Suspending public debt repayments by legal means

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Like the governments of the South did in the 1980s, the governments of the North are using the debt as an excuse to introduce austerity policies that in many respects are similar to the structural adjustment programmes (SAPs) advocated by the IMF and the World Bank. Naturally, we have nothing against austerity measures being applied to capital holders, speculators and high income earners as a means of ensuring social justice and respect for people’s economic, social and cultural rights (ESCR). Such measures would necessarily include a drastic reduction in arms spending, the suppression of tax benefits for the richest, vigorous counter-measures against tax fraud, and the removal of subsidies and other financial advantages available to exporters. But in actual fact, only the popular classes are presently being hit by these austerity policies, which drastically reduce public spending in essential sectors such as health care and education - areas where spending needs to be increased, financed by higher taxes on big incomes, company profits and personal fortunes. Breaking the vicious circle of debt is a political, economic and social imperative. International public law offers governments of good will some solid arguments for casting off the shackles of debt and the anti-social policies going by the name of “rigour” or “austerity” inspired by neo-liberal thinking.

Repayment of the public debt is not inevitable

To be bound by a loan contract, the State must have given its free consent. This consent has a legal consequence: an obligation of the State to repay the debt it has contracted. This obligation is based on the principle of pacta sunt servanda (agreements must be respected), as embodied in article 26 of the 1969 Vienna Convention on the Law of Treaties through the principle of State continuity, by which the debts of States are passed on from one government to the next.

However, these principles are not absolute and are only valid for “debts contracted in the general interest of the community” - the key words here being “the general interest of the community”. According to international law, the assessment of a debt’s general interest and whether that debt is licit or illicit comes under the competence of the public authorities. A

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1 Sources of international public law are listed in article 38 of the Statute of the International Court of Justice. They include international conventions, custom, general principles of law, doctrine, and jurisprudence.
3 The pacta sunt servanda rule dates back to an era when international relations were established almost entirely by contract (alliances and peace treaties). We now have binding international law. A contract cannot be valid unless it respects international public order (in particular the jus cogens which covers the peremptory norms of international law, the United Nations Charter which affirms its primacy over any other international agreement, etc.).
4 David Ruzié, Droit international public, 17e édition, Dalloz, 2004, p. 93.
public debt audit carried out by the authorities and involving representatives of “civil society” is therefore a perfectly legal process.

State practice confirms that repayment of public debt is not an absolute obligation. In a 2008 report dealing with odious debt and drawn up at the request of the United Nations Conference on Trade and Development (UNCTAD)⁶, it is stated that a State’s obligation to repay its debts has never, at any time, been recognized as unconditional. The report lists the many precedents in favour of non-payment of certain fraudulent debts and the legal rules limiting the scope of the *pacta sunt servanda* principle, such as the general principles of international law: good faith, equity, etc.

As was recalled by the Austrian government during a meeting of the Preparatory Committee of the 1930 Conference for the Codification of International Law: “*the dominant doctrine in people’s law does not appear to qualify the repudiation by a State of its debts as a violation of that State’s international obligations, except when this is done in an arbitrary way*”⁷. The CADTM concurs with this position and re-affirms the licit nature of a unilateral act of repudiation (or suspension) of the debt as a defence of fundamental human rights. Such an act is not arbitrary, and in fact has a legal basis.

Consequently, there is no unconditional obligation for a State to honour its debts. Debtor and creditor governments can, on the basis of international law, suspend and repudiate/cancel certain debts. To determine the portion which should not be repaid, the authorities can carry out an audit of their debts. Prior to this, the immediate suspension of repayments, with a freeze on interests, can prove to be necessary and wholly justified.

**Austerity that goes against human rights obligations**

Article 103 of the United Nations Charter⁸, to which UN Members must absolutely adhere, is clear and formal: “In the event of a conflict between the obligations of the Members of the United Nations under the present Charter and their obligations under any other international agreement, their obligations under the present Charter shall prevail.” Among the obligations contained in this Charter, we note, in article 55, “higher standards of living, full employment, and conditions of economic and social progress and development […], universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion”. This Charter also enshrines the right of people to self-determination (article 1-2) and international cooperation for the development of peoples (article 1-3). All these provisions designed to protect human rights have precedence over the other obligations entered into by States, including the repayment of debts, and also the application of austerity programmes enforced in particular by the IMF, the World Bank and the European Commission.

UN reports regularly reiterate the absolute principle of protection of fundamental human rights. For example, the resolution of the UN Human Rights Council of 23 April 1999 re-affirms that “the exercise of the basic rights of the people of debtor countries to food, housing, clothing, employment, education, health services and a healthy environment cannot be subordinated to the implementation of structural adjustment policies, growth programmes

⁷ LON, Conference for the Codification of International Law, *Bases of discussion* n°4, §18.
and economic reforms arising from the debt\footnote{See the Cetim paper (in French) Dette et droits humains, issue no. 8, 2007, http://cetim.ch/fr/documents/bro8-dette-fr.pdf}. In 2009, the UN independent expert on external debt, Cephas Lumina, made the same points, stressing that the international documents protecting human rights are applicable not only to States but also to international institutions like the World Bank and the IMF.

Among these documents: the United Nations Charter (1945), the Universal Declaration of Human Rights (1948), the two international covenants of 1966 on economic, social and cultural rights (ICESCR) and on civil and political rights (ICCPR), the Vienna Convention on the Law of Treaties, and the Declaration on the Right to Development (1986). The austerity policies applied in the South and North are in flagrant violation of these various international legal conventions. Let us look at some examples in the South and North with regard to State indebtedness.

Since the Third World debt crisis broke in 1982, the IMF and the World Bank have been forcing countries of the South to apply structural adjustment programmes in order to pay back creditors who, it should be noted, lent money in a totally irresponsible and reckless way. The formula is as follows: reduction of land areas devoted to food crops and specialization in one or two products for export, an end to price stabilizing systems, an end to self-sufficiency in cereals, fragilization of economies through an extreme dependency on world market fluctuations, drastic cuts in social spending, a stop to subsidies for basic goods, the opening up of markets and unfair competition between the big transnationals and small producers, privatization of water, health care, education, strategic companies and natural resources, massive lay-offs in the civil service, deregulation of the labour code to facilitate dismissals, etc.

Among other serious effects, food sovereignty and more generally the right to food are trampled underfoot. Many countries that in the early 1980s were self-sufficient in staples (Haiti, for example, with its rice) are today importing the foodstuffs their people need. Whereas the governments in these countries often had recourse to subsidies to keep food prices at affordable levels for the poorest people, the IMF and the World Bank have demanded that these aids be discontinued, which has resulted in higher prices for food but also for fuel. People are facing huge challenges to feed themselves adequately, to cook, to boil water and make it safe for drinking. The price of transport has also risen, forcing small farmers to build this extra cost into their prices when they take their produce to town. Sorely tried by all these problems, the people are rising up in protest. “Anti-IMF riots” and “anti-hunger riots” are regular occurrences in the South. Some examples: in Peru in 1991, when the price of bread multiplied by 12 overnight; the Caracazo in Venezuela in 1989 (three days of rioting and thousands dead); more recently, deteriorating living conditions in Tunisia, Egypt and throughout the Arab world, culminating in social upheaval and the fall of presidents Ben Ali and Mubarak, in January and February 2011 respectively.

In the North, we can cite the instructive cases of Hungary and Latvia, these countries being among the first EU members to apply for IMF loans. The conditions attached to these loans are nothing less than social purges, attacking hard-won social benefits, the employed, the unemployed, those in precarious employment – a purge that the IMF and the European Union, hand in hand with the financial markets, intend to impose on the whole of Europe. The “aid” plan for Hungary, totalling some 20 billion euros, was announced in October 2008 (12.3
billion euros loaned by the IMF, 6.5 billion by the European Union and 1 billion by the World Bank). Aside from the mechanical increase in debt stock and the pure loss in interest payments, the conditions for the population are particularly severe: an extra 5 points on VAT, currently at 25%; legal retirement age extended to 65; a civil service wage freeze for two years; suppression of the thirteenth month for retirees. The agreement signed in June 2009 with Latvia is in the same vein: the IMF loan of 7.5 billion dollars is conditioned by a 15% reduction in civil servants’ salaries, a lower minimum wage and lower retirement pensions.

There is therefore a direct link between flagrant ESCR violation and the austerity programmes applied by governments in the South and North under pressure from their creditors.

To put it simply, debtor States sacrifice human rights when they commit to austerity policies as defined by the IMF. As a very minimum they should carry out a debt audit, refuse to apply measures that violate ESCR, and, if necessary, suspend debt payments for the duration of the audit. On completion of the audit, States should refuse to continue repayment of illegitimate debts.

It should be emphasized that States not only have an obligation to respect human rights: they must also protect and promote them. In this regard, they have the duty to prevent third parties from infringing the rights of their populations, which means radically reforming, abolishing or withdrawing from institutions such as the IMF, the World Bank and the World Trade Organization (WTO) which serve transnational corporations to the detriment of State authority and the basic needs of the people.

In 2000, the UN independent expert on external debt, Fantu Cheru, stressed the fact that the structural adjustment programmes imposed by these institutions go beyond the simple imposition of a set of macroeconomic policies at the domestic level. It represents a political project, a conscious strategy of social transformation at the global level, primarily to make the world safe for transnational corporations. In short, structural adjustment programs (SAPs) serve as ‘a transmission-belt’ to facilitate the process of globalization, through liberalization, deregulation, and reducing the role of the State in national development. ¹⁰

**Which legal documents can be called on?**

The various international conventions cited above provide States with the legal weapons to suspend debt repayment and to pursue autonomous development policies designed to fulfil fundamental human needs. We present here a brief compilation of legal provisions contained in the aforementioned documents that can justify unilateral suspension of debt repayment (which, depending on the case, can go as far as declaring such debts null and void) and rejection of the conditions imposed by the creditors.

**a) Article 103 of the United Nations Charter**

This article states: “In the event of a conflict between the obligations of the Members of the United Nations under the present Charter and their obligations under any other international agreement, their obligations under the present Charter shall prevail.” This provision, which clearly declares the supremacy of the Charter over all other commitments, justifies both a

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moratorium on public debt (with a freeze on interests), the non-application of austerity programmes and even the nullity of debts and agreements contravening the principles enshrined in the Charter, such as the objective of raising people’s living standards. In effect, since the provisions of the Charter have legislative value regarding public order, everything which is contrary to this must be deemed null and void\(^{11}\). Consequently the anti-social measures imposed by creditors and which threaten the sovereignty of States must be declared null and void.

b) Article 1 of the two 1966 international conventions on human rights

According to article 1 of both conventions: “All peoples have the right of self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development. All peoples may, for their own ends, freely dispose of their natural wealth and resources without prejudice to any obligations arising out of international economic co-operation, based upon the principle of mutual benefit, and international law. In no case may a people be deprived of its own means of subsistence.”

It is evident that the structural adjustment programmes, re-named growth and poverty reduction strategy papers by the IMF and the World Bank since the end of the 1990s violate the first article common to the two 1966 conventions. As was pointed out by Cephas Lumina, the UN independent expert on developing countries’ external debt, the national Parliaments of the South are not consulted in the majority of cases and the final adoption of these documents is always conditioned by final acceptance by the IFIs (International Financial Institutions).

In Europe, the diktats of the financial markets, the European Commission and the IMF are also denying the right of peoples to self-determination.

c) Article 28 of the 1948 Universal Declaration of Human Rights

In this article, the UDHR claims that “everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.” This implies the elimination of unjust systems and structures as a condition for realizing human rights and fundamental freedoms\(^{12}\).

This affirmation is also present in the Declaration on the Right to Development adopted on 4 December 1986 by the United Nations General Assembly. Article 3 of this declaration says that “States have the duty to co-operate with each other in ensuring development and eliminating obstacles to development”. As we have seen above with the examples of ESCR violations in the South and North, the application of conditions imposed by creditors is an obstacle to the respect of basic human rights. States should therefore reject them. It is also in their interest to suspend debt repayments which eat up vital resources for people’s development. For instance, debt servicing takes up 35% of the Jamaican budget, in other words three times more than expenditure on health care and education combined. In France, debt servicing amounts to three times the budget for schooling and eight times the justice budget.

d) Article 2 of the UN Declaration on the Right to Development (1986)


According to article 2 § 3: “States have the right and the duty to formulate appropriate national development policies that aim at the constant improvement of the well-being of the entire population and of all individuals, on the basis of their active, free and meaningful participation in development and in the fair distribution of the benefits resulting therefrom.” Since this duty is incompatible with the neo-liberal-inspired austerity plans, States should put an end to the conditions imposed by the IMF, the World Bank and the European Commission.

e) Force majeure: one cannot do the impossible

The three following notions (force majeure, state of necessity, fundamental change of circumstances) are inscribed in the 1969 Vienna Convention on the Law of Treaties, as well as in many national legislations, mainly concerning contracts. These legal norms are also part of international common law, and as such they are applicable to all debtors and creditors, without it being necessary to prove their consent to be bound by them, or the illegality of the debt.

The United Nations International Law Commission defines force majeure as follows: “The impossibility to act legally (...) is the situation that arises when unforeseen circumstances beyond the control of the person or persons concerned absolutely prevent them from respecting their international obligation, by virtue of the principle that one cannot do the impossible.”

The Preparatory Committee of the Conference for Codification (The Hague, 1930) accepts the applicability of the force majeure argument to the debt, because, according to the Committee, “the State is held responsible if, through a legislative provision [...] it suspends or modifies total or partial service [of the debt], unless it is forced to do so by financial necessities.”

International jurisprudence explicitly recognizes this argument, which legitimizes a suspension of debt repayment to both private and public creditors such as States, the IMF and the WB. Among several instances, let us mention the arbitration agreement by the Permanent Court of Arbitration in The Hague on 11 November 1912 in the ‘Case of Russian compensation.’ From 1889 to 1912 Turkey went through a severe financial crisis that left the country in no position to service its debt to Tsarist Russia. The Permanent Court of Arbitration recognized that the force majeure argument invoked by the Turkish government was founded. It asserted that force majeure is enforceable both in private and public international law and made it clear that international law must adapt to political necessities. Indeed force majeure is involved when fundamental interests of the State are at stake and when protecting its population’s rights means taking strong political decisions such as a moratorium on debt repayment without any default interests.

While on principle force majeure is by definition temporary, if the conditions that resulted in it prove to be long-lasting, it becomes finally and definitely impossible for the country to meet its financial obligation. As a consequence suspension could turn into an outright cancellation of the debt. We can mention here the decree taken by the Soviet government on 28 January

14 Bases of discussion n°4, op. cit., §21.
15 RIAA, Case of the Russian compensation, Judgement of 11.11.1912. Other judgments recognized the applicability of force majeure to financial relations, for instance in the case of the Brazilian federal loans issued in France, PCIJ, C, n° 16-IV, Judgment on 12 July 1929.
1918, through which the Socialist Republic decided that all foreign loans were unconditionally cancelled without any exception. In order to reach this now famous unilateral decision the Russian government relied on force majeure.

f) State of necessity

The state of necessity corresponds to a situation in which «the very existence of the State, its political or economic survival are in danger.» For the UN Commission for International Law the argument can be called upon when what was done was the only way of saving the State’s essential interest from a serious and imminent danger.

Economic survival directly refers to the resources a State can rely upon to meet the needs of its population in terms of health, education, public security (such as maintaining reliable civic and fire protection services), which sends us back to the portion of the State’s budget that is devoted to servicing the debt compared with the portion used to meet the needs of populations. Consequently immediate suspension of debt repayment (without default interest) is indeed imperative in many cases, as well as refusing conditionalities, as the only way of saving the State’s essential interest. Indeed, in international law, one of the fundamental tenets of the State is its population. The State has obligations towards its citizens and towards foreigners that fall under its jurisdiction. The first among these obligations is to respect their fundamental human rights.

The state of necessity is different from force majeure in that it does not mean that it is materially impossible for the State to meet its international obligations. Yet meeting them would mean that the population would be subjected to unreasonable sacrifices. Indeed as underlined by the International Law Commission, “a State cannot be expected to close its schools and universities and its courts, to disband its police force and to neglect its public services to such an extent as to expose its community to chaos and anarchy merely to provide the money wherewith to meet its moneylenders, foreign or national. There are limits to what may be reasonably expected of a State in the same manner as with an individual.”

As is the case for force majeure, the state of necessity can be sufficient ground for suspension and repudiation/cancellation (if the state of necessity endures) of debts contracted towards other States, international organizations, or private bodies. In the case of the Central Rhodope forests, Bulgaria had to pay compensation to Greece. Appearing before the Council of the League of Nations Bulgaria called upon the state of necessity, founded upon the serious financial consequences that paying this compensation would have had for the State and the economy of the country. The two governments agreed that the state of necessity could become a legal basis on which a public debt can be repudiated. So if we refer to a state of necessity in the context of debt payment, it must be obvious that the public function of the State is under threat.

g) Fundamental change of circumstances

This legal standard that finds expression in the *rebus sic stantibus* provision (conditions must be the same as when the agreement was signed) results in parties being freed of any obligation specified in the agreement in case of a major change of circumstances. It accounts for the right of a State to put an end to the implementation of an international treaty or of an agreement either for a time or for ever.

When applied to a debt, the *rebus sic stantibus* provision accounts for the right of a State to unilaterally suspend or cancel debts affected by this fundamental change of circumstances if two conditions are met:

1. the change of circumstances must be significant. In its judgment in the Fisheries Jurisdiction Case, the International Court of Justice states that “*in order that a change of circumstances may give rise to a ground for invoking the termination of a treaty it is also necessary that it should have resulted in a radical transformation of the extent of the obligations still to be performed. The change must have increased the burden of the obligations to be executed to the extent of rendering the performance something essentially different from that originally undertaken*”\(^\text{23}\);

2. the change must bear on circumstances that were, as stated in article 62 of the 1969 Vienna Convention, “*an essential basis of the consent of the parties to be bound by the treaty*”\(^\text{24}\).

If we think of the debts contracted by developing countries, it is obvious that the US decision to raise interest rates unilaterally in 1979 is a fundamental change of circumstances. *Primo*, this change is significant since countries of the South had to pay three times more interest than before, which led to their experiencing an unprecedented crisis a couple of years later leading to dramatically deteriorated living conditions for millions of people and to these States being more subjugated than ever to international financial institutions. *Secundo*, this change affected an essential basis of the consent of the parties to be bound by the loans. Contracting debts was strongly encouraged by the low interest rates of the time (in the middle of the 1970s some were even negative since they were lower that the rate of inflation) and by the enforcement of a ‘development’ model that advocated the need for external capital, a model that was directly inspired by the Rostovian take-off model of economic growth that still has to be validated by facts\(^\text{25}\) but is still promoted by the World Bank.

As a consequence, all governments of the South that were affected by the debt crisis can legally at the very least suspend payments of interests that have accumulated since the crisis broke. They could also on the basis of this same legal argument of fundamental change of circumstances not only repudiate these interests but demand that creditors pay back amounts they have unduly paid.

Several authors including Joseph Stiglitz, recipient of the Nobel Memorial Prize in Economic Sciences (2001)\(^\text{26}\) and former chief economist at the World Bank (from 1997 to 2000) acknowledge that the unilateral decision of the US Federal Reserve entailed a fundamental change of circumstances.


\(^{26}\) Joseph Stiglitz, *Globalization and its Discontents*, Norton, 2002. This prize is often mistakenly called the Nobel Prize for economy.
Henry Kissinger, former US State Secretary, details the social and economic consequences of the debt crisis: “It is obviously a problem of solvency: some countries owe more than what they are able to repay. In 1988 the 1982 temporary adjustment programmes turned into apparently permanent austerity. Since 1982 Latin America has paid some $ 235,000 million in interests, but its indebtedness has increased by $ 50,000 million. Latin America, an underdevelopment area, has turned into a net exporter of capital, which is an unfair and undefendable situation [...]. No democratic government can bear the long-lasting austerity and the fiscal cuts in social services that are exacted by international institutions.”

In the light of recent events Greece, Ireland, Portugal (and the list will probably get longer) are now in a similar position: because of the subprime crisis in the US in 2007 with its aftermath in Europe leading to bank defaulting and a severe recession, these countries have to face a sharp rise in interest rates demanded by institutional investors that rule the financial markets. The rates they have to pay in 2010-2011 are twice what they were in 2008-2009 while simultaneously the reference rates of central banks have gone down. In 2010 Ireland had to pay its sovereign debt holders (10 years securities) at the high rate of 9.3 % (as opposed to 2.7 % for Germany), an excessive burden that meant that it had to contract short-term loans and to implement policies of brutal austerity. The country is now on the brink of the abyss with a growth rate close to nil and an unemployment rate up to 13%. Greece had to pay 11.9 % in interest rates to borrow for ten years, which meant that it too, like Ireland, had to contract short term loans and seriously infringe the cultural, social and economic rights of its population. The institutional investors demand higher interest rates because they are afraid of defaulting or cancellation. A unilaterally decided suspension of debt repayment (without any default interest) is part of the risks creditors are aware of, and would be fully justified. Countries taking this road should use the legal argument of changed circumstances related to this steep rise in interest rates enforced by financial markets while the latter can borrow at 1% from the European Central Bank or at 3% from savers.

Finally, considering the weight of the debt and the people’s deteriorating living conditions because of austerity measures, public authorities in the North and in the South have several legal arguments to suspend repayment of their debts (without default interest) and to reject austerity measures that infringe cultural, social and economic rights.

Simultaneously governments must audit their debts without delay, under citizens’ control, so as to establish which of their debts are illegitimate, following Ecuador’s recent initiative.

Translated by Christine Pagnoulle and Judith Harris