and an international credit crunch. Greece experienced a serious drop in its

exportations and so was deprived of the foreign currency essential to funding its debt repayments. Exports of currants, which represented two-thirds of Greek exports, fell by 50 percent between 1891 and 1893. There were two reasons for this sharp drop: (1) the international crisis and the reduction of demand in the richest countries; (2) the decisions taken in the UK, France, and Russia to impose import duties on the currents entering their markets. This was in total contradiction of their own dogma professing free trade and the removal of all import-export duties.[9] The fall in revenue and blocked access to loans from British, French, and German banks left Greece no option but to suspend payments. Fifty-six percent of Greece's revenue was devoted to debt repayments.[10] Another contributing factor was a fall in the value of the Greek currency against the pound sterling and other strong currencies. With a devalued currency, the real cost of the foreign debt became unsustainable.

The commentators who accuse Greece of being a country that goes easily into payment default should learn that in the nineteenth century, Spain suspended payment six times, the Austro-Hungarian Empire five times, Portugal three times, Prussia twice, and Russia once.[11]

The military conflict with the Ottoman Empire and the restructuring that followed

The Greek monarchy and the local ruling classes launched a disastrous military conflict against the Ottoman Empire in 1897. Clearly, the great powers maneuvered the two parties into war[12] in order to take advantage of their mutual weakening and increase their influence over them, in particular through debt. The conflict was costly, and the great powers imposed their will on Greece as much as on the Ottoman Empire. The peace treaty was signed in Constantinople (now Istanbul) on December 4, 1897, under the supervision of the UK, France, and Russia (the troika of the time, in place since 1830), the Austro-Hungarian Empire, Germany, and Italy.[13] In 1898 another loan was made to Greece (see below). The troika was again the guarantor of the loan. The loan was granted within the framework of the peace treaty and included payment of a large indemnity by Greece to the Ottoman Empire. The great powers did good business; since they had control of the Ottoman Empire's finances, they saw to it that the empire's creditors were paid. Greece and the Ottoman Empire had the same creditors.

The 1898 bond issue and the subjection of Greece to international financial control

The Law of Control adopted by the Hellenic Parliament on February 26, 1898, is identical to the draft bill drawn up by the International Financial Control Commission (IFC). Greece was obliged to accept all the creditors' conditions. Under this law, the IFC controlled all state revenue dedicated to servicing

- the 1833 loan guaranteed by France, Great Britain, and Russia;
- foreign loans incurred by the Greek state between 1881 and 1893; and
- the new loan that Greece took on to repay the preceding ones and to pay war reparations to the Ottoman Empire.

The 1898 loan comprised two parts:

1. A loan for war reparations to Turkey covering FF 92 million (4 million Turkish pounds) plus FF 2.3 million (100,000 Turkish pounds) that Greece had to pay for damage to private property.
2. A further loan to cover former debts and the deficit of the year 1897 to enable the debt to be repaid. This came to a total of FF 55 million, distributed as follows:
    - FF 26 million to cover the Greek state's budget deficit for the year 1897
    - FF 2.5 million for payments owed by the Greek government in 1898 to holders of the former foreign debt
    - FF 26.5 million to repay the floating debt or to convert it to gold

The total new loan taken on by Greece thus came to FF 123.5 million (28.5 plus 95), plus the FF 26.5 million in debt conversion. To this amount a further FF 20 million was to be added in the form of loans, as and when required, to cover the total deficit of the following years.

Article 4 of the Law of Control drawn up by the IFC and meekly adopted by the Hellenic Parliament stipulated that the commission's administrative costs, fixed at a maximum of FF 150,000 and including a sum of FF 60,000 to cover the fees of the six delegates, should be deducted from the product of the revenues concerned. The six delegates represented Great Britain, France, Russia, the Austro-Hungarian

Empire, Germany, and Italy.

The IFC obliged Greece to repay 39 million GDR per year, while the average total income of the state (excluding loans) came to approximately 90 million GDR. That meant that 43 percent of state revenue went directly to debt payments. Note that no part of the new loan was intended to strengthen the country's economy, develop its infrastructure, or improve public education. The new loan was intended exclusively to pay off former debts, indemnify Turkey (which, in turn, needed the indemnity to repay its creditors, who happened to be the same as Greece's), and pay off Greece's current deficit.

The IFC members emphasized that on average the total budget of the Ministry of Religious Affairs and Public Education barely attained 3.5 million GDR, while the civil list (or emoluments of the sovereign) came to 1.3 million, the budget for the police 1.7 million, and the defense (war) budget 15 million. In the IFC's reference budget there was no specific line item for public health. The railway budget was a ridiculously low 84,350 GDR (7.5 percent of the civil list). Note that the IFC forced an IOU of more than 4 million GDR upon Greece for the heirs of King Otto, who had been overthrown by the people in 1862. The annual charge incurred in the repayment of this debt came to 200,260 GDR, or two and a half times the country's railway budget!

The commission made it quite clear that in the future, the Greek state budget would make no provision for major public works, such as the improvement of seaports and new railway lines. The commission considered that any undertaking likely to significantly aggravate budget charges should be postponed until such time as the country's finances had reached stable equilibrium.

This is an explicit acknowledgment of the creditor powers' intention to maintain Greece in a permanent state of economic underdevelopment.

In Article 11 of the law, the IFC lays claim to the following for debt repayments:

- all revenue from stamp duties; about 10 million GDR;
- all revenue from import duties collected by the Piraeus Customs; about 10.7 million GDR;
- all revenue from duty on tobacco; about 6.6 million GDR;
- all revenue from duty from the monopolies on salt, oil, matches, playing cards, and cigarette paper, to which was added all revenue from the emery mine at Naxos (an island in the Cyclades)—about 12.3 million GDR in total.

Whom did the IFC entrust with the task of collecting revenue from the monopolies? The monopolies over salt, oil, matches, playing cards, and Naxos emery were administered by a Greek-registered joint-stock company named Société de Régie des revenus affectés au service de la dette publique hellénique, or "company for the control of revenues assigned to the service of the Hellenic public debt" (an ancestor of TAIPED).[14] The creditors obliged Greece to place this company under the direct supervision of the IFC and to make it a sort of instrument or organ of control. Furthermore, a designated member of the IFC would be authorized to attend sessions of the board of directors and the general assembly, and the commission would be able to veto any measure it judged illegal or damaging to the interests with which it had been entrusted.[15] Article 24 stated that all monies received by the company designated in Article 14 should be entirely paid into the Régie's accounts at least once a week. Should the revenues mentioned above prove insufficient, the IFC had the right to deduct revenue from the customs at Laurium (whose gross product was estimated at 1.5 million GDR), Patras (2.4 million), Volo (1.7 million), and Corfu (1.6 million), in accordance with Article 12 of the law.

IFC members could go in person to the various offices and establishments of all the services whose revenue was affected to check on the full implementation of the legal and regulatory measures. They were entitled to see on demand all books, accounts, and accountancy documents (Article 36). Article 38 asserted that the Law of Control itself could only be modified with the agreement of the six powers.

The conclusions of the IFC's report provide a fine example of lies and hypocrisy:

> In summary, the Commission was inspired in its work by the benevolent attitudes of the Powers where Greece is concerned. In satisfying the legitimate demands of the current creditors, it has taken fully into account the financial difficulties with which the country is faced. At the same time, while it has endeavored to surround the collection and the use of the revenues set aside for the service of the debt with such guarantees as may afford every security to capitalists, it has been at pains to conserve, to the extent possible, the independence of the Hellene nation and of her Government. The future of Greece now depends on her own wisdom. If she applies herself to being industrious, calm and peaceable, to improving her Administration, to developing her agricultural resources, encouraging her nascent industry and extending her trade relations, her financial situation will rapidly recover; her

> beneficent influence will gradually extend into the sphere of action which is reserved for her and, aided in this noble task by the sympathies of the Powers, she will succeed, through courageous and patient efforts, in conquering in Europe's East the rank to which the glorious memories of her past entitle her.[16]

This is typical of the discourse used by the European Commission and the governments of the creditor countries even now, in the twenty-first century.

It should be noted that, from 1870 on, the German bankers and Germany were increasingly involved in the Balkans and the Ottoman Empire. The Greek defeat of 1897 was partly due to the military reinforcements sent by Berlin: German officers (including generals) served as military advisers for the Ottoman army. Bankers and diplomats were active in Athens and Constantinople. Among the countries keen to increase their influence in Athens after independence, Germany was omnipresent alongside the troika.[17]

No sooner had the peace treaty been signed and new loans granted to Greece than the IFC imposed a new set of conditions. The commission took up residence in Athens and took control of a large part of Greece's budget, which continued to be devoted to debt repayments. The Greek government had no authority to reassign the income or modify taxation without the agreement of the IFC. This bears a close resemblance to the situation in Greece today. The commission remained in place up to the Nazi occupation of Greece in 1942![18]

On top of the indemnity that Greece had to pay to the Ottoman Empire and that was diverted to the major powers, a large part of the new loan was to be used to continue repayments to the troika countries for the 1833 odious loan. These repayments went on until the 1930s. According to calculations made by the economists Josefin Meyer, Carmen Reinhart, and Christoph Trebesch (who are regularly associated with IMF research projects), only 25 percent of the sums borrowed by Greece between 1894 and 1914 were spent on regular projects (that is, excluding debt repayments) and investments. Forty percent went to debt repayments and banking commissions. The remaining 35 percent became military expenditures (the principal suppliers of armaments were also the principal creditors, a situation that also persists today).[19] The author's estimates show a much smaller portion of the borrowing being used for regular spending—no more than 10 to 15 percent.

Conclusions on the debt restructurings of 1878 and 1898

These facts indicate that the debt resulting from the restructurings of 1878 and 1898 must be considered odious debt. The restructuring of 1878 required Greece to resume repayment of the debt contracted in 1824–1825, whereas that debt was illegal because its terms were so overwhelmingly favorable to the creditors. This restructuring made repayment of the debt just as unsustainable and could only lead to a new crisis, which broke out in 1893. The restructuring of 1898 served to increase by several degrees the level of coercion exercised on the Greek government and its people, notably through the creation of the IFC. It enabled the six major powers to grab a very large share of the government's revenues while maintaining Greece in a situation of dependence toward its creditors.

An editorial comment published in the French daily *Le Figaro* in May 1898 describes the creditors' strategy fairly clearly:

> The maxim of the old policies was: divide and conquer. It has been partly replaced by the new rule: lend them money to keep your foot on their necks. It would be interesting to make a study of it, for poor Greece, as we have had occasion to study it in Egypt, of that subtle invention of modern genius: the lender's stranglehold on the borrower, substituted for brutal conquest using old-fashioned bayonets; judicial counsel imperceptibly becoming a counsel of wardship, of government, at first gentle and collective, then harsh and personal, for the benefit of the richest, the most tenacious, the most adroit members of the directory. We would like to observe, at its origin, the tying and the tightening of this noose of silver, the imperial instrument our century has made into its most effective weapon for political aggrandizement.[20]

It is also important to stress the fact that a large portion of foreign debt (debt issued in foreign currencies on the foreign financial markets, which must be distinguished from Greek loans in the local currency) was purchased by wealthy Greeks, whether residing in Greece or part of the wealthy Greek diaspora living in Istanbul, Alexandria, Smyrna, and Paris.[21] It is certain that these powerful Greek elites had invested a significant part of their financial wealth in Greek securities. What that implies is that it was not in their interest to encourage their friends who succeeded one another in the Greek government to take a firm attitude with the creditors.

The debts from the 1920s to the Second World War

The failure of Greece's military adventure into Turkish territory in 1922 had

KEYS TO UNDERSTANDING THE SOCIAL AND POLITICAL EVOLUTION IN GREECE IN THE BEGINNING OF THE TWENTIETH CENTURY

(The following excerpts are from Tsoucalas, *The Greek Tragedy.*[22])

; "the successive tax increases on essential goods put the main burden on the workers and the iddle classes," a broad popular movement organizing around social demands took place in eptember 1909. In the same period "the demand for agrarian reform of the large 'estate-stem' . . . led to a series of violent peasant revolts, between 1905 and 1910." In 1910, Venizelos, member of the new Liberal party, became the head of government, thus beginning a "period of tense reconstruction and radical reform."

The constitution was revised, laying the foundations for the rule of law:

> On this institutional framework, Venizelos launched an impressive legislative programme. Land reform was the most urgent and difficult problem. A constitutional amendment (1911) was promulgated authorising expropriation with compensation–though not without bitter opposition from the still powerful landowner class. . . .
>
> Low wages were exempted from confiscation in cases of debt (1909), the trade union federations of Athens and Piraeus were recognised (1910), Sunday was made a compulsory rest day (1910), a new and rapid procedure was introduced for the adjudication of disputes between workers and management (1912), joint unions between workers and employers were forbidden (1914), and the newly established unions of workers were permitted to negotiate and sign collective labour contracts. Finally a compulsory general labour insurance scheme was introduced in 1914.
>
> The fiscal system was also reorganised on a more equitable basis. Progressive taxation of income was introduced in 1911 and death duties were reorganised and greatly increased in 1914.

Following the First World War and the end of the Ottoman Empire, Greece was granted a part of urkish Asia Minor. France took possession of Syria and Lebanon, while Great Britain took Iraq, alestine, and the Arabian peninsula (eventually, Great Britain let the Saud family install an absolute onarchy based on religious law on most of the Arabian peninsula, taking the name of Saudi abia). Taking their dreams for reality, the Greek monarchy and ruling classes thought that part of e Great Idea (in other words, this intransigent Greek nationalism favorable to expansionism) was out to be realized. Spurred on by the British monarchy, they launched a military adventure in 922, aimed at annexing an even bigger part of Turkish territory. The result was a human and ilitary disaster for the Greeks.

Ten years of war had resulted in the creation of a country totally different from what it had been

efore. Greek territory doubled, and the population grew even more spectacularly. The 1.5 million fugees, whose social and economic integration was to constitute the greatest and most urgent oblem of the country, changed the population structure completely. The urban population was eatly augmented, especially in the Athens district and the few large towns, where a numerous ban proletariat was created for the first time, and gradually organized on radical grounds.

The General Confederation of Trade Unions was created in November 1918, and the Greek ocialist Party a week later. In 1922 it affiliated to the Comintern, and two years later it became the ommunist Party of Greece.

According to Tsoucalas, "many of the closest advisers of Venizelos in the economic and banking eld" were Greek financiers who had become rich thanks to the quasi-colonial status imposed upon e Ottoman Empire and Egypt in the second half of the nineteenth century:

> This undoubtedly helps to explain Venizelos's automatic obedience to British and French diplomatic interests. It also provides a deeper understanding of the reluctance of Greek capital to centre its interests upon domestic development.

dramatic effects on the civilian population. Approximately 1.5 million Greeks who had been living in Turkey were forced to cross the Aegean Sea under catastrophic conditions and return to Greece, which had lost the part of the Ottoman territory granted after the First World War under the Treaty of Sèvres.[23] This massive influx of refugees led the Greek authorities to request aid from the League of Nations (the "ancestor" of the UN), which granted loans to Greece between 1924 and 1928 for a total amount equivalent to 20 percent of Greece's GDP at the time. As guarantee, the League required that harsh austerity policies be applied. Both the League of Nations' representation in Greece and that of the IFC, created in 1898, were dominated by the creditor powers, in particular Britain.

Repayment of the loans granted by the League of Nations was added to a series of other repayment obligations: the continuation of the repayment to Britain and France of the remainder of the debt of 1833 (Russia had received no repayments since the Bolshevik Revolution of 1917); repayment of the debt of 1898; repayment of the war loans granted during the First World War by Britain, the US, Canada, and France (these war loans amounted to 55 percent of Greece's GDP).[24] The total debts owed by Greece were more than 100 percent of its GDP, and the amount paid each year accounted for more than 30 percent of the revenues in the Greek budget and approximately 10 percent of GDP. That gives an idea of the pressure exerted on the Greek people and on the country's economy.

For as long as the international economy was undergoing a phase of growth, as during the period 1898–1913 and the 1920s, Greece was able to post a primary

budgetary surplus and cover its debt repayments. (That is, under IFC constraints, it managed to generate revenue in excess of expenditures excluding debt service, which meant that it could use the surplus for repayments.) Greece also received capital inflows, as during any period of growth of the world economy. The creditors granted Greece new loans to enable repayment of the old ones.

The situation changed radically starting in 1930–1931, when the effects of the new international crisis that broke out on Wall Street in October 1929 began to be felt. Greece's revenues from exports (mainly tobacco and currants) again collapsed, several Greek banks failed in 1931, and Greece's currency was devalued by 50 percent following the British decision to suspend the exchange system based on the gold standard.[25] This devaluation automatically doubled the external debt as expressed in the local currency. The state was forced to double the amount of revenues set aside for repayment of the external debt in foreign currencies. As a result, in 1932 Greece had to partially suspend repayment of the debt.

Once again, if we focus on Greece while isolating it from the international context, we are likely to wrongly interpret what has taken place, just as a great many commentators have done. Yet it needs to be kept in mind that in 1932 the UK, France, Belgium, Italy, and other countries also decided to suspend repayment of war debts between themselves and the US. Germany suspended repayment of its debt to private creditors starting in February 1932 and, in May 1933, announced suspension of payments to all creditors. Hungary, Latvia, Romania, and Yugoslavia were also in suspension of payment. Not to mention fourteen Latin American countries. What is systematically ignored by the dominant media is the fact that even after the moratorium decreed in 1932, Greece continued to make debt repayments under the tutelage of the IFC.

The International Financial Commission's effects

The daily *Le Monde*, cited earlier, says about the IFC's actions:

> In spite of everything, the result is far from being negative: it assisted a young Greece in taking control over its tax revenues and limiting the misappropriation of foreign capital by the local elite. It also contributed to the establishment of reforms that were indispensable for the country's modernization.[26]

How is it possible for someone to write such a thing? The IFC exercised a true, permanent diktat over Greece's finances for the benefit of the creditors, which

prevented Greece from defining a development project and kept the country under the yoke of structural subordination.

According to Reinhart and Trebesch,[27] the actual yield obtained by the holders of Greek securities purchased abroad and denominated in foreign currencies is between 1 percent and 5 percent, despite the suspensions of payment. That's a pretty high yield for government bonds of a country that has the reputation of being a poor payer! How can this positive yield be explained? The actual interest rates were high, the debt stock was not reduced, and despite the repeated periods of suspension of payment, the country most often continued the repayments. As a matter of fact, even during the Great Depression of the 1930s, Greece, even though officially in partial suspension of payment, devoted a third of its revenues, which corresponded to 9 percent of Greece's GDP, to debt repayment. During the same period Romania and Bulgaria were devoting, respectively, 2.3 percent and 3 percent of their GDP to debt service.

Conclusions

The analysis conducted in this chapter is not aimed at exonerating Greece's governments and its dominant class of their responsibilities. Quite to the contrary, the decision made by the successive Greek governments and by the dominant class to cave to the requirements of the creditors and the major powers had terrible consequences for the Greek people. The Greek capitalist class, who were specialists in the realm of finance and international trade, constituted a bourgeoisie that was largely rootless and had neither a true national project nor the will to promote development based on a real industrial fabric. Due to this very fact, its interests were inextricably linked to the interests of the country's creditors. At times it even constituted a large percentage of the totality of those creditors, which explains its complicity with the representatives of the creditor powers. This has been a constant fact, from the nineteenth century up to today.

During the period we have examined here, Greece has constantly been dominated by foreign European powers. Foreign debt has been a permanent weapon used to exercise that domination. Yet, as we see, that debt was clearly illegitimate, odious, illegal, and unsustainable.

We've also seen that the successive debt crises are very closely linked to the international context and that many other peripheral countries have been subjected to the same treatment. The analysis must therefore be pursued in other areas of the world, and justice must be done for all peoples subjected to debt.

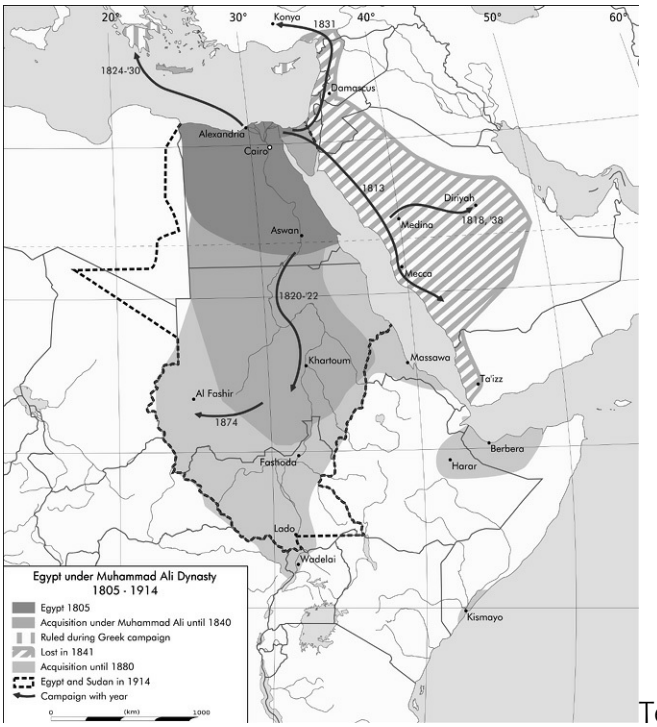
Chapter 6

Debt as an Instrument of Colonial Conquest of Egypt

Egypt's early successful attempt at self-development was abandoned

During the first half of the nineteenth century, Egypt, although still under Ottoman rule, initiated a major project for industrialization and modernization.[1] Georges Corm summarizes the issue as follows: "Muhammad Ali achieved his most illustrious feat in Egypt when he installed state-run factories, thus laying the foundation of a state capitalism reminiscent of Japan's Meiji era."[2] Egypt carried out this industrialization venture throughout the first half of the nineteenth century without recourse to external debt and by mobilizing internal resources. In 1839–1840, a joint military intervention by Britain and France, followed a little later by a second attack (this time by Britain and Austria), compelled Muhammad Ali to give up control of Syria and Palestine, regarded as home turf by these powers. (See map of Egypt's expansion under Muhammad Ali, below).

The second half of the century witnessed a radical turn. Muhammad Ali's successors caved to British pressure and adopted free trade, dismantling state monopolies and relying heavily on external debt. This was the beginning of the end. The era of Egyptian debt was set in motion: Egypt would soon concede its infrastructure to the Western powers, European bankers, and unscrupulous entrepreneurs.



Territorial evolution of Egypt under Muhammad Ali Dynasty, 1805–1914

The European bankers' plan to lend generously beyond Western Europe

During 1850–1876, the bankers of London, Paris, and other financial centers were in a similar frenzy to the one that had led them, in 1820–1826, to invest in Latin America and in Greece. This time they were looking forward to investing significant sums in different regions—in Latin America, but also in Egypt and the Ottoman Empire, as well as in Russia and Asia (in particular, China). Several banks were founded in Europe to organize financial flows between Egypt and the European financial centers: the Anglo-Egyptian Bank (founded in 1864), the Franco-Egyptian Bank (founded in 1870 and directed by the brother of Jules Ferry, a significant official of the French government), and the Austro-Egyptian Bank (founded in 1869). The latter had been founded under the auspices of the Creditanstalt, where the Rothschilds of Vienna had holdings. The major London banks were also particularly active. The London and Paris bankers specialized in long-term and short-term loans, respectively. The latter were more lucrative following the 1873 banking crisis affecting London and Vienna.

An apparent but fleeting success of Egypt's economic development based on debt and free trade

Initially, the new model based on debt and free trade seemed to work very well. However, in reality, this apparent success stemmed from external factors of which the Egyptian authorities had no inkling. In fact, Egypt temporarily benefited from the conflict between the Southern and Northern states of the US. Cotton exports from the Southern states plummeted as a result of the Civil War (1861–1865) on the other side of the Atlantic. This bolstered global cotton prices. Egypt, a cotton producer, reaped massive profits from its cotton exports. Consequently, Ismail Pasha's government borrowed more from the banks (mainly British and French). When the Civil War ended, the Southern states resumed their cotton exports, and cotton prices plunged. Egypt depended on the revenues from its global cotton sales (mainly to the British textile industry) for repaying its debt to the European bankers. The decrease in export revenues led to the onset of Egypt's troubles with repayments.

This did not prevent bankers, especially the British ones, from disbursing long-term loans (twenty to thirty years) to Egypt or the French bankers from granting new, mainly short-term loans because they fetched towering interest rates. The historian Jean Bouvier described this enthusiasm as follows:

> Credit institutions, such as the Bank of Paris and the Netherlands, Crédit Lyonnais, Société Générale, Comptoir d'escompte de Paris, and Crédit Foncier, who had previously participated in rather slapdash business deals regarding Egypt's "advances" and "loans," began to systematically hunt for such investments and explore government operations in underdeveloped countries. In April 1872, as the Crédit Lyonnais was waiting alongside Oppenheim to issue an "advance" of £5 million to Egypt for 18 months, at 14% interest. Its director, Mazerat, confided in a letter: "By way of this big advance we hope to ensure next year's loan."[3]

Egypt's debt reaches unsustainable levels

In 1876, Egypt's debt was £68.5 million (compared to £3 million in 1863). In less than fifteen years, external debt had increased by a factor of twenty-three, while revenues had increased only by a factor of five. The debt service absorbed two-thirds of state revenues and half of export earnings.

The loans actually reaching Egypt were insignificant, since the lion's share was

paid to bankers. Let us examine the 1862 loan: the European bankers issued Egyptian bonds with a nominal value of £3.3 million, but they sold them at 83 percent of the nominal value, which means that Egypt received only £2.5 million before deducting fees charged by the bankers. The amount repayable by Egypt in thirty years soared to nearly £8 million, considering the amortization of principal and interest payments. Another example is the 1873 loan. The European bankers issued bonds for a nominal value of £32 million and sold them at 30 percent discount. Consequently, Egypt received less than £20 million. The amount to be repaid in thirty years was £77 million (11 percent real interest plus principal amortization).

Obviously, this increase in debt and interest charged was untenable. The financial conditions imposed by the bankers made repayment unsustainable. Egypt was forced to borrow constantly to service its outstanding debt.

As of 1870, the bankers coerced Egypt's khedive,[4] Ismail Pasha, into selling the country's infrastructures and granting various concessions in order to secure cash for debt repayment. Similarly, he had to raise taxes on a regular basis. After some fourteen years of external debt (1862–1875), Egypt's sovereignty was compromised. Hounded by its creditors, the Egyptian government gave up its shares in the Suez Canal Company (inaugurated in 1869) to the UK in 1875.[5] Egypt sold its holding of 176,602 Suez shares—nearly half of the Universal Suez Ship Canal Company's capital—to the British government at the end of November 1875, basically to meet the deadlines of December 1875 and January 1876 for making large debt payments. Thus the British government became a direct creditor of Egypt. Since the purchased securities were not to generate dividends before 1894, the Egyptian government pledged to pay the buyer an interest of 5 percent on the purchase price (about FF 100 million) until then.

Historian Jean Bouvier writes:

> According to a Crédit Lyonnais official, "the Khedive still owned the railways, valued at 300 million." He also had the right to 15% of the Suez Company's annual net profits. Once he could clear the year-end deadlines, thanks to the 100 million earned from the sale of shares, the Khedive renewed the "advances" from the Anglo-Egyptian Bank and the Crédit Foncier in January 1876 and early February at 14% p.a. for a term of three months. As guarantee he offered his 15% share in the Suez fees and the revenues from the city of Alexandria and his port rights. The Société Générale was involved in this deal

of 25 million francs.[6]

Egypt suspends its debt payments

Despite its frantic efforts to pay off the debt, Egypt finally suspended its debt servicing in 1876. It is important to note that during the same year other countries also defaulted—for example, the Ottoman Empire; Peru (one of the major South American economies at that time); and Uruguay. We must therefore explore the reasons from an international perspective. The banking crisis that erupted in New York, Frankfurt, Berlin, and Vienna in 1873 gradually affected the London bankers. Consequently, creditors were less keen to lend to peripheral countries. Yet these countries needed to borrow constantly just to repay their outstanding debts. Moreover, the economic situation fell through the floor in the North and the exports of the South declined, as did export revenues, which were devoted to debt repayment. This international economic crisis, originating in the North, was a major factor behind the wave of suspensions of payment.

In the case of Egypt, the French bankers, less affected by the crisis than others, continued issuing loans to Egypt, taking advantage of the situation to raise interest rates greatly and issuing mostly short-term credit. In 1876, they tightened the noose around Egypt's neck and restricted credits, compelling Egypt to suspend repayments and accept the creation of a Public Debt Fund (Caisse de la dette publique), controlled by the UK and France.

The creation of the Public Debt Fund under British and French control

The British and French governments, although rivals, agreed to bring Egypt under their dual control through the Public Debt Fund. During the 1840s and 1850s and as of 1898, they had done the same to Greece, and in 1869 to Tunisia. They followed the same strategy with the Ottoman Empire in 1881. In Greece and Tunisia, the creditor powers exercised control through the International Finance Commission. In the Ottoman Empire, its counterpart was the Ottoman Public Debt Administration. In Egypt, the Public Debt Fund played this role.[7]

The Public Debt Fund had full control over a host of state revenues and was directed by representatives of the UK and France. Its establishment was followed by a restructuring of Egyptian debt, which met the expectations of all the bankers concerned because reduction of stocks was not allowed. The rate of interest was increased to 7 percent and repayments were scheduled over sixty-five years. This

ensured a comfortable revenue, guaranteed both by France and the UK, as well as by Egypt's state revenues (which the fund could bleed dry).

A letter from Alphonse Mallet (private banker and regent of the Bank of France) to William Henry Waddington (French minister for foreign affairs and future prime minister) makes it evident that the priority task during the resolution of the 1876 Egyptian debt crisis was to satisfy the bankers' interests. What follows is a translated excerpt from the banker's letter to the minister, written on the eve of the 1878 Berlin Congress, scheduled to discuss the fate of the Ottoman Empire (particularly, its assets in the Balkans and the Mediterranean):

> My dear friend . . . If the Congress convenes as expected, all we'll have to do is to devise an international mechanism . . . which can exercise an effective control over the administrative agents of the government, the courts, the collection of revenue and expenses. What has been done in Egypt under pressure from private interests without any consideration for the European public order both for the courts and the debt service . . . can serve as the cornerstone.[8]

The geostrategic stakes for the major European powers

While the establishment of the Public Debt Fund, followed by the Egyptian debt restructuring, primarily satisfied the bankers' interests, the interests of the great powers were also directly at stake. The UK was by far the leading European and global power. It wanted to control and completely dominate the eastern Mediterranean area, whose geopolitical significance had increased owing to the Suez Canal and its direct sea routes to India (a part of the British Empire) and the rest of Asia. The UK wanted to marginalize France, which had some influence in Egypt by dint of the banks and the Suez Canal (whose construction was financed through the Paris Stock Exchange). The need of the hour was, first, to satisfy the interests of the French bankers (that they were closely linked to the French authorities goes without saying), then to offer compensation in another part of the Mediterranean so that France could be talked into leaving the entire region to England. That is the backdrop for the tacit agreement between London and Paris: Egypt would be returned to the UK while France would have full control over Tunisia. The dates were not yet finalized in 1876–1878, but the plan was very clear. We should also remember that the UK had purchased Cyprus from the Ottoman Empire in 1878 and that it was another pawn in the British domination of the

eastern Mediterranean.

It was not only France and the UK that settled the future of Tunisia and Egypt. The recently unified Germany, the most important upcoming European power alongside the UK, also had its say. Otto von Bismarck, the German chancellor, was obviously clear-sighted: he stated repeatedly during secret diplomatic conversations that Germany would not take offense if London and France took control of Egypt and Tunisia respectively. In return, Germany wanted a free hand in other parts of the world. French political leaders were also well aware of Bismarck's motives. In 1870–1871, France had suffered a humiliating defeat at the hands of Germany and had lost Alsace and Lorraine. By "offering" Tunisia to France, Bismarck wanted to distract Paris from the Alsace and Lorraine issues by way of a consolation prize. This matter has been extensively documented.

In short, the fate of Egypt and Tunisia foretold the great partitioning of Africa, over which the European powers would fight a few years later at another conference held in Berlin, in 1885.[9]

The military occupation of Egypt begins in 1882 and the country is transformed into a protectorate

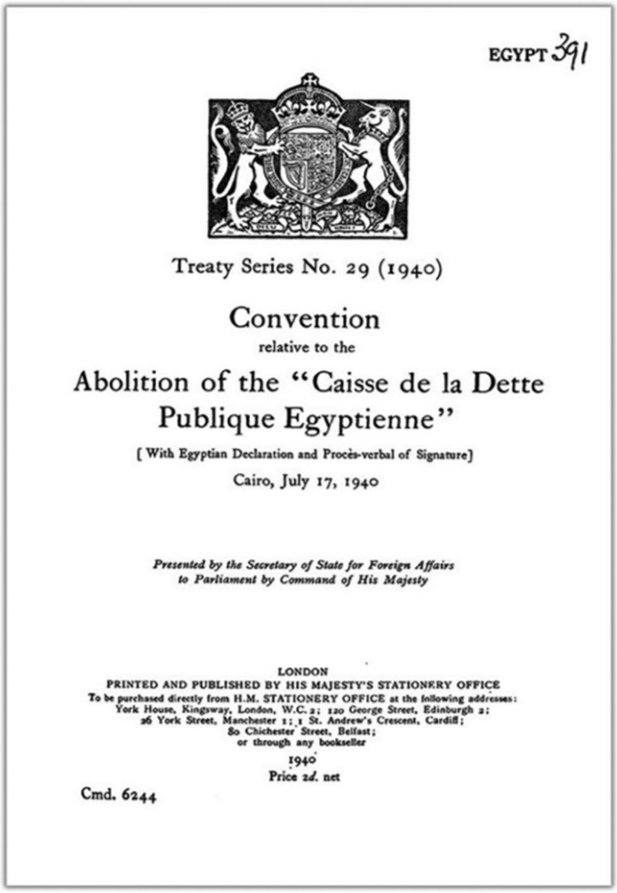
In the case of Egypt and Tunisia, the European powers used debt as their most powerful weapon for ensuring domination, leading to the total submission of previously independent states.

Following the establishment of the Public Debt Fund, the French banks went all out to collect more payments and reap profits, while they granted fewer loans. From 1881, French banks stopped disbursing new loans to Egypt. They simply collected repayments against restructured outstanding debts. When a stock market crisis broke out in Paris in January 1882, the French banks had concerns other than Egypt.

The Public Debt Fund imposed extremely unpopular austerity measures on Egypt. Those led to a rebellion of a military nature (Colonel Ahmed Urabi defended nationalist positions and resisted the dictates of the European powers). Britain and France used the rebellion as a pretext and sent a task force to Alexandria in 1882. Finally, Britain went to war against Egypt, staged a military occupation, and turned the country into a protectorate. Egypt's development was greatly throttled by the British rule and subjected to the interests of London. As Rosa Luxemburg wrote in 1913:

> European capital has largely swallowed up the Egyptian peasant economy. Enormous tracts of land, labour, and labour products without number, accruing to the state as taxes, have ultimately been converted into European capital and have been accumulated.[10]

The Public Debt Fund was abolished in July 1940. The British Agreement, forced upon Egypt in 1940, ensured a financial and colonial domination since the UK could now pursue its collections against an everlasting debt. Egypt's fifteen-year pursuit of a partially autonomous development came to fruition when progressive young soldiers led by Gamal Abdel Nasser overthrew the Egyptian monarchy in 1952, and the Suez Canal was nationalized on July 26, 1956.[11]



EGYPT 391

Treaty Series No. 29 (1940)

Convention

relative to the

Abolition of the "Caisse de la Dette Publique Egyptienne"

[With Egyptian Declaration and Procès-verbal of Signature]

Cairo, July 17, 1940

Presented by the Secretary of State for Foreign Affairs to Parliament by Command of His Majesty

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Abolition of the Public Debt Fund, in 1940

Chapter 7

Debt: How France Appropriated Tunisia

Tunisia's fate at the hands of France in the second half of the nineteenth century serves as a good example of debt used as an instrument of dominating and alienating a state's sovereignty. In 1881, France conquered Tunisia and turned it into a protectorate. Until then Tunisia, known as the Regency of Tunis, was a province of the Ottoman Empire,[1] enjoying significant autonomy under a bey.

Tunisia did not borrow from abroad until 1863

Public debt did not exist until the end of Bey Mustapha's reign in 1837. Agricultural production ensured the country's food sovereignty. His successor, Bey Ahmed (ruler from 1837 to 1855), launched a public works program focusing on the establishment of a standing army, the purchase of military equipment, and the construction of lavish residences. He also founded several factories (including the linen factory of Tebourba) on the European model. These accomplishments could not compare with the success of Muhammad Ali, the Egyptian monarch,[2] who aroused the aggressiveness of the European powers.[3] However, the two courses of action had in common the fact that neither country resorted to external borrowing during the first part of the nineteenth century. The investments were mobilized from internal resources.

The public works program turned out to be a fiasco because it did not contribute to the strength and development of local producers. In 1853, the standing army was dissolved, construction of the largest palace was discontinued, and the factories were abandoned. The bey of Tunis took to internal borrowing by agreeing to interest rates that were often usurious. This resulted in an inflated debt. The beylic (sovereign state under the bey's rule) contracted debts by selling *teskérés*, or short-term treasury bonds, to rich Tunisians and wealthy foreign residents (Livornese, Genoese, French, and so on).

With Muhammad as-Sadiq's crowning in 1859,[4] the influence of the European

powers and their commercial interests, banking interests in particular, greatly increased. The regime saw rampant corruption at the highest levels, and the main perpetrator was Mustapha Khaznadar, the prime minister, who had held important posts since 1837, when he became the bey's treasurer (*haznedar*, in Turkish). Mustapha Khaznadar remained at the summit of the state until 1873. He levied commissions on each transaction, on each loan, on income from taxation—so much so that he amassed a colossal fortune. Until his dismissal in 1873, Mustapha Khaznadar played a bigger role than the bey himself in the decisions of the state and dealings with the European financiers and entrepreneurs.

In 1859–1860, Mustapha Khaznadar and Bey Muhammad as-Sadiq made expensive purchases of useless weapons from Belgium and had to replace them with costly French rifles. They also constructed luxurious consular residences for France and Britain. The outcome of this was an increase in public expenditures and internal debt. Such expenditures were clearly not congruent with the population's interests. The internal public debt shot up by 60 percent during the first three years of Muhammad as-Sadiq's reign. Wealthy Tunisians and foreign residents took advantage of an internal debt policy that generated lofty profits. State officials stood to gain because they diverted a portion of the borrowed money (in addition to being parties to the debt), while the foreign lenders also made profits. The people, on the other hand, had to shoulder a mounting burden of taxes.

The first external loan in 1863: a clear-cut swindle

Tunisia's first overseas loan dates from 1863. It was a thoroughgoing swindle that would lead to the French conquest of Tunisia eighteen years later.

At that time, the financial centers of Paris and London were in active competition, the latter being the global leader. The Paris bankers, like their counterparts in London, had ample liquidities at their disposal and were seeking investment opportunities abroad. Numerous loans were made to Latin America, Asia, the Ottoman Empire, Egypt, Russia, and North America.[5] The funds were mainly disbursed for the construction of railways (with a speculative bubble taking shape in that sector), the refinancing of outstanding debts (in the case of Latin America), and arms purchases. Yields on the Paris local market were approximately 4 to 6 percent, while yields on overseas loans were much higher (they could reach 10 to 11 percent real yield).

In early 1863, when the bey announced that he wanted to borrow FF 25 million from abroad, many bankers and brokers in London (including Baron James de

Rothschild and various London firms) and Paris (the Crédit Mobilier and Émile Erlanger,[6] a banker from Frankfurt based in the French capital) offered their services.

The British and French consuls in Tunis supported the deals of their respective bankers. In the end, Émile Erlanger bagged the "contract." He is considered the inventor of high-risk loans to developing nations—which proliferated on the European financial markets until the Russian bond scandal—including cotton bonds during the US Civil War and the bonds issued for the bey of Tunis. According to the British consul, Erlanger had offered him five hundred thousand francs in exchange for his support.

What exactly was the 1863 bond issue?

Along with others, Erlanger obtained permission from the French government to sell Tunisian bonds on the Paris Stock Exchange. A report in 1872–1873 by Victor Villet, a French treasury inspector, described this loan as a genuine swindle.

According to Erlanger, 78,692 Tunisian bonds were issued at a face value of FF 500 each. They were sold at FF 480 each and entitled the buyer to an annual interest of FF 35 for a period of fifteen years. This implied a notional interest rate of 7 percent, but since the bonds were sold at FF 480, the real interest rate was 7.3 percent. For the buyer it meant that by laying out FF 480 francs he could get FF 525 francs (fifteen years multiplied by FF 35) in interest, plus FF 500 at the maturity of the bond.

So the borrower, the Tunisian government, received FF 415 (FF 480 francs minus FF 65 in subscription fees and other bank charges), while it had to repay 1,025 francs (FF 525 plus FF 500).

Or, to calculate it another way, the borrower (Tunisia) received about FF 37.77 million (78,692 bonds sold at FF 480). Victor Villet, the French treasury inspector, found in his surveys that Erlanger collected a little over FF 5 million in commissions (approximately 13 percent of the amount raised). A sum of FF 2.7 million—clearly appropriated by the prime minister and Erlanger—must also be deducted from the amount that should have been received. Therefore, for about FF 30 million receivable, the Tunisian government committed to repay FF 80 million.

Speaking of an indisputable scam, we must mull over the exasperating conduct of Émile Erlanger and the Tunisian prime minister. Erlanger said that he had sold just over 38,000 bonds in Paris and 40,000 in Tunis (remember that the total number of bonds issued was 78,692). Apparently the sale on the Paris Stock Exchange was

much lower than Erlanger's claims. In fact, more than 30,000 bonds remained unsold and in Erlanger's possession. Yet Erlanger granted himself a commission of over FF 5 million, the amount he would have earned had he sold all the bonds. It seems that he had borrowed from other bankers the sum he had committed to transfer to the Tunisian treasury (around FF 30 million) in four installments. He probably pledged as collateral the 30,000 shares that he had not managed to sell. The editor of the *Moniteur des Fonds Publics* put forth a similar argument in an article, published on August 19, 1869:

> We believe that it would be absolutely truthful to say that holders living in France acquired 5,000 bonds, at best. Therefore, Mr. Erlanger was left with about 30,000 bonds. In this situation, he felt embarrassed to face up to his commitments to the Bey. So what did he do? We believe he deposited his unsold bonds with the Comptoir d'escompte (bank) and obtained an advance with which he could remit some money to His Highness."[7]

This hypothesis is strengthened by Erlanger's claims that he redeemed 20,962 securities in January 1864 and 8,000 more in 1865, on the secondary debt market. However, those alleged redemptions did not boost the price of those securities, which is unlikely. Erlanger, in fact, only pretended to redeem securities that, in reality, he had hoarded.

Moreover, and this must be noted, the 30,000 shares paid out interest every year. Since Émile Erlanger possessed them, it was he who cashed in the interest.

The immediate outcome of the 1863 bond issue

This external borrowing was meant to restructure the domestic debt, equivalent to 30 million French francs. The outstanding debt was supposed to be liquidated with money borrowed from abroad. In reality, whereas the old debt had been repaid, the authorities issued new teskérés (treasury bonds). This is what Villet, the French treasury inspector, had to say:

> While old securities were reimbursed simultaneously in the stock exchange and by Erlanger's representative in Tunis . . . a local government broker (Mr. Guttierez) resumed accepting public money, in exchange for new *teskérés* issued at 91%. By dint of this farcical repayment, the debt simply . . . increased by approximately 15 million. [8]

The revenue from the sale of the new teskérés was largely diverted to the pockets

of the Prime Minister, other dignitaries, and wealthy European residents.

The same treasury inspector also wrote:

> The funds from the 1863 loan [which] were paid in cash at the Bardo palace [seat of the bey and the prime minister] were . . . deposited in a special account, but were not entered in the official government books; the state funds did not have any record of them and there is nothing to prove that they were used for public expenditure. [9]

The sum borrowed in 1863 was squandered in less than a year. At the same time, for the first time in Tunisian history, the state was indebted to overseas agencies, and for an immense sum. Annual repayments to foreign countries were unsustainable. The internal debt, which should have been repaid by external borrowing, was multiplied by 1.5. Hounded by the creditors, the beylik decided to pass the burden on to the people by increasing the *mejba* (per capita tax) by 100 percent.

The revolt of 1864, a consequence of the tax increase

The tax increase in 1864 caused a general rebellion in the country.[10] As soon as the bey's officials began visiting the different corners of the country to collect the mejba, now increased to seventy-two piastres, the revolt broke out. On March 10, 1864, the French vice consul, Jean-Henri Mattei, telegraphed from Sfax, "All the tribes have agreed that they will not pay the new tax of 72 piastres. . . . A network of all the tribes will form at the first signal that any camp intending to collect this tax is leaving Tunis."[11] A few weeks later, another consular dispatch read: "The insurrection is widespread and reaches to within an hour of Tunis."[12] According to various witnesses, the insurgents accused the government, mostly prime minister Mustapha Khaznadar, of selling the country to the French. They cited the 1863 loan granted by Erlanger, the banker from Paris, as proof.

France, Britain, Italy, and the Ottoman Empire sent warships to the Tunisian territorial waters to threaten the people and to supply necessary aid to the authorities in case the situation got out of hand. The bey relented in the face of the protests and announced, on April 21, 1864, that the doubling of the mejba was rescinded.[13] In July 1864, he reaffirmed the concessions to reach an accord with Ali Ben Ghedhahem, the main rebel leader.[14] Then, with the support of foreign powers, he unleashed the repression. The sultan, monarch of the Ottoman Empire, gave financial support to the bey so that he could recruit new troops. The sultan took

this initiative to prevent France, Britain, and Italy from outflanking him.[15]

A massive repression

Once the revolt was quieted, the bey launched a massive crackdown to extract maximum taxes and fines from the population. The French consul wrote, on December 4, 1864, to the minister of foreign affairs in Paris:

> The beylical government has refrained from granting clemency, a measure that it seemed keen on introducing. . . . It has reprised severe methods, namely fetters and torture, in order to wrest exorbitant war-time taxes from the coastal provinces.

On February 16, 1865, a French vice consul wrote the following to the French consul:

> It is my duty to inform you of General Zarrouk's barbaric methods for executing the bey's orders: thoroughly bleeding the indigenous people dry and torturing the elderly and the women who had nothing to do with the rebellion.

Another French official wrote, on March 1, 1865:

> Imprisonment, chaining, caning, and other draconian methods which were absolutely illegal, given our prevailing public law, were the only ways adopted to extract the fines. Among these stringent measures, I wish to highlight the confiscation of property, torture leading to wounds and death, home invasion . . . and, finally, the attempted or accomplished rape of women under the very eyes of fathers or husbands in chains.

Jean Ganiage adds: "In March 1865, Espina, the vice-consul, estimated that the government had extorted 23 million piastres from the Sahel from October 1864 to January 1865. In addition, his employees pocketed some 5 million piastres."[16]

The second external loan, issued in Paris in 1865

Since the 1863 loan had failed to improve the country's financial situation, the bey and his prime minister rushed headlong into a deal with Erlanger for a new loan in March 1865. Tunisia took on a further FF 36.78 million of debt. It did so under conditions that were even worse and more outrageous than in 1863. While securities worth FF 500 were sold for FF 480 in 1863, the new securities were now sold for FF 380, or 76 percent of their face value.

A buyer of a security worth FF 500 paid the discounted price of FF 380, expecting to earn an annual interest of FF 35 for fifteen years (FF 525). On its maturity in 1880, FF 500 were added to the security. An investment of FF 380, fetching FF 1,025, a profit of FF 645, was extremely alluring. The notional interest rate was 7 percent, but since the annual interest amounted to FF 35, the actual yield was 9.21 percent.

From the point of view of the Tunisian state, the result was threefold:

- The new debt contracted in 1865 amounted to FF 36.78 million.
- The actual amount received was less than FF 20 million: the securities had been sold well under their face value; 18 percent of the borrowed sum was charged as commissions by Erlanger and Morpurgo-Oppenheim, his associates; and almost 3 million was diverted directly—half for the bankers, half for the prime minister and his associates.[17]
- The amount to be repaid over fifteen years was FF 75.4 million.

The bankers had struck gold: without investing anything, they earned approximately FF 6.5 million in the form of commissions and brokerage and almost 3 million in the form of outright theft at the time of issuance. All the securities were sold in a matter of days. Paris went euphoric over these securities from Muslim countries (Tunisia, Ottoman Empire, Egypt), known as "turban securities." The bankers paid newspaper editors to publish cheerful reports. As the Tunisian economy slumped, *La Semaine financière*, a weekly Parisian journal, wrote the following about the 1865 loan: "Today, the Bey of Tunis is under the moral protection of France, which takes interest in the Tunisian people's prosperity, since this prosperity also implies Algeria's safety."[18]

The swindles of bankers such as Erlanger and Morpurgo-Oppenheim did not end there. Not content with saddling Tunisia with an unfair debt, they actively intervened so that the loan would be used to finance their personal profit. Two examples: they convinced the bey to buy two useless ships from a certain Audibert, a Marseilles merchant, for the price of new ships (FF 250,000). According to Victor Villet, the French treasury inspector, Émile Erlanger, who had undertaken to supply one hundred rifled barrels of the latest model for FF 1 million, in fact delivered "ancient guns with their breeches knotted in a kind of sleeve. The fraud was too crude; in seconds we realised that those guns could not have cost the supplier more than 200,000 francs."[19] The list of commercial supplies, reeking of obvious fraud, is

long. Moreover, Erlanger persuaded the bey to grant him a concession for manufacturing Tebourba linen, as security for the loan.

The debts accumulated during the period 1863–1865 led to Tunisia's finances passing under foreign control

The new debts accumulated during 1863–1865 left Tunisia at the mercy of its external creditors and France. It was simply impossible for Tunisia to successfully repay the due amount. The public treasury received a significant windfall (thirty million piastres, a sum much higher than an ordinary year's revenues) stemming from the extortion that accompanied the repression of late 1864 and early 1865. However, debt payments and extravagant spending against the public interest depleted it quickly.

The year 1867 was a dismal one in terms of agricultural production. Moreover, the bey exported agricultural goods to generate income. This resulted in a famine in many parts of the country and also a cholera epidemic aggravated by the poor state of health of the population (devastated by taxes and affected by the rising price of basic food), and public expenditure on health care was scanty. There were an estimated five thousand deaths in the capital, mainly due to famine, and twenty thousand throughout Tunisia.[20]

At the international level, the bankers had suddenly become cautious, and they were demanding even higher returns than in the past. In 1866, Mexico had soundly defeated the French expeditionary force and subsequently suspended repayment of the debt, considered odious, to French bankers and holders of Mexican bonds (especially the ones sold in Paris by Erlanger the banker during 1864 and 1865). Consequently the bey and his prime minister failed to float a new bond issue in Europe. Their dream of a loan of FF 100 million failed to materialize. Indeed, in February 1867 they signed a new contract with Erlanger. Although Erlanger planned to sell 200,000 Tunisian securities in Paris, he managed to sell only 11,033 after a few weeks. The enthusiasm for the Tunisian securities had already died down. Consequently, the bey resorted to "small" loans at usurious rates from other Parisian bankers, such as Alphonse Pinard,[21] director of the Comptoir d'escompte de Paris bank, who organized a bond issue worth FF 9 million in Paris in January 1867. Rothschild was contacted but refused to lend to Tunisia. Oppenheim and others demanded interest rates of approximately 15 percent.

The bey partially suspended the servicing of both internal and external debt,

effective as of 1867. This prompted Alphonse Pinard to take Tunisia to civil court in Paris for contravening the clauses of the January 1867 loan. Pinard demanded ownership of the revenues from Tunisian customs and its olive harvest. The court ruled in August 1867, and Pinard lost the case. The Regency of Tunis was a foreign territory and not subject to the court's jurisdiction. Then, Pinard and the other bankers adopted another strategy:

> He formed a syndicate[22] of the holders of Tunisian securities. Bankers such as Bischoffsheim, Bamberger, Levy-Crémieu, and Edmond Adam joined. So did Joseph Hollander, director of the Banque des Pays-Bas and Pinard's future father-in-law. The syndicate took upon itself to "help" the beylical government with interest payments.[23]

Later, in 1869–1870, the syndicate managed to become a direct member of the IFC, which took control of Tunisian finances and triumphed (see below).

The debts resulting from the loans of 1863–1867 were odious and should have been repudiated

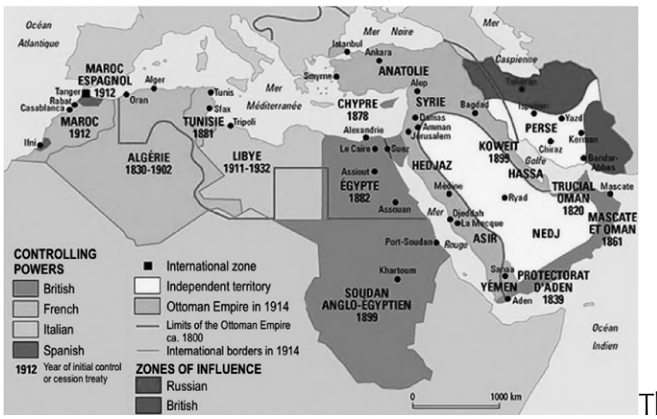
The debt contracted between 1863 and 1867 was clearly odious for the Tunisian people. Alexander Nahum Sack,[24] a law professor in Paris and proponent of the doctrine of odious debt, wrote in 1927:

> When a despotic regime contracts a debt, not for the needs or in the interests of the state, but rather to strengthen itself, to suppress a popular insurrection, etc., this debt is odious for the people of the entire state. This debt does not bind the nation; it is a debt of the regime, a personal debt contracted by the ruler, and consequently it falls with the demise of the regime.[25]

He adds:

> One could also include in this category of debts the loans incurred by members of the government or by persons or groups associated with the government to serve interests manifestly personal—interests that are unrelated to the interests of the state.

This is a perfect description of the conduct of prime minister Mustapha Khaznadar and other dignitaries of the beylical regime.[26]



The dismantling of the Ottoman Empire (Source: Philippe Rekacewicz, *Le Monde Diplomatique*, 1992)

Sack also insisted that the creditors of such debts, when they have made the loans in full awareness of the consequences, "have committed a hostile act with regard to the people; they can't therefore expect that a nation freed from a despotic power will assume the 'odious' debts, which are personal debts of that power." The bankers Émile Erlanger, Alphonse Pinard, and their associates knew very well that the loans were against the people's interest. Also, as we have shown, they were directly party to the swindle.

France was on the lookout for an opportune moment to take complete control of Tunisia

Ever since they colonized Algeria in the 1830s, the French leaders considered that France had the right to expand its colonial reach to Tunisia. It was only a matter of the right pretext and time. Yet there were other priorities, both internally—on the level of Continental Europe—and elsewhere in the world. In the Arab region, Egypt demanded priority for geostrategic reasons: the possibility of direct access to Asia through the newly opened Suez Canal, between the Mediterranean and the Red Sea; access to sub-Saharan Africa via the Nile; the proximity of the East by land routes; Egypt's agricultural prospects; and competition between Great Britain and France (whichever of these two powers would control Egypt would also have a strategic advantage over the other). Napoléon had realized this and put theory into practice with his Egyptian campaign in 1798.

The conquest of Tunisia was not a priority—particularly because the efforts to stabilize France's reign over Algeria had cost dearly, given the counterresistance. In France, no one could count on public support for a new colonial venture. In the 1860s, the project for seizing Mexico failed miserably. At the end of 1867 Napoléon

III was also worried about the advance of Garibaldi's Republican red shirts, who threatened to capture Rome, France's protégé.

However, transforming Tunisia into a protectorate, or an outright conquest of the country, was a priority, even an obsession for the French consul in Tunisia, France's plenipotentiary representative to the bey. The actions and conduct of various successive consuls bear testimony to this fact. As the rebellion raged in 1864, Charles Beauval, the French consul, engaged in double dealing: while France officially supported the bey, he negotiated with Ali Ben Ghedhahem, the main rebel leader, in case he decided to overthrow the bey. He wrote, on May 30, 1864, "It will be worthy of the emperor to assemble all the tribes of Tunisia in a small Arab confederation." According to Jean Ganiage, in September 1865:

> The Tunisian issue was discussed in a cabinet meeting presided over by the emperor. Marshal MacMahon, Algeria's governor, proposed to send an expeditionary army to Tunis and had a detailed plan on how to organize and run this troop. However, this plan far exceeded the government's intentions.[27]

Two years later, according to Ganiage,

> For the consul, de Botmiliau, there was no other solution than a direct French occupation of Tunisia, its annexation to Algeria, or a temporary occupation by way of pledge.[28]

Moreover, the correspondence of the French officials in Tunisia was not devoid of racism, as evidenced by the letter from the consul, de Botmiliau, dated December 2, 1867, in which he denounced "the customs of the Arab people, their incompetence, their deceitfulness, lies, corruption."[29]

Formation of the International Finance Commission in 1869

In January 1868, the French minister for foreign affairs, the Marquis de Moustier, broadly outlined the proposal to establish an international commission for taking control of Tunisia's finances:

> I think that our efforts should primarily focus on ensuring a proper management of the revenues pledged by the beylical government. If we manage to exert a genuine control over the fiscal products–left in incapable or infidel hands today–we could take a giant leap towards our desired target. If there is an agreement for applying this principle we could entrust the work to a commission with its headquarters in Tunis.[30]

In April, 1868, the bey planned to issue a decree establishing the IFC, as instructed by the French representatives. Fifteen months later, when France had received the green light from Britain and Italy, the bey issued the decree. The text of the decree, dated July 5, 1869, demonstrates Tunisia's outright capitulation to its creditors. Article 9 was particularly important because it stipulated very clearly that the commission would lay claim to all state revenues, without exception. It additionally stated that no loan could be contracted without its permission. Article 3 specified, albeit in diplomatic terms, that the most important figure in this commission was the representative of France, who would be appointed by the French emperor, whereas the bey's role would be limited to ratification. It was the commission that would ascertain the exact amount of the debt (Article 5). That the commission would restructure Tunisia's debt was a fundamental issue for the creditor banks. Article 10 was also of paramount importance for the French bankers because it stipulated that two direct representatives would be chosen from among them to sit on the commission. Consequently, when the commission was set up in November 1869, the bondholders' syndicate, led by the Parisian banker Pinard, had a representative, as did Erlanger.[31] British and Italian creditors holding domestic debt securities were also represented.

XCERPTS FROM THE DECREE OF THE BEY OF UNISIA, ESTABLISHING THE INTERNATIONAL INANCE COMMISSION[32]

view of the well-being of our kingdom, our subjects and our trade, we see the need to establish a ance commission in compliance with the decree issued on April 4 last year, later ratified by our ecree of May 29, the content of which is as follows:

rt. 1. The Commission, with regard to which our decree of 4 April 1868 was issued, will be constituted in our capital within one month.

rt. 2. This Commission will be divided into two separate committees; an Executive Committee and a Control Committee.

rt. 3. The Executive Committee will be formed in the following manner: Two officials from our own government appointed by us, and a French Treasury inspector also appointed by us and primarily chosen by the Emperor's government.

rt. 4. The Executive Committee will have the responsibility to oversee the current state of various claims constituting the kingdom's debt, and the resources available to the government for meeting them.

rt. 5. The Executive Committee will open a register in which all debts, both external and within the kingdom, comprising *teskérés* or treasury bonds, as well as the securities for the loans of 1863 and 1865, will be recorded. As for the debts that are not controlled by government contracts, the bondholders must report within two months. For that purpose, the Executive Committee will ensure the publication of a notice in the newspapers of Tunis and abroad.

rt. 6. The Executive Committee will demonstrate its willingness to familiarize itself with all authentic documents of income and expenditure. The Ministry of Finance will provide necessary resources to this effect.

rt. 8. The Executive Committee will make all arrangements concerning the general debt and we will extend all the necessary support to ensure that the relevant measures are implemented.

rt. 9. The Executive Committee will receive all state revenues without exception; treasury bills or other securities will not be issued without the consent of the said committee further authorized by the Control Committee; and if the government is obliged, God forbid, to borrow, it can do so only with the prior approval of both committees.

l *teskérés* issued for the Commission-apportioned amount for government expenditure will be sued on behalf of the Commission and bear the Executive Committee's stamp. These *teskérés* will ot exceed the figure stipulated in the expense budget.

rt. 10. The Control Committee will be formed in the following manner: two French members for the debts of 1863 and 1865; two English members and two Italian members representing the bondholders for the domestic debt.

ıe articles above were written at the Palace of La Goulette on the 26 of Rabi'
-awwal, 1286 (July 5, 1869).

The Tunisian debt restructuring in 1870

One of the principal tasks of the commission, in fact the most urgent, was to restructure the debt. Victor Villet, designated inspector of finances by France and in theory the principal member of the commission, proposed in December 1869 that the sum of Tunisian debt, evaluated at FF 121 million, be reduced to less than FF 56 million and rescheduled.[33]

The bankers' representatives rejected the proposal and gained the support of their respective governments, particularly the government of Louis-Napoléon Bonaparte, who was very close to the French high-finance sector. Not only was there no reduction of Tunisia's debt; the bankers managed to have it increased to FF 125 million. This was a complete victory for the bankers' representatives appointed to defend the interests of Alphonse Pinard and Émile Erlanger. These bankers held some 1863 and 1865 Tunisian bonds, purchased on the open market for FF 135 or FF 150, after having speculated that they would lose value. These bonds were replaced with new bonds at a value of almost FF 500. A windfall that produced a new odious debt!

As the historian Nicolas Stoskopf wrote, the idea was

> to further tighten rope that the Bey had put around his own neck. After 1867, the Tunisian state of bankruptcy allowed the engagement of the next phase. In the difficult negotiations and sly maneuvering that followed, Pinard cynically continued to make windfall profits in contempt of French savers and of the condition of the Tunisians, but with the striking efficiency of an unequalled financier; as a result of the Tunisian debt unification of 1870 the five million francs held by the bondholders' syndicate increased in value to thirteen million francs.[34]

The Tunisian authorities acted in complete complicity with this plundering of public resources. Prime minister Mustapha Khaznadar, other dignitaries of the regime, and the class of wealthy Tunisians who also held a very large quantity of Tunisian internal bonds made enormous profits from the restructuring. As in most other countries, the local dominant classes were in total cahoots with the international creditors because they drew a large part of their own revenues from debt repayments. That was true in the nineteenth century and remains true in the

twenty-first.

The enrichment of the bankers at the expense of the Tunisian people

Alphonse Pinard and Émile Erlanger, who had decided to withdraw from Tunisia, were well compensated. Erlanger's Tunisian operation allowed him to build a financial empire. He took over the Parisian bank Crédit Mobilier and a few years later acquired Havas, the international press agency.[35] Alphonse Pinard continued his activities in France and elsewhere in the world with his contribution to the creation of Société Générale (today among France's top three banks) as well as another bank that eventually became BNP Paribas (currently France's biggest bank).

This passage from Marx's *Capital*, published in 1867, well describes the role played by public debt:

> The system of public credit, i.e., of national debts, whose origin we discover in Genoa and Venice as early as the Middle Ages, took possession of Europe generally during the manufacturing period. . . . National debts, i.e., the alienation of the state—whether despotic, constitutional or republican—marked with its stamp the capitalistic era. . . . The public debt becomes one of the most powerful levers of primitive accumulation. . . . With the national debt arose an international credit system, which often conceals one of the sources of primitive accumulation in this or that people.[36]

He adds:

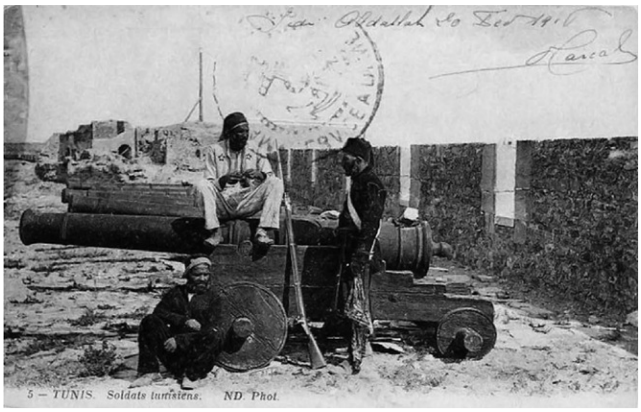
> At their birth the great banks, decorated with national titles, were only associations of private speculators, who placed themselves by the side of governments, and, thanks to the privileges they received, were in a position to advance money to the state. . . . the national debt has given rise to joint-stock companies, to dealings in negotiable effects of all kinds, and to agiotage, in a word to stock-exchange gambling and the modern bankocracy.[37]

The failure of the International Finance Commission

Under the terms of Article 9 of the decree that created the IFC of July 1869, its members controlled the state's revenues. Nevertheless, the economic policies imposed by the repayment of the debt caused the economy to stagnate because the

state had no productive investment, did not spend on stimulating the economy, and burdened the small local producers, rural and urban, with heavy taxes. Consequently, tax revenues were insufficient to repay the 125 million francs of debt.

The commission members representing the bankers withdrew in 1871, as they were satisfied and had no further advantages to reap from the work of the commission, which was facing the failure of its own policies, imposed since 1869. The failure was such that the prime minister, Mustapha Khaznadar, who had occupied government posts for thirty-six years, was removed under pressure from France in 1873 and put under house arrest, his fraud and corruption having caught up with him.



Beylical artillery in Tunis, circa 1900

Hayreddin, Mustapha Khaznadar's replacement, tried unsuccessfully to introduce some reforms and was in turn dismissed in 1876, especially because he sought a reduction of the interest to be paid on the debt and did not sufficiently favor French business interests. He also wanted to reduce the extravagance of the state. That was going too far.

The Tunisian artisans were in a disastrous situation. Since the introduction of free trade agreements they were unable to compete with European goods. The smallholders were barely surviving. The manufacturing industry was nonexistent. The railway network was no more than a few dozen kilometers (Tunis–La Marsa and Tunis–La Goulette). Tunis's streets were unpaved, and the city was without drainage and sanitation.

The major powers give France the go-ahead to take possession of Tunisia

At the Berlin Congress in June 1878 both Germany and England advised France that it had a free hand to do with Tunisia as it pleased.

Otto von Bismarck's Germany, which had inflicted a stinging defeat on France in the 1870–1871 confrontation (Louis-Napoléon Bonaparte was taken captive at Sedan, Alsace-Lorraine annexed, and damages obtained), considered that the new French rulers should be awarded some form of consolation (the Second Empire was replaced by the Third Republic in 1870). Germany had no interest in Tunisia, and Bismarck felt that France would be less concerned with regaining Alsace-Lorraine if it focused on conquering Tunisia. England, which prioritized its presence in the eastern Mediterranean (Cyprus, Egypt, Syria, and so on), also approved of keeping France occupied with grabbing Tunisia. Lord Salisbury, the British representative, said to his French counterpart: "Take Tunis if you want, England will not object and will respect your decision. What's more, you can't leave Carthage in the hands of barbarians."[38] The French minister of the interior said, "Mr. von Bismarck gave us to understand that he will not object if we take Tunisia."[39] The French government took its time to consider this position but did not take action because of other priorities. Meanwhile, the French consul in Tunis was on the lookout for a slip from the bey that would justify a French military intervention.[40]

Finally, in 1881, action was taken when a majority favorable to conquest formed in the French government, the pretext being the "exactions" by the Kroumir tribe.

The bankers were informed of the French government's intentions and purchased massive quantities of Tunisian bonds, priced at 330 francs, on the Paris market in January 1881. On the eve of the military intervention their price had increased to FF 487 (for a nominal value of FF 500), a price hitherto not attained. The bankers' idea was simple: once France had control of Tunisia, the debt would be restructured again and all the creditors would be paid. They were not mistaken; the debt was restructured in 1884, during the second term of premier Jules Ferry, and public finances were again forced to contribute to satisfying the bankers.

The Havas agency, owned by Erlanger since 1879, took part in the media campaign in favor of military intervention.

The 1881 invasion

France was ready to jump at the first opportunity to put the agreement made at the Berlin Congress into execution. The difficulty for Jules Ferry was that a military intervention needed the approval of the Chamber of Deputies.

As already noted, the French diplomats sought every possible means of provoking an incident that would justify a French military intervention. Théodore Roustan, the French consul, was ready to pounce. In May 1880 he wrote to Baron de Courcel, a very influential French diplomat (who would become the French ambassador to Berlin in 1885 and take part in the 1884–1885 conference that "regulated" the European colonial takeover of Africa): "We should wait and prepare our motives for acting before preparing the means. The foolishness of the Tunisian administration will help." The conflict between the Algerian Ouled Nahd tribe and the Tunisian Kroumir tribe provided the opportunity to launch a large-scale operation. At the end of February 1881, a difference between the two tribes provoked an attack by the Ouled Nahd on the Kroumirs with fatalities on both sides.

The French consul exulted: "We could not hope for a better occasion to act, and to act alone because the other powers are not concerned." To avenge their dead, four hundred to five hundred Kroumir tribesmen attacked the Ouled Nahd twice, over March 30–31, in Algerian territory but were repulsed by French troops; six French soldiers died in the fighting.[41]

Jules Ferry obtained funds from parliament to "re-establish order." The way in which he requested the funds on April 11, 1881, was absolutely deceitful and hypocritical:

> We are going to Tunisia to punish these crimes. At the same time we shall take all the measures necessary to make sure this kind of event does not happen again. The Government of the Republic does not seek conquests; it does not need them (loud applause from the left and the center); but it has received in heritage from previous Governments a magnificent Algerian possession that has been glorified by French blood and made fertile by France's treasures. It will go so far, in the military repression under way, as is necessary to safeguard, in a permanent and serious manner, the security and future of France's Africa.[42]

Twenty-four thousand troops were sent to fight the Kroumirs.

The Bardo Treaty, creating a French protectorate, was signed on May 12, 1881, and then ratified by the Chamber of Deputies by an overwhelming majority. Only one member voted against it, the courageous socialist Alfred Talandier.[43] The bey of Tunis was coerced into accepting for fear of losing his position, knowing that his brother would willingly take over with the help of the French. He ceded to the

French resident-general all his powers in foreign affairs, territorial defense, and administrative reform.

Some months later France, still governed by Jules Ferry, reinforced its military actions in Indochina in order to expand its colonial presence there. During the summer of 1881, Ferry, having found another pretext for colonial maneuvers, was granted funds by the Chamber of Deputies for a military offensive in Tonkin.

The French army occupied Tunis in October 1881, and the holy city of Kairouan at the end of the same month. Faced with the people's resistance, particularly the rebellion of the Tunisian tribes, the French military action was reinforced and the expeditionary corps was increased to fifty thousand. Through the La Marsa convention of 1883 the bey was stripped of his remaining authority, and Tunisia came under direct French administration.

It should be noted that the Bardo Treaty, as much as the Conventions of La Marsa, contains precise provisions that imply the use of debt as a tool of submission and spoliation. Article 7 of the Bardo Treaty states:

> The government of the French Republic and the government of His Highness the Bey of Tunis reserve the right, of a common accord, to fix the bases of a financial organization of the regency that will be likely to ensure the service of the public debt and to guarantee the rights of the creditors of Tunisia.[44]

Article 2 of the La Marsa conventions stipulated:

> The French Government will guarantee, at a moment and under the conditions that it deems best, loans to His Highness the Bey destined for the conversion or repayment of the consolidated debt, to a sum of 125 million francs, and the floating debt to a maximum of 17,550,000 francs. His Highness the Bey agrees not to take on any further debt in the name of the Regency without authorization from the French government.[45]

Conclusion

We can say without a doubt, after having analyzed the utilization of Tunisian debt in the second half of the nineteenth century, that it was of an odious nature and facilitated colonization of the country.

Subsequently, it continued to be an important means of the domination and plunder of Tunisia's natural and human resources and a cause of its underdevelopment and marginalization.

On the basis of this observation, the Tunisian people would be within their rights to claim damages from the French state, which should compel the banks (BNP Paribas and Société Générale) and French corporations that made use of the debt to despoil the Tunisian people to participate in the compensation.

We have to point to some obvious parallels between Tunisia in the nineteenth century and Tunisia today, strangled by its public debt. To a large extent Tunisia's public debt was contracted under Ben Ali, between 1987 and 2010. The amounts borrowed were used to increase the wealth of the Ben Ali clan and exert its authoritarian power against the interests of the people—a fact of which the creditors were aware. Therefore it is an odious debt. The amounts that have been borrowed since have been used to repay a debt that should be repudiated.

Moreover, Tunisia's weakness before its creditors makes it possible for them to blatantly interfere in the country's affairs. With the support of the local ruling class, Tunisia's creditors use the conditions imposed by the IMF and attached to loans, both from international financial institutions and from the European Union and its member states, to enforce economic and financial policies that serve their interests.

To rid itself of the shackles of domination and underdevelopment, Tunisia has no other choice than to break the chains of the debt system.

Chapter 8

Alexander Nahum Sack and Sovereign Debts

Alexander Nahum Sack (born Moscow 1890; died New York 1955), a Russian lawyer who taught in St. Petersburg and then in Paris, is considered one of the founders of the doctrine of odious debt. The doctrine, based on a series of precedents in jurisprudence, has come in for much debate. Often disparaged and widely avoided or ignored in university courses, the doctrine of odious debt has nevertheless been the topic of hundreds of articles and dozens of specialized books. The United Nations International Law Commission,[1] the IMF,[2] the World Bank,[3] the UN Conference on Trade and Development,[4] the UN independent expert on the effects of foreign debt and other related international financial obligations of states on the full enjoyment of all human rights,[5] Ecuador's commission for the full audit of public debt, set up in 2007 by president Rafael Correa,[6] the Committee for the Abolition of Third World Debt, now known as the Committee for the Abolition of Illegitimate Debt (CADTM),[7] and the Greek Debt Truth Commission set up by the president of the Hellenic Parliament in 2015[8] have published documents, taken a stand, and organized seminars on the topic, as debts whose legitimacy and validity may be questioned are constantly under discussion in the field of international relations. There are also recent academic publications on the subject.[9]

The truth is that the arguments developed by Alexander Nahum Sack are little known. Whether among his detractors or among those who base their actions on the doctrine elaborated by Sack, people often have inadequate or biased knowledge of the international jurist's analytical framework and/or his political leanings. It is very useful to delve further, beyond a few quotes and an oversimplified presentation of his work, because the struggle to combat odious debt may well gain finesse and strength from such study.

Alexander Sack was not a humanist interested in protecting peoples or nations from the nefarious actions of heads of state, or from creditors prepared to plunge

the community into debt using fraudulent or even criminal means. His main aim was not to bring ethics or morality to the world of international finance. His aim was to reinforce the international order in place, by ensuring the continuity of debt repayments so that creditors could recover the money they had lent.

Sack touches on the question of odious debt in a work published in Paris in French in 1927.[10] His choice of title is significant: it translates as "The Effects of the Transformation of States on their Public Debt and Other Financial Obligations: A Legal and Financial Treatise." Sack began by asking himself what would become of debts a state had contracted in the case of a revolution, resulting in a change of regime. Sack states clearly in the first paragraph of the preface that "the Russian revolution of March 1917 incited me to examine the effects of the political transformation of a state on its public debt." Two of the principal events that affected him and led him to conduct a close study figure are the revolution of October 1917 (which he calls a "Bolshevik coup d'état") and the repudiation of the tsarist debts by the Bolshevik government in early 1918.[11] He then gradually widened the field of his research to examine various cases of state succession and how obligations that tied the new state or new regime to creditors were affected.

Nicolas Politis,[12] a Greek lawyer and statesman who wrote the introduction to Sack's work, stresses the breadth of the research undertaken:

> It is no exaggeration to say that Mr. Sack has completed the task he set himself with full honors. He has brought together a collection of documents of rare value. [. . .] He has closely tracked the long list of annexation treaties and debt regulation agreements ratified over the last 150 years and analyzed their clauses one by one; he has investigated the legislative, administrative and judicial measures taken to implement them; he has looked up and classified the opinions of all authors to have written on the subject. Finally, he demonstrates, through the use he makes of all this material, an extraordinary grasp of the practical necessities of the law. Thus he explains, down to the last detail, the juridical nature of the succession of debts, borrowers' obligations, and lenders' rights, the relations between successor states, how they divided debts between them, and how they established their shares.[13]

Not until the end of the published book do we find about fifteen pages, in chapter 4, on odious debt. The preceding 157 pages deal with the transfer of public debt in different situations: conquest (or annexation) of one state by another; separation of one state from another; the effects of a change of regime resulting from a

revolution, and so on.

Whether a regime was despotic or democratic was of little concern to Sack

As far as Sack was concerned, when there is a change of regime caused by annexation, division, or revolution, the new regime must honor debts accumulated by the previous regime. There is, then, continuity of a state's obligations toward creditors even after a radical change of regime. This was the conservative and reactionary position that held sway over international relations at the time. This rule, which favors creditors and enhances the dominant international order by trying to prevent states and peoples from freeing themselves of the burden of debt, has often been questioned, both in theory[14] and in practice.

Moreover, the democratic or despotic nature of the former regime or the new one does not influence this general rule. In Sack's view, what counted was the existence of a regular government exercising power within the state's territory:

> By a regular government is to be understood the supreme power that effectively exists within the limits of a given territory. Whether that government be monarchical (absolute or limited) or republican; whether it functions by "the grace of God" or "the will of the people"; whether it express "the will of the people" or not, of all the people or only of some; whether it be legally established or not, etc., none of that is relevant to the problem we are concerned with.[15]

According to Sack, the new regime may question the validity of the debts it inherits, should those debts prove to be odious. In such a case, the new regime must obtain an international authorization to waive the rule of continuity of obligations regarding debt repayment. We shall see in the next chapter of this book that Sack makes a distinction between the nature of the debt and the nature of the government: an odious government may underwrite nonodious loan bonds, and a government not characterized as odious—that is, nevertheless legitimate and democratic—may underwrite odious debts.

In Sack's view, the rights of private creditors should override those of the nation

Nicolas Politis pointed out in his introduction to Sack's book that "former doctrines had lost sight of the fact that the obligation of successor states, as well as

that of the original borrower, belongs to the creditors and not to their nation."[16]

Thus Sack considered private creditors' interests to take precedence over those of the nation. The work Sack devoted himself to aimed to convince the international community that there was a need for a code and international legal structures enabling a better guarantee of private creditors' rights before the state.[17]

On this crucial matter, Sack's orientation contrasts with that of other jurists, both in the nineteenth century and in his own era.[18] For Luis Drago (Argentina), Carlos Calvo (Uruguay),[19] and Gustave Rolin (Belgium), the idea is to protect debtor states against abuse from private creditors, often backed by their own states. At the time, private creditors were mainly banks and other institutions or private individuals residing in Great Britain, France, the US, or even Germany, enjoying the support of their governments, which did not hesitate to use gunboat diplomacy to recover debt.

'ERY DIFFERENT ARGUMENTS PUT FORWARD BY URISTS DEFENDING INDEBTED STATES AGAINST 'RIVATE CREDITORS[20]

uis María Drago declared at the Hague Peace Conference in 1907:

> There can be not the slightest doubt but that state loans are legal acts, but of a very special nature as cannot be confused with any other kind. The common civil law does not apply to them. Emitted by an act of sovereignty such as no private individual can exercise, they represent in no case an engagement between definite persons. For they stipulate in general terms that certain payments shall be made, at a certain date, to the bearer who is always an indeterminate person. The lender on his part does not advance his money as he does in loan contracts; he confines himself to buying a bond on the open market; there is no certified individual act, nor any relation with the debtor government. In ordinary contracts the government proceeds in virtue of rights which are inherent in the juridical person or the administrative corporation, by exercising that which is called *jus gestionis* or the right with which the representative or administrator of any joint-stock company whatever is invested.
>
> In the second case the government proceeds *jure imperii*, in its quality as sovereign, by effecting acts which only the public person of the state as such could accomplish. In the first case we understand that the government may be summoned before the tribunals or courts of claims, as happens day by day, so that it may make answer with regard to its engagements in private law; we could not conceive in the second case that the exercise of sovereignty might be questioned before an ordinary tribunal. It would at least be necessary to establish this

distinction of a practical nature . . . for ordinary contracts, courts are available; there are no courts available for public loans.

If, on the other hand, it were said that national loans really imply a contract, as is entered into with regard to ordinary loans, in the sense that they create exact obligations on the part of the borrowing state, it might be answered generally that it is not contracts alone that give rise to obligations; but that, even if it were so, it would be necessary to admit that they are a very special class of contracts with well-marked differential signs, which, by that very fact, deserve to be put in a class by themselves. [21]

ıe jurist Gustav Hugo, often called the father of the historical school of jurists, says:

A national bankruptcy is by no means illegal, and whether it is immoral or unwise depends altogether on circumstances. One can hardly ask of the present generation that it alone shall suffer from the folly and waste of its predecessors, for otherwise in the end a country could hardly be inhabited because of the mass of its public debts. [22]

ırl Salomo Zachariae von Lingenthal[23] writes:

The state is entitled to reduce its debts, indeed to repudiate them entirely, in so far as it is no longer in a condition to raise the funds, aside from current expenses, to pay the interest and principal of the public debt.

According to Edwin Borchard, Zachariae maintains that a government has a higher duty than the ıyment of its debts, which is to keep its citizens alive, and that creditors must be disregarded hen there is no alternative.

Friedrich Carl von Savigny,[24] doubtless influenced by a Prussian law of 1823 that provided that e state could not be sued on its public debts, concluded that public debts shall not be under the ivate-law protection of a judge.

Gustave Rolin-Jaequemyns, a Belgian jurist, took the position that the making of a loan was an t of sovereignty, as was its repayment. He added that any interference of another state was out of e question.[25]

Numerous French jurists took the same view. We may cite Louis Berr, who said:

The Frenchman who concludes a contract with a foreign government subjects himself in advance to the laws of that government concerning the jurisdiction and law of its courts; he renounces voluntarily the protection of his own national laws. In consequence, questions concerning the performance and liquidation of obligations directed against a foreign state can only be brought before its own courts in accordance with the rules of public law there in force.[26]

r Robert Phillimore wrote:

The English courts have decided that bonds payable to bearer by the government of a state only create a debt in the nature of a debt of honour, which cannot be enforced by any foreign tribunal nor by the tribunal of the borrowing state itself, unless with the consent of its

government.[27]

arl Ludwig von Bar, a German jurist, said:

> If all the creditors could actually levy execution upon the state property, they could bring the state machinery to a standstill. Public debts, therefore, issued under a special law, contracted with a certain number of creditors, rest upon the condition that the state is in a position–of which the state by legislation is the judge–to perform its obligations. The state has so to speak a *beneficium competentia* in the widest sense; it must first preserve itself, and the payment of its debts is a secondary consideration.[28]

bert Wuarin:

> It is by a law (or decree) that the loan is authorised; it will be through the promulgation of another law (or another decree) that the state, with no need to explain, may declare itself free of any commitment or may decree the suspension of the amortization of the payment of interest, annul all guarantees.[29]

bert de Geouffre de La Pradelle, a French jurist, and Nicolas Politis:

> The debt resulting from a loan is as binding in law as is any other debt. It is nevertheless true that, having been contracted in the public interest, the debt is subject for its execution to the conditions imposed by the financial and administrative necessities of the debtor state: as it was created by virtue of legislative measures, so may it be modified by virtue of further legislative measures.[30]

e La Pradelle and Politis, again:

> Subscribers, like subsequent purchasers of the debt paper, are ignorant neither of the nature of the operation nor of the risk involved; they accept this in advance. They know that although the debtor government is under obligation to pay, if forced by circumstances it is free to defer the due date of the debt, to modify its terms, or even to reduce the amount to be repaid. In the absence of any international regulation of state bankruptcy, liquidation is dealt with by the debtor. However if the state cares about its reputation and creditworthiness, it will prefer to proceed with the approval of its creditors rather than by use of authority.[31]

régoire Dimitresco:

> The state has the right to retract on total or partial execution of the contract it has entered into with its creditors, or to modify the clauses of that same contract, if deemed appropriate and if the circumstances demand it. The state derives this right from the nature of the contract. To enter an engagement under any other conditions would indeed be incompatible with the role and functions of the state."[32]

Evgeny Alexandrovich Korovin, of the Institute of Soviet Law, went further: he considered that ere is no succession of debt in the case of political transformation. What were personal debts for e former government are "*res inter alios acta*"[33] for the new one, and as such, do not concern it. [34]

Sack turned a blind eye to bankers' malpractice and fraud

Sack was fully aware of the circumstances under which bankers in London, France, Germany, and other major Western centers of finance issued public treasury bonds, imposing draconian conditions on the states asking for loans and manipulating the rates of those bonds. Bankers' abuse has been well documented. The conclusions of parliamentary inquiries, whether in Great Britain, France, or the United States, were damning. Arbitration had proved necessary. Sack also knew all about the speculative stock market dabbling of private institutions holding public debt bonds. There were numerous public debates on all these topics throughout the nineteenth century, until the time when Sack wrote his book. In the run-up to the Hague Peace Conference of 1907, several participants, including the Argentine jurist and minister Luis María Drago, denounced creditors' behavior. Yet nowhere in his work does Sack mention the possibility of nullifying a debt contract, declaring the bonds invalid, in the case of proven abusive or fraudulent behavior on the part of creditors, usually banks. This is evidence of Sack's bias.

When Sack finally discusses odious debts, he envisages creditors' responsibility only from the point of view of their complicity with odious acts perpetrated by the regimes they granted credit to. This is perfectly correct, but quite inadequate, as Sack completely ignores creditors' responsibility at the point in time when they issue bonds on the financial markets—selling bonds at a price far below their nominal value, demanding exorbitant commissions and very high real interest rates—and in the way they "manage" bonds once issued; that is, speculating and manipulating prices.[35] The fraudulent, extortionate, and dishonest practices of bankers when they issue bonds should be firmly condemned and opposed, as should the manipulations they resort to afterward. Sack deliberately decided to leave creditors a free hand in these matters.

This point clearly indicates that Sack was not on the side of those defending debtor states; his priority lay with the rights of private creditors. Sack's refusal to take into account cases where lenders generated odious debts by imposing excessive demands on the borrowers testifies to his political and ideological orientation in favor of moneylenders.

Sack considers the possibility of canceling some odious debts

Despite his clear bias in favor of creditors, Sack considered that in exceptional cases

debts may be written off. Sack believed that creditors should accept the cancellation of certain debts if it could be shown the government that contracted them intended to use them against the interests of the nation. The Russian jurist could not avoid pointing out that there is an important exception to the sacrosanct rule of continuity in debt repayment and a limit to private creditors' rights: under certain circumstances, creditors must agree to the cancellation of their debt if it can be demonstrated that the debt is odious. He also accepts two fundamental points to which I shall return further on: namely, that when there is a presumption of odious debt, it is incumbent upon the creditors to prove their good faith; and, should they fail to do so, that their acts may be considered as hostile to the nation.

However, before we look at Sack's definition of odious debt, there are other aspects of his position that I wish to touch upon, regarding the rights of creditors and of states in situations such as war.

The trivialization of wars of conquest

Sack considered it perfectly normal that states should wage wars of conquest and make the conquered pay a tribute. He deemed that in the case of war, creditors' rights were secondary to those of the state.

> The government may wage a war that incurs considerable expense, material losses, losses in terms of human lives, etc. The war may even result in extremely burdensome peace conditions for the state which will have to pay out war indemnities in cash and in kind (railway rolling-stock, ships, artillery, etc.). Such actions on the part of a government, and their consequences, may have a negative impact on the debtor state's finances and ability to pay. These are all risks to be borne by creditors who have no power to bind the government either in its right to dispose freely of private estate and state finances, or in its right to wage war.[36]

In the hierarchy of the values that Sack adopts, there is manifestly no place for peoples' rights to self-determination and peace. Furthermore, as indicated above, in the face of states' inalienable right to wage war, with all that entails, he considers that creditors have no other choice than to bow before the raison d'etat.

He uncritically cites a decision of the French Conseil d'État that clearly indicates that the right to wage war includes the right to plunder:

> Does the fact that the French army helped itself to the public funds of an

> occupied country (Venice) mean that the French state owes the said funds to the creditors of the occupied state? No. Here we have an act of war which does not permit of any claim.[37]

This sentence rather undermines Sack's affirmation that there is continuity of the obligations of public borrowers toward their creditors.

It is worth remembering that at the time when Sack was working on his book, peoples' right to self-determination had become an element of official doctrine, both in the US and in the Soviet Union.[38] This right is inconsistent with colonialism and the annexation of territories of nations dominated by the major powers. Yet as will be shown further on, Sack is plainly convinced of the "benefits" of imperialist politics as implemented by the former tsarist empire, for example, over the non-Russian peoples under its yoke, or the German empire in its African colonies.

Sack and the continuity of states' obligations concerning debt despite a change of regime

Sack devotes a significant part of his book to the transfer of debt in the case of a change of regime after a revolution, a coup d'état, or a civil war. He manifests his approval of what happened in France between 1789 and the time when he was developing his doctrine. He is pleased that, despite all the regime changes, each successive government assumed responsibility for the public debt.

This is what he wrote[39]:

> Once the *ancien régime* had been overthrown during the French Revolution of 1789, the new government did not renege on the former financial obligations of the state. A decree dated 17 June 1789, the day that the Third Estate transformed the Estates-General into a National Assembly or Parliament, placed "the state's creditors under the protection of the honor and loyalty of the French nation"; in its session of 13 July 1789, the Constituent Assembly formulated its point of view regarding the state debt as follows: "This Assembly, acting for the nation, declares that . . . the public debt having been placed under the protection of French honor and loyalty, and the nation not declining to pay the interest owed, no power has the right to pronounce the infamous word, bankruptcy, no power has the right to break the public faith in any possible form or denomination."[40]
>
> The Constitution of September 3–4, 1791 (Title V, Art. 2) contains the following article: "Under no pretext may the funds necessary for the payment

> of the national debt and the civil list be refused or suspended."
>
> The Constitution of June 24, 1793, Art. 122 "is guarantor to all Frenchmen of . . . the public debt." The financial obligations of the *ancien régime* were inscribed in the *Grand Livre de la dette publique,* (Great Book of the Public Debt) in accordance with the decrees of August 15, 16, 17, and 24 and September 13, 1793, as former contracts with creditors had to be annulled (§34). An account was opened for the nation in the Great Book (§1, Art. 5). There were also political considerations that were brought to bear: "Let the debt contracted by tyranny be indistinguishable from that contracted since the Revolution," wrote Cambon in his report of August 15, 1793 on the Great Book of the Public Debt. He went on: "You will observe how the capitalist who wanted a king because the king was his debtor, and he was afraid to lose the money he was owed, will desire the Republic, who will have become his new debtor if his former debtor is not reinstated, for he will fear losing his capital should it fail."[41]

In France, there was no shortage of regime changes: the monarchy fell in 1789; the First Republic ended in 1804, and the First Empire in 1814; the monarchy fell again in 1848; the Second Republic ended in 1852, and the Second Empire in 1870; and so on—not to mention changes of dynasty. In 1830, the House of Orléans succeeded the Bourbons, who had regained the throne in 1815. Despite this political instability and repeated eruptions of revolution, Sack claims that the rule of transference of public debt from one regime to the next was always adhered to.[42]

But Sack only calls upon arguments that reinforce his position. The convention did recognize financial treaties and thus the debt of the monarchy, while it repudiated the political treaties of the ancien régime. Yet the burden of repaying the public debt and the people's refusal to pay on its own played a significant part in the 1789 French Revolution. As a consequence measures taken under the Revolution aimed at, and managed, the radical reduction of the burden of the public debt. Thomas Piketty sums up the way reforms succeeded each other as follows:

> The French monarchy's inability to modernize its tax system and eliminate the fiscal privileges of the nobility is well known, as is the ultimate revolutionary resolution, initiated by the convocation of the Estates General in 1789, that led eventually to the introduction of a new tax system in 1790–1791. A land tax was imposed on all landowners and an estate tax on all inherited wealth. In 1797 came what was called the "banqueroute des deux tiers," or "two-thirds

bankruptcy," which was in fact a massive default on two-thirds of the outstanding public debt, compounded by high inflation triggered by the issuance of *assignats* (paper money backed by nationalized land).[43] This was how the debts of the Ancien Régime were ultimately dealt with. The French public debt was thus quickly reduced to a very low level in the first decades of the nineteenth century (less than 20 percent of national income in 1815).[44]

Sack cites numerous examples of debt transfers that took place in spite of significant regime changes or even conquest or independence. In the eighteenth century, the United States honored its debts toward Great Britain, even as it declared the independence it had won by warfare.[45] When Belgium seceded from Holland in 1830, it took on part of the debt of the United Kingdom of the Netherlands of which it had been part, and paid indemnities.[46] Most of Spain's former colonies agreed to pay off the debts that had been incurred under Spanish rule.[47] In 1825, Brazil paid an indemnity to Portugal in order to obtain its independence.[48]

However, this principle of continuity in the transfer of debt from one regime to the next has been far from universal. We have seen above that in 1861 and 1867 the Mexican government repudiated debts that had been contracted by former governments. We will discuss how, in the nineteenth century and at the beginning of the twentieth century, several states successfully repudiated debts after a change of regime.[49]

However, we will first examine the doctrine of odious debt as developed by Sack. In spite of its obvious limitations due to its author's convictions, this doctrine has inspired a number of movements that find ways of fighting odious, illegal, illegitimate or unsustainable debts in Sack's work. This applies to the Committee for the Abolition of Illegitimate Debt (CADTM), whose position on odious debt will be presented. We wish here to go beyond Sack's doctrine, keeping what works and doing away with what is from the start unacceptable, and to add tenets that result from social and democratic victories that have had an influence on the development of international law after the Second World War.

Chapter 9

Odious Debt according to Sack and according to the CADTM

We can now look at the conditions for what Sack would call odious debt. The excerpt from Sack's book on the subject that is most referred to reads as follows:

> If a despotic power contracts debt, not for the needs and interest of the state, but to strengthen its despotic regime, to oppress the population that combats it, that debt is odious for the whole state. The debt need not be recognized by the Nation: It is a debt of the regime, a personal debt of the power that contracted it and consequently falls along with the power that contracted it.[1]
>
> These "odious" debts cannot be considered to be a liability of the state's territory because one of the necessary conditions that determine the regularity of state debt is missing; a state's debts must be incurred and the funds thus made available used for the needs and in the interests of the state. . . . "Odious" debts incurred and used, with creditors' foreknowledge, for purposes that are not in the interests of the Nation do not engage the Nation, should the Nation rid itself of the government that incurred them. . . . The creditors have committed a hostile act towards the people; they cannot therefore hold the people responsible for the debts that a despotic power incurred against the people's interest and are the personal debts of the despotic regime.[2]

Many of the remarks on this excerpt conclude that Sack pretends that for a debt to be "odious" it has to be contracted by a despotic regime. This is not Sack's position. In fact, as a jurist he considered that several circumstances could give rise to debt of an odious character. The above quote mentions only one possible circumstance.

The CADTM has committed the error of thinking that Sack considered a despotic regime to be a sine qua non condition of odious debt. We disagreed with

Sack on this point and have often expressed our disagreement. The despotic nature of the regime is a possible and aggravating condition but not an exclusive one. This misunderstanding came about partly due to some of Sack's formulations, but mostly because of the most widespread of the interpretations of Sack's doctrine. Authors such as Sarah Ludington, Mitu Gulati, and Alfred L. Brophy brought this error into focus, as they themselves seem to think that Sack was in error when he included the despotic nature of a regime as a necessary condition of odious debt.[3] Indeed they point out that former US president Taft, when judging the Tinoco affair (discussed in the next chapter), even though he ruled against repayment of an odious debt, took care not to emphasize the despotic nature of the Tinoco regime. In her article "The Doctrine of Odious Debts in International Law," the jurist Sabine Michalowski correctly summarizes Sack's criteria. She does not include among them the despotic nature of the regime.[4]

Five pages later, Sack gives more general criteria for defining an odious debt. In this wider definition, he does not mention despotic regimes:

> Consequently, for a debt, regularly incurred by a regular government . . . to be considered incontestably odious with all the consequences that follow, the following conditions must be fulfilled. . . :
>
> 1. The new government must prove and an international tribunal recognize that the following is established:
> a) that the purpose which the former government wanted to cover by the debt in question was odious and clearly against the interests of the population of the whole or part of the territory, and
> b) that the creditors, at the moment of the issuance of the loan, were aware of its odious purpose.
> 2. Once these two points are established, the burden of proof that the funds were used for the general or special needs of the state and were not of an odious character would be upon the creditors.

In this excerpt, Sack gives a more general rule. In the first sentence of the excerpt, he very clearly says that a regular government's debts may also be odious.

Sack defines a "regular government" as follows:

> By a regular government is to be understood the supreme power that effectively exists within the limits of a given territory. Whether that government be monarchical (absolute or limited) or republican; whether it functions by "the grace of God" or "the will of the people"; whether it express

> "the will of the people" or not, of all the people or only of some; whether it be legally established or not, etc., none of that is relevant to the problem we are concerned with.[5]

So in fact there is no doubt about Sack's position: that a regime be despotic is not a sine qua non condition that makes debts odious and susceptible to repudiation.[6] According to Sack, all regular governments, whether despotic or democratic of some kind, may be accused of having agreed to odious debts.[7]

What are the two criteria that establish a debt as odious? Looking again at Sack's remarks we see:

> The new government must prove and an international tribunal recognize that the following is established:
>
> a) that the purpose which the former government wanted to cover by the debt in question was odious and clearly against the interests of the population of the whole or part of the territory, and
>
> b) that the creditors, at the moment of the issuance of the loan, were aware of its odious purpose.

We can summarize in this way: a debt is odious if it is incurred against the interests of the population, and if the creditors were aware of that fact at the time.

In an opinion published in 2002 by the IMF review *Finance and Development*, Michael Kremer and Seema Jayachandran define the odious debt doctrine as follows:

> The legal doctrine of odious debt makes an analogous argument that sovereign debt incurred without the consent of the people and not benefiting the people is odious and should not be transferable to a successor government, especially if the creditors are aware of these facts in advance.[8]

This summary is at first sight convincing and does not mention, as an obligatory condition, the despotic nature of a regime. However, closer scrutiny shows that one of the conditions mentioned by the authors is not mentioned by Sack.[9] Namely: "it is incurred without the consent of the people." The fact that Sack does not mention this condition is quite coherent with his position that the nature of the government is of no importance in this matter.

If some readers still have doubts about Sack's position concerning despotic regimes, here is another quote:

> Even when a despotic power is overthrown by another despotic power that is no less despotic and no more reflective of the will of the people, the odious debts of the fallen power remain the personal debts of the regime and the new power is not liable for them.[10]

For Sack the purpose of the funds and the creditors' knowledge of that purpose are the only important elements.

Sack's comments on several debt repudiations and cancellations

As examples of odious debts, Sack cites debts that have personally enriched government representatives:

> We can also put into this category of debt, loans clearly incurred in the personal interest of government members or persons and groups related to government for purposes that are not related to the government.[11]

Sack says immediately after this that debts of this kind were repudiated in the US in the 1830s:

> Cf. the case of the repudiation of certain debts by several North American states. One of the main reasons justifying these repudiations was the squandering of the sums borrowed: they were usually borrowed to establish banks or build railways; but the banks failed and the railway lines were never built. These questionable operations were often the result of agreements between crooked members of the government and dishonest creditors.[12]

Note that in this particular case involving four different states, these debts were not incurred by despotic governments, as I'll discuss in the next chapter.

Sack gives another example:

> When a government incurs debt for the purpose of subjugating the population of a part of its territory or to colonize the same by its own colonists, these debts are odious for the indigenous population of that part of the territory.[13]

Sack mentions and comments on several cases. He starts by highlighting the fact that among the reasons the US repudiated the debts that Spain claimed on Cuba was that the debts had been used to maintain Spain's colonial domination over the Cuban people.

Then, Sack looks at two debt abolitions that were decided in the application of the Treaty of Versailles, signed June 28, 1919.

The first concerned German and Prussian debts incurred in order to colonize Poland and to install Germans on land purchased from Poles. Following the defeat of Germany, an independent Poland was restored. The Treaty of Versailles decreed that newly freed and independent Poland should not be held liable for debt that had been used to impose its own colonization and subjugation. Sack had reservations about this proviso; he considered that a part of the debt should not have been abolished because it was not odious:

> The borrowing of the Prussian government over the thirty years of its colonial occupation was for the purpose of the general budget or, at least, was not for odious purposes. These debts cannot be considered as "odious."[14]

Sack then comments on a second debt abolition in the Versailles Treaty. The German empire was relieved of its African colonies, and their debts were abolished. However, the colonies were not emancipated—they came under the control of the victorious powers. About this Sack cites an excerpt from the reply that the Allies made to Germany, which was not inclined to accept forgiveness of the debt of its ex-colonies, because it would have to continue the repayments itself. The Allies replied:

> The colonies should not bear any portion of the German debt, nor remain under any obligation to refund to Germany the expenses incurred by the Imperial administration of the protectorate. In fact, it would be unjust to burden the natives with expenditure which appears to have been incurred in Germany's own interest, and it would be no less unjust to make this responsibility rest upon the Mandatory Powers which, in so far as they may be trustees appointed by the League of Nations, will derive no benefit from such trusteeship.[15]

Sack's reasoning is different:

> We can question whether it is just . . . that the colonial debt not be put to the charge of the respective colonies, seeing that much of the funds were used on productive spending in these same colonies. . . . These considerations do not seem to be totally founded. Even if the spending was done in German interests it does not necessarily follow that it was odious for the colonies.[16]

What really highlights Sack's conservative, Eurocentric, and colonialist attitude is that he does not react to the Allies' hypocritical assertion that they would gain

nothing from exercising their new protectorates over Germany's ex-colonies. What's more, he considers that expenditures for the colonies were productive, whereas in fact they were used to rule over the peoples and to draw maximum profits toward the colonial powers.

Can we really talk of "Sack's odious debt doctrine"?

If we consider that a "doctrine" designates the totality of the opinions expressed by legal experts as the result of their reflection on a given rule or situation; if elaborating a doctrine means "A legal framework, defining it, placing it within the context of the law, defining its limits, its practical application, the social effects and at the same time making a systematic, analytical, critical and comparative examination,"[17] then it is justified to consider that Sack has elaborated an odious debt doctrine.

To develop his doctrine, he referred to an ample quantity of international treaties pertaining to arbitrations on questions of debt repayments concluded between the end of the eighteenth century and the 1920s; he analyzed the way disputes over debt had been treated and the legal, administrative, and judicial measures taken; he collected and classified the opinions of numerous authors (in fact only Europeans and Americans) who had studied the question. He presented his vision of the nature of debts, the obligations of the debtors and the rights of the creditors, the relations between successor states, the way debts and the effects of regime changes were shared, and defined the criteria for odious debts.

The doctrine is open to criticism, has weaknesses, gives priority to creditors, and does not consider human rights, but it does have a certain coherence. It must also be said that, although disparaged by influential detractors (the mainstream media, the World Bank, and numerous governments), it inspires numerous movements who look to Sack's work for solutions to cases of nefarious debt. Sack's two criteria for determining the existence of an odious debt that a nation may decide not to pay —lack of benefit for the population and creditor complicity—are applicable and justified.

Henceforth we must go beyond Sack's doctrine, using that which is applicable and rejecting what is unacceptable and adding elements related to the social and democratic advances that have been made in international law since the Second World War.

What must also be added to the odious debt doctrine is the liability of the creditors; they regularly violate the established treaties and other international

instruments for the protection of rights. The IMF and the World Bank have continually and deliberately imposed policies on debtor counties that violate many fundamental human rights. The troika that was established in 2010 to impose brutal austerity policies on Greece dictated laws that contravene several national and international conventions on rights. The creditors are more than mere accomplices to illegal and sometimes frankly criminal acts committed by governments. They are in some cases the instigators of these acts.

The experience that has been accumulated since Sack made his studies indicates that several of his positions may now be updated. A fundamental point that must now be rejected is the continuity of a state's liabilities, even in the case of a change in regime. Of course Sack is in favor of recognizing an exception—odious debt. But that is insufficient. Another point to reject is Sack's support for the current international financial system. Finally, Sack considers that a sovereign state may not unilaterally repudiate debts it has identified as odious without a ruling by a competent international court. Since Sack made this proposal, no international court of the sort has been created. Numerous proposals have been made, but none has been brought to fruition. Experience shows that another way must be chosen: a sovereign state that discovers that it has an odious debt can and should repudiate it unilaterally. The first steps toward this goal would be to suspend payments, and to conduct an audit with the participation of the citizens and without the participation of the creditors. That is what was done in Ecuador in 2007–2009.

A new doctrine of illegitimate, illegal, odious, and unsustainable debt needs to be elaborated. Movements such as the CADTM have taken on the task in collaboration with many other associations, and bringing together a wide variety of competences. The following is a long excerpt of the position adopted by CADTM in 2008,[18] which still remains pertinent:

> Several authors have further sought to develop the works of Sack and to adapt this doctrine to the present context. For example, the Centre for International Sustainable Development Law (CISDL) of McGill University in Canada has proposed this general definition: "Odious debts are those that have been incurred against the interests of the population of a state, without its consent and with full awareness of the creditors."[19] Jeff King[20] based his analysis on these three criteria (absence of consent, absence of benefit, awareness of creditors), and cumulative calculation, to propose a method to categorize these odious debts.

While King's analysis is interesting in many respects,[21] we argue that it is deficient, since it does not allow for the inclusion of all debts that should be qualified as odious. In fact, according to King, the mere establishment of a government by free elections is enough to disqualify its debts from being categorized as odious. However, history shows, through Hitler in Germany, Marcos in the Philippines, or Fujimori in Peru, that "democratically" elected governments can be violent dictatorships and commit crimes against humanity.[22]

It is thus necessary to analyze the democratic character of a debtor state beyond its appellation: Any loan must be considered odious if a regime, democratically elected or not, does not respect the fundamental principles of international law such as fundamental human rights, the sovereignty of states, or the absence of the use of force. The creditors, in the case of notorious dictators, cannot plead their innocence and demand to be repaid. In this case, the purpose of the loans is not fundamental for the categorization of the debt. In fact, financially supporting a criminal regime, even for hospitals and schools, is tantamount to helping the regime's consolidation and self-preservation. Firstly, some useful investments (roads, hospitals . . .) can later be used to odious ends, for example, to sustain war efforts. Secondly, the fungibility of funds makes it possible for a government that borrows to serve the population or the state—which, officially, is always the case—to generate other funds for less noble goals.

The nature of regimes aside, the purpose of funds should suffice to qualify debts as odious, that is, whenever these funds are used against the populations' major interests or when they directly enrich the regime's cohorts. In this case, the debts become personal debts, and not those of the state which is represented by its people and its representatives. Let's recall one of the conditions of debt regulation, according to Sack: "The debts of state have to be incurred and the funds that are derived must be used for the needs and in the interests of the state." Thus, multilateral debts incurred within the framework of structural adjustments fall into the category of odious debts, since the destructive character of these debts has been clearly shown, namely by UN agencies.[23]

In fact, considering the development of international law since the first theorization of odious debt in 1927, odious debts can be defined as those incurred by governments which violate the major principles of international

law such as those included in the Charter of the United Nations, the Universal Declaration of Human Rights, and the two complementing covenants on civil and political rights and economic, social and cultural rights of 1966, as well the peremptory norms of international law (*jus cogens*). This affirmation is confirmed by the 1969 Vienna Convention on the Laws of Treaties, whose Article 53 allows for the cancellation of acts which conflict with jus cogens[24] and which also includes the following norms: Prohibition of wars of aggression, prohibition of torture, prohibition of crimes against humanity, and the right of peoples to self-determination.

This spirit infuses the definition proposed by the Special Rapporteur Mohammed Bedjaoui in the report on the succession of state debts to the 1983 Vienna Convention: "From the point of view of the international community, odious debt is understood as any debt incurred for purposes that contradict contemporary international law, particularly the principles of international law incorporated in the UN Charter."[25]

Thus, the debts incurred by the apartheid regime in South Africa are odious, since this regime violated the UN Charter, which defines the legal framework of international relations. In a resolution adopted in 1964, the UN had asked its specialized agencies, including the World Bank, to cease financial support of South Africa. In contempt of international law, the World Bank ignored this resolution and continued to lend to the apartheid regime.[26]

International law also stipulates that debts resulting from colonization are not transferable to newly independent states, in conformity with Article 16 of the 1978 Vienna Convention, which provides that "A newly independent state is not bound to maintain in force, or to become a party to, any treaty by reason only of the fact that at the date of the succession of states the treaty was in force in respect of the territory to which the succession of states relates." Article 38 of the 1983 Vienna Convention on the succession of states with respect to states' property, archives, and debts (not yet applicable) is quite explicit in this respect:

1. "When the successor state is a newly independent state, no state debt of the predecessor state shall pass to the newly independent state, unless an agreement between them provides otherwise in view of the link between the state debt of the predecessor state connected with its activity in the territory to which the succession of states relates and the property, rights and interests which pass to the newly independent state,

2. The agreement referred to in Paragraph 1 shall not infringe the principle of the permanent sovereignty of every people over its wealth and natural resources, nor shall its implementation endanger the fundamental economic equilibrium of the newly independent state."

It should be kept in mind that the World Bank is directly involved in some colonial debts since in the 1950s and 1960s it generously loaned money to colonial countries for them to maximize the profits they derived from colonial exploitation. It must also be noted that the debts granted by the World Bank to the Belgian, French, and British authorities within their colonial policies were later transferred to the newly independent states without their consent.[27]

Moreover it did not comply with a 1965 UN resolution demanding that it stop its support to Portugal as long as that country maintained its colonial policy.

We must also define as odious all debts incurred in order to pay back odious debts. The New Economics Foundation[28] rightly considers that loans contracted in order to pay back odious loans are similar to a laundering operation. Auditing debts will determine which loans are legitimate.

While there are dissensions on the definition of odious debts, the legal debate takes nothing away from its relevance and cogency. On the contrary, such debate reflects just what is at stake for both the creditors and the debtors and is simply the transfer of conflicting interests onto a legal level. Several cases have shown that the notion of odious debt is a legally valid argument not to pay debts.

A long list of debt cancellations or repudiations from the nineteenth until the twenty-first century

The list of debt cancellations or repudiations that invoke the argument of their illegitimate or odious character in one way or another is long. A nonexhaustive list would include the following:[29] The three waves of debt repudiations by the United States in the 1830s, 1860s, and 1870s; Portugal's repudiation of debts in 1837; the Mexican debt repudiations in 1861, 1867, 1883 and in the 1910s; Peru's repudiation of the debt claimed by the Paris bank Dreyfus in 1886; the 1898 repudiation of the debt demanded of Cuba by Spain; Britain's repudiation of the debt on the Boers after the conquest of the Boer Republics in 1899–1900; the repudiation by the Bolsheviks in 1918 of the debt left by the tsars; the cancellation

of Germany's debts on Poland and its African colonies in 1919; the abolition by the Bolsheviks of the debt of the three Baltic states in 1920 and of Poland's, Persia's, and Turkey's debts in 1921; the repudiation by Costa Rica of the debt claimed by the Royal Bank of Canada in 1922–1923; the cancellation of all deeds contracted between the former tsarist government and China in 1924; the large debt repudiations made by Brazil and Mexico in 1942–1943; the Chinese debt repudiations in 1949–1952; the repudiation by Indonesia of the debt claimed by the Netherlands in 1956; the repudiations by Cuba in 1959–1960; the repudiation of the colonial debt by Algeria in 1962; the repudiation by Iran in 1979 of the debts contracted by the shah to buy armaments; the three Baltic republics' repudiation of the debts inherited from the USSR in 1991; the abolition of Namibia's debt by Nelson Mandela's South African government in 1994; the abolition of Timor-Leste's colonial debt in 1999–2000; the abolition of 80 percent of Iraq's debt in 2004; Paraguay's repudiation of debts to Swiss banks in 2005[30]; Norway's relaxing of its claims on five countries (Ecuador, Peru, Sierra Leone, Egypt, and Jamaica) involving debts concerning production and delivery of fishing boats in 2006[31]; the abolition, in 2009, of the part of the Ecuadorian debt that had been identified as nonlegitimate by the 2007–2008 debt audit commission; and others.

Chapter 10

Debt Repudiations between 1830 and 1930

Calling the legitimacy of debt into question and denouncing it as odious have been regular practices of government leaders who resorted to debt repudiation during the nineteenth and early twentieth centuries.

These concrete exceptions to the rule of continuity of contracts between a state and its creditors led Alexander Nahum Sack to define the conditions for calling a debt odious. From Sack's point of view, the goal was to see to it that some order reigned with regard to acts of repudiation and to warn creditors of the risks they took in granting credits that might fall under the criteria for odious debt. This chapter sketches a panorama of debts that were repudiated during the period covered by Sack's book.

A subsequent chapter will be devoted solely to the repudiation of tsarist debt by the Soviet government in 1918. Let us recall here that Sack considered this repudiation unjustified; he also felt that the Soviet government should have demanded that Poland repay part of the debts of the Russian Empire, which had annexed Poland, once it had been freed of the tsarist and German yoke after the First World War. The case of Mexico, which was discussed in a previous chapter and will be examined in the next one, will also not be mentioned in this chapter.

Portugal's debt repudiation in 1837

After an armed struggle for succession that lasted from 1831 to 1834, Queen Maria of Portugal repudiated a loan issued in 1833 by the self-proclaimed king, Dom Miguel. She justified the repudiation by saying that bankers should not have lent money to a usurper. The loan had been issued in Paris in 1833 through the bankers Outrequin and Jauche for a sum of FF 40 million, to be repaid over thirty-two years at 5 percent interest. The bankers had not hesitated to take risks, organizing the launch of the bond issue even as the two armies in Portugal confronted each other

over the succession to the throne.

As on previous occasions, the bankers had retained from the amount raised for Dom Miguel on behalf of Portugal the equivalent of eighteen months' interest and paid it out to the bondholders. Once Dom Miguel was overthrown in 1834, his repayments naturally ceased. Queen Maria suspended repayment in 1835–1836 before repudiating the debt outright in 1837.

Bondholders set up a repayment committee that over fifty-four years initiated numerous actions to try to obtain repayment.[1] In 1891, one of Maria's successors finally agreed to pay a paltry amount, equivalent to FF 2.5 million (remember that the initial loan was for FF 40 million). Two and a half million was the amount Queen Maria had managed to recover from the treasury of Dom Miguel.

It is noteworthy that despite the suspension and repudiation of the debt and the ensuing protests, Portugal was able to float fresh loans in Paris and London as of 1836–1837. Although Portugal rapidly defaulted on these loans, between 1856 and 1884 fourteen further loans were issued, to the tune of £58.4 million.

Sack does not mention this successful repudiation, perhaps because it might undermine his argument in favor of the principle of states' continued obligations regarding debts.

Three waves of public debt repudiations in the United States during the nineteenth century

In the 1830s, four of the United States—Mississippi, Arkansas, Florida, and Michigan—repudiated their debts. The creditors were mainly British. Sack writes, in this regard:

> One of the main reasons justifying these repudiations was the squandering of the sums borrowed: They were usually borrowed to establish banks or build railways; but the banks failed and the railway lines were never built. These questionable operations were often the result of agreements between crooked members of the government and dishonest creditors.[2]

Creditors who attempted to prosecute the states that had repudiated their debts in a US federal court had their suits thrown out. To justify its rejection of the actions, the federal justice system used the Eleventh Amendment to the US Constitution, which stipulates:

> The judicial power of the United States shall not be construed to extend to any

suit in law or equity, commenced or prosecuted against one of the United States by citizens of another state, or by citizens or subjects of any foreign state.

Consequently, this unilateral act of repudiation was a success. Sack does not mention this decision of the federal courts, probably because it would have weakened his argument that private creditors should be able to win litigation against a state that does not repay its debts. The justifications for the repudiation were improper use of the borrowed funds and the dishonesty of both the borrowers and the lenders, and Sack correctly sums up this point. There is no mention of any despotic regime.

Following the US Civil War (1861–1865), the federal government required the Confederate states to repudiate the debts they had contracted in order to carry on the war. That is one purpose of the Fourteenth Amendment to the US Constitution, which stipulates that "neither the United States nor any state shall assume or pay any debt or obligation incurred in aid of insurrection or rebellion against the United States."[3] The creditors had purchased securities issued by European bankers on behalf of the Confederate states, mainly in London and Paris.[4] The justification for the repudiation was that the loans had served to finance the rebellion of the Southern states, united against the US in the Confederacy. The issue was not whether the Confederate regime was or was not despotic in nature. It was the purpose of the loans, and above all the fact that they had been contracted by rebel forces, that was cited as justification.

A third wave of repudiations took place in the US after 1877. Eight Southern states[5] repudiated their debts on the grounds that the loans made during the period between the end of the US Civil War and 1877 had been contracted by corrupt politicians (including former slaves) who were supported by the Northern states. This repudiation, though valid according to the principles developed herein, surely was motivated by racism on the part of government officials (generally members of the Democratic Party) who had returned to power in the South after the withdrawal of the federal troops who occupied the South until 1877. Sack does not mention this repudiation.

Peru loses its case after repudiating an illegal and odious debt

A few years after the US repudiations, at a time when Mexico, among other relatively new Latin American states, had already successfully confronted its creditors, Peru also repudiated its debts. But it agreed to bring its case—in which its

adversary was France, which had given its support to its dishonest bankers—before the Court of Arbitration at The Hague. Peru was sentenced to repay an odious debt. It had not benefited the population, and the creditors were fully aware of that.

According to the Constitution of Peru of November 1860 (as well as the constitution of 1839), Article 10: "The acts of those who have usurped public functions and employment entrusted to them under the conditions set forth in the Constitution and the Laws shall be null and void."[6]

In December 1879 the government of Peru was overthrown by Nicolás de Piérola, who took power and proclaimed himself supreme commander in chief of the republic. His government was recognized by England, France, Germany, and Belgium.

Nicolás de Piérola was corrupted by French bankers, in particular the Dreyfus bank, to which Piérola, while finance minister (1869–1871), had granted a monopoly on the exportation of guano, a natural fertilizer highly valued in Europe at the time. Dreyfus agreed to pay FF 365 million in exchange for 2 million tons of guano having a resale value of FF 625 million. The Dreyfus bank was also entrusted with managing Peru's external debt. In other words, Dreyfus agreed to advance funds to the government in an amount of FF 75 million the first year and FF 67 million during the following years and to handle debt service for Peru. Under Article 32 of the contract the government handed over all the nation's revenues as collateral, should guano not suffice to cover these advances. The agreement was ratified in Peru on August 17, 1869.

The Dreyfus bank decided to suspend repayment of Peru's external debt in early 1876 on the grounds that the revenue it derived from guano was insufficient to continue repayment.[7] It turned out that Piérola was in the pay of French and British bankers and of a part of the local oligarchy.

After the fall of the dictator and the return to constitutional order, Peru's law of October 25, 1886, declared all prior acts of his government null and void.

The case was brought before an international arbitral tribunal. This demonstrates the weakness of Sack's contention that private creditors' relations with states are governed by private law and not by public law. Since private creditors could not (yet) prosecute a state before a tribunal for breach of contract, they relied on "their" state (in this case, France) to defend their interests against the debtor state. In the case in question, the French state took up the defense of French bankers before an international arbitral tribunal in order to obtain redress against the debtor state, Peru.

During arbitration between France and Chile,[8] the arbitral tribunal, in its ruling of July 5, 1901, handed down the following opinion regarding the government of Nicolás de Piérola:

> The ability of a government to represent the state in its international relations in no wise depends on the legitimacy of its origin. . . . The usurper who in fact holds power with the express or tacit assent of the nation acts and negotiates treaties legitimately in the name of the state, which the legitimate government, once restored, is bound to honor.[9]

The Permanent Court of Arbitration at The Hague, during arbitration between France and Peru, ruled on October 11, 1921, that the law adopted by Peru on October 25, 1886, was of little import, as it could not be deemed to apply to foreign nationals who had negotiated in good faith. It is clear from this ruling that the court was defending the interests of the French and British bankers.

The example of Peru, when compared with other examples of repudiation, demonstrates an important point: it is preferable for a new government facing litigation with creditors demanding repayment of an odious debt to unilaterally repudiate on the grounds of arguments of internal and international law than to seek international arbitration. That is because only in quite exceptional circumstances—if a superpower (from the North) defends the cause of the weak party out of personal interest—can the weaker party (a debtor country of the South) win against the powerful one (from the North) through arbitration. We will see that that is what happened with the arbitration in the conflict between Costa Rica and Britain in the 1920s. The number of arbitrations that have led to the indebted country losing against the creditor powers is much greater than those that have led to a favorable solution for the debtor country.

But first, in order to follow the chronology, let us deal with the United States' repudiation of the debts claimed by Spain against Cuba, following the Spanish-American War of 1898.

The US repudiation of the debt demanded by Spain from Cuba in 1898

The US declared war on Spain in the middle of 1898 and sent its navy and troops to liberate Cuba from the Spanish yoke. Spain was defeated, and negotiations between the two countries began in Paris in order to reach a peace agreement, finally signed in December 1898.[10]

During these negotiations, the Spanish authorities defended the following position: since the United States had taken its colony, the US was obliged to honor Cuba's debts to Spain. Such were the rules of the game. And indeed the rules cited by Spain did constitute common practice in the nineteenth century. A state that annexed another state must assume its debts. Sack gives several examples of this.

The United States refused, saying it was not its intention to annex Cuba. In substance, it declared: "We liberated Cuba and gave assistance to independentists who had been fighting you for several years."

The Spanish answered that if Cuba became independent, it must repay the debt, as had all the other Spanish colonies that had become independent during the nineteenth century.

The United States categorically rejected Spain's demand of payment from Cuba. Finally, Spain signed the peace treaty with the United States and gave up on recovering the debt.

The most common version of the narrative of what took place tends to suggest that the United States rejected Spain's debt claims against Cuba because that debt had served to maintain Cuba and the Cuban people under the Spanish yoke. But when we analyze the content of the negotiations, the explanation is very different. Admittedly, the United States advanced this argument, but it was only one among many others they used to justify their position.

What were the arguments advanced by the United States?

1. Spain had issued Spanish securities in Europe with French and British bankers in the name of Cuba. Spain was guarantor of the issuance of these securities and they were backed by revenue from the Cuban customs and other taxes. The majority, if not all, of the bonds issued by Spain in Cuba's name, and the wealth they generated, remained in Spain.
2. Strictly speaking, there was no such thing as a Cuban debt because Cuba, as a colony, did not have the right to issue securities on its own initiative or in its own name. The island's finances were controlled exclusively by the Spanish government.
3. There was no proof that the Spanish bonds secured by Cuba's revenues were actually used for projects that were beneficial to Cuba. Quite to the contrary, the history of Cuba's finances as a colony showed that revenue from the island was absorbed by Spain's national budget. In fact, until 1861, Cuba produced revenues well above the expenditures made by the Cuban

government put in place by Spain. The revenue in excess of those expenditures was transferred in large part to Spain. Then, when Spain mounted costly military expeditions in Mexico, in Santo Domingo, and against the independentists in Cuba, Cuba's finances began to go into the red. In other words, Cuba had begun to run a budget deficit because Spain was using Cuba's revenues to finance colonial wars both outside Cuba and within Cuba itself. The Spanish military expeditions into Mexico and Santo Domingo used Cuba as their base.

4. Based on arguments 1 and 3, the United States' position was that Cuba's debtor status was a fiction since the so-called "Cuban" debts were in reality Spain's. The United States argued that Spain's budget absorbed the surplus produced by the island while saddling it with loans that in fact served its own interests and not Cuba's.

Only after having used the preceding arguments did the United States add the well-known moral argument:

> From the moral point of view, the proposal to impose these debts upon Cuba is equally untenable. If, as is sometimes asserted, the struggles for Cuban independence have been carried on and supported by a minority of the people of the island, to impose upon the inhabitants as a whole the cost of suppressing the insurrections would be to punish the many for the deeds of the few. If, on the other hand, those struggles have, as the American Commissioners maintain, represented the hopes and aspirations of the body of the Cuban people, to crush the inhabitants by a burden created by Spain in the effort to oppose their independence would be even more unjust. . . . [The instances of state practice adduced by Spain] are conceived to be inapplicable, legally and morally, to the so called "Cuban debt," the burden of which, imposed upon the people of Cuba without their consent and by force of arms, was one of the principal wrongs for the termination of which the struggles for Cuban independence were undertaken.[11]

In light of these arguments by the United States, Spain changed its tactics in the negotiations. It proposed that the Cuban debts be submitted for international arbitration in order to determine what share had actually been used in Cuba's interest. Spain offered to bear the burden of that share of the debts that had not served Cuba and asked the United States to take responsibility for the other part or

transfer it to the newly independent Cuban state. The US negotiators telegraphed President McKinley to ask his opinion. He responded by making it clear that the United States would not agree to take on any Cuban debt and would not encourage Cuba to agree to do so.

In conclusion, the United States clearly repudiated the debt claimed by Spain from Cuba.

In 1909, after the United States had withdrawn its troops from Cuba, Spain demanded that the "independent" government of Cuba repay a portion of the debt. Unsurprisingly, Cuba refused, arguing that the Treaty of Paris of December 1898, which ended the conflict between Spain and the United States, had canceled all debts. From that point, Spain was forced to negotiate with its French and British creditors.

Further, it needs to be stressed, on the one hand, that at no time did the United States invite the Cubans to send delegates to participate in the negotiations held in Paris; and, on the other hand, that the United States made use of the argument relating to the despotic nature of the colonial regime only secondarily. It concentrated on the use that Spain had made of the so-called Cuban loans to demonstrate that it was Spain, first and foremost, that benefited from them. It also showed that Spain, and not Cuba, was the actual borrower.

Why the US repudiation of the debt claimed from Cuba in 1898 is relevant to Greece today

A parallel needs to be drawn with the current situation in Europe. In fact, the comparison with the Washington-Madrid-Havana conflict in 1898 is of capital importance if we study the situation in the 2010s of Greece and other countries such as Cyprus or Portugal.

After 2010, many recent studies demonstrate that the amounts Greece is being held responsible for were never transferred to the Greek authorities. They served mainly to repay private foreign banks, in particular French and German ones. Since 2010, credits have been granted to Greece by fourteen states of the Eurozone, by the IMF, and by the European Stability Mechanism (ESM), which took over from the European Financial Stability Facility (EFSF), because Greece (like Cuba under Spanish domination) no longer has access to the financial markets. Thus the loans are in fact contracted by third parties and then imposed on Greece under extremely harsh conditions. Less than 10 percent of the debt amounts imposed on Greece

since 2010 have actually transited via Greece's budget, and those sums have been used to finance counterreforms and privatizations. The borrowers mentioned above get financing from private European banks and then use their credit to repay them without the borrowed amounts ever actually going to the Greek treasury. It can be demonstrated that these loans have been of no benefit to the Greek people. They have not improved the country's economic and financial situation. Quite to the contrary.

It should be added that, initially, the fourteen countries of the Eurozone that granted credits to Greece made profits at the country's expense by demanding abusive interest rates (between 4 and 5.5 percent) between 2010 and 2012. The IMF also profited at Greece's expense, as did the European Central Bank (ECB).[12]

That Greece is a borrower nation has been a fiction since 2010. That fiction serves the interests of the principal powers of the Eurozone, beginning with Germany and France. These major powers themselves defend the interests of their major corporations, be they banking, industrial (and in particular arms makers), or commercial firms. The major powers have convinced twelve other Eurozone member countries and the IMF to maintain the fiction, with the complicity of the Greek authorities. The ESM and the ECB participate in furthering the narrative. Big capital in Greece (banking, shipping, and the like) itself profits from the situation.

Unilateral debt repudiation by Costa Rica with Washington's support

In January 1917, the government of Costa Rica, under president Alfredo González, was overthrown by his secretary of the army and navy, Federico Tinoco, who called for new elections and established a new constitution in June 1917. The Tinoco putsch was supported by the oligarchy, which rejected the policies of the previous government. For good reason—it had decided to levy a tax on property and a progressive income tax.[13] Tinoco also had the support of the director of the infamous North American transnational United Fruit Company (Chiquita Brands International since 1989), who was known to have contributed to the overthrow of several governments in Latin America in order to maximize its profits.

The Tinoco government was then recognized by several South American states, as well as Germany, Austria, Spain, and Denmark. The United States, Britain, France, and Italy refused to recognize it.

In August 1919, Tinoco left Costa Rica, taking with him a large sum of money

that he had just borrowed in his country's name from a British bank, the Royal Bank of Canada.[14] His government fell in September 1919. A provisional government then restored the former constitution and called for new elections. Law No. 41, of August 22, 1922, declared null and void all contracts entered into between the executive power and private individuals, with or without the approval of the legislature, between January 27, 1917, and September 2, 1919; it also annulled Law No. 12, of June 28, 1919, which had authorized the government to issue sixteen million colones (the Costa Rican currency) in paper money. It is worth pointing out that the new president, Julio Acosta, at first vetoed the debt repudiation law, arguing that it went against tradition, which was to honor international obligations contracted toward creditors. But the Constitutional Congress, under popular pressure, maintained its position, and the president finally rescinded his veto. The law repudiating debts and all contracts entered into by the previous regime constitutes a clear break with the tradition of continuity of obligations of states despite a change of regime. The unilateral sovereign decision by Costa Rica clearly resembles the decisions made in 1861 and 1867 by president Benito Juárez, supported by the Congress and the people of Mexico, to repudiate the debts claimed by France.[15] It is also in line with the Bolshevik decree repudiating tsarist debts, adopted in 1918.

Great Britain threatened Costa Rica with military intervention if it did not compensate the British companies affected by the repudiation of the debts and contracts. These companies were the Royal Bank of Canada and an oil company, British Controlled Oilfields Ltd. London sent a warship into Costa Rica's territorial waters.[16] Costa Rica held to its position of refusing compensation by loudly and clearly proclaiming:

> The nullity of all the acts of the Tinoco regime was definitively settled by a decree of the Constitutional Congress of Costa Rica, which was the highest and ultimate authority having jurisdiction upon that subject, and its decision on that question, made in the exercise of the sovereign rights of the people of Costa Rica, is not open for review by any outside authority.[17]

In order to find a solution, Costa Rica agreed to call in an international arbitrator in the person of William Howard Taft, chief justice of the US Supreme Court, to express his opinion on the two main disputes with Great Britain—the Royal Bank of Canada question and that of an oil concession that had been granted by the dictator Tinoco to British Controlled Oilfields Ltd.

By involving Taft, who had been president of the United States from 1909 to 1913, Costa Rica hoped to win its case by taking advantage of Washington's interest in marginalizing Great Britain in the region. And that is indeed what happened.

Taft's decision was to reject London's demands for compensation. It is important to look closely at Taft's arguments. From the start, he clearly establishes the principle that the despotic nature of the Tinoco regime was of no importance. In his opinion, Taft states:

> To hold that a government which establishes itself and maintains a peaceful administration, with the acquiescence of the people for a substantial period of time, does not become a de facto government unless it conforms to a previous constitution would be to hold that within the rules of international law a revolution contrary to the fundamental law of the existing government cannot establish a new government.[18]

Which means that Taft rejects Costa Rica's argument involving the nature of the Tinoco regime. According to Taft, Tinoco, who de facto exercised control over the state even if he did not respect the constitution, had the right to contract debts in the name of that state. He even adds that Tinoco had the assent of the population.

Taft's argument, cited above, opens the way to the recognition of revolutionary governments who come to power without respecting the constitution. Taft declares that if we exclude the possibility of an unconstitutional government becoming a regular government, it implies that international law would prevent a people who have carried out a revolution from setting up a new legitimate government—which, according to Taft, is inconceivable. Of course, in practice, what has happened most often over the last two centuries is recognition (and support by the government in Washington, in particular) of dictatorial regimes that have overthrown democratic regimes; support for these dictatorial regimes in getting financing abroad; and pressure being put on democratic regimes that succeed them to shoulder the debts contracted by the dictatorship. This underscores the difference between the theory, based on the history of the birth of the United States out of rebellion against a constitutional British regime in 1776, and the actual practice and policies of the United States.

Taft's opinion contains a passage that affirms that the rule of continuity of obligations of states must be respected despite a change in regime:

> Changes in the government or the internal policy of a state do not as a rule

> affect its position in international law. . . . though the government changes, the nation remains, with rights and obligations unimpaired. . . . The principle of the continuity of the states has important results. The state is bound by engagements entered into by governments that have ceased to exist; the restored government is generally liable for the acts of the usurper.[19]

This clearly shows the conservative nature of Taft's position. Yet Taft supports Costa Rica against Britain on the basis of other important arguments. Taft says that the transactions between the British bank and Tinoco are full of irregularities and that the bank is liable for them. He adds:

> The case of the Royal Bank depends not on the mere form of the transaction but upon the good faith of the bank in the payment of money for the real use of the Costa Rican Government under the Tinoco régime. It must make out of its case of actual furnishing of money to the government for its legitimate use. It has not done so.[20]

Let's follow Taft's reasoning: Tinoco could contract loans even though he took power in violation of the country's constitution, but he needed to do so in the interest of the state. Taft says that Tinoco contracted the loans from the Royal Bank of Canada for his personal benefit.[21] Taft adds that the bank was fully cognizant of the fact and was therefore a direct accomplice. According to Taft's reasoning, had Tinoco borrowed money to develop the railway network, the regime that succeeded him would have been under obligation to repay the debt.

The United States' motivation regarding the two repudiations (Cuba and Costa Rica)

The United States' motivation in the two repudiations just analyzed (Cuba in 1898 and Costa Rica in the 1920s) is clear: to increase its influence and power in the region. Cuba was in a strategic location for Washington; the rich island was just a stone's throw from the coast of the United States. With Puerto Rico, which the United States had also taken from Spain in 1898, Cuba was the last Spanish colony in the Americas. As for Costa Rica, it is part of Central America, which the United States considers its own "backyard." Until then, Great Britain had been the dominant financial power in the entire region. The United States was very pleased to oust a large British bank from the country and send a warning to everyone else: other repudiations could take place, since the British banks, like the French banks,

had dirtied their hands in highly irregular affairs that kept Latin American countries in debt. And the US banks were chomping at the bit to take over that action themselves.

In 1912, Taft, then president of the United States, had said in a speech:

> The day is not far distant when three Stars and Stripes at three equidistant points will mark our territory: One at the North Pole, another at the Panama Canal, and the third at the South Pole. The whole hemisphere will be ours in fact as, by virtue of our superiority of race, it already is ours morally.[22]

President Taft actively backed the extension of North American banks into Latin America in general and Central America in particular.[23] In December 1912, he declared before Congress:

> The Monroe doctrine is more vital in the neighborhood of the Panama Canal and the zone of the Caribbean than anywhere else. There, too, the maintenance of that doctrine falls most heavily upon the United States. It is therefore essential that the countries within that sphere shall be removed from the jeopardy involved by heavy foreign debt and chaotic national finances and from the ever-present danger of international complications due to disorder at home. Hence the United States has been glad to encourage and support American bankers who were willing to lend a helping hand to the financial rehabilitation of such countries.[24]

Thus Taft's ruling in favor of Costa Rica was highly calculated. He refused to support Costa Rica's argument concerning the despotic and unconstitutional nature of the Tinoco regime,[25] whereas it would have been easy to put that argument forward, since Washington and London had both refused to recognize that regime. He chose other arguments. He wanted to avoid establishing a precedent based on the democratic or nondemocratic nature of a regime. He knew perfectly well that Washington and US corporations were supporting dictators, and would continue to support dictators in the future—not to mention actively contributing to putting them in power.

Arguments used by Taft that could inspire Greece, Argentina, Tunisia, and others

Certain arguments used by Taft are useful to the cause of the Greeks and other peoples groaning under the weight of debt.

Taft asserts that the debts and other obligations contracted by Tinoco are null and void because he did not adhere to the constitution he himself had adopted after his coup. That constitution stipulated that the type of obligations Tinoco had contracted required a joint vote of the Senate and the Chamber of Deputies. However, only the Chamber of Deputies had voted in favor of granting the oil concession and the tax exemptions to the British company. Consequently, according to Taft, the contract was not valid.[26]

As many Greek jurists and the Greek Debt Truth Commission have pointed out, Articles 28 and 36 of the Greek constitution were violated at the time of the adoption of the Memorandum of Understanding of 2010, which resulted in the accumulation of a new debt of €120 billion.[27] Regardless of the democratic or nondemocratic nature of the regime in place in Greece, the fact that it contracted obligations toward creditors in violation of the Greek constitution is in itself an argument for nullity. Obviously numerous other arguments can be added to that one in establishing the legality of repudiating the debts whose repayment is being demanded by Greece's current creditors.

If we move to another spot on the planet, that argument could also be used in Argentina to justify repudiation of the obligations contracted with foreign creditors by the various democratic regimes that have succeeded one another since the fall of the dictatorship in 1983. Argentina's constitution does not allow the courts of another state to be given jurisdiction when the nation contracts debts or other types of obligations.

Another argument in the opinion handed down by Taft is useful. Recall that Taft declared that the bank "must make out its case of actual furnishing of money to the government for its legitimate use." It is clear that the creditors who have granted loans to Greece, Portugal, Cyprus, Ireland, and Spain since 2010 are incapable of demonstrating "furnishing of money to the government for its legitimate use," since that money has served mainly to repay foreign banks in the major lender countries and since the loans were granted on condition that policies contrary to the interests of the country be conducted.

This argument also applies to the debts contracted by Tunisia and Egypt after the fall of those dictatorships in 2011. The debts were not contracted in the interests of the people and of the nation, but rather in order to pay back the previous loans, which had been contracted by dictatorships. They were not contracted for legitimate purposes.

In conclusion, the interest of Taft's ruling is that it does not base the nullity of the

debts claimed against Costa Rica on the despotic nature of the regime that contracted them. Taft's ruling is founded on the use that was made of the loans and on adherence to the country's internal legal standards. The ruling affirms that while in principle there is a continuity of obligations of states even in the case of a change of regime, those obligations may be repudiated if the funds borrowed were not used for legitimate purposes. He adds that if the contracts resulted in violation of the internal rules in force in the country (for example its constitution) or contained irregularities, that country has the legal right to repudiate those contracts.

We have no sympathy for Taft, and it is obvious that his motives were anything but disinterested. But whether we like it or not, Taft's arbitration constitutes an international reference for application of the law with respect to debts and other obligations. It is fundamental for states to avail themselves of their right to repudiate illegitimate debts.

The United States' policy toward its neighbors in the Americas

In 1823, the government of the United States adopted the Monroe Doctrine. Named after a Republican president of the US, James Monroe, it condemned any European intervention in the affairs of "the Americas." In reality, the Monroe Doctrine served as cover for a policy of more and more aggressive conquests on the part of the US, to the detriment of the newly independent Latin American states, beginning with the annexation of a large part of Mexico (today's Texas, New Mexico, Arizona, California, Colorado, Nevada, and Utah) in the 1840s. North American troops occupied Mexico's capital city in September 1847. It should also be pointed out that the US government attempted to exterminate all native peoples, the "redskins," who refused to submit. Those who did submit were still subjected to atrocities and ended up on reservations.

In 1898, as we have seen, the United States declared war on Spain and took control of Cuba and Puerto Rico.

In 1902, in contravention of the Monroe Doctrine, Washington did not come to the defense of Venezuela when it was the victim of armed aggression by Germany, Britain, Italy, and Holland, with the goal of forcing the country to repay debt. Then, the United States intervened diplomatically to see to it that Caracas resumed debt repayment. This attitude on the part of Washington gave rise to a major controversy with Latin American governments, and in particular with the Argentine minister of foreign affairs, Luis M. Drago, who declared:

> [The principle I would like see recognized is that] a public debt cannot give rise to the right of armed intervention, and much less to the occupation of the soil of any American nation by any European power.[28]

This principle was to become known as the Drago Doctrine. The debate among governments ended in an international conference at The Hague, which led to the adoption of the Drago-Porter Convention (named for Horace Porter, a US soldier and diplomat) in 1907. It called for arbitration to be the first means of solving conflicts: any state signing the convention must agree to submit to an arbitration procedure and participate in it in good faith, failing which the state demanding repayment of its debt would have the right to use armed force.

In 1903, US president Theodore Roosevelt organized the creation of Panama, which was separated from Colombia against that country's will. This was done to allow the Panama Canal to be built under Washington's control.

In 1904, the same president announced that the United States considered itself to be the policeman of the Americas. He pronounced what is known as the "Roosevelt Corollary to the Monroe Doctrine":

> Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power.[29]

In 1915 the United States invaded Haiti under the pretext of recovering debts and occupied the country until 1934. Eduardo Galeano writes:

> The United States occupied Haiti for twenty years and, in that black country that had been the scene of the first victorious slave revolt, introduced racial segregation and forced labor, killed 1,500 workers in one of its repressive operations (according to a U.S. Senate investigation in 1922), and when the local government refused to turn the Banco Nacional into a branch of New York's National City Bank, suspended the salaries of the president and his ministers so that they might think again.[30]

Other armed interventions by the United States took place during the same period, but an exhaustive list would be too long.

This brief summary of the intervention and policies of the United States in the

Americas in the nineteenth and early twentieth centuries gives us an understanding of Washington's true motives in the debt repudiations in Cuba in 1898 and Costa Rica in the 1920s.

In 1935, Major General Smedley D. Butler, who took part in many US expeditions in the Americas, writing during his retirement, described Washington's policies as follows:

> I spent 33 years and four months in active military service and during that period I spent most of my time as a high class muscle man for Big Business, for Wall Street and the bankers. In short, I was a racketeer, a gangster for capitalism. I helped make Mexico and especially Tampico safe for American oil interests in 1914. I helped make Haiti and Cuba a decent place for the National City Bank boys to collect revenues in. I helped in the raping of half a dozen Central American republics for the benefit of Wall Street. I helped purify Nicaragua for the International Banking House of Brown Brothers in 1902–1912. I brought light to the Dominican Republic for the American sugar interests in 1916. I helped make Honduras right for the American fruit companies in 1903.[31]

Chapter 11

Mexico's Victory against Its Creditors (1914–1942)

From 1914 onward and for almost thirty years, under the pressure of a genuine popular revolution, Mexico again suspended debt repayment. Over that period, usually with strong popular mobilization, significant economic and social reforms were carried out, and after the Second World War the Mexican economy was strong and healthy.

This often ignored page of history deserves our attention and should inspire current popular struggles. Indeed, it shows that the obdurate struggle of a dominated country against large powers and international finance makes it possible to achieve significant social progress.

The Mexican Revolution, 1910–1920

The Mexican Revolution had deep-seated implications. The principal protagonists were the indigenous peasantry (who made up the majority of the population), while the workers' role, although important, was only secondary. Nevertheless, the repression of the miners in 1906 in Cananea, in the east of the state of Sonora, and of the workers of Río Blanco, in Veracruz, had exacerbated popular discontent and contributed to creating the conditions that led to the revolution.

'HE BEGINNINGS OF THE MEXICAN WORKERS' MOVEMENT

uring the Porfiriato, the workers first organized in the mines, then on the railways. In the former, e proletariat had the benefit of the revolutionary trade union experience of the US miners. The orkers' movement was also nourished by class struggles in many parts of the world, notably the perience of the Paris Commune in 1871. Socialist publications appeared: El Socialista in 1872 nd La Comuna in 1874, which later became La Comuna Mexicana. The first labor confederation,

ıe Great Circle of Workers, active in the textile industry and crafts, appeared in 1872. This ganization started to dissolve in 1879, separating into factions supporting two different bourgeois ındidates in the 1880 elections. Adolfo Gilly writes:

> This decomposition of the Great Circle marked the end of the epoch and coincided with the beginning of the period of impetuous capitalistic development of the 1880s–90s, when the young industrial proletarian movement produced a more authentically union-based organization, especially in the railways, mines and textile industries.[1]

Despite the fierce repression of the Porfirio Díaz regime, there were 250 strikes between 1876 ıd 1911. Whether successful or not, they developed the political organization of the productive rces against the contradictions of capitalism and prepared for the revolution that was to break out 1910. Anarchist tendencies had a real influence on the revolution. They were espoused by the ores Magón brothers, among others. In 1911 one of the brothers, with the support of anarchists various nationalities, including a hundred or so internationalists from the US organization dustrial Workers of the World (IWW), took part in occupying two poorly defended Mexican villages ose to the US border, Mexicali (population 300) and Tijuana (population 100). For five months e commune in Baja, California, experimented with libertarian communism—abolition of private operty, collective working of the land, forming groups of producers—before being defeated ilitarily. That was the end of the attempt to establish a socialist libertarian republic.

The movement led by Emiliano Zapata was the most advanced among the population. It was very widespread in the state of Morelos and became known as the Morelos Commune. As of November 1911 Zapata and his movement promoted the Plan of Ayala, which went much farther than President Madero's San Luis Potosí Plan.

While Madero proposed only revising the decisions through which the Porfiriato took vast stretches of land from indigenous communities and campesinos, the Plan of Ayala called for taking up arms to put an end to private ownership of the vast stretches of land. Zapata and his plan called for the redistribution of the land to the smallholders who worked it, and for the land seized by aggressively applied laws going back to 1856 to be returned to the communities that had been dispossessed. The war cry was "Reform, Liberty, Justice, and Law."

Madero organized the repression of the Zapatista movement, which he wanted to destroy, as well as organizing against socialist and anarchist movements in the North. The elimination of Madero by Huerta (see chapter 3) was welcomed by the ex-Porfirists, the Catholic Church, and the armed forces. The repression against the popular movements intensified. Venustiano Carranza, a Liberal leader and admirer of Benito Juárez, called for the overthrow of General Huerta and so made a

momentary alliance with the Southern Liberation Army and with Pancho Villa,[2] who had created the Northern Division near the US border.

Carranza repudiated the debt Huerta had signed, in 1913. Meanwhile, the Democrat Woodrow Wilson succeeded William H. Taft as US president. Wilson's policy concerning Huerta was not the same; he considered him a usurper and, while supporting Carranza, preferred to await the outcome before granting US recognition. To tip the balance, Wilson sent forty-four US Navy ships to blockade the port of Veracruz, under the pretense of preventing German arms supplies from reaching Huerta.

Although the social ideas and objectives of Pancho Villa were less progressive[3] than those of the Zapatistas, the two groups came to an agreement in order to influence the process. Their armies met in Mexico City at the end of November 1914. The two leaders came together at the presidential palace on December 6, 1914. They were not seeking to exercise power and quickly left the capital, going on to fight Venustiano Carranza's troops.

ANCHO VILLA AND EMILIANO ZAPATA DID NOT EEK POWER

hat was said during the first meeting between Pancho Villa and Emiliano Zapata on December 4, 914, was recorded. Their conversation shows that they had no intention of exercising power and eferred to leave it to professional politicians, while closely monitoring it and retaining the right to move them in case they should make decisions opposed to popular interests. Here is one count of their conversation:

lla: I don't want to take public positions, because I don't know how to deal with them. We'll see what these people are up to doing. We'll just appoint the ones who aren't going to make trouble.

pata: I'll advise all our friends to be very careful—otherwise they'll get the chop. . . . Because I don't think we will be fooled. It's been enough for us to rein them in, keeping a very close watch on them, and to keep feeding them under our control.

lla: It's very clear to me that we ignorant men make the war, and the cultured people have to make use of it. But they should not give us any trouble.

pata: The men who've worked the most have the least chance to enjoy these city sidewalks. Nothing but sidewalks. As for me, each time I walk down over these sidewalks, I feel as though I am tumbling down.

lla: This ranch is too big for us; it's better out there. As soon as this business is sorted out, I'll be off north to the country. I've got a lot to do up there. And the people there will fight hard.[4]

Finally, after much difficulty and several battles against Huerta's and Pancho Villa's troops, who represented opposite sides, Carranza gained the advantage, and Huerta was forced into exile in July 1914, after which Washington recognized Carranza as de facto president. From then on the US intervened directly to end the threats from Zapata and Villa, whose intentions were a threat to the interests of its big businesses (plantations, mining, oil, and so on).

To help Carranza destroy Zapata's social base and organize his assassination, Washington sent him 53,000 rifles in 1915. Carranza launched an offensive against the Zapatistas. Mass executions and deportations took place, villages were destroyed, a hundred-kilometer trench was dug around the capital city to protect it against Zapatista attacks, and chemical weapons supplied by Washington were also used.[5] Yet despite the magnitude of the atrocities committed, the objective completely failed. The Zapatista army was again operational within a year.

Furthermore, on March 15, 1915, the US sent an expeditionary force of twelve thousand troops (five thousand, according to some authors) under General Pershing to the state of Chihuahua to eliminate Pancho Villa. Among the other officers were two future generals—Patton, who made his name at the Battle of the Ardennes in the winter of 1944, and Eisenhower, who would become the thirty-fourth president of the United States, after the Second World War. The operation was a fiasco; Pancho Villa's resistance prevailed.

The failure to crush Pancho Villa's forces and the Zapatista movement was clearly due to the enormous popular support the two movements enjoyed. Fierce repression could not end it for as long as the revolutionary momentum lasted, which it did until 1918–1919.

In order to consolidate his power, Carranza passed social measures applicable to rural as well as to urban sectors. He was well aware that to counter the influence of the Zapatista movement it was necessary to meet some of the popular demands.

When the capital was retaken without hostilities in December 1914 after the Zapatista and Villista troops' voluntary withdrawal, Carranza applied his new measures to the rural and urban sectors and made agreements with the trade unions, which included the distribution of humanitarian aid. He supported the electricians' union against their bosses and arrested tradesmen and 180 priests. The leaders of Casa del Obrero Mundial anarchist unions signed an agreement with Carranza and the influential general Álvaro Obregón to join the war against Pancho Villa in exchange for concessions.[6] On January 6, 1915, Carranza passed an

agrarian-reform law of limited application with the intention of alienating Zapata's and Villa's rural base.

A year after the pact with the anarchists, Carranza ended the concessions. He no longer had any use for them; Villa's Northern Division had been destroyed. Repression started against the workers and the unions. A great general strike that began in Mexico City on July 31, 1916, was crushed.[7] At the same time, during July and August 1916, there was a massive offensive against the Zapatistas in the state of Morelos.

In spite of all these tragic and unpopular acts, in January 1917 Carranza managed to consolidate his power and give it a cloak of legitimacy by adopting what was, for its day, one of the world's most socially advanced constitutions. This constitution included some elements of the Plan of Ayala. It stated that the nation should keep control of its natural resources and that the peasantry should have access to the land. It announced an agrarian reform and social legislation (an eight-hour day, union rights, the right to strike, a minimum wage, limitations on the work of women and children).

ETTER FROM EMILIANO ZAPATA ON THE RUSSIAN EVOLUTION, DATED FEBRUARY 14, 1918

would be wrong to imagine that Emiliano Zapata limited his visions to Mexico and the mpesinos. The following passages from his letter to the Russian revolutionaries clearly show the portance he placed on solidarity between the two great revolutions of the time and the need for operation between workers and peasants:

> We would gain much, Humanity and Justice would gain much, if all the peoples of the Americas and the older European Nations understood that the cause of the Mexican Revolution and the cause of Russia embody and represent the cause of Humanity, the supreme interest of all the oppressed peoples. . . .
>
> Here as there, there are inhuman masters, who, greedy and cruel from father to son, brutally exploit the great masses of the peasantry. Here as there, enslaved men, men of broken spirit, are starting to awaken, to cry out, to act, to revolt.
>
> It is not surprising that the proletariat of the World applauds and admires the Russian Revolution, in the same way that they will join, sympathize and support our Mexican Revolution as soon as they realize what its goals are. . . .
>
> This is why the dissemination and propaganda effort that you have undertaken in the name of truth is so interesting; this is why you should go to all the associations and workers' centers in the World to have them realize the importance of taking on the double task of

raising the awareness of the worker's struggle and forming the peasantry's class consciousness. It must not be forgotten that because of their interdependence, the emancipation of the workers cannot succeed unless it goes hand in hand with the liberation of the peasantry. Otherwise, the bourgeoisie will always be able to get the upper hand by setting one against the other, for example using the ignorance of the peasants to combat and restrict the workers' rightful anger, or enroll unaware workers to fight their country brothers.[8]

'e can see here why the Mexican ruling classes and the US government wanted to be rid of niliano Zapata.

In April 1919, through trickery, Carranza succeeded in having Zapata assassinated. In 1920, Carranza was ousted by the general Álvaro Obregón, a key collaborator. Some months later, on September 1, 1920, Obregón was officially elected president, with more than one million votes. He had the support of union leaders, particularly those of the Confederación Regional Obrera Mexicana (CROM, the Regional Confederation of Mexican Workers), a trade union founded in 1918. In 1920, Obregón persuaded Villa to lay down his arms and demobilize his remaining loyal soldiers. In return, he would receive a pension and his rank of regimental general in the federal army would be recognized. Villa, too, was assassinated, in 1923.

The revolutionary dynamic petered out during 1918–1919. The most ardent and visionary men and women, such as Emiliano Zapata and his partisans, were either eliminated or absorbed by the capitalist system. The country had a very progressive constitution, but it was only partially applied, and the local ruling classes quickly started to work toward abolishing the important concessions they had been forced into during the revolution.

Successive governments gradually buried the great social conquests achieved between 1911 and 1917, but they resurfaced in force as of 1934 (see below). The governments also sought compromise with the creditors from 1921.

Debt renegotiations from 1921

Between 1922 and 1942, extended negotiations were held with a consortium of creditors, chaired by one of the executive officers at J. P. Morgan.

In February 1919, a cartel of banks to which Mexico owed money was established, called the International Committee of Bankers on Mexico. It was chaired by T. W. Lamont, who represented J. P. Morgan and brought together banks from the US, the UK, France, the Netherlands, Belgium, Switzerland, and

Germany.

In 1921, president Álvaro Obregón invited T. W. Lamont to Mexico to start negotiations, which resulted in an agreement in June 1922.[9] It was a bad agreement for the country that clearly showed the government's political orientation. It was close to the Porfiriato policy in terms of indebtedness, in its subjection to the interests of local ruling classes and international banks that were creditors for both external and internal debts.

Through this agreement President Obregón and his government acknowledged a public debt of $500 million. In 1910 it had amounted to $220 million, which, with additional loans after that date (those contracted by the usurper Huerta between 1911 and 1913), came to a total of $30 million (the $20 million lent by Speyer Bank had been paid back with a loan contracted in Paris in 1913). President Obregón thus agreed to acknowledge a debt that was twice the amount actually due.[10] On top of that, he agreed to add $200 million as default interest.[11] It was a thorough betrayal of the interests of the country and of the Mexican people, especially since the debt contracted by dictator Porfirio Díaz ($220 million) as well as loans by the usurper Huerta ($30 million) clearly constituted odious debt. They had been contracted against the interests of the people with the full knowledge of the creditor banks.[12]

The Mexican Congress, controlled by the president, ratified the agreement, and Mexico began repayments in 1923, but the amounts to be paid were so high and the fiscal deficit so deep that on June 30, 1924, Obregón suspended debt repayments. Mexico resumed negotiations with Lamont from J. P. Morgan, resulting in another agreement in 1925, which was again approved by Congress. To resume repayments, the new Mexican president, Plutarco Elías Calles (in office from December 1924 to November 1928), negotiated a credit line with the committee of bankers. Some payments took place in 1926, but in 1927 Mexico again suspended repayments.

In 1928 the committee of bankers sent a commission of experts to analyze the situation. In their report the experts criticized the government for its social spending, particularly in public education. They considered that Mexico had invested too much in irrigation work and in setting up a system of public credit for farmers. They acknowledged that in order to avoid another revolution, public expenditure was necessary, but felt that government spending had been excessive.[13]

Negotiations between the government and the committee of bankers were resumed. Another agreement was signed in 1930, but for the first time since 1922

many member of Congress were opposed to ratification. Four legislators from the state of Chihuahua even introduced a bill demanding a ten-year moratorium on debt repayment so as to use the money for socially useful expenditures.[14] The government, rather than run the risk of a minority in Congress, did not put the agreement with the committee of bankers to the vote.

Meanwhile, export revenues declined as a consequence of the October 1929 Wall Street crisis, and the project of resuming debt repayments was perceived with increasing anger by the population. In January 1932, Congress adopted a law that canceled the latest agreement between the government and the committee of bankers. Eventually, on September 1, 1933, president Abelardo Rodríguez announced that Mexico would not resume repayment of its external debt.

Lázaro Cárdenas's presidency (1934–1940) opens the way for the 1942 victory against creditors

In December 1934, Lázaro Cárdenas began a presidential term that was extended until December 1940. Over those six years Cárdenas carried out major left-wing reforms, some of which implemented, for the first time, some of the revolutionary aspirations of the years 1910–1917 and the 1917 constitution.

Lázaro Cárdenas became president in a context of social struggle such as workers' strikes. His orientation was quite different from that which had prevailed since 1920. He opposed his predecessor, Plutarco Elías Calles. He refused to resume negotiations with the committee of bankers.

One of the first measures Cárdenas took concerned the reform of public education. Article 3 of the constitution, as modified in December 1934, stipulated that state education was to be "socialist in character," and that in addition to excluding any religious doctrine it was to fight fanaticism and prejudice. Schools had to foster among the young a "rational and accurate" perception of the universe and of social life. The explanation given of the rationale behind the bill introduced to the Chamber of Deputies was that a socialist education as set down in Article 3 did not mean an immediate transformation of the economic system, but the preparation of the human material needed to carry the revolution forward and consolidate its work. Indeed, the country's future belonged to the socialist youth, educated and trained in Mexican schools. It was incumbent upon those young people, the text said, to fulfill the aspirations of Mexico's oppressed and laboring classes. Though the implementation of these principles was limited due to the

system's inertia, they had a deep and lasting impact on Mexican society.

Land Reform

According to one of the provisions in Article 27 of the 1917 constitution, which provided for land to be expropriated, Lázaro Cárdenas expropriated some 45 million acres that had previously belonged to big Mexican landowners and foreign companies. He distributed this land to indigenous agrarian communities in the form of traditional collective properties known as *ejidos*.[15] So the land was no longer the property of private individuals. Apart from meeting the fundamental demands formulated by Emiliano Zapata and in the Plan of Ayala, the aim was to give back to local communities land they had been robbed of earlier, and to promote a self-sufficient kind of farming that would meet the needs of the local markets. The farming communities that received land could use it as they pleased, but they were not allowed to sell it. Those ejido communities developed decision-making procedures to administer the land. Cárdenas's government created a public bank, Banco Nacional de Crédito Ejidal (national bank for ejido credit), or Banjidal, and also financed the training of technicians to improve the yield of the land. Cárdenas's land reform differed from the policies of former governments, which had only restored a limited quantity of land to individual private owners.

Nationalization of oil and railways

The 1936 railway workers' strike resulted in the complete nationalization of the railways.

In 1938, the nationalization of oil was brought about by a strike of the workers in the oil industry. Oil extraction, which had started at the end of the Porfiriato, was in the hands of UK and US companies. Paragraph 4 of Article 27 of the 1917 constitution stated that oil field reserves were the property of the nation. In 1937, oil workers began a determined confrontation with the owners of the oil companies, who would not grant the pay raise demanded by the workers. On March 18, 1938, Lázaro Cárdenas stepped in to put an end to the confrontation by expropriating the oil companies. He added that foreign owners would be compensated within ten years. This infuriated foreign capitalists, and the UK severed its diplomatic relations with Mexico so as to put maximum pressure on its government.[16] Cárdenas did not budge. He created the public company Petróleos Mexicanos (Pemex). Cárdenas's decision was met with huge enthusiasm in the population. Pemex would be privatized sixty-five years later, in 2013, in the context of extension of neoliberal

policies.

International policy

The Cárdenas government was also one of the few to provide the Spanish Republicans with weapons, thus breaching the blockade by the British and French governments. Churchill vehemently decried Mexico's position. Cárdenas's government also welcomed and supported forty thousand Spanish Republicans after they were defeated by Franco, who had been massively armed by Nazi Germany and Fascist Italy. Cárdenas also hosted Trotsky, the Russian revolutionary persecuted by Stalin, to whom no European government was willing to grant either a visa or a right to extended residence.[17] Cárdenas befriended the Russian exile, which did not prevent one of Stalin's agents from murdering Trotsky in Mexico City in August 1940.

Cárdenas was also very popular because as soon as he became president, he cut his salary by half, left the traditional presidential palace (Chapultepec Castle, the former residence of New Spain's viceroys) to move to a less ostentatious place called Los Pinos and converted the former castle into a national museum of Mexican history. At the end of his term, his fellow citizens could see that he had not accumulated any riches for himself.

To sum up, we can say that although Lázaro Cárdenas did not try to break away from capitalism, he carried out structural reforms that improved the people's living conditions. They partly met fundamental demands formulated during the 1910–1917 revolution and strengthened the country's sovereignty over its natural resources. Cárdenas also conducted an anti-imperialist international policy that supported solidarity among peoples.

The 1942 victory against creditors

Cárdenas's refusal to resume debt payment or even negotiations with the International Committee of Bankers constituted a victory. His former defense minister, Manuel Ávila Camacho, was elected to take over as president, and Cárdenas became defense minister.

From 1941, because he wanted to improve US relations with Mexico, president Franklin Delano Roosevelt insisted that US bankers, starting with J. P. Morgan, give up and acknowledge the Mexican government's repudiation. In December 1941 Washington was about to enter the Second World War and needed the support of its Mexican neighbor (as well as that of Brazil, another country that had stopped

repaying its debt). The agreement that put an end to the conflict between the International Committee of Bankers on Mexico was an act of surrender on the part of the banks. While the committee demanded payment of debts estimated at $510 million (capital and interest), the final agreement mentioned payment of less than $50 million—a reduction of over 90 percent. Moreover, what is most remarkable is the rate used for compensation of default interest: 1/1,000 for delays before 1923; 1/100 for 1923–1943.[18] Now, in many debt restructuring agreements in the nineteenth century or in the first half of the twentieth century, all default interest was turned into owed capital. Let us recall that the agreement signed between Obregón and the International Committee of Bankers in 1922 meant that Mexico acknowledged a debt of $500 million! And twenty years had gone by. By agreeing to pay a debt of $50 million (capital and default interest included), the Mexican government won a resounding victory.

There is more: bondholders had to hand in their securities and have them registered and stamped by the Mexican authorities before they could claim any compensation. Bankers had to register securities with the Mexican government. This was unprecedented in the history of sovereign debt. Further, the German banks that were part of the International Committee of Bankers were not allowed to register their securities, as they were considered to be aiding an enemy power.

Better still, from 1940 onward Washington tried to buy Mexican oil even though Mexico had paid no oil compensation. The Sinclair Oil Company started buying oil from the public company Pemex. Sinclair, which had demanded $32 million in compensation, finally settled for $8 million, partly paid with dollars Pemex had received from Sinclair in payment for 20 million barrels of oil over four years. Eventually a general agreement was reached, and Mexico promised to pay $23 million as compensation for all the US oil companies that had been expropriated in 1938.[19]

Thanks to the agreement on its debt, to other political measures taken under Cárdenas, and to the general context after the Second World War, Mexico was able to implement a policy of economic development while carrying out a strict form of protectionism until the 1950s. Mexico did not borrow from private banks again until the late 1950s.

Final remarks and conclusions

Mexico is the only former colony that managed to defeat its creditors on its own in the nineteenth century and the first half of the twentieth. In 1861, Mexico

repudiated a large portion of the debt that was claimed and gained complete victory in 1867. Next, less than twenty years later, the ruling classes and the dictator Porfirio Díaz managed to backpedal, which is typical of the collusion and duplicity of the upper classes in a dominated country that see their own interest in submission to European or US imperialist powers.

When Porfirio Díaz was eventually overthrown and a genuine popular revolution took over, Mexico again suspended debt payments for over thirty years (from 1914 to the end of the Second World War) and simultaneously implemented in-depth social and economic reforms. The victory over Mexico's creditors was complete, albeit not final.

Chapter 3 and the present chapter show how important it is to understand what occurred in Mexico between its independence in 1821 and the end of the Second World War. The other countries that successfully repudiated debts were major powers, such as the US, or were protected by a major power, as was the case of Costa Rica, protected by the US against the UK in the early 1920s. This is why the Mexican experience is unique and deserves to be more widely known. Yet very little has been published about it. Dominant thinking hardly wishes Mexico's real history to be acknowledged. Among left-wing movements we have a lot of catching up to do, and it is to be hoped that this book will play its part.

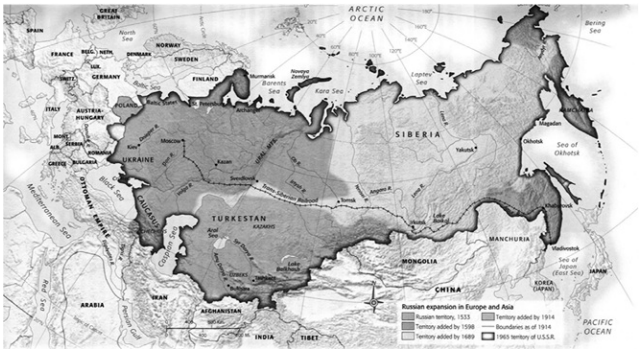
Around the same time, another country that succeeded in repudiating its debt on its own was the USSR, in 1918. The common point with Mexico is the coincidence of a revolutionary process and debt repudiation. There are also differences. First, the Bolshevik government simply wiped the tsarist debt away. Then, at the time of the 1917 revolution Russia was an imperialist power, though a declining one, while Mexico was a former Spanish colony that was eyed greedily by the European imperialist powers and by its imperialist neighbor, the United States.

Chapter 12

The Repudiation of Debt by the Soviets

Repudiation of debt at the heart of the revolutions of 1905 and 1917

In February 1918, the repudiation of the debt by the Soviet government shocked international finance and sparked unanimous condemnation by the governments of the great powers.



Russian expansion in Europe and Asia (Source: *Asia Times*)

This decision to repudiate was intrinsic in the first major movement for social emancipation that shook the Russian Empire in 1905. This huge revolutionary uprising was caused by the conjunction of many factors: the Russian debacle in its war with Japan; the wrath of peasants demanding land; the rejection of autocracy; workers' demands; and more. The movement began with strikes in St. Petersburg in 1905 and soon spread like wildfire throughout the empire, adopting different forms of struggle. Out of the process of self-organization by the masses emerged councils, or *soviets,* in Russian—peasants' councils, workers' councils, soldiers' councils, and so on. Leon Trotsky, who presided over the soviet of St. Petersburg (the capital of Russia until March 1918, known as Petrograd from August 1914), explained in his autobiography that the arrest of its entire leadership on December 3, 1905, was triggered by the publication of a manifesto in which the elected members of the council called for the repudiation of debts contracted by the tsarist regime. He also explained that this 1905 call for nonpayment of the debt was finally realized in early 1918, when the Soviet government adopted a decree for the

repudiation of the tsarist debts:

> The arrest took place a day after we had published our so-called financial manifesto, which proclaimed that the financial bankruptcy of Czarism was inevitable, and issued a categorical warning that the debts incurred by the Romanovs would not be recognized by the victorious nation. "The autocracy never enjoyed the confidence of the people," said the manifesto of the Soviet of Workers' Delegates, "and was never granted any authority by the people. We have therefore decided not to allow the repayment of such loans as have been made by the Czarist government when openly engaged in a war with the entire people."
>
> The French Bourse answered our manifesto a few months later with a new loan of three-quarters of a million francs. The liberal and reactionary press poured sarcasm over the important threat of the Soviets against the Czar's finances and the European bankers. In later years, the manifesto was successfully forgotten but it recalled itself to mind. The financial bankruptcy of Czarism, prepared for by its whole past history, coincided with the military debacle. And later, after the victory of the revolution, the decree of the Soviet of People's Commissars, issued on February 10, 1918, declared all the Czarist debts annulled. This decree remains in force even to this day.[1] It is wrong to say, as some do, that the October Revolution does not recognize any obligations: *its own* obligations the Revolution recognizes to the full. The obligation that it took upon itself on December 2, 1905, it carried out on February 10, 1918. The Revolution is fully entitled to remind the creditors of Czarism: "Gentlemen, you were warned in ample time."
>
> In this respect, as in others, the year 1905 was a preparation for the year 1917.[2]

Trotsky describes the development of events that led to the adoption of the financial manifesto through which the Soviet, the supreme organ of revolutionary democracy (based in St. Petersburg), called for the refusal of payment of debts contracted by the tsar:

> A tremendous field of action was opening up before the Soviet. Everywhere a vast expanse of new political ground was waiting for the deep plowshare of revolution. But time was short. The reaction was feverishly forging its weapons, and the blow was expected from hour to hour. Amid the mass of day-to-day business the Executive Committee hurried to put the Soviet's

resolution of November 27 into action. It issued a proclamation addressed to the troops (see "The November Strike") and, at a joint meeting with representatives of the revolutionary parties, approved the text of a "financial" Manifesto. . . . On December 2 the Manifesto was published in eight St. Petersburg newspapers, four socialist ones and four liberal ones. Here is the text of this historic document:

The government is on the brink of bankruptcy. It has reduced the country to ruins and scattered it with corpses. The peasants, worn out by suffering and hunger, are incapable of paying taxes. The government gave credits to the landowners out of the people's money. Now it is at a loss as to what to do with the landowners' mortgaged estates. Factories and plants are at a standstill. There is unemployment and a general stagnation of trade.

The government has used the capital obtained by foreign loans to build railways, warships and fortresses and to store up arms. Foreign sources have now been exhausted, and state orders have also come to an end. The merchant, the supplier, the contractor, the factory owner, accustomed to enriching themselves at the treasury's expense, find themselves without new profits and are closing down their offices and plants. One bankruptcy follows another. Banks are failing. All trade exchanges have been reduced to the barest minimum.

The government's struggle against revolution is causing daily unrest. No one is any longer sure what the morrow will bring. . . .

For many years the government has spent all its state revenue on the army and navy. There is a shortage of schools. Roads have been neglected. In spite of this, there is not enough money even to keep the troops supplied with food. The war was lost partly because military supplies were inadequate. Mutinies of the poverty-stricken, hungry troops are flaring up all over the country. . . .

The government has pilfered the savings banks, and handed out deposits to support private banks and industrial enterprises, often entirely fictitious ones. It is using the small saver's capital to play the stock exchange, where that capital is exposed to risk daily. . . .

Taking advantage of the absence of any control of the state finances, the government has long been issuing loans which far exceed the country's means of payment. With these new loans it is covering the interest on old ones. . . .

Only the Constituent Assembly, after the overthrow of the autocracy, can halt this financial ruin. It will carry out a close investigation of the state finances and will draw up a detailed, clear, accurate, and certified balance sheet of state revenue and

expenditure (budget).

Fear of popular control which would reveal to all the world the government's financial insolvency is forcing it to keep putting off the convening of the people's representative assembly. . . .

There is only one way out: to overthrow the government, to deprive it of its last strength. It is necessary to cut the government off from the last source of its existence: financial revenue. This is necessary not only for the country's political and economic liberation, but also, more particularly, in order to restore the financial equilibrium of the state.

We have therefore decided:

To refuse to make land redemption payments and all other payments to the treasury. In all transactions and in the payment of wages and salaries, to demand gold, and in the case of sums of less than five rubles, full-weight hard cash (coinage).

To withdraw deposits from savings banks and from the state bank, demanding payment of the entire sum in gold.

The autocracy has never enjoyed the people's confidence and has never received any authority from the people.

At the present time the government is behaving within the frontiers of its own country as though it were ruling conquered territory.

We have therefore decided not to allow the repayment of loans which the government contracted while it was clearly and openly waging war against the entire people.

Signed:

The Soviet of Workers' Deputies

The Main Committee of the All-Russian Peasants' Union

The Central Committee and the Organization Committee of the Russian Social-Democratic Workers' Party

The Central Committee of the Party of Socialist Revolutionaries

The Central Committee of the Polish Socialist Party[3]

Trotsky adds a final commentary:

It goes without saying that this manifesto could not, in itself, overthrow Tsarism and its finances.

The Soviet's financial manifesto was nothing other than an overture to the December rising. Reinforced by a strike and by fighting on the barricades, it produced a powerful echo throughout the country. Whereas during the month

> of December in the previous three years deposits in savings banks had exceeded payments by 4 million roubles, in December 1905 the excess of payments over deposits equalled 90 million: during a single month the manifesto extracted 94 million roubles from government reserves! When the insurrection had been crushed by the tsarist hordes, equilibrium in the savings banks was once more restored.[4]

The denunciation of the illegitimate and odious nature of the tsarist debt played a fundamental role in the revolutions of 1905 and 1917. The call not to repay debts was finally realized in the decree for the repudiation of debt adopted by the Soviet government in February 1918.

From tsarist Russia to the 1917 revolution and the repudiation of debt

The Napoleonic Wars ended with Russia emerging as a great European power and participating in the Holy Alliance of three European monarchies, founded on September 26, 1815, in Paris at the behest of Tsar Alexander I. The Alliance had defeated the Napoleonic Empire and they wanted to consolidate their positions and protect themselves from revolutions. Originally, the Russian Empire, the Empire of Austria, and the Kingdom of Prussia were the constituents, while France (where the monarchy had been restored) joined in 1818 and London extended its support.

Europe after the Congress of Vienna, in 1815

Tsarist Russia: A great European power

The Russian Empire was part of the troika that had placed a Bavarian prince on the Greek throne in 1830 and enslaved the country through a debt both odious and unsustainable. The Ottoman Empire's gradual dismantling was a very important issue for Moscow, because Russian interests in the Balkans as well as movement between the Black Sea and the Mediterranean were at stake.

Until the 1870s, London's bankers were the tsar's main sponsors. German bankers replaced them once the German Empire came into being and defeated France, in 1871. From that moment, Germany replaced London as Russia's main trading partner. On the eve of the First World War, 53 percent of Russia's imports came from Germany while 32 percent of its exports went there. However, at the financial level, French bankers took the place of their German counterparts at the end of the nineteenth century. At the start of the First World War, "investors" in France held 80 percent of Russia's external debt, and most of the existing Russian loans had been issued on the Paris market. In short, the capitalists of France lent to Russia and invested there (Belgian capitalists, especially the "industrialists," also invested heavily in Russia),[5] while German capitalists exported part of their production and imported raw materials for their own stocks.

When the St. Petersburg Soviet adopted its financial manifesto for the repudiation of the tsarist debt, Russia was preparing to issue a huge new loan, with the help of the French bankers and the government of France. The Paris bankers paid no heed to the Soviet's warning. The loan was issued. It would be repudiated twelve years later.

GOUVERNEMENT IMPÉRIAL DE RUSSIE.

EMPRUNT DE L'ÉTAT RUSSE 4½% DE 1909

au capital nominal de 525.000.000 de roubles

= 1.400.000.000 de francs = 55.580.000 livres sterling = 1.121.200.000 reichsmark = 669.200.000 florins des Pays-Bas,

autorisé par la loi sanctionnée par Sa Majesté l'Empereur le 6/19 Décembre 1908 et emis, au titre de l'Emprunt Impérial du 2/15 Janvier 1909, en 200 séries, de 1.875.000 roubles = 5.000.000 de francs = 198.500 livres sterling = 4.040.000 reichsmark = 2.200.000 florins des Pays-Bas chacune.

CENT QUATRE-VINGT-DOUZIEME SÉRIE

OBLIGATION

DE CENT QUATRE-VINGT-SEPT ROUBLES CINQUANTE COPECS

= 500 francs = 19 livres sterling 17 shillings = 404 reichsmark = 239 florins des Pays-Bas,

inscrite au Grand-Livre de la Dette publique,

AU PORTEUR.

Les obligations de cet emprunt et leurs coupons sont exempts à tout jamais de tout impôt russe.

IMPERIAL RUSSIAN GOVERNMENT.

RUSSIAN 4½% STATE-LOAN OF 1909

KAISERLICH RUSSISCHE REGIERUNG.

RUSSISCHE 4½% STAATSANLEIHE VON 1909

1909 Imperial Russian Government obligation, with a face value of 187,5 rubles or FF 500 or 19,17 pounds sterling

The First World War

The First World War was waged between two conflicting camps of capitalist powers. On one side were the German Empire and its allies—the Austro-Hungarian Empire, Bulgaria, and the Ottoman Empire. Great Britain, France, the Russian Empire, Belgium, Romania, Italy, Japan, and, as of February 1917, the United States were in the other camp.

Germany, France, Great Britain, and tsarist Russia had been preparing for war for a long time. Germany, with its thriving economy, wanted to extend its territory both in Europe and in the colonial world.

France wanted to take revenge on Germany, and particularly, to reconquer Alsace and Lorraine, annexed by Germany following France's defeat in 1871. Great Britain, France, and Russia also wanted to extend their colonial domain, notably on the ruins of the Ottoman Empire.

The left in the various belligerent countries had denounced the preparations for this war several years before.

At the Stuttgart Congress (1907) of the Socialist International, the unanimously adopted resolution had stated,

> In case war should break out anyway, it is their [the Socialist parties'] duty to intervene in favor of its speedy termination and with all their powers to utilize the economic and political crisis created by the war to rouse the masses and thereby to hasten the downfall of capitalist class rule.[6]

In 1913, the Extraordinary Congress of the Socialist International in Basel pronounced a solemn warning to the governments: "Let the governments

remember that with the present condition of Europe and the mood of the working class, they cannot unleash a war without danger to themselves."[7]

Jean Jaurès, the great French Socialist leader, crisply summed up this message in the concluding sentence of his speech at the Basel Congress:

> In sharpening the danger of war, the governments should see that the peoples can easily make the count: Their own revolution would cost fewer dead than the war of others.[8]

At the decisive moment, in August 1914, several major socialist parties (the Social Democratic parties of Germany, Austria, Belgium, France, and Great Britain) voted with the bourgeoisie for war credits to finance the conflict. The cost in human life was enormous. Total deaths due to the global conflict amounted to 18.6 million: 9.7 million soldiers and 8.9 million civilians. The tsar's participation in the First World War caused 3,300,000 deaths in Russia between 1914 and February 1917—1,800,000 soldiers and 1,500,000 civilians.[9]

From the revolution of February 1917 to the October Revolution

When revolution broke out in February 1917, spearheaded by a massive women's strike (which started on February 23, 1917,[10] the International Women's Day),[11] the Russian people wanted to get rid of the autocratic tsarist regime. They wanted bread, an end to the war, and access to land for tens of millions of deprived peasants, who were forced to risk their lives in a war that had objectives totally alien to them.

The new regime, led by the moderate Socialist Kerensky,[12] succeeding the tsar, refused to distribute land to the peasants, wanted to carry on with the war, and could not feed the people. It also pledged to repay the debts contracted by the tsarist regime to foreign creditors and contracted new loans to continue the war.

Fyodor Ilyich Dan, one of the prominent Menshevik leaders opposed to the Bolshevik party, described the revolutionary zeal against Kerensky's policies in the months preceding October 1917 thus:

> [The masses] began more and more frequently to express their discontent and their impatience with impetuous movements, and ended . . . by turning to communism. . . . Strikes followed one after the other. The workers sought to answer the rapid rise in the cost of living with wage rises. But all their efforts failed with the continuous drop in value of paper money. The Communists

> launched in their own ranks the slogan of "workers' control" and advised them to take the running of the factories into their own hands, in order to stop the "sabotage" of the capitalists. At the same time, the peasants started to take over the big properties, to chase out the land owners and to set fire to their manor houses.[13]

After the October Revolution, the new government,[14] which was supported by the Congress of Soviets, committed to bring back peace, to distribute the land, and to repudiate the debt and nationalize the banking system in order to have the financial means to revive the economy.[15]

Debt repudiation

In early January 1918, the Soviet government suspended payment on foreign debt, and in early February 1918 it decreed that all tsarist debts were repudiated, as were those contracted to continue the war by the provisional government between February and November 1917. At the same time, it decided that all assets of foreign capitalists in Russia would be confiscated and nationalized. In repudiating these debts, the Soviet government was implementing the decision made in 1905 by the St. Petersburg Soviet and the various parties that supported it. This triggered a wave of unanimous protest from the capitals of the major allied powers.

Decree on peace

The Soviet government proposed peace with neither annexation nor compensation or reparations. It also added a clause enacting the self-determination of peoples. This was the application of totally innovative and revolutionary principles to relations between states. It turned out that the Soviet government's policy simultaneously contradicted and influenced that of the US president Woodrow Wilson,[16] who had made the right to self-determination of peoples a central element of US foreign policy.[17] Certainly, the Bolsheviks and the United States had different motives. The US, not having significant colonial territories, saw an interest in weakening the British and German empires and the powers of Belgium, the Netherlands, and France in order to step into their shoes, though using other methods. Their strongest diplomatic and humanitarian argument was the right to self-determination of African, Caribbean, and Asian peoples still under the colonial yoke. As for the Bolsheviks, they wanted to have done with the tsarist empire that they denounced as a prison of peoples.

The desire for peace was one of the basic causes of the revolutionary uprising of 1917. The great majority of Russian soldiers were set against pursuing war. Almost all were peasants who wished to go home and work on the land. Moreover, for many years, long before the start of the war, the Bolsheviks, who had been members of the Socialist International until its betrayal of the working classes in August 1914, had opposed the policy of preparation for war. They maintained that what was needed was a common struggle to bring capitalism and its imperialist phase and colonized territories to an end.

To bring this about, the Soviet government was forced to enter into separate negotiations with Berlin and its allies, as in 1917 London, Paris, and Washington wished to carry on with the war. The Soviet government did endeavor to bring these capitals of the allied nations to the negotiating table, but to no avail. Having signed an armistice with the German Empire in mid-December 1917, it managed to drag out the negotiations with Berlin over five months in the hopes of seeing several populations of Europe, especially the German people, rise up against their governments to demand peace. It also vainly hoped that President Wilson would support Soviet Russia against Germany.[18] The Soviet government also wanted to show international public opinion that it wished for universal peace, embracing East and West, and that only as a last resort would it agree to sign a separate peace treaty with Berlin.

The Treaty of Brest-Litovsk, 1918

From December 1917, the Soviet government began to make public numerous secret documents revealing how the major powers were preparing to parcel out territories and populations with scant regard for their right to self-determination. One of the most sensitive of these was an agreement between Paris, London, and Moscow dating from 1915, which established that at the time of victory, the tsarist empire would be entitled to take Constantinople, France would recover Alsace-Lorraine, and London could take control of Persia.[19] Early in March 1918, the Soviet government signed the Treaty of Brest-Litovsk with Berlin. The cost was high, with the German Empire taking a large portion of the western territory of the Russian Empire, including part of the Baltic countries and parts of Poland and Ukraine. In short, the treaty would deprive Russia of 26 percent of its population, 27 percent of cultivated areas, and 75 percent of its steel and iron production.

Intervention of the Allied powers against Soviet Russia

The Soviet government's call for worldwide revolution, combined with its desire to end the war, its repudiation of debts claimed by the Allied powers, and its nationalization measures, convinced the Western leaders that they should launch a massive attack against Soviet Russia to bring down the revolutionary government and restore capitalist order. The foreign intervention began in the summer of 1918 and ended at the end of 1920, when the Western capitals took stock of their failure and were obliged to acknowledge that the Red Army had taken back control of the territory. Fourteen countries sent troops to take part in this invasion. France sent 12,000 soldiers (to the Black Sea and the north); London sent 40,000 (mainly to the north); Japan, 70,000 (in Siberia); Washington, 13,000 (in the north with the British and the French); Poland, 12,000 (in Siberia and Murmansk); Greece, 23,000 (to the Black Sea); Canada, 5,300.[20] The Japanese intervention was to last until October 1922. According to Winston Churchill, minister of war in the British government, there were a total of 180,000 allied foreign troops.

The French government was the most bitterly hostile toward the Soviet government, right from the start. There were several reasons for this: first, it was feared that the revolutionary movement initiated by the Russian people might spread to France, as much of the French population was vehemently opposed to carrying on with the war; second, the Soviet decision to repudiate debt affected France more than any other country, as Russian loan bonds had been issued in Paris and were mainly held in France.

It is now known that in 1917 the French government had begun secret talks with Berlin, hoping to conclude a peace treaty that would allow the German Empire to spread eastward, to the detriment of revolutionary Russia, on the condition that Alsace and Lorraine be returned to France. Berlin's refusal to make this concession to Paris brought negotiations to an end.[21]

The armistice of November 11, 1918, signed between the Western capitals and Berlin, made the provision for German troops to stay temporarily in the "Russian" territories that they were occupying. According to Article 12 of the armistice, Germany was to evacuate all former Russian territories as soon as the Allies deemed it opportune, in view of the internal situation of those territories.[22] The idea was to help the Imperial Army prevent the Soviet government from rapidly regaining control over the territories they had conceded to Germany under the Brest-Litovsk treaty. The Allies meant to enable anti-Bolshevik forces to take over these territories, which would then serve as a rear base while they overthrew the government.

The British historian Edward H. Carr shows how unpopular the intervention against Soviet Russia was:

> In January 1919 when the allied statesmen, assembled in Paris for the peace conference, discussed the occupation of Russia by allied troops, the British Prime Minister [Lloyd George] bluntly assured his colleagues that "if he now proposed to send a thousand British troops to Russia for that purpose, the armies would mutiny," and that, "if a military enterprise was started against the Bolsheviki, that would make England Bolshevist and there would be a soviet in London." Lloyd George was talking for effect, as was his manner. But his perceptive mind had correctly diagnosed the symptoms. Serious mutinies in the first months of 1919 in the French fleet and in French military units landed in Odessa and other Black Sea ports led to an enforced evacuation at the beginning of April. Of the troops of several nationalities under British command on the Archangel front the Director of Military Operations at the War Office reported in March 1919 that their morale was "so low as to render them a prey to the very active and insidious Bolshevik propaganda which the enemy are carrying out with increasing energy and skill." The details were disclosed much later through official American reports. On March 1, 1919, a mutiny occurred among French troops ordered to go up to the line; several days earlier a British infantry company "refused to go to the front," and shortly afterwards an American company "refused for a time to return to duty at the front." It was in the light of such experience that the British government decided in March 1919 to evacuate north Russia, though the evacuation was not in fact completed until six months later.[23]

Winston Churchill was one of the main hawks in the Western camp. Taking advantage of the absence of Lloyd George and President Wilson at a summit meeting held in Paris on February 19, 1919, Churchill intervened to persuade the other governments to complete their intervention by directly supporting the army of the White Russian generals. He suggested sending them "volunteers, technical experts, arms, munitions, tanks, aeroplanes, etc." and "arming the anti-Bolshevik forces."[24]

The Allies tried to persuade the new (pro-Western) German government to take part in the action against Bolshevik Russia. Despite strong pressure from the Western capitals, in October 1919 the Reichstag (the German parliament), where social democrats (the Social Democratic Party) and liberals held the majority,

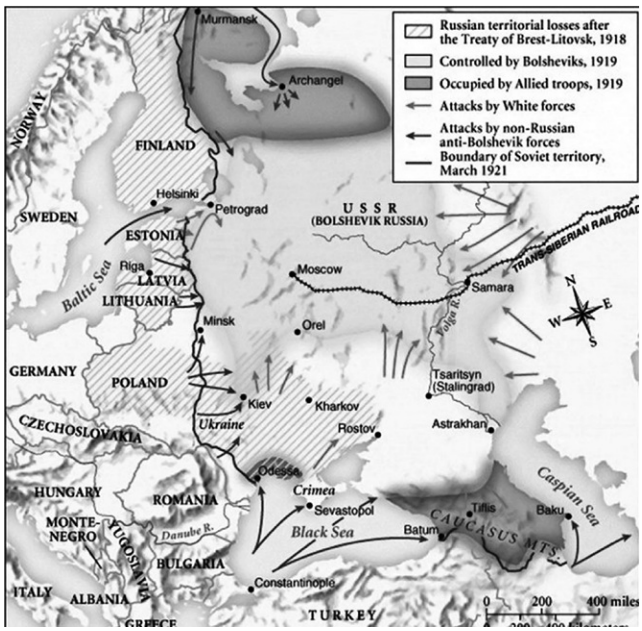
voted unanimously against Germany's participation in the blockade on Soviet Russia decreed by the Allies. To give the full picture, it should be added that at the same time certain German generals, such as Ludendorff and especially von der Goltz, who led the last organized remnants of the former imperial army, supported military actions in the East to help out the anti-Bolshevik White Russian generals. This, with the support of the Western capitals.[25]

It is quite clear that both the Western governments and those of the defeated central powers (the German Empire and Austria-Hungary) feared that revolution would spread to their own countries. Lloyd George wrote in a confidential memorandum early in 1919:

> The whole of Europe is filled with the spirit of revolution. There is a deep sense not only of discontent but of anger and revolt amongst the workmen against pre-war conditions. The whole existing order in its political, social and economic aspects is questioned by the masses of the population from one end of Europe to the other.[26]

This fear of revolution was by no means fanciful and largely explains the violence of the offensive against Bolshevik Russia.

Foreign intervention backed up the White Russian generals' attacks and prolonged what was an extremely bloody civil war (it caused more deaths than the World War in Russia.)[27] The cost of the foreign intervention was considerable in terms of human lives and material destruction; the Soviet government later demanded that this be taken into account in the international negotiations regarding debt repudiation (see below).



The Russian Civil War (Source: Northern Virginia Community College)

The economic and financial blockade against Soviet Russia and the blockade on Russian gold

From 1918, the Allied powers led a blockade against Soviet Russia. The Soviet government was prepared to pay in gold to import goods of absolute necessity, but none of the major banks nor any government in the world could accept Soviet gold without crossing swords with the Allied governments. In fact, Paris, London, Washington, and Brussels all considered that they had a right to Russian gold to compensate Russia's expropriated capitalists and repay debts. This became a huge obstacle to Soviet trade. In the United States any person or company wishing to use gold for any transaction or to take gold into the country had to sign an official statement that the gold in their possession had nothing to do with the so-called Bolshevik government, and that they guaranteed the US had a right to it without any reservation.[28]

It should be mentioned that after the German capitulation of November 1918, France managed to recover the heavy ransom in gold that Berlin had gotten from Russia in application of the Brest-Litovsk peace treaty, signed in March 1918.[29] France refused to return this gold to Russia, considering it part of the reparations Germany owed Paris. The blockade of Russian gold was carried on, to some extent, for years. This was how France again managed in 1928 to get the Washington authorities to prohibit a payment in Russian gold for a contract between Russia and a private US company.

Treaties with the Baltic republics, Poland, Persia, and Turkey

The Treaty of Versailles was eventually signed on June 28, 1919, without Soviet Russia's being involved. Even so, the treaty canceled the Treaty of Brest-Litovsk. Under Article 116 of the Versailles Treaty, Russia could claim compensation from Germany. Yet, consistent with its demand for peace without any annexation or any claim for compensation, it did not do so. What mattered most to Soviet Russia was that the Treaty of Brest-Litovsk should be canceled and the territories that Germany had annexed in March 1918 be given back to the peoples to whom they had belonged (the Baltic, Polish, Ukrainian, and Russian peoples), in accordance with the principle of peoples' right to self-determination upheld by the new Soviet government.

This principle was invoked in the first articles of each of the peace treaties signed between Soviet Russia and the new Baltic states in 1920: Estonia on February 2, Lithuania on July 12, and Latvia on August 11. The peace treaties resembled one another, and the independence of those states, which had been forcibly integrated into the tsarist empire, was systematically asserted in their first or second articles. Through such treaties, Russia reasserted its opposition to the domination of financial capital and its determination to repudiate tsarist debts. Indeed, the treaty that was signed with Estonia on February 2, 1920, states:

> Estonia will bear no responsibility for any of Russia's debts or other obligations. . . . All claims of the creditors of Russia for the share of the debt concerning Estonia should be addressed to Russia only.

Similar provisions appeared in the treaties signed with Lithuania and Latvia. As well as asserting that peoples did not have to pay illegitimate debts that were contracted in their names though not in their interest, Soviet Russia also acknowledged the oppressive role played by tsarist Russia toward minority nations within the empire.

To be fully consistent with the principles it upheld, Soviet Russia went even further. In those peace treaties, it committed itself to restoring to the oppressed Baltic nations all property and articles of value that had been removed by the tsarist regime (especially cultural and academic property such as schools, libraries, archives, and museums), as well as personal goods that had been removed from the Baltic territories during the First World War. As compensation for war damage resulting from the involvement of tsarist Russia, Soviet Russia stated that it would

grant fifteen million gold rubles to Estonia, 3 million gold rubles to Lithuania, and 4 million gold rubles to Latvia, as well as concessions for those three states to exploit Russian forests across the borders. While Russian state loans to citizens of the Baltic states were transferred to the newly independent governments, the peace treaties signed with Lithuania and Latvia stipulated that debts of smallholders to the former Russian agricultural banks, now nationalized, should not be transferred to the new governments but "purely and simply cancelled." The same measures also applied to Estonian smallholders under Article 13 of the peace treaty with Estonia, which stated that "special exemptions, rights or privileges" granted to a new state issued from the former Russian empire or to its citizens would be extended in full immediately to Estonia and its citizens.

By signing these treaties, Soviet Russia meant to try to break out of the isolation to which it had been confined by the imperialist powers since the October Revolution, while at the same time implementing principles the new state wanted to uphold. The Baltic states were the first to breach the blockade imposed upon Russia, and the peace agreements opened the way to trade contracts between the various parties. In March 1921, a similar peace agreement was signed between Russia, the Ukraine, and Belarus, on the one hand, and Poland on the other. This document released Poland from the obligation to pay any share of the debts of the former Russian empire, committed Russia to restoring property that had been removed by tsarist Russia, and specified that Russia and the Ukraine would pay 30 million gold rubles in compensation to Poland. This treaty was even more significant than the one with the Baltic states, as Poland was seen by the allied capitalist powers as key to the isolation of Russia.

The friendship treaty signed between Soviet Russia and Persia on February 26, 1921, is a further token of Soviet Russia's determination to contribute to the emancipation of oppressed peoples and to their right to self-determination. In this treaty Russia officially broke away from the tyrannical policies of tsarist Russia's colonizing governments and gave up all its territories and economic interests in Persia. The very first article declares all treaties and conventions between Persia and tsarist Russia, which denied the rights of the Persian people, to be null and void. Article 8 unambiguously cancels debts owed by Persia to the tsarist regime. The new Russian government definitively renounced the economic policy pursued in the Orient by the tsarist regime,

which consisted of lending money to the Persian government, not for the

economic development of the country but rather for its political subservience.

Consequently it canceled all Russian claims on Persia.

A few weeks later the Soviet government similarly renounced all liabilities, including monetary, that Turkey had toward Russia as a consequence of agreements signed by the tsarist government.[30]

The French press in the pay of the tsar

Since the end of the nineteenth century, the empire of the tsar had chosen Paris as its preferred financial market for bond issues. The bonds were purchased by many French investors and small savers. At the beginning of the twentieth century, this funding had become a pillar of the tsarist regime, which in 1904–1905 was at war with Japan at the same time as it sought to put down internal discontent and repress the 1905 revolutionary movement. After losing the war against Japan, in 1906 Russia floated a large bond issue on the Paris market. Arthur Raffalovich—diplomat and secret adviser, in Paris, to the Russian minister of finance—was charged with promoting Russian loan certificates up to the First World War. It was his correspondence with his superiors in Russia that revealed complicity in corruption and coercion between the tsarist regime and many big French newspapers, mostly Parisian (such as *Le Figaro*, *Le Petit Journal*, *Le Temps*, and *Le Matin*), big French banks (notably Crédit Lyonnais and the Banque de Paris et des Pays-Bas, which has become BNP Paribas), and also senators and cabinet members.[31] Among them, Raymond Poincaré, who was to become president of the French Republic (head of the French state) in 1913, was implicated for his actions while he was prime minister (head of the French government) and foreign minister in 1912 (his finance minister, Louis-Lucien Klotz, was also implicated at the time). Poincaré was again prime minister and also foreign minister when the scandal exploded. However, the scandal was no bother to him—he remained prime minister until 1924, and again as of 1926, also holding the post of . . . finance minister! The role played by the Paris stockbrokers' corporation was central to the coercion exercised on the tsar's government. Between 1900 and 1914, the Russian government distributed FF 6.5 million to the French press.

When the affair blew up, corruption of the press by the financial sector was hardly new. A scandalous French fundraising scheme to build the Panama Canal had functioned in the same way at the end of the nineteenth century. In the case of the Russian issues, the Russian Empire and the issuing banks purchased advertising in

the major newspapers, praising the Russian financial situation and the solvency of the tsarist regime. According to Raffalovich this advertising involved censorship—news of difficulties in Russia's war against Japan or of the revolutionary unrest in 1905 was not considered presentable to potential investors. The documents indicate that there may also have been false subscriptions to certain newspapers.

How Russian bonds lived on after repudiation

Even though Russian bonds were repudiated by the Soviet government in February 1918, they were still traded right up until the 1990s. French government policy and that of other governments was directly related to this life after death.

In 1919, the French government drew up a list of holders of Russian bonds in France. Holdings were declared by 1,600,000 people. Russian bonds seem to have accounted for 33 percent of foreign bonds held by residents of France, which was the equivalent of 4.5 percent of French wealth. Forty to 45 percent of Russian debt was held in France. One of the main Russian bonds to be exchanged on the Paris stock market was the famous 1906 issue, which the Petrograd Soviet had repudiated in advance, in December 1905. This massive loan of FF 2.25 billion was issued in Paris in June 1906. It was destined to enable the tsarist regime to continue repaying earlier debts and balance their books after the debacle of the Russo-Japanese War. The Crédit Lyonnais,[32] a French bank which had specialized in issuing Russian bonds, was deriving 30 percent of its revenue from these loans before 1914.

During the period preceding and following the Soviet government's debt repudiation, 72 percent of bonds from the 1906 loan were held in France and traded on the Paris exchange.

A high degree of complicity united the tsarist regime, the French government, French banks issuing Russian bonds (mainly the Crédit Lyonnais, but also the Société Générale and the Banque de l'Union Parisienne),[33] the major brokers, and the French press, which had been bought off by the tsar's emissary.

Bankers were making huge profits from commissions received when the bonds were issued and from speculative operations buying and selling Russian bonds. For them there was little risk; small investors bore the brunt of the risks. Newspaper proprietors pocketed bribes paid out by the tsar's emissary. Key government members also made sure they got kickbacks. The tsar was a prized ally, both politically and diplomatically, of the French government and the big capitalist groups in France who invested in Russia (as did Belgian capitalists).

During the war it was the French government who paid out the interest owed to each bondholder, at a rate of 5 percent. The sum of interest payments made by the French government on behalf of the Russian Empire was then added to the Russian debt to France. Thus when the tsar was overthrown by the people in February 1917, it was a blow for the French government, who had to place all their hopes on the provisional government, who claimed that debts contracted by the tsar would be honored. Things went from bad to worse when the Bolsheviks and their allies, the left-wing Socialists, were brought to governmental power by the Soviets in November 1917. When the Soviet government suspended debt payments in January 1918, the French government again paid the interest on Russian bonds to bondholders. When the Soviet government repudiated all the tsar's debts and those of the provisional government, France decided to resort to force and prepared to send troops to Russia. From July 1918, four months before the armistice was signed with the German Empire, the government sent French troops to join forces with the British troops that had taken Murmansk in North Russia. Then more soldiers were sent to occupy Arkhangelsk. After the signature of the armistice with Berlin, France sent troops to the Black Sea with warships to bombard the Red Army's positions. This caused a mutiny among French sailors. The attack against Soviet Russia was obviously motivated not only by the debt repudiation; the various powers that took part wanted to eradicate a hotspot of revolutionary contagion. But the financial interests of France and its capitalists constituted a powerful driving force. The French government gave the White Russian generals financial support in their struggle to defeat the Bolsheviks because they had announced that they would honor the tsar's debts. Paris also supported Polish and Ukrainian politicians and soldiers, and those of the Baltic republics who had won their independence or were fighting for it, in the hopes that the governments of the new states would honor at least part of the tsarist debt. Paris took it very badly when, from 1920, the Soviets signed treaties with the Baltic republics and Poland to the effect that they considered that those countries should take no responsibility for the tsarist debts.

What happened to Russian bondholders when debt repudiation was made public in February 1918?

In France, in September 1918, the government proposed an exchange of Russian bonds for French debt paper. Holders of Russian bonds could acquire bonds from the new issue the French government was floating. In July 1919, the operation was

repeated. In Rome, London, and Washington the authorities did the same: they exchanged Russian bonds respectively for Italian, British, or US bonds. As for the Japanese government, it indemnified Japanese holders of Russian bonds at a rate of 100 percent.[34]

Clearly, in acting in this way the governments of these countries came to the rescue of the bankers, who should have been held responsible for financing the tsarist regime and made to bear the consequences of the repudiation of odious debt. In the case of France, the French government had actively shared responsibility with the bankers who supported the tsar's regime, systematically encouraging the most affluent members of the middle class to acquire Russian bonds.

It is important to note that in France, a large portion of Russian bonds were not exchanged for French bonds. Russian bonds paid better dividends than French bonds, with an interest rate of 5 percent in 1906, when the average rate for French government bonds was 3 percent. Some bondholders preferred to hold onto the Russian securities in the hope of subsequent higher yields.

Between 1918 and 1922, the financial press and the government spread rumors that the Soviet government was about to fall and that its successors would honor the tsarist debt. Moreover, at a conference in Genoa in 1922, and on other occasions, the same press insinuated that Moscow had finally agreed to acknowledge the debt. The ensuing situation was surreal: bonds issued by a government that no longer existed, repudiated bonds, continued to be bought and sold on the Paris exchange. This is a perfect example of fictitious capital.

In the period 1918–1919, the price of Russian bonds oscillated between 56.5 and 66.25 percent of their face value. (They had originally been sold at 88 percent of their face value). The price of sovereign French bonds at that time oscillated between 61 and 65 percent. Thus the difference between the price of repudiated Russian bonds and that of French bonds was slim. Speculators (with bankers at the top of the list) were certainly doing very well if they could buy at 56 percent when small holders were offloading the bonds, frightened by rumors circulating in the press (and originating with the bankers), and then resell them at 66 percent.

Diplomatic maneuvers around Russian debt repudiation

For five weeks in April and May 1922, a summit conference was held in Genoa. Britain's prime minister, Lloyd George, played a central role, as did Louis Barthou, the finance minister of the French president, Raymond Poincaré. The main aim of the meeting was to persuade Soviet Russia[35] both to acknowledge the debts it had

repudiated in 1918 and to cease calling for a global revolution.

There were other points on the agenda of the conference attended by delegates from thirty-four countries, though not the United States, but none gave rise to much debate. Among them were the adoption of monetary regulations, especially regarding the gold exchange standard system, which was adopted that year. In the absence of the United States, decisions on this issue were made elsewhere.

The conference was hosted by five major powers: Great Britain (which had just been overtaken by the United States as the first world power), France (the third world power, after the defeat of Germany), Belgium (which had been the fifth world power before the war, in terms of exportation), Japan (whose empire was expanding rapidly in East Asia), and Italy.

Of the five host powers, one, Japan, still had troops occupying Soviet Siberia. It only withdrew them permanently six months after the end of the conference, in October 1922. The other twelve countries that had sent troops in 1918 to overthrow the Soviet government and put an end to the revolutionary experiment had ceased occupation of Soviet territory in 1920. In fact, the utterly demoralized foreign troops had been withdrawn when their governments had regretfully noted that the White Russian generals had been irrevocably defeated by the Red Army and that no amount of foreign intervention would remedy that. It then became necessary to use diplomacy and blackmail where arms had failed.

The Genoa negotiations (1922)

The major powers thought that the conference would bring the Soviet government around to recognizing the repudiated debts, in view of the dramatic humanitarian and economic situation in Russia. Civil war had bled the country dry, and as of the summer of 1921, catastrophic harvests had caused terrible famine. The Western capitals believed the Soviet government to be on its knees and were convinced they would get what they wanted by making the new loans and investments Russia needed conditional upon the acknowledgment of previous debts and compensation for expropriated Western companies.

France remained the most aggressive power regarding both Soviet Russia and Germany,[36] with the support of the Belgian authorities. As for Great Britain, less affected by the debt repudiation, it was more open to dialogue with Moscow and had signed an Anglo-Russian trade deal in 1921 that ended the blockade and meant de facto[37] recognition of Soviet Russia.

For its part, the Soviet government was ready to repay part of the debts

contracted by the tsar on several conditions: that the other powers give Soviet Russia official (de jure) recognition; that they grant state-to-state (that is, bilateral) loans; and that they encourage private firms affected by the expropriation of their subsidiaries to accept concessions to exploit natural resources, especially in the remotest areas of Siberia, as compensation. The Soviet government thus hoped that foreign capitalists would invest fresh capital of their own money in activities that would fortify the Soviet economy. Furthermore, the government would not hear of setting up multilateral bodies to manage loans, investments or related legal disputes. The Soviet government intended that Soviet Russia should remain entirely independent of foreign powers. There was no question of giving up any part of its sovereignty.

If these conditions were met, Moscow promised to resume payment of part of the tsarist debt within a thirty-year time frame. The Soviet delegation clearly asserted several times throughout the conference that it was ready to make this concession to reach an agreement, but that they basically considered that Soviet Russia was fully within its rights to repudiate all tsarist debt (as well as debt contracted by the provisional government between February and October 1917). Finally, the conference ended in disagreement and the Soviet delegation maintained the repudiation.

Consideration of the special relationship that came about between Berlin and Moscow after the Treaty of Versailles, in June 1919, is crucial to understanding how the Genoa Conference was organized. The government in Berlin was composed of a coalition between the social-democrats (the Social Democratic Party, or SPD), the centrists (the ancestors of Angela Merkel's Christian Democratic Union), and the liberals (the ancestor of the present-day Free Democratic Party), and was fundamentally pro-Western and anti-Soviet. Nevertheless, under the onus of having to pay the huge reparations imposed by the Treaty of Versailles, which meant a staggering debt, Berlin was inclined to dialogue with Moscow and come to an agreement. This tendency was reinforced by the desire of big German industrial companies (including AEG and Krupp) to sell their production on the Russian market, having been, as we have seen, their main trading partner since the 1870s. On the way from Moscow to Genoa, the Soviet delegation had made an extended stop in Berlin to hold negotiations and meet with the German authorities before coming face to face with the host powers in the Italian city.

It is worth reviewing how the Conference of Genoa was conducted, the negotiations that took place, and the arguments used by the different sides. The

major powers that hosted wanted to put maximum pressure on Soviet Russia by claiming that a fundamental objective of the conference was for all countries to acknowledge their public debt and for compensation to be paid.[38] The major powers asserted in the opening convocation that mutual confidence could only be restored if the nations (or the governments of the nations) wishing to obtain foreign credit would freely commit themselves to acknowledging all public debts and securities that had been or would be contracted by the state, municipal authorities, or other public bodies, and also to recognize their obligation to return, restore, or, failing that, compensate all foreign interests for loss or damage caused by the confiscation or sequestration of their property[39].

Immediately George Chicherin, head of the Soviet delegation, retorted that the economic reconstruction of Russia and work intended to end economic chaos in Europe would be taking a wrong and dangerous direction if the most economically powerful nations were to crush Russia under demands far beyond its capabilities—as in what the country saw as its odious past—instead of creating the requisite conditions for its economic revival and facilitating its march forward to the future.[40]

In the ensuing discussion with the Soviets, who asserted that their people and their new government could not be expected to take on debts contracted by a previous despotic regime, Lloyd George replied that when a country undertook contractual obligations toward another country or toward nationals of that country for pledged securities, that contract could under no circumstances be repudiated each time a country changed government, unless that country restored the assets received.[41]

Western demands on Moscow

Western governments presented a full list of demands aimed at solving, in their favor, the litigation over debt repudiation and expropriations decreed by the Soviet government. Those demands were presented in Genoa on April 15, 1922, five days into the conference, in a document entitled "London Experts' Report on the Russian issue."[42]

Article 1 stated:

> The Russian Soviet Government shall accept the financial obligations of its predecessors, viz. the Imperial Russian Government and the Russian Provisional Government, towards foreign Powers and their nationals.

The form and contents of the whole text clearly indicate that it listed a number of

impositions by Western powers onto the Soviet government.

In the same article, we find a provision that directly contravened the treaties Soviet Russia had signed in 1920–1921 with the Baltic republics and with Poland (countries that had achieved independence after the fall of the tsarist regime) whereby, as we have seen, those states no longer had to pay tsarist debts.

> The same applies to the question whether, and if so, to what extent, new states which have been recognized as such and which were formerly part of Russia, as well as states which have acquired part of the former territory of Russia, should undertake part of the obligations dealt with in these provisions.[43]

Article 3 claimed that the Soviet government was responsible for damages resulting from the tsarist regime:

> The Russian Soviet Government shall undertake liability for all actual and direct losses, whether arising out of breach of contract or otherwise, suffered by nationals of other Powers, due to the action or negligence of the Soviet Government or its predecessors.[44]

That was in flagrant contradiction with Moscow's position.

Article 4 granted almost all powers to bodies outside the Soviet authorities:

> The liabilities under the preceding articles will be determined by a "Russian Debt Commission" and by "Mixed Arbitral Tribunals" to be set up.[45]

Annex 1 specified the composition and competence of the Russian Debt Commission. It was clear that the Russian government would be in a minority position:

> Annex I. Russian Debt Commission.
>
> 1. A Russian Debt Commission shall be established consisting of members nominated by the Russian Government and members nominated by the other Powers, together with an independent chairman chosen from outside by agreement among the other members, or, in default, named by the League of Nations, either through the Council or through the Permanent Court of International Justice.[46]

The commission would be entitled to issue new Russian bonds to pay former tsarist debts and to compensate foreign capitalists whose companies had been nationalized:

2. The commission will have the following functions:

(a) To constitute and prescribe the procedure of the Mixed Arbitral Tribunals, to be set up in accordance with the provisions of Annex II, and to issue such instructions as may be necessary in order to secure uniformity in their proceedings.

(b) To issue new Russian bonds in accordance with the provisions of Annex II to persons entitled thereto, under awards of the Mixed Arbitral Tribunals, to holders of existing state bonds and other bonds and stock for which the new Russian bonds are to be given in exchange, and to persons entitled thereto in respect of funded interest and repayment of capital.[47]

Dominated as it was by creditors, the commission was given exorbitant powers; it could even decide what revenues had to be used to repay the debt:

To determine, if necessary, among the revenues of Russia, those which should be specially assigned to the service of the debt, for example, an allocation of certain taxes or of royalties or dues upon undertakings in Russia. Should occasion arise to control, if the commission thinks fit, the collection of all or part of these assigned revenues, and to deal with the proceeds.[48]

The host nations wanted Soviet Russia to agree to a supervisory institution on the same pattern as that which had been imposed on Tunisia, Egypt, the Ottoman Empire, and Greece during the second half of the nineteenth century.[49] This was also very much like what has been imposed on Greece since 2010.

Annex 3 gave full powers to the debt commission to issue debt bonds, in which the Russian Soviet government was in a minority position:

1. All accepted claims for monetary compensation against the Russian Soviet Government will be met by the issue of new Russian bonds up to the amounts fixed by the Mixed Arbitral Tribunals. The terms of issue of the bonds, together with all questions arising out of the conversion of existing bonds and out of new issues will be determined by the Russian Debt Commission.

2. The bonds shall carry a rate of interest to be determined by the Russian Debt Commission.[50]

Whereas the Russian Soviet government had clearly stated that it would not take on any debt contracted after August 1, 1914, to carry on the war, the text of the memorandum handed to the Soviet delegation stated that

> in view of the serious economic condition of Russia, such creditor Governments are prepared to write down the war debts owed to them by Russia.[51]

The Soviet counterattack: the Treaty of Rapallo, 1922

The London experts' report, mentioned above, was such a deliberate provocation on the part of the Western powers that the Soviet delegation immediately got in touch with the German delegation, which Paris and London had somehow prevented from fully attending the Genoa Conference. France and Britain were hoping that they could coax the Soviet Russians into accepting the conditions mentioned above, or at least some of them, to strengthen their position when negotiating with Germany afterward. The Russian issue clearly was a priority.

Adolph Joffe, one of the diplomats in charge of the Soviet delegation, phoned the Germans at 1 a.m. on Easter Sunday, April 16, 1922, to suggest they should meet at once and try to reach a bilateral agreement. The biographer of the German economic minister at the time, Walther Rathenau, writes that the members of the German delegation met in their pajamas in Rathenau's hotel room to decide whether they would accept the Soviet invitation. They did, and sixteen hours later, on Sunday April 16, 1922, at 5 p.m., the Treaty of Rapallo was signed between Germany and Soviet Russia.[52] The treaty included mutual waiving of financial claims, including German compensation after Soviet nationalizations "on condition that the government of the Russian Socialist Federal Soviet Republic does not satisfy claims for compensation of a similar nature made by a third Party."[53] It is important to note that Soviet Russia remained fully consistent with the position that the Soviet government had adopted in its peace proposal in the very wake of the revolution: peace with neither annexation nor compensation. As we know, in March 1918 the German Empire had imposed drastic conditions on Russia with the Treaty of Brest-Litovsk, annexing Russian territories and demanding a heavy war ransom. In June 1919 that treaty had been canceled by the Treaty of Versailles, in which Western powers amputated the German republic of large stretches of its territories and demanded heavy compensations. In the Treaty of Rapallo, Soviet Russia signed a peace agreement that included mutual waiving of compensation, whereas Article 116 of the Treaty of Versailles granted Russia a right to financial compensation from Germany. This step taken by Soviet Russia was also consistent with the treaties it had signed with the Baltic republics and Poland in 1920–1921.

Another provision in the Treaty of Rapallo said that Germany would help to

boost trade between the two countries. In a nutshell, the Treaty of Rapallo, signed on the suggestion of the Soviet delegation, was a strong response to the dominant and aggressive behavior of the Western powers.

Next, the Soviet delegation took the time to communicate its official answer to the Western powers in response to the demands they had formulated on April 15.

Proposals and counterproposals on the tsarist debt

On April 20, 1922, Chicherin announced the Soviet response to the Western powers' proposals of April 15. It indicated:

> The Russian delegation are still of the opinion that the present economic condition of Russia and the circumstances which are responsible for it should fully justify the complete release of Russia from all her liabilities mentioned in the above proposals by the recognition of her counter-claims.[54]

In spite of their lack of agreement with the exorbitant claims of the Western powers, the Russian delegation said they were prepared to make concessions concerning the debt contracted by the tsarist regime before the entry into the war on August 1, 1914. They made a number of proposals.

It was proposed, once agreement was reached, to start debt repayments after a delay of thirty years: "The resumption of payments arising out of the financial engagements accepted by the Russian Government . . . including the payment of interest, will begin after a period of [thirty] years from the date of the signing of the present agreement."[55]

The Russian delegation would only sign agreements with the other governments if they fully recognized the Soviet government and if they granted loans to be used to build the Russian economy—not to repay existing loans. This would allow breathing space for the use of fresh money, and old debt repayments would resume after thirty years, when the economy would have become sufficiently strong to bear them.

The Western powers' counterproposals

On May 2 the hosting nations made new proposals. Although there were some small concessions (notably, a delay of five years before resuming repayments), they demanded new, unacceptable political conditions. Clause 1 of the Memorandum to the Russian Delegation stated:

> In accordance with the terms of the Cannes Resolution that all nations should

> undertake to refrain from propaganda subversive of order and of the established political system in other countries than their own, the Russian Soviet Government will not interfere in any way in the internal affairs, and will refrain from any action which might disturb the territorial and political status quo in other States.[56]

This meant that the Soviet government would renounce its calls to colonized peoples to struggle for their right to self-determination. The Soviet Union would give up its right to support independence movements such as in India and in the African colonies of the different empires, particularly the British and French. It would also have to relinquish its support for strikes and other forms of struggle outside its own borders.

Clause 1 also stated: "It will also suppress all attempts in its territory to assist revolutionary movements in other States."[57] This meant that it would relinquish its support for the Third Communist International that had been created in 1919 and had its headquarters in Moscow.

On the debt question, Clause 2 reaffirmed the position of the Western powers:

> The Russian Soviet Government recognizes all public debts and obligations which have been contracted or guaranteed by the Imperial Russian Government, or the Russian Provisional Government, or by the Soviet Government itself towards foreign Powers.[58]

Paragraph 2 of Clause 2 refused the Soviet demand for compensation for the losses of life and materials caused by the aggressions of foreign powers during and after the revolution. It read: "The Allies can admit no liability for the claims against them set up by the Russian Soviet Government for loss and damage suffered during the revolution in Russia since the war.[59]

Clause 6 called for the creation of mixed arbitral tribunals:

> This Commission shall consist of a member appointed by the Russian Soviet Government, a member appointed by the foreign holders, two members and a President appointed by the President of the Supreme Court of the United States or, failing him, by the Council of the League of Nations or the President of the Permanent Court of International Justice at The Hague. This Commission shall decide all questions as to the remission of interest and as to the mode of payment of capital and interest, and will take into account in so doing the economic and financial condition of Russia.[60]

In sum, the host states replaced the Russian debt commission they had proposed on April 15 by an arbitration commission that would have extensive powers and in which Russia would be in a minority.

The Soviet reply reaffirmed the right to repudiate debt

On May 11, the Soviet delegation issued a declaration that marked the failure of the Genoa negotiations and forcefully reaffirmed the right to repudiate debt. Chicherin declared:

> It may be observed that more than one of the states present at the Genoa Conference has in the past repudiated debts and obligations which it had contracted, and that more than one has confiscated or sequestered the property of foreign nationals, as well as of its own nationals, without for that reason being exposed to the ostracism inflicted upon Soviet Russia.[61]

Chicherin pointed out that a regime change through revolution results in separation from the obligations of the former regime:

> It is not for the Russian Delegation to defend that great movement of the Russian people before an Assembly of Powers, many of which have experienced more than one revolution in the course of their history; but the Russian Delegation feels obliged to recall the principle that revolutions, which constitute a violent break with the past, give rise to new legal standards in the external and internal relations of States. Governments and administrations created by revolutions are not bound to respect the obligations of the Governments which have been overthrown.[62]

"The sovereignty of peoples is not bound by the treaties of tyrants."

Chicherin continued:

> The French Convention, from which modern France claims direct descent, proclaimed, on September 22nd, 1792, that "the sovereignty of peoples is not bound by the treaties of tyrants." In conformity with this declaration, revolutionary France not only destroyed the political treaties entered into with foreign countries under the old regime, but also repudiated her National Debt. She only consented to pay one-third of it, and that for motives of political expediency. This was the "Tiers consolidé," the interest upon which was not

> regularly paid until the beginning of the nineteenth century. This procedure, exalted into a doctrine by eminent legal experts, has been almost universally followed by Governments created by revolutions or by wars of liberation. The United States repudiated the treaties of their predecessors, England and Spain.[63]

On the basis of historical precedents, Chicherin held that Soviet Russia was within its rights to nationalize foreign-owned property on Russian territory:

> Moreover, the Governments of the victorious countries, during the war, and, above all, at the time of the conclusion of the Peace Treaty, did not hesitate to seize property belonging to nationals of the vanquished countries, situated in their territory, and even in foreign territory. In conformity with these precedents, Russia cannot be forced to assume any responsibility towards foreign Powers and their nationals for the cancellation of national debts, and for the nationalization of private property.[64]

To the Western powers' indemnities claims Chicherin retorted:

> Another point of law may be submitted. Is the Russian Government responsible for damage caused by the civil war to foreign property, rights and interests, beyond such damage as was caused by the action of the Government in cancelling debts and nationalizing property? Here, again, legal tradition is in favour of the Russian Government. The Revolution, which, like all great popular movements, was an enforcement of the will of the majority, does not admit any obligation to indemnify those who suffered by it. When the Tsarist Government was asked by foreign nationals, supported by their Governments, to compensate them for the losses which they had suffered during the revolutionary disturbances of 1905 to 1906, it rejected their claims, basing its rejection on the fact that, since it had not granted compensations to its own subjects for similar losses, it could not place foreigners in a privileged position in this respect.[65]

Chicherin concluded this part of his argumentation with the following:

> From a legal point of view Russia is, therefore, in no way bound to pay debts contracted in the past, to restore property or compensate its former owners, or to pay indemnities for other losses occasioned to foreign subjects, either by the legislation established by Russia in the exercise of her sovereignty, or by the

events of the Revolution.[66]

After this the head of the Soviet delegation repeated the willingness of Soviet Russia to make concessions if they would permit agreements to be made. "Nevertheless, in a spirit of conciliation and in order to arrive at an understanding with all the powers," Russia agreed to recognize a part of the debt.

Chicherin showed his profound understanding of jurisprudence in insisting:

> In law, the Russian counterclaims are far more justified than the claims of foreign Powers and their nationals. Tradition and practice both lay down that the responsibility for losses caused by intervention and blockade should be borne by the Governments which were the authors of these measures. It will be sufficient to recall the decision of the Court of Arbitration of Geneva on September 14th, 1872, by which Great Britain was condemned to pay the United States fifteen and a half million dollars for losses caused by the privateer Alabama, which, during the Civil War between the Northern and Southern States, had assisted the latter.
>
> The campaign of intervention and blockade carried on by the Allies and Neutrals against Russia constituted official acts of war. The documents published in Annex II of the first Russian Memorandum proved clearly that the chiefs of the counter-revolutionary armies were such only in appearance, and that the real commanders of these armies were the foreign generals despatched specially for that purpose by certain Powers. These Powers not only took part directly in the Civil War, but were the actual authors of it.[67]

In an annexed document, as Sack reports,

> The Soviets contended that the foreign Powers which participated in the intervention against them in 1919–1920 were liable to pay for losses which Russia suffered as the result of the civil war and revolution. The Soviet delegation presented to the Conference a bill of such losses, which by far exceeded, according to their computation, all the claims of the Powers and their nationals against the Soviet government.[68]

Chicherin reaffirmed that Russia was ready to make concessions if granted real loans:

> True, the Russian Delegation made concessions as a result of the Villa de Albertis conversations, and declared its readiness to drop its counter-claims in

> return for other concessions, of which the chief was to be the placing of real credits at the disposal of the Russian Government. The Powers have not kept this engagement.[69]

The head of the Russian delegation rejected the hosting states' pretensions to repayments of loans granted to the provisional government to continue a war that the people refused:

> Similarly, the Memorandum raises again in its entirety the question of war debts, the cancellation of which was one of the conditions on which Russia was willing to abandon her counter-claims.[70]

On the hosting states' will to impose mixed arbitral tribunals on Russia, Chicherin replied that, if such a commission was created,

> the sovereignty of the Russian State becomes the sport of chance. It may be impaired by the decisions of the Mixed Arbitral Tribunal consisting of four foreigners and one Russian, which will decide, in the last resort, whether the property of foreigners should be reinstated, restored or compensated.[71]

Finally, Chicherin denounced the fact that powers such as France defended, tooth and nail, the repayments to a few big capitalists without any consideration for the small savers to whom Russia was willing to pay indemnities:

> The Russian Delegation also notes that the States concerned, reserving all their solicitude for a small group of foreign capitalists, and maintaining on theoretical points a quite inexplicably uncompromising attitude, have sacrificed a large number of foreign capitalists who are desirous of profiting by the facilities and guarantees afforded them by the Russian Government to enable them to return and resume work in Russia. They have also sacrificed the interests of the numerous small holders of Russian bonds, and small foreign proprietors whose property has been nationalized or sequestered, whom the Russian Government intended to include amongst the claimants whose claims it recognized as just and equitable. The Russian Delegation cannot refrain from expressing its surprise that the Powers, such as France, whose nationals include the majority of the small Russian bondholders, should have insisted most strongly upon the necessity of restoring property, thus subordinating the interests of small holders of Russian bonds to those of certain groups which demand the restoration of property.[72]

Chicherin concluded that the hosting states held responsibility for the failure of the negotiations:

> The achievement of this end presupposed the willingness of the foreign Powers which had organized armed intervention in Russia, to cease employing towards Russia the tone of victor to vanquished, since Russia was not vanquished. A common agreement could only have been reached if the tone adopted had been that of States negotiating on a footing of equality. . . . The Russian masses cannot be a party to an agreement in which the concessions made are not balanced by real advantages.[73]

Debt: Lloyd George blames the Soviets

In the final plenary conference, Lloyd George, the British prime minister, made a revealing reply:

> There is a real sympathy for Russia's condition. If Russia is to get help, Russia must not outrage the sentiments—if they like, let them call them the prejudices—of the world. . . . what are these prejudices? I will just name one or two, because they were all trampled upon in the Memorandum of May 11th. The first prejudice we have in Western Europe is this, that if you sell goods to a man you expect to get paid for them. The second is this, that if you lend money to a man and he promises to repay you, you expect that he will repay you. The third is this: you go to a man who has already lent you money, and say, "Will you lend me more?" He says to you, "Do you propose to repay me what I gave you?" And you say, "No, it is a matter of principle with me not to repay." There is a most extraordinary prejudice in the Western mind against lending any more money in that way. It is not a question of principle. I know the revolutionary temper very well, and the revolutionary temper never acknowledges that anybody has got principles, unless he is a revolutionary. But these prejudices are very deeply rooted; they are rooted in the soil of the world; they are inherited from the ages; you cannot tear them out. . . . And if you are writing a letter asking for more credits, I can give one word of advice to anybody who does that. Let him not, in that letter, enter into an eloquent exposition of the doctrine of repudiation of debts. It does not help you to get credits. It may be sound, very sound, but it is not diplomatic. . . . I do implore you, as a friend of Russian peace, as a friend of co-operation with Russia, as one who is in favor of going to the rescue of those great and gallant and brave

> people, I implore the Russian Delegation, when they go to The Hague, not to go out of their way to trample upon those sentiments and principles which are deeply rooted in the very life of Europe.[74]

Chicherin, after deploring that he had been "prevented from submitting to the Conference the question of disarmament," responded to Lloyd George:

> The British Premier tells me that, if my neighbour has lent me money, I must pay him back. Well, I agree, in that particular case, in a desire for conciliation; but I must add that if this neighbour has broken into my house, killed my children, destroyed my furniture and burnt my house, he must at least begin by restoring to me what he has destroyed.[75]

It must be particularly noted that, during the negotiations on other points of the agenda, the Soviet delegation had regularly called for decisions to be taken in favor of a general disarmament. France violently refused even to discuss the matter; it was out of the question to reduce spending on armaments. Of course, this policy was very far from the feelings of the French people, but there was a right-wing belligerent government in place that directed its anger against Germany as well as against Russia (not to mention the colonized peoples). In 1921, France tried again to create an alliance with Romania (which had annexed Bessarabia, a territory of the former Russian Empire) and Poland to declare war on Soviet Russia.[76]

What was more, the Soviet delegation had proposed that all nations be invited to the Genoa Conference. Colonized peoples were to represent themselves. Workers' organizations also were to have been invited. The Soviet delegation was critical of the general proposals regarding economic matters.

Chicherin declared:

> Chapter VI of the Report of the Economic Commission, which deals with labour questions, opens with a general remark stating the importance of the assistance of the workers in the economic restoration of Europe. Yet we do not find in this chapter what would be most necessary to the working classes. We do not find a mention of the legislation for the protection of workmen, leaving aside the question of unemployment. We do not find either any proposal concerning co-operative societies, although the latter are an instrument of the highest value for the improvement of the conditions of the working classes. It is to the highest degree to be regretted that, in the course of the labours of the First Sub-Committee, the proposal about co-operatives should have been

> rejected. But there is something else. Article 21, which mentions the Conventions of the Labor Conference of Washington, deprives those Conventions of a great part of their practical importance by confirming the right of the members not to ratify them. This final phrase of Article 21, which the Russian Delegation in vain tried to suppress, is explained by the desire of certain Governments, such as Switzerland, not to accept the eight-hour day. The Russian Delegation considers the eight-hour day as a fundamental principle of the welfare of the workers, and raises a formal objection against the liberty explicitly given to Governments not to apply it.[77]

After the failure of the Genoa negotiations, the host states and Russia agreed to meet again a month later at The Hague to find a last-chance agreement. The meeting, held on July 20, 1922, was also a failure. France and Belgium, now supported at a distance by Washington, who was absent, hardened their positions still further.[78]

Reasserting debt repudiation ends in success

Before the Genoa Conference, Soviet Russia had managed to sign bilateral treaties with Poland, the Baltic republics, Turkey, Persia, and others. More importantly, it had managed to sign a trade agreement with the UK. Signed in 1921, this agreement had sanctioned the Soviet laws of nationalization before UK courts, which meant that companies that traded with Russia no longer ran the risk of getting into trouble.[79]

During the Genoa Conference Russia also succeeded in signing the Treaty of Rapallo with Germany, whereby each party renounced any demand for compensation.

It might have been anticipated that the failure of the conferences at Genoa and The Hague would result in the capitalist powers adopting a more intransigent position toward Moscow. In fact, the opposite occurred. The Soviet government had obviously been clever in its maneuvers. Separately, the various capitalist countries all considered that they had to sign agreements with Moscow since the Russian market provided a significant outlet and the country had ample natural resources. Under the pressure of its respective private companies, each country was keen to sign an agreement with Moscow in order to prevent other powers from seizing the opportunities offered by the Russian market.

In 1923–1924, despite the failure of the Genoa Conference, the Soviet

government was recognized de jure by the UK, Italy, the Scandinavian countries, France, Greece, China, and a few others. In 1925, Japan also recognized the Soviet government.

Paris drastically reduced its demands. In France, a decree issued on June 29, 1920, had established a special commission for the settlement of Russian affairs that was "to liquidate and recover all funds from the former Russian state, whatever their origin." The French government canceled this commission six days before it recognized the Soviet government, on October 24, 1924. This truly was a victory for Moscow.

A few months earlier the Labour government in the UK had signed an agreement with the USSR through which Britain accepted Soviet claims for compensation for damages resulting from British intervention in the civil war between 1918 and 1920,[80] though Lloyd George had stated at the Genoa Conference that this was out of the question. The British government even promised that under certain conditions it would guarantee the issue of Soviet bonds on the London financial market.

Less than two years after the failure of the Genoa Conference, even though the USSR maintained its repudiation of debts, the British government was about to guarantee a Soviet loan! On September 24, 1924, the Soviet leader Kamenev could write in *Pravda*:

> The treaty with England is an effective basis for the express recognition of our nationalization of land and of industry, of the repudiation of debts and of all other consequences of our revolution.[81]

When the Conservatives came back to power a few months later, they refused to ratify the treaty; however, a major British company committed itself to investing in gold mines and officially renounced any claim to compensation for the nationalization of its assets in 1918.

From 1926, in spite of debt repudiation, European private banks and governments began granting loans to the USSR

On June 26, 1926, the USSR signed a credit agreement with German banks. In March 1927, the Midland bank in London lent £10 million. In October 1927, the municipality of Vienna granted a loan of ATS 100 million. In 1929, Norway granted a loan of NOK 20 million.

The Republican leaders in the US were fuming. Secretary of state Frank Kellogg

denounced the Europeans' conciliatory attitude in his speech to the Republican National Convention on April 14, 1928:

> No state has been able to obtain the payment of debts contracted by Russia under preceding Governments or the indemnification of its citizens for confiscated property. Indeed there is every reason to believe that the granting of recognition and the holding of discussions have served only to encourage the present rulers of Russia in their policy of repudiation and confiscation.[82]

Eventually, in November 1933, under the presidency of Franklin D. Roosevelt, the United States recognized the USSR de jure. On February 13, 1934, the US government established the Export–Import Bank, with a view to financing trade with the Soviet Union. A few months later, not wanting to be excluded from the Soviet market, France also offered loans to the USSR for it to buy French products.

Alexander Sack, who opposed repudiation of debts and was fiercely anti-Soviet, concluded his study on diplomatic claims against the Soviets with the following sentences that clearly indicate that it is perfectly possible to repudiate debt without defaulting or being isolated:

> At the twentieth anniversary of the Soviet regime, the foreign claims against it present the melancholy picture of petrification, if not abandonment. The Soviet Union boasts of being now one of the most powerful industrial countries; it has a favorable balance of trade, and ranks second in the gold production of the world. Its government is now universally recognized, and commercial credits are extended to it practically for the asking. Yet it has not recognized, nor paid, any claims arising from its decrees of repudiation, confiscation, and nationalization.[83]

Conclusion

The present study focuses on the repudiation of debt by the Soviet government. It shows that the decision went back to a commitment made during the 1905 revolution. It includes an analysis of the international context—peace treaties, the civil war, the blockade, the Genoa Conference, and the several loan agreements signed afterward in spite of the confirmed repudiation of former debts.

We have not discussed the later development of the Soviet regime—the gradual smothering of any criticism, the regime's bureaucratic and authoritarian degeneration,[84] disastrous farming policies (notably the forced collectivization

under Stalin) as well as disastrous industrial policies, and Stalin's enforcement of terror in the 1930s.

'HE SOVIET DIPLOMATS AT GENOA FALL VICTIM TO ·TALINIST REPRESSION

'hat happened to the members of the delegation representing the Soviet government in Genoa ıstrates the tragic development of the regime and the consequences of Stalin's policy. The elegation consisted of George Chicherin, Adolph Joffe, Maxim Litvinov, Christian Rakovsky, and eonid Krasin. Apart from the last mentioned, who died of illness in London in 1926, what ppened to the others is revealing.

George Chicherin was disgraced in 1927–1928.

Adolph Joffe committed suicide on November 16, 1927, leaving a farewell letter to Trotsky that as a true political testament. His funeral was one of the last "authorized" big public emonstrations against Stalin.

On May 3, 1939, Maxim Litvinov was violently dismissed from his position as people's ommissar of foreign affairs. The GPU (state political administration) surrounded his ministry, and s assistants were beaten and interrogated. Since Litvinov was a Jew and a fervent partisan of llective security, replacing him with Molotov increased Stalin's power and facilitated negotiations ith the Nazis. These resulted in the German-Soviet Nonaggression Pact in August 1939, with its gic consequences. After the Nazi attack on the USSR in 1941, Litvinov was restored to an official sition.

Christian Rakovsky had been Trotsky's comrade before the First World War and had opposed ıreaucracy from the early 1920s; he was executed by the GPU on Stalin's order in 1941.

Epilogue

In 1997, six years after the dissolution of the USSR, Boris Yeltsin signed an agreement with Paris to put an end to litigation over Russian bonds. The $400 million France received from the Russian Federation in 1997–2000 constitutes a mere 1 percent of the amounts claimed from Soviet Russia by the French creditors represented by the state.[85] We should also stress the fact that the agreement between Russia and the UK signed on July 15, 1986, provided for a 1.6 percent compensation of the bonds' updated value. Such very low compensation rates again indicate that a country can indeed repudiate its debts without major consequences.

In August 1998, as it was affected by the Asian crisis and the consequences of capitalist restoration, Russia unilaterally suspended its payment of the debt for six

weeks. Its external public debt amounted to $95 billion, $72 billion of which was to private foreign banks ($30 billion to German banks and $7 billion to French banks, including Crédit Lyonnais) and the remainder mainly to the Paris Club and the IMF. Complete suspension of payment followed by a partial suspension over the following years led the various creditors to agree to a haircut that varied between 30 and 70 percent. Russia, which was going through a recession before suspending payment, experienced an annual growth rate of about 6 percent afterward (1999–2005). Joseph Stiglitz, who had been the World Bank's chief economist between 1997 and 2000, points out:

> Empirically, there is little evidence in support of the position that a default leads to an extended period of exclusion from the market. Russia returned to the market within two years of its default which was admittedly a "messy one" involving no prior consultation with creditors. . . . Thus, in practice, the threat of credit being cut off appears not to be effective.[86]

So it is possible to repudiate or unilaterally suspend debt payment and stimulate the economy. It is not enough to solve all problems, but in some circumstances it can be both useful and necessary.

Conclusion

A study of the debt crises of the last two centuries clearly shows that indebted countries of the periphery are not the causes of sovereign debt crises. Crises break out in the most powerful capitalist countries and then cause payment defaults and deleterious effects in the indebted peripheral countries. The conditions imposed by creditors are regularly abusive, beginning with the issuance of the first loans. A majority of the debt crises and their denouements have been influenced by the action of the major banks of the principal economic powers and the governments that support them.

In many cases, the major capitalist powers have taken over direct control of indebted independent states (Tunisia, Egypt, Greece from its inception, Haiti beginning in 1915) or else have imposed conditions that have resulted in their subordination and their weakening (the Ottoman Empire, China in the nineteenth century, and Greece beginning in 2010, to cite only a few examples). Often, submission to the creditor powers goes hand in hand with free trade agreements that have contributed to halting the development of local productive forces.

External debt and internal debt are closely interrelated. The ruling classes of the peripheral countries encourage both internal and external indebtedness and thereby gain wealth, which strengthens their parasitical nature. The major private banks of the dominant capitalist powers control loans to the peripheral countries.

A majority of the loan agreements made are clearly illegitimate and odious.

At many points in the history of the last two centuries, states have repudiated their debts. We have presented various cases of unilateral repudiation: Portugal in 1837; the US, on three occasions during the nineteenth century; Mexico, in 1861, 1867, 1883, and 1914; Costa Rica, just following the First World War; and Soviet Russia in 1918. Contrary to widespread opinion, repudiation of debt does not lead to a definitive loss of access to international credit.

Repudiation of illegitimate debts is not enough. To be of real use to society, repudiation must be part of a coherent set of political, economic, cultural, and social measures that can enable the country to evolve toward a society free of the various forms of oppression and exploitation.

Reciprocally, for many countries, it is very difficult, and usually impossible, to

begin traveling the path of emancipation while continuing repayment of illegitimate or odious debts. History has no shortage of examples. The most recent is Greece's submission to the diktats of its creditors since 2010 and the terrible effects of the capitulation, in July 2015, of a government that saw continuing repayment as a means of obtaining a reduction of its crushing debt.

Chronology

Economic crises	Latin America (Gran Colombia, Mexico, Cuba, Costa Rica, and so on)	The United States	Mediterranean (Greece, Tunisia, Egypt, Ottoman Empire)	Russia	Legal aspects of challenging illegitimate debts and their repudiation
First half of the 1820s: Economic frenzy in Great Britain, the main western economy, increase in financial speculation and international loans. December 1825: The first major international capitalist crisis breaks out in London. Banks suspend international credit. Some of them are bankrupt.	First half of the 1820s: The Latin American independence leaders borrow from London. 1824–1825: Mexico borrows from Goldschmidt and Barclay. 1828: All independent Latin American countries, from Mexico to Argentina, suspend repayment of their debt. 1847: The Mexican-American War. 1855: Revolution of Ayutla in Mexico. The Liberals and Conservatives fight for power. 1858: Benito Juárez, a Liberal, is overthrown and the usurper government contracts new loans.	1830s: Four US states repudiate their debts; Mississippi, Arkansas, Florida, and Michigan.	1824–1825: Greece borrows from London for funding its war of independence against the Ottoman Empire. 1826: Greece suspends debt repayment. 1830: France, the United Kingdom, and Russia (troika) establish a monarchy in Greece and force it to repay the debt of 1824–1825. 1832: The troika signs an agreement with Bavaria's king, the father of Otto, Greece's future king. It binds the new "independent" Greek state to give absolute priority to debt repayment. 1833: Greece's first odious loan contracted by the troika. In 1838 and 1843: The Greek monarchy suspends debt repayment.	1815: At the behest of Tsar Alexander I, Russia, Prussia, and Austria form the Holy Alliance to strengthen their positions and protect against revolutions. The French and British monarchies join this reactionary alliance.	1830: The German jurist Karl Zachariae von Lingenthal writes: "The state is entitled to reduce its debts, indeed to repudiate them entirely, in so far as it is no longer in a condition to raise the funds, aside from current expenses, to pay the interest and principal of the public debt." 1837: Portugal repudiates the debt contracted in Paris by the usurper King Miguel I.
			1843: The troika decrees a memorandum for implementing a rigid austerity policy in Greece.		
	1861: Benito Juárez regains power with great popular support. Repudiation of bonds issued between 1858–1860 and suspension of debt repayment for two years. 1862: France invades Mexico and crowns an Austrian prince. The armies of Benito Juárez resist.	1861–1865: The US Civil War. After the North's victory, the federal government compels the Southern states to repudiate the debts contracted to fund the war.	1850–1876: Considerable increase in Egyptian debt. Debt service takes up two-thirds of government revenues. 1859–1860: Arms purchase leads to an increase in Tunisia's public expenditure and internal debt. 1863–1867: A spate of foreign loans results in a heavy odious debt for Tunisia.		Significant German, French, and Belgian jurists assert that sovereign states have the right to challenge public debt. The European powers use debt as a pretext to launch military offensives against the countries of Latin America, the Mediterranean (Greece, Tunisia, and Egypt, for example), and China.
	1865: The Triple Alliance (Argentina, Uruguay, and Brazil, united and financed by the United Kingdom) attacks Paraguay to prevent it from pursuing its autonomous development		1867: Tunisia partially suspends repayment of its internal and external debt. 1869: Creation of the International Finance Commission for taking control of Tunisia's finances.		Nineteenth century: Public debt commissions controlled by the creditor powers are imposed on various indebted countries: 1869 in Tunisia, 1876 in Egypt, 1881 in the Ottoman Empire, 1898 in Greece.

	policy without recourse to external debt. 1865–1867: France, with its expeditionary force of 35,000 soldiers, is defeated in Mexico. Benito Juárez returns to power. Repudiation of the external debts contracted by Maximilian of Austria and repudiation of the internal debts of the period 1858–1860.				
1873: Immense banking crisis in New York, Frankfurt, Berlin, and Vienna.	1876: Eleven Latin American countries suspend debt repayment.		1876: Egypt suspends its debt repayment. Creation of the Public Debt Commission, headed by representatives of the United Kingdom and France. 1878: Agreement on the Greek debt. Greece borrows from the markets to repay its outstanding loans. The creditors want to start a new cycle of debt and capital expansion for the imperialist countries. 1881: France conquers Tunisia and turns it into a protectorate. The Treaty of Bardo (1881) and the Conventions of La Marsa (1883) signed between Tunisia and France lay down clear provisions for debt to be used as a tool of submission and plunder.		1879: A French court rules in Portugal's favor against a French creditors' committee demanding payment of the debt repudiated in 1837.
1882: Stock market crisis in Paris.	1883: Confirmation of Benito Juárez's debt repudiations, renegotiation of other debts, and adoption of a binding framework for new loans in order to guarantee national sovereignty.	Early 1877: Eight Southern states repudiate their debts by announcing that the loans of the period between the end of the Civil War and 1877 had been contracted by corrupt politicians.	1882: In Egypt, the unpopular measures of the Public Debt Commission lead to a rebellion. Great Britain launches a military offensive against Egypt and enforces its rule.		
1890–1893: International banking crisis.	1898: The United States wages war against Spain in order to take control of Cuba. Cuba's debt to Spain is repudiated. 1902: Military intervention against Venezuela, claiming debt repayment. Germany,	1898: The United States repudiates the debt claimed from Cuba by Spain. 1903: With the backing of the United States,	1893: Greek debt crisis. Debt repayment suspended. 1897: The Greek monarchy and the local ruling classes enter into a military conflict with the Ottoman Empire. 1898: New loan granted to	1905: First Russian revolution. End November: Adoption of the Petrograd Soviet's financial manifesto denouncing the tsarist debts.	1898: Paris Treaty on Cuba between Spain and the United States. At the beginning of the twentieth century, the Calvo Doctrine is included in the constitutions of several Latin American countries. This doctrine of international law, drawn up in 1868 by the Uruguayan jurist Carlos Calvo (1824–1906), stipulated

	Great Britain, and Italy launch attacks with warships.	Panama splits from Colombia against the latter's will. The objective is to build the Panama Canal under Washington's control. 1904: The US president announces that the United States would serve as the "policeman" of the Western Hemisphere. 1907: Banking crisis in the United States.	Greece to compensate for the Ottoman Empire, while the creditors remain the same. Creation of the International Financial Control Commission (Commission Internationale Financière de la Grèce), placing Greece under the creditors' financial control.	1906: Paris grants a new international loan to Russia.	that persons living abroad must submit their complaints to the local courts of the borrowing countries without recourse to diplomatic pressure or military intervention. 1907: The Hague International Conference on Debt. Drago (Argentina)-Porter (United States) Convention: States should emphasize diplomacy and arbitration to settle debt disputes.
	1910–1920: Mexican Revolution. 1914: Mexico repudiates the debt contracted by President Huerta in 1913. 1919: Costa Rica repudiates its debt contracted by the dictator Tinoco with Great Britain. 1922–1923: During an arbitration, the United States supports Costa Rica against London.	1915: The United States invades Haiti on the pretext of recovering debts and occupies the country until 1934. 1917: Democratic President Woodrow Wilson defends peoples' right to self-determination. 1922–1923: The United States arbitrates in favor of Costa Rica's debt repudiation.	1922: The Greek offensive against Turkey faces defeat. The League of Nations grants loans to Greece between 1924 and 1928. In return it wants a harsh austerity policy to be implemented for a prolonged period. The loan is equivalent to 20 percent of the contemporary Greek GDP.	1917: Revolutionary overthrow of the tsar in February (March 8 in the current calendar). A new and more radical revolution in October (November 7 in the current calendar). February 1918: Repudiation of debts from the tsarist period and debts contracted by the provisional government between February and October 1917 for continuing the war against the German Empire. 1918–1920: Foreign intervention against Russia in an attempt to overthrow the revolutionary government and restore the capitalist order. Lethal civil war. 1921: The situation changes when the Red Army finally regains control of the territory and the foreign troops are withdrawn. From 1924: Many capitalist countries	1916: Lenin emphasizes the right of peoples to self-determination. At the same time, Democratic President Woodrow Wilson also defends this right. These two positions are at odds with the interests of the colonial powers. March 1918: Treaty of Brest-Litovsk between the German Empire and Soviet Russia. 1919: Treaty of Versailles. Between 1920 and 1922, Soviet Russia signs various treaties with states that were part of the Russian Empire. By virtue of these treaties, Russia renounces its claims to repayment of debts. April 1922: Treaty of Rapallo between the German Republic and Soviet Russia. The two states waive each other's reparations. April–May 1922: Failure of the Genoa Conference between Russia and other European powers. Soviet authorities reiterate debt repudiation. 1922–1923: Taft rules in favor of Costa Rica's repudiation of its debt.

				grant public loans to the USSR despite the debt repudiation. This is a victory for the Soviets.	
1929: Wall Street crisis. Beginning of a profound international economic crisis that looms large throughout the 1930s. 1931: A huge banking crisis breaks out in Europe, when the Austrian bank Creditanstalt goes bankrupt. 1932: Germany suspends its debt payment to private creditors. Great Britain, France, Belgium, Italy, and other countries stop paying mutual bilateral debts of war, and also to the United States. Hungary, Latvia, Romania, and Yugoslavia suspend their debt payment. So do fourteen Latin American countries. 1933: Nazi Germany completely suspends payment of its overseas debt.	1934: In Cuba, less than a year after dictator Machado's ouster, the People's Government suspends its debt service. An official audit commission proposes to repudiate the debt, deemed illegal and odious.	1933: Enormous banking crisis in the United States. In March, Roosevelt orders the suspension of all banking transactions for a week.	1932: Greece issues a moratorium but continues to service its debt under the aegis of the International Financial Control Commission.	1930s: The Stalinist regime unleashes a reign of terror on the entire population and signs a pact with Nazi Germany in 1939.	1927: According to Alexander Sack, a debt is odious if its purpose is contrary to the needs and interests of the population and if the lender was aware of that fact at the time the debt was incurred.
	1942: Absolute victory of Mexico over its creditors with a cancellation of more than 90 percent of its debt. 1946: Brazil, which had partially suspended its debt payment since 1931, successfully conducts a debt audit and earns a 50 percent debt reduction. 1959–1960: The Cuban revolutionary government repudiates debts.		1940: Abolition of the Public Debt Commission in Egypt. 1952: Progressive militia led by Gamal Abdel Nasser overthrows the Egyptian monarchy. The Suez Canal is nationalized in 1956. 1962: Algeria repudiates its colonial debts.		1949–1952: Revolutionary China repudiates its debts. 1953: London Agreement on the German debt. Victory for West Germany, which is granted a significant debt cancellation. 1956: Indonesia repudiates its odious debts.
1980–1992: Global economic recession.	From 1982: Several Latin American countries suspend their debt payment. 2005: Paraguay repudiates its debts to Swiss banks. 2007–2008: Ecuador carries out a full audit in order to identify the illegitimate part of the debt. Subsequently, the country unilaterally suspends repayment of a part of the debt dating from November 2008 and repurchases 91 percent of the securities at 30 percent	1985: Banking crisis in Savings and Loans. Bank bailouts.			Cancellations or repudiations of debt due to their odious or illegitimate nature: 1979: Iran repudiates the shah's debts incurred in arms deals. 1991: Three Baltic republics repudiate their debts to the USSR. 1994: Namibia's debt to South Africa is canceled. 1999–2000: East Timor's colonial debt is canceled. 2004: Eighty percent of Iraq's debt is canceled. 2006: Norway cancels its claims over five countries.

	of their value.				

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Notes

Chapter 1

1. See Perchellet, *Haiti*. According to the Ordinance of the French Emperor, 1825, Article 2: "The current inhabitants of the French part of Saint Domingue will pay an amount of 150 million francs to the Caisse des Dépôts et Consignations (Deposits and Consignments Fund) of France in five equal annual instalments, the first of which will be due on December 1, 1825. This is intended to compensate the former settlers who demand compensation." This amount was reduced to FF 90 million a few years later.
2. See Louise Abellard, "L'Empire Ottoman face à une 'troïka' franco-anglo-allemande: retour sur une relation de dépendance par l'endettement" [The Ottoman Empire and the French-British-German "troika": revisiting a relationship of dependency via debt], CADTM, http://cadtm.org/L-Empire-Ottoman-face-a-une-troika.
3. Peripheral as compared to the major European capitalist powers (Great Britain, France, Germany, Netherlands, Italy, Belgium) and the US.
4. Jacques Adda is one of the authors who have drawn attention to this issue. See Adda, *La mondialisation de l'économie,* 57–58.
5. To learn more about the factors besides the rejection of external debt, read Anderson, *Lineages of the Absolutist State*, on Japan's transition from feudalism to capitalism.
6. Kenneth Pomeranz, who has been keen on highlighting the factors thwarting China's race to become one of the major capitalist powers, does not give importance to external debt. In fact, his study focuses on the pre-1830 to 1840 era. However, his analysis is very rich and inspiring. See Pomeranz, *The Great Divergence*.
7. Luxemburg, *The Accumulation of Capital*, https://www.marxists.org/archive/luxemburg/1913/accumulation-capital/ch28.htm.
8. Stiglitz, *Globalization and Its Discontents*.
9. This is what happened during 1960–1970, when the bankers issued direct loans. In 1982, when a debt crisis erupted in the developing world, they eliminated the contracts. In this, they were aided by the imperialist states and the World Bank/IMF tandem, which allowed them to return to the securitization of debt—the common practice throughout the nineteenth century and until the 1930s.
10. Face, or nominal, value is the value indicated on the "face" of the financial asset. For example, a $100 Mexican bond has a face value of $100 even if it is acquired on the secondary market for $20.
11. Frank, "The Development of Underdevelopment."
12. Luxemburg, *The Accumulation of Capital*, 89.
13. The Paris Club is an informal group that consists of twenty-one creditor countries and that, since 1946, has been in charge of renegotiating—in favor of the creditors—bilateral (from one state to another) public debts of countries facing difficulties with repayment.
14. Venezuela's refusal to repay its debt ultimately resulted in a major face-off with the imperialist powers of North America, Germany, Britain, and France. In 1902, France sent a united military fleet to block the port of Caracas and to persuade Venezuela, through gunboat diplomacy, to resume debt repayment. Venezuela did not complete repayment until 1943.
15. See Pierre Gottiniaux, "Puerto Rico: The Audit Now in Progress Has Already Revealed That the Debt Is Largely Illegal," CADTM, www.cadtm.org/Puerto-Rico-The-audit-now-in.
16. See the nineteenth-century writings of Sismondi and Tugan Baranovsky, in particular, as well as the headlines of the print media and the speeches by the European governments of that period.

17. Mandel, *Long Waves of Capitalist Development: A Marxist Interpretation.*
18. Mandel, *Late Capitalism*.
19. Husson, "Postface," in Ernest Mandel, *Les ondes longues du développement du capitalisme.*
20. Mandel, *Late Capitalism*, 82.
21. Husson, "Postface."

Chapter 2

1. See Carlos Marichal, *A Century of Debt Crises in Latin America: From Independence to the Great Depression, 1820–1930* (Princeton: Princeton University Press, 1989), 50. Also see Reinhardt and Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*.
2. Simón Bolívar, who was born July 24, 1783, in Caracas, Venezuela, and died on December 17, 1830, in Santa Marta, Colombia, was a Venezuelan general and politician. An emblematic figure of the liberation struggles in Latin America, he participated decisively in the independence of present-day Bolivia, Colombia, Ecuador, Panama, Peru, and Venezuela. Bolívar also played a part in the founding of Gran Colombia, which he wished to see become a great political and military confederation including all of Latin America, and of which he was the first president.
3. The two Greek bond issues in London in 1824–1825 were worth £2.8 million.
4. Antonio Sucre, the independentist friend of Simón Bolívar, was at the helm of this battle.
5. Great Britain did in fact withdraw its support for the independentists between 1815 and 1820, just after the creation of the Holy Alliance.
6. From 1823 on, the Monroe Doctrine, named after the US president who introduced it, was an important element in US foreign policy concerning the rest of the American continent. This doctrine refused all European interference in "American" affairs and was used to justify the aggressive conquest of Latin America by the US, starting with the annexation of a large part of Mexico (today's Texas, New Mexico, Arizona, and California) in the 1840s. US troops occupied the Mexican capital in September 1847.
7. Letter from Simón Bolívar to Antonio Sucre, May 26, 1823, quoted in Marichal, *A Century of Debt Crises in Latin America*, 14–15.
8. See Marichal, 37–54.
9. The full name was "Barclay, Herring, Richardson and Company"—not to be confused with today's Barclays Bank.
10. Bazant, *Historia de la deuda exterior de Mexico*, 38.
11. Bazant, 96.
12. Luxemburg, *The Accumulation of Capital*. Also see Stiglitz, *Globalization and Its Discontents*.
13. In his invaluable book *Open Veins of Latin America: Five Centuries of the Pillage of a Continent*, Eduardo Galeano has portrayed this destruction with realism and compelling imagery. To date, this book remains the best and most accessible presentation of the various forms of domination and dispossession suffered by the Latin American peoples. The work is well documented and points out the responsibility of the dominant classes, both on the Old Continent and in the New World.
14. See Bairoch, *Economics and World History*.
15. See Britto García, *El pensamiento del libertador: economía y sociedad*.
16. Bairoch, *Economics and World History*, 21.
17. Bairoch, 22.
18. George Canning, undersecretary of state for foreign affairs, became prime minister in 1827.
19. Parish, *Buenos Ayres and the Provinces of the Rio de la Plata*, 338. Quoted by Eduardo Galeano in *Open Veins of Latin America*, 176.

20. Remember that the monarchies of Russia, Austria, Hungary, and Prussia created the Holy Alliance in 1815 following Napoléon's defeat. Great Britain and post-Restoration France (from 1818) joined later. From 1820, popular and military uprisings greatly destabilized the Spanish monarchy on its own territory. The revolt took off when the Spanish military refused to set sail from Cádiz to Latin America to fight the independentists. In 1823, a French intervention (a French expeditionary force of 95,000 soldiers participated in this large-scale operation) backed by the Holy Alliance came to the aid of the Spanish monarchy and crushed the Liberal revolution. The restored Spanish monarchy refused to recognize the states that had just emerged from its empire in threadbare condition. Great Britain should have shown solidarity and refused to recognize the new independent States, but it did not do so.
21. Cited in Luxemburg, *The Accumulation of Capital*, chap. 30; the original quotation in French is from de Sismondi, *Nouveaux principes d'économie politique*, 368 and onward.
22. Britto García, *El pensamiento del libertador* (all translations CADTM).
23. Britto García, 395.
24. Britto García, 395.
25. Britto García, 378.
26. Britto García, 380.
27. Britto García, 380.
28. Britto García, 405.
29. Britto García, 406.
30. See Britto García, 408 and following.
31. Britto García, 378–382.
32. Britto García, 415–416.
33. Britto García, 408.
34. Cuba and Puerto Rico were still Spanish colonies; this rule ended in 1898. Heroic struggles led to Haiti's liberation from its French rulers in 1804, but the country again succumbed to French neocolonial domination in 1825. Other than Britain, the Netherlands and France retained their colonies in the Caribbean and in the region between Brazil and Venezuela.

Chapter 3

1. Prior to the Spanish conquest, the population of present-day Mexico was between 18 and 25 million. Less than a century later, in around 1600, it had fallen to approximately 3.5 million (Batou, *Cent ans de résistance au sous-développement.*). According to a lower estimate by Angus Maddison, Mexico's population was 7.5 million in 1500 and diminished by two-thirds after the Spanish conquest, to some 2.5 million in 1600 (Maddison, *The World Economy*, 120). Thomas Calvo, a specialist in Hispanic America, gives the following figures for the population of the Aztec Empire and its dependencies prior to the Spanish conquest: 18.3 million inhabitants, of which 2.5 million were in the northern territories; central Mexico, 15 million; Chiapas, 800,000 (Calvo, *L'Amérique ibérique de 1570 à 1910*, 14).
2. See Bazant, *Historia de la deuda exterior de Mexico,* 18–19.
3. See Bazant, 21, and Alamán, *Historia de Méjico*, 323, https://archive.org/details/historiademjico08alamgoog.
4. There had been uprisings of indigenous peoples several times during the preceding centuries, and some, such as the Yaqui of Sonora in Mexico, continued their struggle after independence because they derived no benefit from the latter.
5. Evolution of Mexico's population between 1600 and 2015 (in millions of inhabitants): 1600: 3.5; 1700: 4.0; 1800: 5.7; 1850: 7.7; 1895: 12.7; 1910: 15.1; 1940: 19.6; 1950: 25.8; 1990: 86.0; 2000: 97.4; 2015: 121.7

(Batou, *Cent ans de résistance au sous-développement,* 171, through 1990, and official statistics from 1895 [date of the first official census]).

6. See Bazant, *Historia de la deuda exterior de Mexico*, 27–28.
7. As mentioned, the full name was "Barclay, Herring, Richardson and Company"—not to be confused with today's Barclays Bank.
8. Bazant, *Historia de la deuda exterior de Mexico,* 48.
9. See *Morning Chronicle*, London, February 8, 1825, cited in Wynne, *State Insolvency and Foreign Bondholders.*
10. Bazant, *Historia de la deuda exterior de Mexico*, 45.
11. Bazant, 234.
12. Bazant, 54.
13. Bazant, 67–70.
14. Bazant, 53.
15. Bazant, 58.
16. Wynne, *State Insolvency and Foreign Bondholders*, 16. See also Bazant, *Historia de la deuda exterior de Mexico,* 96.
17. Wynne, *State Insolvency and Foreign Bondholders,* 16–17.
18. Wynne, 18.
19. Bazant, *Historia de la deuda exterior de Mexico*, 96.
20. In 1856, the internal debt of 41 million pesos was more than half the total amount of the external debt, which was 68.6 million pesos. Total public debt, internal and external, was 109.6 million pesos (Bazant, 97).
21. According to recent research by Mexican historians, the indigenous communities resisted fairly well the application of the laws, adopted as of 1856, aimed at putting their ancestral lands up for sale. While feigning to accept the laws, they managed to protect themselves. It was only later, during the long presidency of Porfirio Díaz, that expropriation of land became widespread.
22. Cited by Émile de Kératry, *La créance Jecker* 17, http://gallica.bnf.fr/ark:/12148/bpt6k5427133d/f17.double.
23. During this period, France was accustomed to formulating such aggressive demands. In 1838, after the pastry shop of a Frenchman was looted in Tacubaya, France demanded 600,000 pesos (FF 3 million) in compensation. When the Mexican authorities refused, France sent in a fleet that destroyed the port of Veracruz, and eventually Mexico was forced to pay the 600,000 pesos being demanded and to grant trade advantages to France, in particular for importation of fabrics and luxury products. The Mexicans refer to this intervention as the *Guerra de los pasteles* (pastry war).
24. Kératry, *La créance Jecker*, 30, and Wynne, *State Insolvency and Foreign Bondholders*, 20.
25. Bazant, *Historia de la deuda exterior de Mexico,* 100. See also Kératry, *La créance Jecker.*
26. Wynne, *State Insolvency and Foreign Bondholders,* 21.
27. Wynne, 25.
28. The US Civil War began in April 1861 and ended in April 1865.
29. 1 peso = 5 French francs; 1 pound sterling = 5 pesos; 1 pound sterling = 25 French francs.
30. The Crédit Mobilier suffered the same fate as the French expedition into Mexico, failing in 1867.
31. Bazant, *Historia de la deuda exterior de Mexico,* 103.
32. This final fraudulent loan provoked such protest that Napoléon III compensated the holders of the bonds for a total of FF 87 million. It is certain that some of the beneficiaries of this compensation had taken part in the fraud. And it is equally clear that the amount of FF 87 million increased France's public debt for the benefit of the rich individuals who had acquired the bonds. See Bazant, *Historia de la deuda exterior de Mexico,* 103; Wynne, *State Insolvency and Foreign Bondholders,* 30.

33. Calculations by Bazant, *Historia de la deuda exterior de Mexico,* 105, based in particular on Kératry, *La créance Jecker*.
34. Of the 38,493 troops France sent to Mexico, 6,654—one-sixth of them—died of wounds or of disease. In 1863, the khedive of Egypt supported France by sending a battalion of 450 soldiers to the Mexican Empire, including many Sudanese, whose resistance to tropical diseases was supposedly higher. From 1864 to 1865, Austria-Hungary sent 7,000 men (Poles, Hungarians, and others) in support of the foreign aggression. Belgian soldiers also took part (Chenu, *Aperçu sur les expéditions de Chine, Cochinchine, Syrie et Mexique*. The King of Belgium, Léopold II (who reigned from 1865 to 1909), having colonial ambitions, sought to obtain advantages from the conquest of Mexico. He began carrying out his colonial projects in 1885 with the conquest of the Congo. Charlotte, Léopold II's sister, was the wife of Maximilian of Austria. She actively supported Bonaparte's projects and those of her father, Léopold I.
35. Wynne, *State Insolvency and Foreign Bondholders,* 29.
36. Porfirio Díaz's slogan, "Orden y Progreso" (Order and Progress), is evidence of his belief in the positivist ideology that was well established in Latin America during this period.
37. It should be made clear that Benito Juárez did not actively seek to better the living conditions of the *peones* and other peasants. Benito Juárez did away neither with the semi-slavery the peones lived under because of their inherited debts nor with the private prisons and the bodily mutilations at the haciendas. This failure to defend the peasants and indigenous communities and the attacks on their communal lands resulted in uprisings, notably that of the Chamulas in Chiapas in 1869, the resistance movement led by Julio Chávez López (based on socialist/anarchist principles) in the late 1860s in Chalco and Texcoco, and the continued struggle of the Yaqui people in the state of Sonora.
38. Calculated by the author based on, Bazant, *Historia de la deuda exterior de Mexico,* in particular 147, 160, 175, 176, and 272.
39. Wynne, *State Insolvency and Foreign Bondholders,* 3–4.
40. Bazant, *Historia de la deuda exterior de Mexico,* 240.
41. With one single exception—repayment of the three-million-peso loan contracted in 1865 with the United States by the government of Benito Juárez for purchasing armaments used to overcome the French occupation. Repayment of this loan ended in 1893.
42. Bazant, *Historia de la deuda exterior de Mexico,* 109.
43. See the text of the decree: http://cdigital.dgb.uanl.mx/la/1080043224/1080043224_069.pdf, 326–328.
44. King, *The Doctrine of Odious Debt in International Law*, 72–73.
45. Bazant, *Historia de la deuda exterior de Mexico,* 127.
46. See the press of the period: *El Monitor*, Mexico City, no. 278, November 19, 1884; *El Nacional,* Mexico City, no. 242, November 19, 1884; *La Libertad*, Mexico City, no. 243, October 31, 1884.
47. Wynne, *State Insolvency and Foreign Bondholders,* 45.
48. Bazant, *Historia de la deuda exterior de Mexico,* 134.
49. Furthermore, in violation of the repudiation pronounced by Benito Juárez in 1867 and the Decree of June 1883, the government agreed to include in the compensation payment of a part of the cost of the bonds issued by Maximilian of Austria to the creditors under the restructuring of the "London" debt. See Bazant, *Historia de la deuda exterior de Mexico,* 130.
50. The new debt, the consequence of repayment of the balance of the Goldsmith and Barclay credits, in fact amounted to 34 million pesos, because in order to actually borrow 27 million, Mexico was forced to recognize a new debt that was greater than that amount, since the new issue was sold for less than its nominal value and a commission had to be paid to the German bank Bleichroeder, which managed the bond issue.

51. Bazant, *Historia de la deuda exterior de Mexico,* 237.
52. Bazant, 234–235; Wynne, *State Insolvency and Foreign Bondholders*, 7–13.
53. Wynne, 57.
54. In the late nineteenth and early twentieth centuries, capitalist development was not based on a "free" workforce only, as it combined capitalist productive relations (wage labor) with precapitalist forms of exploitation, and even certain forms of slavery. Entire indigenous communities were deported to provide forced labor on tobacco and sisal plantations.
55. Gilly, *The Mexican Revolution*, 36.
56. *The Papers of Ulysses S. Grant*, vol. 30.
57. Gilly, *The Mexican Revolution*, 32.
58. Bazant, *Historia de la deuda exterior de Mexico,* 141–42.
59. Bazant, 167–169.
60. Bazant, 35.
61. William Wynne, *State Insolvency and Foreign Bondholders,* 59.
62. Madero studied in Baltimore, at the HEC in Paris, the University of California–Berkeley, and Culver Academy in Indiana.
63. Emiliano Zapata (1879–1919) was the revolutionary who carried the rights of the indigenous communities farthest. His armed struggle was intrinsically linked to the popular masses, particularly in his home state of Morelos. His program went beyond the concerns of the rural masses, even if they were his main preoccupation.
64. During his exile Porfirio Díaz lived at Interlaken in Switzerland, then in Paris. He was received with honors in Germany by Wilhelm II, who was about to let loose the First World War. He visited Egypt and spent time in Rome and Naples. He died on July 2, 1915 in Paris and is buried in Montparnasse Cemetery. In exile he was well considered and provided for. Some Mexican neoliberal nabobs wish to have his remains returned to Mexico.
65. Concerning the policies of US president Taft (1909–1913), see chapter 10.
66. Bazant, *Historia de la deuda exterior de Mexico,* 181.
67. Wynne, *State Insolvency and Foreign Bondholders,* 64.

Chapter 4

1. See the work of Juglar, Marx, Kondratieff, Kindelberger, Mandel, and others.
2. This is indeed what happened with the two loans of 1824 and 1825. The bonds were sold at 60 percent of their face value right from the start. See Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," BPEA Conference Draft, September 10–11, 2015, www.brookings.edu/~/media/projects/bpea/fall-2015_embargoed/conferencedraft_reinharttrebesch_greekdebtcrisis.pdf. It is still common practice to sell bonds below their face or nominal value when they are first issued in order to attract buyers, even if the discount is much less than it was in the nineteenth century.
3. On the complex and tense relations between the United Kingdom and Russia, see the box below, entitled "Several key economic and social points for understanding the historical context in which Greece attained independence in the nineteenth century." See also Delorme, *La Grèce et les Balkans, du Ve siècle à nos jours*.
4. This is largely what also happened in 2010–2012 when thirteen Eurozone countries guaranteed the loan made by the European Financial Stability Facility. Should Greece decide to default, these countries undertook to ensure the repayment of bonds held by private banks. See the *Preliminary Report of the Truth Committee on the Greek Public Debt* (Athens: Hellenic Parliament, 2015), chapters 3 and 4,

http://cadtm.org/Preliminary-Report-of-the-Truth.

5. Until Otto reached the age of twenty (in 1835), a regency council was appointed, composed of two Bavarian aristocrats and a general. When he first arrived Otto settled in Nafplion, a town of six thousand inhabitants, before deciding with the approval of the regency council that Athens, then with only five thousand inhabitants, would become the capital.
6. *American Journal of International Law* 12, no. 2, Supplement: Official Documents, (April 1918):68–74.
7. See Nikos Beloyannis, "Foreign Capital in Greece" (in Greek), *Lefteria*, March 2016, https://lefterianews.files.wordpress.com/2016/03/cebccf80ceb5cebbcebfceb3ceb9ceaccebdcebdceb7cf82-cf84cebf-cebeceadcebdcebf-cebaceb5cf86ceb1cebbceb1ceafcebf-cf83cf84ceb7cebd-ceb5cebb.pdf.
8. By December 31, 1843, Greece had already paid the 33 million GDR of interest plus capital due. But it still had to pay the sum of 66 million GDR to the three Troika powers guaranteeing the 1833 loan. This was far more than Greece had actually received in 1833. (Information provided by Dimitra Tsami.)
9. This was the historic episode that gave its name to Syntagma Square (Constitution Square).
10. From Takis Katsimardos, "The Former Memorandum in the Greece of 1843," published September 18, 2010, in the Greek financial daily *Imerissia*, now discontinued.
11. Reinhart and Trebesch, *The Pitfalls of External Dependence*, 24
12. Reinhart and Trebesch, 23.
13. Concerning the doctrine of odious debt, see chapters 8 and 9.
14. Tsoucalas, *The Greek Tragedy*. All citations are from chapter 1, "The Emergence of Independent Greece (1821–1909)."

Chapter 5

1. Marie Charrel, "Quand la France et l'Allemagne mirent la Grèce sous tutelle . . . en 1898" [When Greece was put under France's and Germany's control . . . in 1898], *Le Monde*, July 16, 2015 (in French), www.lemonde.fr/economie/article/2015/07/16/quand-la-france-et-l-allemagne-mirent-la-grece-sous-tutelle-en-1898_4685561_3234.html.
2. Matthieu Hoffstetter, "La Grèce a déjà fait faillite six fois dans l'histoire," [Greece has already been in cessation of payment six times in its history], *Bilan*, June 20, 2015, www.bilan.ch/argent-finances-plus-de-redaction/grece-a-deja-faillite-six-lhistoire.
3. Among the classical authors, see on imperialism: Rudolf Hilferding (*Finance Capital*, 1910), Rosa Luxemburg (*The Accumulation of Capital*, 1913), Vladimir Lenin (*Imperialism, the Highest Stage of Capitalism*, 1916), Nikolai Bukharin (*Imperialism and World Economy*, 1915), Ernest Mandel (*Late Capitalism*, 1972), Samir Amin (*Unequal Development: An Essay on the Social Formations of Peripheral Capitalism*, 1977).
4. See Reinhart and Trebesch, *The Pitfalls of External Dependence*, 24. Greece received £1.3 million in 1824–1825; in 1878, it agreed to repay £1.2 million, plus interest.
5. Abellard, "L'Empire Ottoman face à une 'troïka' franco-anglo-allemande," CADTM, http://cadtm.org/L-Empire_Ottoman-face-a-une-troike.
6. See chapter 4.
7. See chapter 4.
8. See Marichal, *A Century of Debt Crises in Latin America*, chapter 6.
9. See Reinhart and Trebesch, *The Pitfalls of External Dependence*, 25.
10. See Driault and Lhéritier, *Histoire diplomatique de la Grèce de 1821 à nos jours*. The 56 percent figure is taken from vol. 4, 296. The description of the Greek situation is very interesting.
11. Driault and Lhéritier, *Histoire diplomatique de la Grèce*, vol. 4, 301.
12. This thesis is well argued by Driault and Lhéritier in vol. 4, 385 and following. The two authors provide a

very detailed version of the conflict and its outcome. See chapter 7 of this volume.

13. See the peace treaty and numerous annexes (all in French) at http://gallica.bnf.fr/ark:/12148/bpt6k5613297n/f100.image.r=trait%C3%A9%20de%20constantinople%2
14. TAIPED is the Greek acronym of the Hellenic Republic Asset Development Fund, created by the troika in 2010 to organize privatization. The funds thus garnered are to be used entirely for debt repayment.
15. *Arrangement financier avec la Grèce,* 33, http://gallica.bnf.fr/ark:/12148/bpt6k5613443s/f1.item.r=1898%20Gr%C3%A8ce%20Commission.
16. *Arrangement financier avec la Grèce.*
17. From the end of the 1890s, Germany was Greece's principal export partner.
18. See Reinhart and Trebesch, *The Pitfalls of External Dependence*, 15.
19. Reinhart and Trebesch, 14.
20. Eugène-Melchior de Vogüé, "Livres Jaunes," *Le Figaro,* May 2, 1898.
21. According to Driault and Lhéritier, whose conclusions are based on other serious work, the Greek securities issued in France were purchased almost exclusively by Greeks residing in France and not by the French. See Driault and Lhéritier, *Histoire diplomatique de la Grèce de 1821 à nos jours*, vol. 4, 304, note 1.
22. All passages cited are taken from Tsoucalas, *The Greek Tragedy*.
23. This question of what is known as the "Asia Minor catastrophe" is still the subject of intense debate today, both in the public sphere and among historians who have deconstructed the official narrative.
24. There is not space enough here for a critical analysis of the debts demanded of Greece by the Allied powers following the First World War, but the author feels that a large share of these debts may be considered illegitimate. For an introduction to the problem, see Pantelakis, "Crédits et rapports franco-helléniques 1917–1928."
25. The gold standard is a monetary system in which the unit of account or monetary standard corresponds to a fixed quantity of gold. Advocates of the gold standard feel that it improves resistance to the expansion of credit and of debt. Unlike a fiat currency, a currency backed by gold cannot be issued arbitrarily by a government. Beginning in 1929, at the start of the Great Depression, British gold reserves were reduced to the point where the liabilities of the Bank of England were well in excess of its gold reserves. In September 1931, it decided to suspend the external convertibility of the pound and allow it to float freely. Germany, Austria, and Norway followed suit, shortly after the decision. The United States withdrew from the system in 1933.
26. Charrel, "Quand la France et l'Allemagne mirent la Grèce sous tutelle."
27. Reinhart and Trebesch, *The Pitfalls of External Dependence.*

Chapter 6

1. Batou, "Muhammad Ali's Egypt, 1805–1848: A Command Economy in the 19th Century?"
2. Corm, "L'endettement des pays en voie de développement: origine et mécanisme," 39 (in French-English version: *Debt and Development*, New York: Praeger, 1982). Regarding Corm's reference to Japan's Meiji experiment, read Anderson, *Lineages of the Absolutist State*, on Japan's transition from feudalism to capitalism.
3. Memo from Mazerat to Letourneur, director of Crédit Lyonnais, April 4, 1872, as quoted by Jean Bouvier, "Les intérêts financiers et la question d'Égypte (1875–1876)" in *Revue historique* 224 (Paris: Presses Universitaires de France, 1960) (in French; trans. CADTM).
4. Literally "viceroy," a hereditary title granted by Egypt's Ottoman governor between 1867 and 1914.
5. Emilie Polak, "Le Protectorat britannique en Egypte," *Les Clés du Moyen-Orient*, May 13, 2014,

www.lesclesdumoyenorient.com/Le-protectorat-britannique-en.html (in French).
6. Bouvier, "Les intérêts financiers et la question d'Égypte."
7. "Décret d'institution de la caisse de la dette publique d'Egypte" (Paris: Impr. de P. Dupont, 1876), French National Library, online archives, 8-O3B-480, http://gallica.bnf.fr/ark:/12148/bpt6k58053453/f1.image.
8. Letter of May 31, 1878, *Mémoires et documents, Turquie*, vol. 119, Archives of the French Ministry of Foreign Affairs, cited by Jean Bouvier; trans. CADTM.
9. See Wesseling, *Divide and Rule*.
10. Luxemburg, *The Accumulation of Capital*.
11. See Toussaint, *The World Bank: A Never-Ending Coup d'Etat*.

Chapter 7

1. The Ottoman Empire had conquered Tunisia in 1574.
2. See Corm, "L'endettement des pays en voie de développement."
3. In 1839–1840, there were two European military interventions against Egypt. The first was led by Britain and France, the other by Britain and Austria. See Éric Toussaint, "Debt as an Instrument of the Colonial Conquest of Egypt," CADTM, http://cadtm.org/Debt-as-an-instrument-of-the.
4. Muhammad as-Sadiq ruled from 1859 to 1882. Tunisia was subjected to direct French domination under this bey's reign.
5. The London and Paris bankers had lent £3 million to the Southern states during the Civil War (1861–1865).
6. Émile (d')Erlanger was born on June 19, 1832, in Frankfurt am Main and died on May 22, 1911, in Versailles. He was one of the most prominent bankers in the financial centers of Paris and London in the second part of the nineteenth century.
7. Quoted by Ganiage, *Les origines du Protectorat français en Tunisie*, 140–141. All translations CADTM.
8. Ganiage, 139.
9. Ganiage, 139.
10. Other measures taken by the bey were also questioned, such as the new constitution decreed by the French consul in 1861 and the reform of the judicial system, which made it more expensive and generally less accessible to nomadic tribes.
11. Ganiage, *Les origines du Protectorat français en Tunisie,* 193.
12. Ganiage, 195.
13. Eventually the mejba was reduced to 20 piastres in 1865.
14. Ali Ben Ghedhahem, chief of the Majer tribe of the Kasserine region, was one of the key figures of the revolt of March–April 1864 against the Bey. After negotiating a cessation of hostilities in July 1864 in exchange for important concessions from the bey, he took up arms again in autumn. He was imprisoned in 1866 and died, probably murdered, in his cell at La Goulette in 1867.
15. Charles Beauval, the French consul and the plenipotentiary of France in Tunisia, was playing both ends against the middle: while France officially supported the bey, he negotiated with Ali Ben Ghedhahem, the main rebel leader, in case he decided to overthrow the bey. Ali Ben Ghedhahem made their correspondence public in August 1864, and the British consul denounced it, condemning France's duplicity. See Ganiage, *Les origines du Protectorat français en Tunisie,* 212–13 and 222.
16. Ganiage, 248.
17. The amount actually transferred to the Tunisian treasury did not exceed FF 18 million, as Victor Villet, french treasury inspector, pointed out in a report dated May 19, 1872.
18. *La Semaine financière*, March 25, 1865, trans. CADTM.
19. Ganiage, *Les origines du Protectorat français en Tunisie,* 248.

20. See Fathi Chamkhi, "Aux origines du colonialisme. La question de la dette en Tunisie," *Fathi Chamkhi* (blog), http://fathichamkhi.over-blog.com/article-aux-origines-du-colonialisme-la-question-de-la-dette-en-tunisie-73111766.html (in French).
21. Stoskopf, "Alphonse Pinard et la révolution bancaire du Second Empire." Comptoir national d'escompte de Paris (CNEP), headed by Alphonse Pinard, is one of four banks that merged to launch BNP Paribas. Founded in 1848, it was called the Comptoir d'escompte de Paris (CEP) from 1853 to 1889. In 1889 it was embroiled in one of the biggest financial scandals in France's banking history, the Panama scandal. Pinard played a major role in the founding of the bank Société Générale.
22. The bankers, bondholders, and press of that period used this term.
23. Stoskopf, "Alphonse Pinard et la révolution bancaire du Second Empire."
24. See chapter 8.
25. Sack, *Les Effets des transformations des États*; all translations CADTM.
26. The following will give an idea of the amplitude of the diversions: the wealth of the qa'id Nissim Shemama (Samama), the bey's treasurer, who fled Tunis on June 8, 1864, while the revolt blazed in full steam and settled in Paris to lead a luxurious life, was assessed at about FF 17 million after his demise. This was equivalent to 1.5 times the revenues of the Tunisian state. See Ganiage, *Les origines du Protectorat français en Tunisie,* 197. The riches amassed by Mustapha Khaznadar were even more substantial.
27. Ganiage, *Les origines du Protectorat français en Tunisie,* 240.
28. Ganiage, 240.
29. Ganiage, 260.
30. Letter to de Botmiliau, cited by Ganiage.
31. Ganiage, 313.
32. *Archives diplomatiques: recueil de diplomatie et d'histoire, 1870: 01*, 134–36, http://gallica.bnf.fr/ark:/12148/bpt6k441169t/f133.image.
33. Ganiage, *Les origines du Protectorat français en Tunisie,* 319–20.
34. Stoskopf, "Alphonse Pinard et la révolution bancaire du Second Empire," 299–317.
35. In 1879, Baron Émile Erlanger acquired Havas and declared it a public limited company (PLC), with a capital of FF 8.5 million.
36. Marx, *Capital*, vol. 1, chapter 31.
37. Marx, *Capital*.
38. Letter from the French minister Waddington to his ambassador in London, Georges d'Harcourt, on July 21, 1878; trans. CADTM.
39. Hanotaux, *Histoire de la France contemporaine (1871–1900)*, 388–89, trans. CADTM.
40. Ganiage, *Les origines du Protectorat français en Tunisie,* 436–37.
41. Ministère de la Guerre, *L'expédition militaire en Tunisie. 1881–1882* (Paris: Henri-Charles Lavauzelle, 1898).
42. *Journal officiel*, April 12, 1881, 850; trans. CADTM.
43. Talandier also opposed the military intervention in Tonkin some months later.
44. "Traité de garantie conclu à Kasr Saïd, entre la France et Tunis" (Bardo treaty), 1881, Digithèque de matériaux juridiques et politiques, University of Perpignan, http://mjp.univ-perp.fr/constit/tn1881.htm#1.
45. "Convention conclue à La Marsa entre la France et la Tunisie pour régler les rapports respectifs des deux pays," 1881, Digithèque de matériaux juridiques et politiques, University of Perpignan, http://mjp.univ-perp.fr/constit/tn1881.htm#2; trans. CADTM.

Chapter 8

1. United Nations, *Yearbook of the International Law Commission, 1977*, vol. 2, part 1 (New York: United Nations, 1978). See also the *Yearbook, 1979*, vol. 2, part 2.
2. Michael Kremer and Seema Jayachandran, "Odious Debt," *Finance and Development* 39, no. 2 (June 2002). See also Michael Kremer and Seema Jayachandran, "Odious Debt," presented at the Conference on Macroeconomic Policies and Poverty Reduction, April 2002; and Raghuram Rajan, "Straight Talk: Odious or Just Malodorous?," *Finance and Development* (December 2004).
3. Nehru and Thomas, "The Concept of Odious Debt: Some Considerations." See also World Bank, "Round Table on Conceptual and Operational Issues of Lender Responsibility for Sovereign Debt Meeting Notes," April 14, 2008, http://siteresources.worldbank.org/CSO/Resources/Odious_Debt_Roundtable_Report_FINAL_July_17 CADTM, "Topicality of the Odious Debt Doctrine," CADTM website, July 4, 2008, www.cadtm.org/Topicality-of-the-odious-debt,3515.
4. Howse, *The Concept of Odious Debt in Public International Law*.
5. Lumina, *Report of the Independent Expert.*
6. See the final report on the findings of the commission, in which the author took part, representing the CADTM: Internal Auditing Commission For Public Credit Of Ecuador, *Final Report,* 2008 www.auditoriadeuda.org.ec/images/stories/documentos/Libro_CAIC_English.pdf.zip.
7. See CADTM, "Topicality of the Odious Debt Doctrine."
8. Greek Debt Truth Commission, *Preliminary Report of the Greek Debt Truth Commission*. See also Greek Debt Truth Commission, *Illegitimacy, Illegality, Odiousness and Unsustainability of the August 2015 MoU and Loan Agreements* (Athens: Hellenic Parliament, 2015), www.cadtm.org/Illegitimacy-Illegality-Odiousness.
9. Bonilla, *Odious Debt*; Waibel, *Sovereign Defaults before International Courts and Tribunals*; Lienau, *Rethinking Sovereign Debt*; King, *The Doctrine of Odious Debt in International Law.*
10. Sack, *Les Effets des transformations des Etats.*
11. Perusal of his bibliography reveals that Sack did not take a serious interest in the question of public debt until after the Russian Revolution.
12. Nicolas Politis (born 1872 in Corfu, died 1942 in Paris), jurist, specialist in international law, diplomat and politician. Doctor of law and of political science (in 1894); associate professor of international public law at the law faculties of the universities of Aix-en-Provence (from 1898 to 1903), Poitiers (from 1903 to 1910), and Paris (from 1910 to 1914). Member of the Institute of France; founding member of the Academy of Athens (in 1926). Greek minister of foreign affairs several times (from 1916 to 1920, in 1922, and in 1936); delegate for Greece at the peace conference in 1919; Greek ambassador to France (from 1924 to 1925 and from 1927 to 1940). Member and vice president of the Institute of International Law, vice president of the Academy of International Law at The Hague, member of the Permanent Court of Arbitration at The Hague, representing Greece. Delegate to the League of Nations (in 1923), then president of the assembly, in 1932 (Source: http://data.bnf.fr/13092602/nicolas_politis/; trans. CADTM.)

One is struck by the fact that Nicolas Politis, despite three terms of office as Greek minister of foreign affairs, should make no mention, in his introduction to Sack's book, of Greece as an emblematic example of odious debt. He says not a word on the topic. Clearly, he did not consider it a central element of Sack's book.

13. Politis, preface to Sack, *Les Effets des transformations des États*.
14. Recently, new research has questioned this rule; see, for example, Lienau, *Rethinking Sovereign Debt*. In 2015, the Greek Debt Truth Commission, whose work the author coordinated, also challenged the obligation of debt repayment.
15. Sack, *Les Effets des transformations des États.*
16. Paradoxically, this emphatic statement seems to flagrantly contradict the position adopted by Politis in a

work coauthored with Albert de La Pradelle: La Pradelle and Nicolas Politis, *Recueil des arbitrages internationaux*. I mention this paradox since Sack, on more than one occasion, in the book prefaced by Politis, cites La Pradelle and Politis, only to express his disagreement with them. Several of those quotes are cited in this chapter. For more on La Pradelle and Politis's positions, see La Pradelle and Politis, *Recueil des arbitrages internationaux*, vol. 2: 1856–1872, in particular pp. 545–52. These pages can be accessed online at https://archive.org/stream/recueildesarbitr02lapruoft#page/xxxviii/mode/2up.

17. This is one of Sack's most successful proposals. In the twenty-first century, private creditors regularly succeed in getting the courts to convict states on matters pertaining to debt, whereas in the nineteenth and early twentieth centuries such cases were often dismissed. The most representative example recently has been the conviction of Argentina by a New York court to which a vulture fund had referred its case. On the subject of Argentina and vulture funds, see Renaud Vivien, "Argentine: un vautour peut en cacher d'autres" [Argentina: one vulture may conceal others], in *Le Soir* (Belgian daily), June 23, 2014 (in French), www.cadtm.org/Argentine-un-vautour-peut-en; Éric Toussaint, "How to Resist Vulture Funds and Financial Imperialism?," CADTM website, 2014; Julia Goldenberg and Eric Toussaint, "Vulture Funds Are the Vanguard," CADTM website, 2014. The International Centre for the Settlement of Investment Disputes (ICSID), a World Bank group charged with settling disputes between a state and an investor from a different state, is increasingly solicited by creditors bringing legal action against states. See Stéphanie Jacquemont, "The Vultures That Want to Bring Argentina to Its Knees," CADTM website, 2012. However, Sack's proposal to create an international mechanism to handle litigation on odious debt came to nothing.
18. Sack further claims: "Whether state loans, like other public loans, are based on a loan contract or on a contract for buying and selling a bond (or the credit represented by that bond), in all cases state debt, in its material content, reposes entirely on the rules of private law. The elements of public law do not figure in these contracts, and the supreme power of the State is not apparent. By entering into a loan or selling its bonds, a government receives money from its creditors or the buyers of the bonds by virtue of a free arrangement with them as with any legal or physical private individual" (30–31; all trans. CADTM). Other eminent jurists disagree with this interpretation. According to Albert Wuarin in *Essai sur les emprunts d'Etat et la protection des droits des porteurs de fonds d'Etats étrangers* [Essay on state loans and the protection of the rights of holders in foreign states], a state loan is a contract that falls under certain particular rules of public law. Luis M. Drago holds that state loans are "legal acts . . . of a very special nature and must not be confused with any other kind. . . . Issued by an act of sovereignty that no individual could exercise, in no case do they represent an engagement regarding specific individuals" (see Drago, in Scott, *The Proceedings of the Hague Peace Conferences*). La Pradelle and Politis write that "the public loan occupies a special place among the mass of state contracts. It is a credit operation carried out by virtue of sovereign acts to make provision for the country's well-being and ensure the good running of its public services" (quoted by Sack, 33). Sack is critical of the three preceding opinions, writing: "this is clearly wrong" (Sack, 33). For a more in-depth view of the jurists who did not share Sack's opinions, see the box entitled "Very different arguments put forward by jurists defending indebted states against private creditors," (122–25).
19. Carlos Calvo (1824–1906) elaborated what is known in international law as the Calvo Doctrine, which stipulates that individuals residing in a foreign country must make their requests, complaints, and grievances within the existing local legal framework, without recourse to diplomatic pressure or military intervention. All local legal possibilities must be exhausted before a case is referred to international diplomatic channels. This doctrine has been integrated into several constitutions of Latin American countries.
20. Most of the citations figuring in this box are taken from Borchard, *State Insolvency and Foreign Bondholders*.
21. Drago, in Scott, *The Proceedings of the Hague Peace Conferences,* 557.
22. Hugo, *Lehrbuch des Naturrechts*.

23. Lingenthal, "Über das Schuldenwesen der Staaten," 291.
24. Savigny, *Das Obligationenrecht als Theil des heutigen Römischen Rechts*, 110.
25. Gustave Rolin-Jaequemyns, "Chronique de droit international," *Revue de droit international et de législation comparée*, vol. 1 (Brussels: Bruylant Christophe et Cie, 1869), 146.
26. Louis Berr, *Etude sur les obligations émises par les sociétés, les communes, les départements et l'Etat* (Paris: Cotillon, 1880), 236.
27. Sir Robert Phillimore, *Commentaries upon International Law*, 3rd ed., vol. 2 (London: Butterworth's, 1882), 18, citing *Crouch vs Crédit Foncier of England* L. R. 8 Q. B. 374 (1873); *Twycross vs Dreyfus* 5 Ch. D. 605 (1877), https://babel.hathitrust.org/cgi/pt?id=hvd.32044103156964;view=1up;seq=62.
28. Bar, *Theorie und Praxis des internationalen Privatrechts*, 663.
29. Cited by Sack, *Les Effets des transformations des États,* 37.
30. Cited and emphasized by Sack, 37.
31. Cited by Sack, 39.
32. Cited by Sack, 39.
33. Cited by Sack, 68, on the basis of *International Law during the Transition*, Moscow, 1924 (in Russian), 30, cited in Boris Mirkin-Getzevich, *Revue Générale de Droit International Public*, 1925, 320.
34. *International Law during the Transition*, cited by Mirkin-Getzevitch.
35. Note that two articles of the French Penal Code prohibited speculation until 1885, when they were abrogated under pressure from the business milieu of the time. Article 421 stipulated that "gambling on the rise or fall in value of public debt bonds would be punished by a prison sentence of at least one month and no more than one year." Article 422 stipulated: "By such 'gambling' shall be understood any agreement to buy or deliver public bonds that the vendor shall be unable to prove to have been at his disposal at the time of the agreement, or that cannot have been at his disposal at the time of delivery." See Jorion, "Pour et contre la séparation."
36. Sack, *Les Effets des transformations des États,* 58.
37. Sack, 58.
38. The Democratic president Woodrow Wilson made this a central tenet of Washington's foreign policy and the new universal principle pervades the Treaty of Versailles in several places—for example, the right of Poland to retrieve its sovereignty in the face of the former Russian and German Empires; the right of African peoples who had been subject to German rule not to repay colonial debts.

    For his part, Vladimir Lenin made it a fundamental principle of socialist policy. He declared: "Victorious socialism must of necessity establish full democracy and consequently, not only institute total equality in the rights of nations but also implement the right of oppressed nations to self-determination, that is, the right to free political separation." See Ulyanov (Lenin), *The Socialist Revolution and the Right of Nations to Self-Determination*. For the positions of Wilson and Lenin, see Lienau, *Rethinking Sovereign Debt,* 60–63.
39. Sack, *Les Effets des transformations des États,* 48–49.
40. *Journal de Versailles ou affiches, annonces et avis, n° 12, Supplément*, July 15, 1789, 89, https://play.google.com/books/reader?id=AOFCAAAAcAAJ&printsec=frontcover&output=reader&hl=en_GB&pg=GBS.RA1-PA89.
41. Pierre-Joseph Cambon, "Rapport sur la dette publique," speech given at the August 15, 1793, session of the assembly.
42. Sack, *Les Effets des transformations des États,* 49–50.
43. "The origin of the *assignats* can be traced back to December 1789 when the Caisse de l'extraordinaire was created. This fund was to receive the proceeds from the sale of property confiscated from the clergy. The assignats were nothing more than advances on the sale of national assets. These assignats bore interest.

However, things were to evolve rapidly. In September 1790, the assignats no longer bore interest and were received as 'legal tender for all public and private sales.' The amount issued grew and accelerated through 1796. In the face of this proliferation of paper money, the pledge on national holdings that continued to serve as reference became illusory and the value of the assignats collapsed" ("Les assignats de la République," *Du franc à l'euro : changements et continuité de la monnaie*, Faculty of Economic Sciences, University of Poitiers, sceco.univ-poitiers.fr/hfranc/assignats.htm, trans. CADTM).

44. Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge: Harvard University Press, 2013), 160–61.
45. Sack, *Les Effets des transformations des États,* 48.
46. Sack, 80, 83–84.
47. Sack, 52.
48. Sack, 82.
49. See chapters 10, 11, and 12.

Chapter 9

1. Sack, *Les Effets des transformations des États*, 157.
2. Sack, 158.
3. Ludington, Gulati, and Brophy, "Applied Legal History: Demystifying the Doctrine of Odious Debts."
4. Sabine Michalowski, "The Doctrine of Odious Debts in International Law," in an interesting collective work entitled *How to Challenge Illegitimate Debt Theory and Legal Case Studies*, Max Mader and André Rothenbühler, eds. (Basel: Aktion Finanzplatz Schweiz, 2009), 17.
5. Sack, *Les Effets des transformations des États*, 6.
6. Another quote from Sack clearly confirms that he was opposed to the despotic nature of a regime being a condition sine qua non to identify an odious debt: "Applying other conditions than those we have established . . . would, through arbitrary, differing and contradictory judgments, bring about the paralysis of the whole international public credit system and so (if such judgments were to have real weight on questions of recognizing or of not recognizing debts as State debts) would deprive the world of the advantages of public credits" (Sack, 11).
7. What does Sack mean by "a non-regular government"? Answer: a government that does not exercise control over the whole territory, such as a rebel coalition that attempts to overthrow the existing regular government. The quintessential example is that of the Confederate States, which rebelled against the United States, a regular government. It therefore follows that the debts incurred by the Confederate States were personal debts of the Southern insurgents, not debts that the United States should assume. If the Confederates had won the 1861–1865 Civil War they would have become the new regular government, in place of the United States.
8. Kremer and Jayachandran, "Odious Debt," Finance and Development 39, no. 2, (June 2002).
9. Of course, it is perfectly legitimate that Kremer and Jayachandran add any new conditions that they may consider necessary. But without any doubt we regularly see consent obtained by the manipulation of public opinion or by the fanaticism of a majority of the population.
10. Sack, *Les Effets des transformations des États*, 158.
11. Sack, 159.
12. Sack, 159.
13. Sack, 159.
14. Sack, 164.
15. League of Nations, *Treaty Series,* no. 4 (1919):26, cited by Sack, 162.

16. Sack, 162.
17. Serge Braudo, "Définition de Doctrine," *Dictionnaire du droit privé*, www.dictionnaire-juridique.com/definition/doctrine.php, trans. CADTM.
18. CADTM, trans. Judith Abdel Gadir, Elisabeth Anne, Christine Pagnoulle, and Diren Valayden.
19. Khalfan et al. "Advancing the Odious Debt Doctrine," 2002, quoted in *Global Economic Justice Report* (July 2003).
20. King, "Odious Debt: The Terms of Debate."
21. King proposes audits to determine whether there are benefits.
22. When referring to the Nazis' coming to power in Germany, we have to be aware that Adolf Hitler was appointed chancellor as a result of negotiations behind closed doors between German political figures and industrialists. His party had gained a relative majority of the seats in parliament in elections that followed a campaign of terror by Nazi militia, notably aiming at physically doing away with the political and unionist left.
23. See Toussaint, *Your Money or Your Life.*
24. Article 53 states: "A treaty is void if, at the time of its conclusion, it conflicts with a peremptory norm of general international law. For the purposes of the present Convention, a peremptory norm of general international law is a norm accepted and recognized by the international community of States as a whole as a norm from which no derogation is permitted and which can be modified only by a subsequent norm of general international law having the same character."
25. Mohammed Bedjaoui, "Ninth Report on Succession of States on Matters Other Than Treaties," 1977, UN Document, A/CN.4/301et Add. l, 73.
26. See Toussaint, *The World Bank: A Critical Primer*.
27. Toussaint, *The World Bank: A Critical Primer.*
28. Stephen Mandel, *Odious Lending: Debt Relief as if Morals Mattered* (London: New Economics Foundation, 2006), 2, http://b.3cdn.net/nefoundation/fff4a8929678dfec38_e5m6bdjp4.pdf: "The result is a vicious circle of debt in which new loans have to be incurred by successive governments to service the odious ones, effectively 'laundering' the original loans. This defensive lending can give a legitimate cloak to debts that were originally the result of odious lending."
29. Some of these examples are listed by Jeff King in *The Doctrine of Odious Debt in International Law.*
30. Hugo Ruiz Díaz Balbuena, "La décision souveraine de déclarer la nullité de la dette ou la décision de non paiement de la dette: un droit de l'État" [The decision to declare a debt null and void or default on its payment is a state's sovereign right], CADTM, July 7, 2008 (trans. CADTM).
31. "CADTM applauds Norway's initiative concerning the cancellation of odious debt and calls on all creditor countries to go even further," CADTM, October 10, 2006.

Chapter 10

1. Furthermore, the bondholders lost their first court case, brought in France against Portugal in 1879. See Wynne, *State Insolvency and Foreign Bondholders*. All the information given here on Portugal's debt repudiation comes from this book.
2. Sack, *Les Effets des transformations des États*, 158.
3. It is also very important to stress that the Fourteenth Amendment also excludes paying any compensation to slave owners. Four million slaves were emancipated without the slightest compensation being received by their former masters (Ludington, Gulati, and Brophy, "Applied Legal History: Demystifying the Doctrine of Odious Debts").
4. Among the creditors was the Banque Erlanger of Paris and its London subsidiary. In 1865, during the Civil

War, it organized the issue of the "Erlanger loans," which guaranteed holders repayment in cotton from the Southern states provided that the Confederate States won the war. The risk was remunerated by an interest rate of 7 percent per annum, relatively high for the period. The bonds were also traded in London. During the Civil War, the Confederate States had stockpiled cotton, which drove prices to a historic level of $1.89 per pound, a record still unequalled two centuries later. Prices increased twentyfold within a few months, but British manufacturers had had enough time to build up their own stocks. In 1870, five years after the end of the war, American cotton had almost returned to its prewar level of production, and the US remained the world leader in cotton until 1931, as it had been since 1803. But the bondholders were never repaid, due to the repudiation decreed by the federal government and application of Section 4 of the Fourteenth Amendment to the Constitution.

5. Alabama, Arkansas, Florida, Georgia, Louisiana, North Carolina, South Carolina, and Tennessee. For further details see Ludington, Gulati, and Brophy, "Applied Legal History: Demystifying the Doctrine of Odious Debts."
6. Sack notes that similar provisions existed in the constitutions of El Salvador (Article 69), Honduras (Article 99), Venezuela (Article 104), and Chile (Article 151).
7. See Marichal, *A Century of Debt Crises in Latin America*, 130.
8. Chile, which was involved in a dispute with France, had been at war with Peru and thus also became enmeshed in the dispute between France and Peru. It is not of interest here to discuss the specific dispute between France and Chile. What is important is that a part of the ruling concerns the government of Peru.
9. Cited by Sack, *Les Effets des transformations des États,* 11.
10. The account which follows is based in part on Ludington, Gulati, and Brophy, "Applied Legal History: Demystifying the Doctrine of Odious Debts." Their explanation differs from the one given by Sack.
11. J. B. Moore, *Digest of International Law,* vol. 1 (Washington: US Government Printing Office, 1906), 358–59.
12. See details in chapter 3 of Greek Debt Truth Commission, *Preliminary Report.* The IMF demanded an interest rate of around 5 percent of Greece. The ECB had Greece repay it in securities at 100 percent of their face value when it had purchased them at 60 or 70 percent of their value on the secondary market. And it demanded a rate of over 6 percent on those securities while at the same time it was lending to the private banks of the Eurozone at 0 percent!
13. See Lienau, *Rethinking Sovereign Debt*, 101.
14. See Ludington, Gulati, and Brophy, "Applied Legal History: Demystifying the Doctrine of Odious Debts."
15. This unilateral sovereign decision is also not unrelated to the decision made by the Congress of the United States to repudiate the debts contracted by the Confederate States (see above) with both foreign and domestic creditors, despite the fact that in that case there was no change of regime.
16. Lienau, *Rethinking Sovereign Debt,* 108.
17. Cited by Lienau, 105.
18. "Aguilar-Amory and Royal Bank of Canada Claims (Great Britain v. Costa Rica)," *Reports of International Arbitral Awards*, vol. 1 (New York: United Nations, October 18, 1923).
19. Citing John Bassett Moore, *Digest of International Law*, vol. 1; in Lienau, *Rethinking Sovereign Debt,* 110, and "Aguilar-Amory and Royal Bank of Canada Claims," 377.
20. Justice Taft, cited in Adams, *Odious Debts*, 168.
21. "Aguilar-Amory and Royal Bank of Canada Claims," 394. See Ludington, Gulati, and Brophy, "Applied Legal History: Demystifying the Doctrine of Odious Debts," 267.
22. Quotation taken from Gregorio Selser, *Diplomacia, garrote y dolares en América Latina* (Buenos Aires: Editorial Palestra, 1962) and cited by Galeano, *Open Veins of Latin America.*

23. See Ludington, Gulati, and Brophy, "Applied Legal History: Demystifying the Doctrine of Odious Debts," 266.
24. William H. Taft, "Message of the President of the United States on Our Foreign Relations, Communicated to the Two Houses of Congress, December 3, 1912," *American Presidency Project*, www.presidency.ucsb.edu/ws/?pid=29553. Cited by Yves L. Auguste, "La doctrine de Monroe, couverture de l'impérialisme," in *Revue de la Société haïtienne d'histoire et de géographie* (September–December 1996) (in French).
25. As we have seen, he even defended the Tinoco regime on the grounds that a people needs to be able to overthrow an existing regime via revolution in order to establish a new one, without being held to the previous constitution.
26. Lienau, *Rethinking Sovereign Debt,* 113.
27. See the *Preliminary Report of the Greek Debt Truth Commission*, in particular, chapter 8: "Assessment of the Debt as Regards Illegitimacy, Odiousness, Illegality and Unsustainability," www.cadtm.org/Greece-Assessment-of-the-debt-as.
28. Scott, *The Proceedings of the Hague Peace Conferences*.
29. H. R. Doc., Theodore Roosevelt's Annual Message to Congress, HR 58A-K2 (1904).
30. Galeano, *Open Veins of Latin America*, 108.
31. Butler, "America's Armed Forces: 'In Time of Peace,'" 8–12. See also Leo Huberman, *Man's Worldly Goods* (New York: NYU Press, 2009), 344–48, www.jstor.org/stable/j.ctt19jchpt.28. Note that an American military base in Okinawa bears Smedley D. Butler's name. His confession cannot help but remind one of John Perkins's *Confessions of an Economic Hit Man: The Shocking Story of How America Really Took Over the World* (London: Ebury Press, 2005).

Chapter 11

1. Gilly, *The Mexican Revolution*, 41.
2. Pancho Villa (1878–1923) was a smallholder whose relations with the justice system were strained after conflicts with big landowners. He was an outlaw and lived by various means, including cattle rustling in the mountain regions. It was in the unequal struggle against Porfirio Díaz's rural police that he developed his great fighting skills. Moreover, Villa rapidly showed a strong gift for military organization not only in his relations with his foot soldiers but also with regard to his commanding officers. This ability to organize won over the labor sectors in the north, mainly miners and railway workers who joined his army. This is no mere detail: the railwaymen in Villa's army were central to his use of the railway for movements of revolutionary troops (Gilly, *The Mexican Revolution*, 90).
3. Nevertheless, when Pancho Villa was governor of the State of Chihuahua, in 1913, he applied radical measures favoring the people to the detriment of the interests of the local ruling classes. See Paco Ignacio Taibo II, *Pancho Villa: Una Biografia Narrativa* [Life story of Pancho Villa] (Barcelona: Planeta-ABG, 2015).
4. Gilly, *The Mexican Revolution.*
5. See Jan Martinez Ahrens, "Toda la munición contra Zapata" [All ammunition against Zapata], *El Pais*, December 24, 2016 (in Spanish).
6. According to Adolfo Gilly, this decision to sign a pact did not win the approval of the general assembly held on February 8, 1915. There was strong opposition. Nevertheless nine thousand "workers" formed the red battalions, including an "anarchist first-aid corps" in Obregón's army, which fought against the Northern Division. See Gilly, *The Mexican Revolution,* 157–59.
7. Gilly, *The Mexican Revolution,* 179.

8. Gilly, *The Mexican Revolution,* 228–29.
9. Wynne, *State Insolvency and Foreign Bondholders*, 66–67.
10. Bazant, *Historia de la deuda exterior de Mexico,* 239. Bazant, who as a rule is in favor of any compromise with creditors, finds this amount of 500 million simply incredible.
11. Wynne, *State Insolvency and Foreign Bondholders*, 68.
12. A reasoned definition of odious debt can be found in chapter 9.
13. Wynne, *State Insolvency and Foreign Bondholders*, 77.
14. Wynne, 82. See also the *New York Times* of November 30, 1930.
15. An *ejido* is the name given in Mexico to a communal property by a group of indigenous farmers who work the land together. In an ejido, the principle is that members of the community be granted the land's usufruct with no legal possibility of selling or ceding it. In 1993, President Salinas de Gortari, who carried forward the neoliberal policies initiated by his predecessors, had the constitution modified so as to enable massive sales of ejidos. One of the aims of the Zapatista uprising on January 1, 1994, was to question this government policy.
16. Diplomatic relations between the two countries were restored in October 1941 because London was looking for allies against Nazi Germany and feared a possible alliance between Mexico and Berlin.
17. Another element that substantiates Cárdenas's sympathy for revolutionary movements, though not at a time when he was president, is that he helped Fidel Castro and "Che" Guevara to get out of prison a couple of weeks before sailing to Cuba aboard the *Granma*. Fidel and Che had been imprisoned in Mexico City after the Batista government had told the Mexican authorities that some guerrillas were operating in the country. While in prison, Fidel managed to have the warden release him and him alone, after which, in an audience with Cárdenas, he enlisted his help to liberate the other prisoners. Cárdenas showed some empathy with Fidel's project.
18. Wynne, *State Insolvency and Foreign Bondholders*, 97 and table, 106.
19. Wynne, 94–95.

Chapter 12

1. Trotsky wrote these words in 1930.
2. Leon Trotsky, *My Life* (New York: Scribner, 1930), chapter 14, Marxists Internet Archive, https://www.marxists.org/archive/trotsky/1930/mylife/ch14.htm.
3. Trotsky, *1905*, chapter 20, Marxists Internet Archive, https://www.marxists.org/archive/trotsky/1907/1905/ch20.htm.
4. Trotsky, *1905*, chapter 20.
5. In 1914 Belgian companies operated trams in twenty-six Russian cities. Belgian minister Henri Jaspar spoke in the Belgian parliament on Belgium's interests in prewar Russia: "Our cast iron manufactured in Russia represented a third of the total production of Russian iron; beams, rolled steel, and crossbars accounted for 42 percent of the total Russian production; chemical products manufactured by the Belgians in Russia represented 75 percent of the amount manufactured in the whole of Russia; ice accounted for 50 percent of Russian production, sheet glass for 30 percent" (trans. CADTM). According to the minister, 161 Belgian companies operated in Russia before the war. (Sources [in French]: *Annales parlementaires, Chambre,* 1921–1922, 883–84, session of May 23, 1922. See also *Documents parlementaires, Sénat*, 1928–1929, no. 88, *Rapport de la Commission des Affaires étrangères*, 37–38. Jean Stengers quoted from these documents in his article "Belgique et Russie, 1917–1924: gouvernement et opinion publique" in *Revue belge de philologie et d'histoire*, 1988, vol. 66, no. 2, 296–328).
6. Resolution adopted at the Seventh International Socialist Congress at Stuttgart (Berlin: Vorwärts Publishers,

1907), Marxists Internet Archive, https://www.marxists.org/history/international/social-democracy/1907/militarism.htm.

7. Longuet, *Le mouvement socialiste international*, 58. Also see the *Manifesto of the International Socialist Congress at Basel* (Berlin: Vorwärts), Marxists Internet Archive, https://www.marxists.org/history/international/social-democracy/1907/militarism.htm.
8. Mandel, *October 1917: Coup d'État or Social Revolution?,* 14, https://fileserver.iire.org/nsr/NSR17.pdf.
9. The countries most affected, besides Russia, were the German Empire (casualties of 2 million soldiers and 420,000 civilians); France and its colonies (1.4 million soldiers and 300,000 civilians); Austria (1.1 million soldiers and 470,000 civilians); the United Kingdom and its colonies (885,000 soldiers and 110,000 civilians); the Ottoman Empire (800,000 soldiers and 4.2 million civilians); and the Kingdom of Serbia (high-end estimate of 1,250,000 victims, including 800,000 civilians, or more than a quarter of its population). Source: *Wikipedia*, "World War I Casualties."
10. In 1917, Russia still used the Julian calendar, which is about thirteen days "behind" the Gregorian calendar adopted in 1918, and which corresponds to the Western calendar. So the revolution of February 1917 actually occurred on the international day of struggle for women's rights, March 8, in the current calendar. Similarly, the October Revolution took place on November 7. In the rest of the text, the dates correspond to the current (Gregorian) calendar.
11. Trotsky, *History of the Russian Revolution*, chapter 7.
12. Alexander Fyodorovich Kerensky (1881–1970), lawyer and laborist (his party was called Trudovik) headed the provisional government in 1917.
13. Martov and Dan, *Geschichte der russischen Sozialdemokratie*, 300–301; quoted by Mandel in *October 1917: Coup d'État or Social Revolution?*
14. The new government consisted of an alliance between the Bolshevik party and the left socialist revolutionaries.
15. Carr, *The Bolshevik Revolution*, 138–39.
16. Thomas Woodrow Wilson, born in Staunton, Virginia, on December 28, 1856, and died in Washington, DC on February 3, 1924, was the twenty-eighth president of the United States. He was elected for two successive terms, serving from 1913 to 1921.
17. See Woodrow Wilson's declaration before Congress on February 11, 1918: "Every territorial settlement in this war must be made in the interest and for the benefit of the population concerned, and not as part of any mere adjustment compromise of claims amongst rival states." See also his declaration made in September 1919 on the subject of the League of Nations: "The fundamental principle of this treaty is a principle never acknowledged before . . . that the countries of the world belong to the people who live in them." These two citations are from Lienau, *Rethinking Sovereign Debt.*
18. In January–February 1918, President Wilson adopted an apparently benevolent public attitude toward Soviet Russia. See, in particular, point sixteen of his declaration in fourteen points to the US Congress on January 8, 1918. However, in the end Wilson did not give any aid to the Soviets.
19. Carr, *The Bolshevik Revolution*, 12–13n3.
20. Wikipedia, "Allied Intervention in the Russian Civil War," https://en.wikipedia.org/wiki/Allied_intervention_in_the_Russian_Civil_War.
21. Lloyd George reported these talks in his memoirs: David Lloyd George, *War Memoirs IV*, 2nd ed. (London: Ivor Nicholson & Watson, 1934), 2081–2107. See Carr, *The Bolshevik Revolution*, 23–24n6.
22. Carr, 308.
23. Carr, 126–27.
24. Carr, 111.

25. Carr, 308.
26. Quoted by Carr, 128.
27. On the Russian Civil War, see, among other scholarly studies, Evan Mawdsley, *The Russian Civil War* (Boston: Allen & Unwin, 1987).
28. See the *New York Times*, April 2, 1921, quoted by Alexander N. Sack, "Diplomatic Claims against the Soviets (1918–1938)," *New York University Law Quarterly Review* 15 (1938).
29. Sack, "Diplomatic Claims against the Soviets."
30. Carr, *The Bolshevik Revolution*, 290.
31. This scandal was denounced by Boris Souvarine in the Communist daily *L'Humanité* in a series of articles entitled "L'abominable vénalité de la presse française" [The abominable venality of the French press] that appeared over a period of several months during 1923 and 1924.
32. Founded in 1863, the Crédit Lyonnais is best known for the scandal surrounding its bailout by the French state at the end of the twentieth century. More or less bankrupt since the 1990s, after the mortgage crisis in the real estate sector, the bank was nationalized and recapitalized before being taken over by the Crédit Agricole in 2003. The bailout is thought to have cost taxpayers €14.7 billion.
33. A business bank founded in 1904, which merged with the Crédit du Nord in 1973.
34. Oosterlinck and Landon-Lane, "Hope Springs Eternal: French Bondholders and the Soviet Repudiation (1915–1919)."
35. When the Genoa Conference took place, the Union of Soviet Socialist Republics did not yet exist. It was founded in December 1922 and officially dissolved in December 1991. At the Genoa Conference, the Soviet delegation officially represented the Russian Soviet Federative Socialist Republic, which we have abbreviated in the present text to "Soviet Russia."
36. French troops occupied Düsseldorf, one of the main towns of the Rhineland, in March 1921 (see Carr, *The Bolshevik Revolution*, 336). From January 1923 to July–August 1925, French and Belgian troops occupied the Ruhr Valley and its industrial production sites in order to seize industrial products and raw materials such as coal and minerals, in lieu of payment for the reparations that Germany was slow to pay.
37. The recognition of a new state is either definitive—in which case it is called de jure recognition (as of right)—or it is provisional, or restricted, in which case it is called de facto (in fact, whether by right or not) recognition. Great Britain recognized Soviet Russia de facto in 1921 and de jure in 1924.
38. *Les Documents de la Conference de Gênes* (Rome: Libreria di Scienze e Lettere, 1922), ix.
39. *Les Documents de la Conference de Gênes.*
40. *Les Documents de la Conference de Gênes.*
41. *Les Documents de la Conference de Gênes*, 13.
42. *Papers Relating to International Economic Conference, Genoa, April–May 1922* (London: H. M. Stationery Office, 1922), 6–7.
43. *Papers Relating to International Economic Conference, Genoa*, 7.
44. *Papers Relating to International Economic Conference, Genoa*, 7.
45. *Papers Relating to International Economic Conference, Genoa*, 7.
46. *Papers Relating to International Economic Conference, Genoa*, 8.
47. *Papers Relating to International Economic Conference, Genoa*, 8–9.
48. *Papers Relating to International Economic Conference, Genoa*, 9.
49. An international commission of financial supervision to repay public debts was imposed on Tunisia in 1869, on Egypt in 1876, on the Ottoman Empire in 1881, and on Greece in 1898.
50. *Papers Relating to International Economic Conference, Genoa*, 12.
51. John Saxon Mills, *The Genoa Conference* (London: Hutchinson & Co., 1922), 185,

https://archive.org/stream/genoaconference00milliala/genoaconference00milliala_djvu.txt.

52. Carr, *The Bolshevik Revolution*, 376.
53. German-Russian Agreement, April 16, 1922 (Treaty of Rapallo), article 2, Avalon Project, Yale Law School, http://avalon.law.yale.edu/20th_century/rapallo_001.asp.
54. "Reply of the Russian Delegation to the Memorandum of May 2nd, 1922," in Mills, *The Genoa Conference,* 186.
55. SDN [LoN] 1922, "Réponse de la délégation russe . . . , Annexe. Contre-proposition . . .," 198; trans. CADTM.
56. "Memorandum to the Russian Delegation," in Mills, *The Genoa Conference*, 201.
57. "Memorandum to the Russian Delegation," Mills, 201.
58. "Memorandum to the Russian Delegation," Mills, 201.
59. "Memorandum to the Russian Delegation," Mills, 201.
60. "Memorandum to the Russian Delegation," Mills, 203–204.
61. "Reply of the Russian Delegation to the Memorandum of May 2nd, 1922," in Mills, *The Genoa Conference*, 403.
62. "Reply of the Russian Delegation," Mills, 405.
63. "Reply of the Russian Delegation," Mills, 408.
64. "Reply of the Russian Delegation," Mills, 408–409.
65. "Reply of the Russian Delegation," Mills, 409.
66. "Reply of the Russian Delegation," Mills, 409.
67. "Reply of the Russian Delegation," Mills, 410.
68. Cited in Sack, "Diplomatic Claims against the Soviets," 291n152.
69. "Reply of the Russian Delegation," Mills, 410–11.
70. "Reply of the Russian Delegation," Mills, 411.
71. "Reply of the Russian Delegation," Mills, 411–12.
72. "Reply of the Russian Delegation," Mills, 413.
73. "Reply of the Russian Delegation," Mills, 414.
74. Mills, *The Genoa Conference,* 277–78.
75. Mills, 284.
76. Carr, *The Bolshevik Revolution*, 355.
77. Mills, *The Genoa Conference,* 254.
78. Carr, *The Bolshevik Revolution*, 436–40.
79. Article 9 of the Anglo-Soviet trade agreement stipulated: "The British Government declares that it will not initiate any steps with a view to attach or to take possession of any gold, funds, securities or commodities not being articles identifiable as the property of the British Government which may be exported from Russia in payment for imports or as securities for such payment, or of any movable or immovable property which may be acquired by the Russian Soviet Government within the United Kingdom." ("Trade Agreement Between His Brittanic [*sic*] Majesty's Government and the Government of the Russian Socialist Federal Soviet Republic," in Richard H. Ullman, *The Anglo-Soviet Accord* (Princeton: Princeton University Press, 1972), 474–78, https://wwi.lib.byu.edu/index.php/Anglo-Soviet_Trade_Agreement. On this topic see also Carr, *The Bolshevik Revolution*, 286–89.
80. Sack, "Diplomatic Claims Against the Soviets," 524–25.
81. Sack, 270.
82. Sack, 277.
83. Sack, 281–82.

84. On this issue, see Éric Toussaint, "Lenin and Trotsky Confronting the Bureaucracy—Russian Revolution and Transitional Societies," Europe Solidaire Sans Frontières website, 2017, www.europe-solidaire.org/spip.php?article37717.
85. See "Accords relatifs au règlement définitif des créances entre la France et la Russie antérieures au 9 mai 1945," website of the French Senate, www.senat.fr/seances/s199712/s19971210/sc19971210010.html.
86. Stiglitz, Herman, Ocampo, and Spiegel, *Overcoming Developing Country Debt Crises*, 49.

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"Passim" (literally, "scattered") indicates intermittent discussion of a topic over a cluster of pages.

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Bankocracy (London: Resistance Books / IIRE / CADTM, 2015)
The Life and Crimes of an Exemplary Man (Liège: CADTM, 2014)
Glance in the Rear-View Mirror: Neoliberal Ideology from its Origins to the Present (Chicago: Haymarket Books, 2012)
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