

# **NGLO NOT OUR DEBT**



## **Remembering Debt Justice: the 60<sup>th</sup> Anniversary of the London Debt Accord February 27<sup>th</sup> 2013**

### **1. What is the London Debt Accord?<sup>1</sup>**

February 27<sup>th</sup> 1953 is the day on which the 'London Debt Accord' was signed, an extraordinary agreement that cancelled much of Germany's pre and post war debts. The exceptional character of this agreement is its comprehensive nature – it cancelled a huge portion of Germany's debts, and it was signed by countries that had been at war only a few years previously, including the highly indebted new German Federal Republic (the successor to Hitler's Germany), and Germany's creditors, the western Allies, led by England, France and the USA, but also including countries such as Greece which had recently experienced German military occupation.

### **2. How much of Germany's debt was cancelled?**

Germany had been destroyed by war, and was incapable of paying its external public debts in the post-war years. Despite some agreed reduction in its post-war debt, its pre-war debts remained enormous and unsustainable. The Accord cancelled **about 50% of Germany's debt – roughly equivalent to the value of 75% of Germany's exports in 1950**. Of Germany's remaining debt stock, further relief was granted through a reduction in interest payments due on its various component parts.<sup>2</sup>

The London Conference agreed a comprehensive solution on how to deal with Germany's outstanding debts relating to two constituent parts:

- Loans that Germany had taken out during the time of the Weimar Republic to meet the reparation arrangements of the 1919 Treaty of Versailles, which had twice been rescheduled and later partially cancelled.<sup>3</sup> In addition, there were the debts of other public institutions and German private debtors to the tune of 5.8 billion DM (or

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<sup>1</sup> The information about the London Debt Accord is based on research provided in, Kaiser, J. (2003) *Debts are not destiny! On the fiftieth anniversary of the London Debt Agreement*, and *Q&A about the London Debt Accord for Germany 1953, Erlassjahr.de (Jubilee Germany)*

<sup>2</sup> 2.5 billion DM (nominally €1.25 bn) stayed interest free, 5.5 billion DM (nominally €2.75 bn) were carried at a rate of 2.5% and the remaining 6.3 billion DM (nominally €3.15 bn) at an average rate of 4.5 to 5%. Compound interest was not charged for the long period during which the debt had not been serviced.

<sup>3</sup> According to the agreement reached in London, these amounted to 7.7 billion DM (nominally €3.85bn).

nominally €2.9 bn), so that **all** pre-war debts of 13.5 billion DM (or nominally € 6.7 bn) were on the table and discussed.

- Loans that the federal government had received from the western powers, in particular the USA, after the Second World War to finance reconstruction.<sup>4</sup>

### 3. Who was involved?

22 representatives from creditor countries took part, as well as the Bank for International Settlements (BIS) and representatives of private lenders, with the driving force behind the negotiations being the US government. During the negotiations German private and public debt owed to public and private entities from the following countries was dealt with, and all were signatories to the Accord: Belgium, Ceylon (today Sri Lanka), Denmark, France, Greece, Iran, **Ireland**, Italy, Yugoslavia, Canada, Liechtenstein, Luxemburg, Norway, Pakistan, Sweden, Switzerland, Spain, South Africa, Britain and the USA. In 1963 the following states and territories acceded to the accord: Aden, Egypt, Argentina, Australia, Belgian Congo (today DRC), British Channel Islands, Chile, Finland, Falkland Islands, Gibraltar, Israel, Cambodia, Cameroon, Malta, Morocco, New Guinea and Nauru, New Zealand, Netherlands, North Rhodesia and Njassaland, Austria, Peru, Syria and Thailand.

### 4. What are the lessons for today's debt crisis in Ireland, Europe and the wider world? Negotiated settlements to debt crises are possible, and debt resolution can be achieved if the political will is present

- The London Accord demonstrates that it is possible for multi-lateral stakeholders to negotiate comprehensive debt cancellation agreements even in highly politically sensitive contexts. The implementation of the sets of agreements within the Accord was handled in a very cooperative manner. Despite 6 different arbitration fora being established to deal with potential conflicts arising as a result of the agreements, these dispute mechanisms were rarely needed. Germany was also granted the option to call for "consultations" in the event it faced unforeseen difficulties in mobilising its remaining debt service. However, no German request for consultations is on record.
- The "guidelines for the recommendations" laid out in the Accord acknowledged the need for humane treatment of the borrower and equity between the negotiators. It stated the agreement should

*(i) take into account the general economic situation of the Federal Republic and the effects of the limitations on its territorial jurisdiction; it should neither dislocate the German economy through undesirable effects on the internal financial situation, nor unduly drain existing or potential German foreign exchange resources (...)*

*(ii) provide for an orderly overall settlement and assure fair and equitable treatment of all the interests affected."*

- The self-confidence shown by the German negotiating delegation was breathtaking, not least through their achievement of such a significant debt write down, and indeed their use of the agreement as an instrument to ward off possible future reparation demands. The German negotiator Hermann Josef Abs reported in 1959:

*"There was only one point on which it proved impossible to reach an agreement with*

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<sup>4</sup> These amounted to about 16.2 billion DM (nominally €8.1 bn).

*the creditors and to embody it in the final conference report – and that is the question of the political preconditions under which we could implement the debt agreement, namely the problem of reparations. (...) But the German delegation had declared – very clearly and in all seriousness – in the most important final session, that Germany would not be in a position to implement the debt agreement, if demands were still to be made to it under the heading of ‘reparations’.*”

After 1953, Germany made no reparation payments of the kind that were agreed in 1919.

- The Agreement happened in such a definitive manner that there was virtually no further discussion, either internally or externally, on the subject of Germany’s sovereign debt for many decades afterward.
- One of the unique features of the London Accord is that it did not only deal with the debt of the German state and its various predecessors, it also included all external obligations of the German economy i.e., about half of the external debts of individuals and private companies in Germany were also cancelled. In the interests of an arrangement that would be comprehensive and equally binding on all debtors and creditors, a principle of equal treatment for all debtors and creditors was agreed. All claimants had to accept equivalent cuts in interest and repayment demands. All non-public debtors benefited from the same relief which the Federal Republic’s creditors had granted it in the interests of maintaining its capacity for economic development.<sup>5</sup>
- As a result of the scale of the cancellation, the various safeguards in the agreement and the generous level of debt relief, Germany had very low public and external debt indicators until the onset of the recession in the 1970s. Only from the 1980s onward, due to the costs of the reunification and later the global financial crisis in 2008, did Germany’s debt/GNI ratio rise to the 80% range, where it still is today.<sup>6</sup>
- The debt deal made a significant contribution to the German economic ‘miracle’ of the 1950s and 1960s and to a speedy reconstruction of the devastated country.
- The agreement and its generous terms demonstrated the strong commitment of the Western Allies not to repeat the mistakes made after WW I, namely to destabilize a defeated enemy politically and socially by imposing an un-payable debt burden.
- While the leading role of the United States was clearly visible in driving the negotiations, many subscribers to the Accord supported it for reasons of international solidarity rather than ‘cold war realpolitik’. Later, members of the ‘Non-aligned Movement’, neutral in the dominant geopolitics of the day, signed the Accord.

## **5. Recommendations of Anglo: Not Our Debt Campaign**

The Irish ‘debt deal’ announced on Feb 6<sup>th</sup> 2013, nearly 60 years after the London Accord, by the Irish government compares dismally with the London Debt Accord of 1953.

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<sup>5</sup> The repayment plan agreed in London initially allowed for a grace period of five years between 1953 and 1957, in which annual interest of 567.2 million DM (nominally €283.6 m) had to be paid. From 1958, fixed repayment and interest rates of 765 million DM (nominally €382.5 m) were agreed.

<sup>6</sup> Payments expired in the 1980s. Some additional payments fell due as a result of German reunification in 1990, which Germany had waived in London, because it did not “exercise full control over its territory”. When it did so, from 1990 onwards, it resumed payments and the last tranche of € 56m was paid to bondholders on Oct. 3<sup>rd</sup> 2010.

- **Our government failed to negotiate:** While in 1953, the German team acquitted themselves as astute negotiators, the Irish government did not even attempt to achieve a partial or full write-down of Ireland's illegitimate Anglo Irish Bank debt, which comprises nearly half of Ireland's socialised banking debt of €64 billion. Finance Minister Michael Noonan has indicated that he did not request *any* write down on the Anglo debt payments in negotiations with the ECB. The Irish 'debt deal' is a political failure from the perspective of people living in Ireland, as the ECB did not concede any reduction on the €25 billion principal remaining of the Anglo debt.
- **Our government has not reduced the debt:** While extending the repayment period may provide additional fiscal space in the short term, the deal is deeply unjust, as it places the burden of the Anglo debt on future generations by spreading out the payments for up to 40 years. It also makes the battle for non-payment of the Anglo debt more difficult due to the Government's decision to convert the Anglo promissory notes into long term government bonds, which will become a harder form of debt than Promissory Notes.

On the anniversary of the London Debt Accord, the *Anglo: Not Our Debt* campaign calls on the Irish government to:

**Heed the lessons of the London Debt Accord and refuse to pay the new 'Anglo bonds':**

The 'Anglo bonds' are currently being held by the Irish Central bank, and are not being traded on international markets. Thus they can be viewed as a similar form of debt to the previously existing Promissory Notes. Non-payment of interest on the bonds, or the principal, would therefore not have any contagion effect in Europe or negative backlash on the Irish economy.

The London Debt Accord demonstrates that just solutions to debt crises depend on tough negotiating by borrowing states. The 'Anglo bonds' are *still* not our debt. It is time the Irish government makes that fact clear to the governments of the European Union and to the European Central Bank. The London Accord also demonstrates the importance, and effectiveness, of international solidarity in times of economic crisis. It is time that European governments and the ECB listen to the people living in Ireland and agree to a write down of the unjust Anglo Irish bank debt.

## **6. London Debt Accord 60<sup>th</sup> Anniversary marked around the world: Wednesday 27<sup>th</sup> February**

Debt justice campaigners concerned about the debt crises in Europe and debt injustice across countries of the global South (in Africa, Asia and Latin America) will hold actions around the world on Wednesday 27<sup>th</sup> February to highlight the lessons from the London Debt Accord that can be applied to countries all around the world living with unfair and unsustainable debts:

For example, in:

### *Ireland*

At 11am on Wednesday 27<sup>th</sup> February, the *Anglo: Not Our Debt* campaign will gather at the Irish Central Bank with a 'Happy 60<sup>th</sup> Anniversary Germany' cake. This gift pays tribute to the success of the London Debt Accord and is intended as a reminder to the Irish government that debtors can stand up against unjust and unsustainable debt payments and succeed in their struggles.

### *Germany*

Campaigners in Germany from Erlassjahr.de <http://Erlassjahr.de> will launch a global debt report, on the theme of the London Debt Accord and the global debt situation and will visit consulates that represent countries that were party to the Accord.

### *USA*

Campaigners in Washington, USA, will visit the German embassy and call for debt justice for Europe and countries of the Global South.

## **7. For interviews contact:**

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Contacts in the German Finance Ministry are available on request if official German government views on the London Accord today are desired.