**debt, financial/债(Zhài)**

|  |  |  |
| --- | --- | --- |
| European Perspective | Jean-Luc Mathon | 11 Apr 2022 |

From the Latin debitum “what is due” from which comes the word “debtor”, the one who owes something, a sum of money in particular, and the accounting term “debit” which antonym is credit hence the word creditor which term is related to the Italian word “credito”[[1]](#footnote-1).

In law, the debt is an obligation subject to forced collection. On a moral level, it is a duty of conscience treated with the keyword "relational debt".

The concept of debt dates back to time immemorial. No doubt the hunter-gatherers who practiced giving and counter-gifting or exchange were familiar with the idea of obligation.

Directly or indirectly, the appearance of agriculture and the appropriation of land required collective work, “investments”, loans and gave rise to the correlative debt.

Debt is the binding expression of the right to economic, institutional or private debt. Debt as a resource measure – must be secured.

From archaic Greece, techniques appeared to guarantee the debts contracted such as guarantees on the land or on the person (servitude).

Stone boundary markers called horos (boundaries from the word hora, hour) which delimited properties were also employed in mortgaged fields bearing an inscription indicating the name of the creditor and the amount of the debt.

In the Constitution of the Athenians[[2]](#footnote-2). Aristotle relates that peasants who could not repay their debts had to cede their land to their creditors and became serfs or slaves, cultivating what no longer belonged to them.

Aristotle reports that the legislator SOLON (VIth BC) with the "Seisachteia" that is to say "the lifting of the burden" put an end to the civil war in Athens by the abolition of debts and the liberation of the slave land in tearing down the boundary stones which were the sign of this servitude[[3]](#footnote-3).

We find this idea with Lycurgus (4th century BC), magistrate in charge of public finances, while Athens was in complete disorder. He instituted a constitution, after having consulted the oracle of Delphi in the temple of Apollo "...distributes the tributes, rounds off the districts...establishes a senate of thirty members. Consults and dissolves but the people will have the power to contradict and to decide...” (Plutarch, Life of Lycurgus VI, 2).

“Distribute the tributes” (contribution): means lighten the burden of debt; “rounded the arrondissements”: means reorganizing the territory; "consults and dissolves but the people will have the power to contradict and decide": nice definition of democracy.

In ancient Rome – which had Fides as its tutelary deity, goddess of good faith and honour, protectors of debts and contracts – the debtor was imprisoned by the creditor until his debts were reimbursed; He is walked, the rope around his neck, in markets and public places[[4]](#footnote-4). Debt is associated with fault and subsequently with sin[[5]](#footnote-5).

This being the case, we find at this time the premises of a more humane debt policy, when Caesar, like Solon, after having defeated the Lusitanians militarily (people of present-day Portugal), took care of pacifying the country: “he restored harmony in the cities and applied himself to calming the differences between creditors and debtors. He ordered that the creditor would take two-thirds of the debtor's income each year and that the debtor would enjoy only the remaining third until his debt was fully paid. This action established his reputation” (Plutarch, Life of Caesar, 12).

While the distinction between private debt and commercial debt is gradually taking shape in Europe, the prison sentence for private debt is abolished in France in 1254 and the death penalty for fraudulent bankruptcy will disappear in the 17th century.

The prison sentence for commercial debt was abolished in France in 1867 and the prison sentence for public debt abolished in 2004, but it remains in the event of voluntary non-execution of tax and customs fines.

China gave Westerners a very different picture of the debt problem during the peaceful epic of Admiral ZHENG HE's huge armada in the lands bordering the China Sea and the Indian Ocean in the 15th century.

The objective was not to enslave countries or to covet the wealth of other peoples, but to bear witness to the grandeur and abundance of the Ming dynasty through sumptuous offerings of works of art. It is nobler to give than to receive accepting in return only a symbolic tribute by which the subjugated state recognized that China had no need of help. Zheng He proclaimed to foreign rulers that the only thing the world could offer his country was deference, respect and friendship[[6]](#footnote-6).

China could not bear such an imbalance in its balance of payments for long. Admiral Zheng He had no successor and the country was closed, but it is not trivial for Westerners to know that the space probe of the Chinese research program on comets in the solar system bears the name of this great explorer of the maritime silk routes.

The term "debt" does not seem to be part of traditional Chinese culture, instead using the expression "measure expenditure against income"[[7]](#footnote-7) so that China's foreign debt has long been insignificant.

However, the 2007-2008 crisis of risky mortgage loans secured on the value of real estate (known as “subprime”), stemming from the over-indebtedness of American households, plunged the world into recession and necessitated recovery plans.

From 2007 to 2014, global debt increased by 10% per year (instead of 5.8% previously) and this trend then continued due to historically low interest rates.

Today, the biggest borrowers (public, companies, households combined) in terms of debt/GDP ratio are Japan (400%), France (290%), the United States (256%) and China (250%), followed by the United Kingdom (247%) and Italy (246%). This in no way means that they are over-indebted if the burden of the debt service is offset by the amount of exports of goods and services and the correlative foreign exchange reserve.

This is not the case for low-income countries whose level of debt negatively impacts their investment capacities and whose populations' interest is to obtain reductions and cancellations of debts or concessional loans granted by the international institutions (IMF, World Bank, etc.). The essence of which is to include a “donation” component so that the actual reimbursement will be less than the nominal (by at least 35% according to IMF standards).

But a debt crisis threatens the most fragile countries. The G20 in 2020 put in place a “suspension of the repayment of nearly $13 billion in loans for 48 countries until the end of 2021”. However, according to a study published by the World Bank in November 2021 "due to the sharp rise in indebtedness during the global recession linked to the COVID-19 crisis, in 2020 the wave of debt has transformed into a Tsunami”... “the growing number of private creditors further complicates the resolution of the debt problem”[[8]](#footnote-8).

The financial viability of investments from developed countries in third countries is therefore not always guaranteed, far from it.

It is interesting to quote Professor Liu HUAQIN, a researcher at the Chinese Academy of International Trade: "Under the innovative third-market cooperation model, Chinese companies and their peers in partner countries could jointly develop projects in a country involved in the Belt and Road Initiative”[[9]](#footnote-9), and thus pool investments, risks and dispute resolution processes.

With regard to over-indebtedness of individuals, the European States, in search of common definitions[[10]](#footnote-10), organize the protection of the debtor in good faith with a multiannual clearance plan - or by pure and simple abandonment if the debtor has no assets or effective resources without any sanction other than reporting to the credit incident file (banks remain, in theory, free to grant a loan).

The Key word “good faith” is also that of the lender, who guards against usury, of the banker who respects his duty to advise. The man of good faith "says what he knows or believes to be true, never what he knows or believes to be false"[[11]](#footnote-11), he acts in conscience not to harm others.

A fundamental notion of contract law, good faith, is, along with binding force, at the heart of the LEX MERCATORIA, a corpus of international trade customs that was formed in Europe since the Middle Ages in Europe.

This common principle of good faith can lead to admitting that a change in circumstances justifies the revision of the contract – of the loans in this case – according to the theory of lack of foresight[[12]](#footnote-12).

Reciprocal knowledge and mutual respect, underlying the concept of good faith, such is the challenge of a world - in the grip of the most extreme violence - that we would like to be harmonious.

1. Alain REY historical dictionary of the French language. [↑](#footnote-ref-1)
2. ARISTOTLE Constitution of the Athenians, chapters V, 2; XI, 2. [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)
4. Jean-Marie THIVEAUD, the primordial order of debt, journal of financial economics 1993. [↑](#footnote-ref-4)
5. J. ELLUL, the Sacred, studies and research. [↑](#footnote-ref-5)
6. Daniel BOORSTIN (the Discoverers, Laffont editions 1988). [↑](#footnote-ref-6)
7. Professor ZHAO Yongsheng, sovereign debt of advanced countries, Entreprendre 08 11 2019. [↑](#footnote-ref-7)
8. Julien BOUISSOU, THE WORLD ECONOMY 21 01 2021. [↑](#footnote-ref-8)
9. In Frédéric Lemaitre THE INTERNATIONAL WORLD 17 02 2022. [↑](#footnote-ref-9)
10. “Towards a common definition of over-indebtedness”, European Communities 2008, DOI 10.2767 /17534. [↑](#footnote-ref-10)
11. André Comte-Sponville, dictionary of philosophy. [↑](#footnote-ref-11)
12. Jean-Luc MATHON “contract” Dictionary of Euro-Chinese Misunderstandings. [↑](#footnote-ref-12)