

The London School of Economics and Political Science

**WHAT IS REALLY OWED:
STRUCTURAL INJUSTICE, RESPONSIBILITY, AND SOVEREIGN DEBT**

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Declaration

I certify that the thesis I have presented for examination for the Mres/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others.

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Two central ideas characterise the dominant discourse surrounding sovereign debt and sovereign debt crises: the portrayal of the crisis as the only problem and the singling out of the debtor state as the main culprit. This thesis challenges both of these ideas and, in doing so, contributes to the nascent normative literature on finance and justice, as well as to the more established debates on global justice and structural injustice.

First, the most serious problem is not the crisis itself, but a highly asymmetrical and unjust Sovereign Debt and Credit Regime (SD&CR), which rests on and further entrenches positions of advantage and disadvantage along lines of class and citizenship. Occupiers of positions of disadvantage are vulnerable to structural domination and exploitation when debt is accrued. Three heuristic categories are introduced here to better understand how the injustices characterising the SD&CR are reproduced, namely the 'structural processes proper', the 'structural-relational', and the 'structural-systemic' dimensions.

Second, an integrated responsibility model is defended, which challenges the unilateral attribution of responsibility to the debtor state and allows for more expansive and differentiated responsibility attribution. According to this model, creditors can be held responsible on three grounds: moral responsibility, benefit, and role responsibility. Disadvantaged debtor governments, in turn, are responsible to resist their domination and exploitation. This responsibility may give rise to (a) the duty to refuse to renounce their own agency by endorsing outcome responsibility, and (b) to the duty to engage in acts of state civil disobedience. Finally, citizens cease to have debt servicing obligations if the state budget is systematically used in the interest of only a fraction of the state's citizenry and whenever the acquisition of further debt threatens the state's ability to act in the public interest.

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INTRODUCTION

The Danger of the Single Story

Stories matter. Many stories matter. Stories have been used to dispossess and to malign, but stories can also be used to empower and to humanize. Stories can break the dignity of a people, but stories can also repair that broken dignity. - Chimamanda Ngozi Adichie

In a powerful TED talk, acclaimed writer Chimamanda Ngozi Adichie warns her audience of the danger of the single story. Growing up in southern Nigeria, she tells her public how she first arrived on an American university campus and was confronted, day in and day out, with the same questions about the place – ‘Africa’ – that she allegedly came from. Was it true that famine made one’s belly swell? And that women were kicked out of their villages when raped? American campuses at the time of Adichie’s arrival were awash with a single story about Africa - a story of catastrophe.¹

Though saddened by the image portrayed of a continent that continues to be perceived by many as one large territorial entity, Adichie is quick in emphasising that none of us are exempt from passively endorsing the single stories that surround us daily. Standing amid a lively and colourful vegetable market in Mexico City, Adichie confesses to feeling ashamed of herself upon realising that she too, had bought into a single story of Mexico – a story of drug wars and cartel violence. The power of these single stories, then, does not solely reside in telling a particular story about a person or a phenomenon, but in making it the definitive story, the one that counts. It is when we begin to question the unchallenged authority of each individual story that

¹ Adichie, 2009.

we realise that there is never one, definitive story about any place or phenomenon, and ‘we regain a kind of paradise’.²

My objective in this thesis is to question the dominance of the single story most commonly told about sovereign debt and sovereign debt crises. On one hand, this single story is about the ‘repayment norm’,³ which concerns the moral duty of debtor states and their citizens to repay debt accrued in their name, because contracts carry normative weight and ought to be obeyed. But the single story goes much further than this. When a country is faced with a sovereign debt crisis and is unable to service its debts, the state is not seen as just facing a momentary liquidity crisis, but rather as a pariah in the international arena – it is not solely illiquid, but also immoral.⁴ The discussions regarding Greece’s debt restructuring in the midst of the sovereign debt crises at the heart of the EU and the commentary on Argentina’s legal battle in New York court rooms are excellent examples of this. After its 2001 default, Argentina was denounced as a ‘parasite state’ that, despite its rich resources, survives at the cost of the global financial economy,⁵ while Greece has been referred to as a ‘black sheep’, a ‘free rider’ and a ‘profligate’ state.⁶

This highly moralised story helps to render invisible the obvious distributive implications of sovereign debt crises. The question of who is to bear the burdens that arise from the accumulation of unsustainable debt, both in the private and in the public sector, is hardly ever thematised. It hides behind the invocation of the binding nature of debt contracts, obscuring the thorny normative questions that would challenge a unilateral attribution of distributive burdens to the debtor state and its citizenry. While these distributive aspects include questions of debt forgiveness and

² Adichie, 2009.

³ Lienau, 2014, p.1; Wollner, 2017, p.1.

⁴ Mason and Asher, in Lienau, 2014, p. 18; Antoniadis, 2012; Horas, 2015.

⁵ Escudé, 2002, p.453.

⁶ Antoniadis, 2012, p.11. Due to its racist undertones, I find ‘black sheep’ the most troubling expression.

debt restructuring, they are not restricted to this, for attempts to solve sovereign debt crises go far beyond issues of credit and debt, and affect all aspects involved in fiscal revenue raising and expenditures. Sovereign debt crises are thus deeply intertwined with the most fundamental political choices of sovereign states, affecting socio-economic policies for present and future generations alike.

In this thesis, I hope to offer an alternative to this standard story normally told about sovereign debt and credit. In doing so, I do not limit myself to solely questioning the obligation of citizens to repay debt accrued in their name – an obligation which continues to be nearly unqualified to this day – but also draw attention to the unjust structures that underlie allegedly free and equal interactions between sovereigns and their creditors. The most serious problem, as I intend to show, is not the crisis itself, as that is just a moment of obvious rupture that represents only the tip of the iceberg. Nor is the concern an exclusively distributive one, though the burdening of those who are already worse off with the costs of sovereign debt crises definitely ought to worry us.

The real problem resides in a highly asymmetrical and unjust Sovereign Debt and Credit Regime (SD&CR). The SD&CR can be defined as the formal, as well as informal, institutions that regulate the extension and repayment of sovereign debt. I consciously refer to both credit and debt in order to emphasise that the problem is not only one of the debtor who acquires too much debt. For 'credit is to debt as virtue is to vice'⁷ – it is an identity equation and there cannot be one without the other. The term 'the SD&CR' allows me to problematise both sides of this identity equation. Embedded in a highly-financialised economy, the SD&CR rests on and further entrenches positions of advantage and disadvantage along lines of class and statehood. When a state in a position of disadvantage within the regime accrues debt,

⁷ Gregory, 2012, p.381-386.

individuals qua citizens of the state and qua members of what I call the wage-dependent class are rendered vulnerable to domination and exploitation. It is thus a mistake to assume that sovereign states, from a position of freedom and equality, decide to accrue debt. De-bunking this implausible, yet still widely-endorsed myth, moreover, interrogates the responsibility picture commonly associated with sovereign debt crisis and the responses to them.

To tell this alternative story, I address two central questions: first, what is wrong with the way in which the SD&CR currently operates, and second, who is responsible for these injustices? While the first part of the thesis provides a structural analysis that answers the first question, the second part addresses the question of how to make sense of the responsibility of individual agents against the backdrop of a structural diagnosis of the regime's wrongs. I believe that answering these questions challenges the definitive character of the standard story of sovereign debt and credit and thereby contains the power to subvert the current order, opening space for contestation, critique and, hopefully, emancipation. Stories, as Adichie reminds us, *'can also be used to empower.'*

The Limitations of the Normative Literature on Sovereign Debt

Within political theory, most existing literature concerning sovereign debt and credit is concerned with the question of debt repayment. What conditions need to be imposed for a sovereign debt contract to be binding?⁸ Are there circumstances in which a binding debt contract ought to be overridden?⁹ It is argued that for a debt contract to be binding, the contracting parties need to be both formally and

⁸ Barry and Tomitova, 2006; Wollner, 2017; Dimitriu, 2017; Dimitriu, 2015, Dimitriu, 2011; Reddy, 2007; Palley, 2003; Gosseries, 2007; Toussaint, 2016.

⁹ Wollner, 2017.

substantively free.¹⁰ Whereas formal freedom necessitates that neither agent A nor B have the right to unilaterally dictate the terms of their interaction, substantive freedom entails the additional requirement that neither party be able to exercise effective and unilateral control over the terms of the interaction by virtue of its superior power. Enjoying substantive freedom for a debtor requires having a range of meaningful conduct options, at least some of which involve refraining from engaging in financial transactions of the type that they are entertaining.¹¹ In the real world practice of sovereign borrowing and lending, while generally formally free, many debtors are often not substantively free in any relevant sense.¹² Consequentially, many of the debt contracts signed by states in the real world are non-binding when measured against the yardstick of ideal conditions of contracting.

I find these accounts very persuasive, but I do not consider them sufficient to capture the injustices occurring in the SD&CR, nor do I believe that the account of agency that underlies them is convincing. First, according to the accounts provided in the normative literature on sovereign debt, an injustice can occur in the SD&CR when citizens are made to service a debt contract that is either non-binding in the first place or that ought to be overridden.¹³ The injustice thus resides in the enforcement of the ‘repayment norm’ – that is, the norm that debt ought to always be repaid, at all times and at (nearly) at all costs. I agree that the unquestioning enforcement of the

¹⁰ In addition to formal and substantive freedom, Barry and Tomitova argue that the other ideal conditions that need to hold for debts to be binding are rational individualism, informational adequacy, and a stable global economic environment (2006, p.56). When these conditions are met, they argue, there are weighty ethical considerations that support an agent’s obligation to service his or her debt.

¹¹ Barry and Tomitova, 2006, p. 56.

¹² Barry and Tomitova also argue that the other ideal conditions that they identify do not apply to sovereign debt contracts. There are large information asymmetries between creditors and debtors (2006, p.62) and the global economic environment in which sovereign debtors and creditors interact is characterised by its instability and volatility (2006, p.63-64). Most importantly, however, sovereign debtors are not rational individuals, but complex collective agents made up of many present and future individuals.

¹³ For a distinction between non-binding debt contracts and binding debt contracts that ought to be overridden nonetheless, see Wollner (2017).

repayment norm is problematic and I make it the object of critique in two chapters of this thesis (chapters 6 and 8). Yet I consider the uncritical enforcement of the repayment norm a manifestation of a much broader, structural set of injustices. I deem the central injustice of SD&CR to lie in the asymmetrical positions that make citizens of certain states and members of certain classes vulnerable to domination and exploitation when debt is accrued in their name. Since they are vulnerable to these wrongs by virtue of the position they occupy within an asymmetrical regime that is social in origin, I call these wrongs ‘structural domination’ and ‘structural exploitation.’ Reducing the wrongs of the regime to the repayment norm alone is, I believe, inaccurately narrow.¹⁴

Second, I consider the conception of agency that these accounts predispose implausible. To think about agents in a binary way, as being either free or coerced, is overly simplistic and fails to grapple with the nature of agency. There may be cases in which debtor states are mere transmitters of the dictates of the structure and are thus entirely powerless. In such cases, it may indeed make sense to argue that states ought not to repay a debt they accrued, based on a total absence of freedom. But in most situations, agents – in this case, states – are neither fully constrained nor fully free. Thus, the presence or absence of freedom as the relevant criterion for the attribution of responsibility (for debt servicing) may not be the best way of conceiving of agency.

I propose to conceive of agency as residing in the choices that actors make within a given structure. Agents within a structure act by choosing among a range of options that are available to them and it is by choosing from within these option sets that agents shape and instantiate the structure. It is in this sense that structures are ‘dual’: structures shape agents and are, at the same time, shaped by them. As I argue

¹⁴ I do not claim that most authors who have written about sovereign debt and credit so far explicitly reduce the injustices of the regime to those pertaining to debt repayment. But their focus on the ideal conditions that need to be met for a debt contract to be binding suggests so by omission.

in chapter 7, moreover, conceiving of agency as constrained, but not non-existent, also allows us to conceive of the responsibility of agents who can rightly be called victims of structural injustice.

Connecting this to the first point concerning the injustices of the regime, the problem does not tend to be that states have no other option at their disposal, but that their option set is unjustly constrained. The worry is not that states cannot act otherwise – it is, instead, that the abilities of states are significantly constrained in ways that are social in origin and in ways they need not be. This impacts the ability of individuals qua citizens and members of a given social class to flourish and to be self-determined. If we hold the conviction that agents should have the opportunity – and, indeed, a roughly equal opportunity – of flourishing and of being self-determined, then our object of critique should be the existence of asymmetrical structures that are normatively troublesome and are social in origin. Put differently, the reason I find the normative accounts provided to date to be insufficient is that, they fail to draw attention to how an asymmetrical and unjust structure constrains agency, providing a purely agential solution that does not remedy the structural injustices characterising the regime.

The agential critiques to the status quo of the SD&CR that have thus far been defended in the literature suffer from two shortcomings: they erroneously reduce the injustice of the SD&CR to the uncritical enforcement of the repayment norm and they think about agency in a binary way, failing to acknowledge that agency is both constrained and enabled by the existing structures. Conversely, the structural explanation I offer suggests that the injustice of the SD&CR resides in the existence of asymmetrical positions structured along class and statehood, and that the relevant question is not whether or not an agent is free, but whether or not the options that the agent has at his or her disposal are unjustly constrained. Offering such a

structural critique to the SD&CR also allows me to challenge, in a more comprehensive manner, the monolithic responsibility attribution to the debtor state that characterises the well-established single story of sovereign debt. While the agential critiques to the regime articulated so far within the normative literature on sovereign debt only enable a challenge to the repayment norm, the structural critique I offer allows me to contest the responsibility picture in both a more expansive and nuanced way.

The Main Argument in Brief

This thesis challenges what I call the ‘agential story’ of sovereign debt and credit. The agential story, so I argue in chapter 1, is based on two pillars, namely: the idea that the ‘crisis is the problem’ and that ‘the debtor is responsible.’ Part I of this thesis critically examines the first pillar, diagnosing what is wrong with the way in which the SD&CR operates today. Part II, in turn, questions the second pillar. It is concerned with the prescriptive conclusions that can be drawn from the analysis made in Part I regarding responsibility attribution. While Part I is more concerned with the injustices of *structures*, Part II focuses on the responsibility of individual *agents*.

In challenge to ‘*the crisis problem*’, I argue that the eruption of a crisis only represents the tip of the iceberg. The main problem does not reside in the eruption of sovereign debt crises as such, but in two other aspects. First, sovereign debt is problematic when too much debt is accrued (quantitative aspects) and invested in a way that is neither equitable nor sustainable (qualitative aspect). Crucially, as will be argued in chapter 8, the question is not only one about ‘debt sustainability’ as a technical-economic threshold, but also as a political threshold. When the state

accrues too much debt, it becomes unable to act in the name of those it is supposed to represent.

To be sure, I do not endorse the idea that sovereign debt and credit are inherently problematic, though I do review this line of argument. According to the view defended here, sovereign debt may be economically productive and normatively defensible. From a normative perspective, borrowing might be justified in terms of distributive justice, the same way that discounting is - if the future is to be richer than the present, debt is a way of transferring money from the rich to the poor. From an economic perspective, debt contracts can be justified since they mobilise credit. In contrast to equity contracts, in which the returns of the investor depend on the success of the enterprise being invested in, debt contracts promise a fixed return. Without this promise, there would be an insufficient amount of available credit.¹⁵ It is difficult, for instance, to imagine the development of the British railway system, as well as the industrial expansion that it fuelled, without debt contracts.¹⁶ Similarly, developing states can be said to accrue debt in the present to make the large investments needed to change the structure of their economy in the future, to climb up the value chain of production and service provision, and to generate greater economic growth.

The problem, instead, seems to be with the quantity and the allocation of debt. Adair Turner makes this point by introducing the concept of 'debt pollution.' What appears to be socially useful in each individual case of credit extension generates, in the aggregate, excessive debt creation - or debt pollution - which may ultimately result in crisis and in the state's loss of ability to act in its citizenry's name.¹⁷

¹⁵ Turner, 2016, p.6.

¹⁶ Turner, 2016, p.35.

¹⁷ Turner, 2016, p.119.

Second, sovereign debt may result in structural exploitation and structural domination when accrued by a state in a position of disadvantage within the regime. It may seem puzzling to an outside observer of the SD&CR that what signifies an opportunity for development and greater self-determination for some may be the inverse for others, whether they be states and their citizenry, or, more specifically, parts of their citizenry. This is not coincidental. I argue that much of what determines whether the acquisition of sovereign debt represents a blessing or a curse depends on the position that a given agent occupies within the highly asymmetrical and unjust SD&CR. For occupiers of positions of advantage in the regime, sovereign debt does, more often than not, result in all of the positive outcomes that classical liberal economists attribute to it. Conversely, for individuals of a state that occupies a position of disadvantage within the regime and members of what I call the ‘wage-dependent class’, the acquisition of debt makes them vulnerable to domination and exploitation. To be sure, this is not to say that sovereign debt and credit is a mechanism for exploitation or domination per se. Rather, it can become such a mechanism if debt is accrued by occupiers of a disadvantaged position within the regime, by virtue of them occupying that very position.

In challenge to ‘*the debtor responsibility*,’ I contest the monolithic attribution of responsibility to the debtor state – both its government and its citizenry – in two ways. First, I provide my own challenge to the repayment norm, offering an alternative critique to the ones offered so far by normative scholars concerned with sovereign debt. I do so in Chapter 6 by turning the tables of the debate and starting with the question of what moral grounds exist to burden creditors with the costs that result from sovereign debt crises. I also do so in Chapter 8, where I defend two sufficient conditions that justify challenging the repayment norm.

Second, I challenge the monolithic responsibility attribution to the debtor state by redrawing the boundaries of that for which responsibility is to be attributed. If the problem does not only reside in the eruption of sovereign debt crises as such, but in the existence of an unjust SD&CR, then we do not only need to re-attribute responsibility for debt repayment, but also change the unjust regime. Attributing agential responsibility for a structurally unjust regime, however, is tricky business. To do so successfully, I argue that we need to distinguish between three dimensions through which the structural injustices within the SD&CR are reproduced, namely what I call 'structural processes proper,' the 'structural-relational,' and the 'structural-systemic' levels. I associate these three heuristic categories with normative grounds on which agential responsibility can be attributed. Doing so allows us to both acknowledge the structural nature of the injustices of the regime and, at the same time, to hold on to the powerful intuition that not all contributions to structural injustice are comparable, and that there are morally relevant reasons to distinguish among them.

Although this does not give us *one* general answer regarding who is responsible for the injustices of the SD&CR and who should shoulder the burdens springing from sovereign debt crises, it does provide us with the necessary conceptual apparatus to think through the responsibility picture for the individual debt histories of different countries. In this thesis, I look at two such individual debt histories: Argentina and Greece.

Theoretical Contribution

In addition to the political motivation that animates this dissertation project and the endeavour to contribute to the specialised normative literature on sovereign debt,

this thesis also contributes to two wider sets of literature within political theory: the global justice debate and structural injustice.

According to Forst, any critical theory of global justice needs to start with “an analysis of given social relations, that is, their historical genesis and their contemporary character, especially the inequalities and power asymmetries they contain”.¹⁸ The idea is that, in order to come to an insightful analysis about global justice, one needs to take a closer, more critical look at individual domains of injustice.¹⁹ This dissertation is devoted to providing an analysis of one particular side or domain of global injustice, namely the SD&CR.

Crucially, however, the insights gained by analysing a concrete site of injustice are not limited to that domain. The thought is, instead, that by analysing a single domain of injustice, one can make more general contributions to the theoretical debates in which one participates. By analysing one site of injustice – the SD&CR – I offer two critiques to the global justice debate at large.

First, I consider whether the debate’s emphasis on questions of redistributive justice – such as whether domestic egalitarian principles ought to be extended across borders – comes at the expense of a more extensive and rigorous engagement with the equally, if not more important, question about how the vastly unequal positions characterising our contemporary world actually come into being.²⁰ By paying special

¹⁸ Forst, 2001, p.168.

¹⁹ As Forst writes, “In addition to a global context of trade, there is now also a global context of production and of labour, (...) there is a global ecological context with all the problems of scarcity of resources, pollution, and so on; there is a global context of institutions from the United Nations to the International Monetary Fund as well as non-governmental institutions (...); there is a global context of legal treaties and obligations, of technological interdependence (...), of military cooperation as well as conflicts, of migration within and across continents; and there is, of course, an ever-growing global context of cultural production, consumption and communication. But in order to come to a realistic global perspective when thinking about transnational justice, one must take a closer, critical look at these phenomena.” (2001, p.165-166).

²⁰ See Wilde, 2011.

attention to the structural process through which the injustices of the SD&CR came about, I hope to counter this tendency.²¹

I am also critical of the way the central question of the debate is usually pitched. By focusing on the question of what citizens of affluent countries owe to ‘the global poor’ in less developed regions of the world, global justice debates do not only render those they identify as victims of injustice as passive subjects to whom things happen, but also largely neglect the notion of class.²² In the explanation of a country’s debt history provided in this thesis, I draw special attention to these neglected aspects. On one hand, in Chapter 7, I ask the question of what the responsibilities are of those who can rightly be called victims of injustice. On the other hand, in Chapter 2, I explore the role that class plays in redefining the traditional boundaries drawn within the global justice debate between the appropriate duty bearers and right holders.

The second body of literature to which this dissertation seeks to contribute is the literature on structures and structural injustices. In this dissertation, I develop a new integrated model to think about individual responsibility for structural injustice. So far, the most thorough discussion of responsibility attribution for structural injustice was offered by Iris Marion Young in the book published shortly after her death.²³ She introduces an alternative way of thinking about responsibility, where it is not distributed in a backward-looking manner, like the ‘liability model’ she criticises,

²¹ Some may counter that certain authors, Thomas Pogge most prominently among them, have paid attention to both aspects - class and the structural production of inequalities - by acknowledging the contribution of the political and economic leadership of less affluent countries and by devoting some attention to the causes of global inequality. Without wanting to negate this, I believe that more sustained efforts and a more detailed examination is necessary. Pogge, for instance, has been criticised for the absence of persuasive empirical evidence on the causal contribution of affluent countries to the economic deprivation of the global poor (Jaggar, 2010). Moreover, although Pogge does acknowledge the importance of class in stating that affluent states impose an unjust global economic order “in the interest of their business and financial elites,” it is not these elites who he holds responsible, but the citizenry of the ‘affluent states’ as a whole.

²² Important exceptions are Nussbaum and Sen. For a discussion of this, see DeMartino, 2011.

²³ Young, 2011.

but is collectively discharged in a forward-looking manner. While Young does not intend to replace the liability model, she does take her 'social connection model' to be the most appropriate for cases of structural injustice. To this day, social connection scholars have not questioned this assumption. In this thesis, I take issue with this, arguing that in the same way in which the liability model did not suffice to make sense of the responsibility picture for cases of structural injustice, the social connection model does not capture all the relevant aspects pertaining to individual responsibility for structural injustice. An integrated model that can attribute both individual, backward-looking responsibility and shared, forward-looking responsibilities is required. Demonstrating how such an expansive and nuanced responsibility model works for the case of sovereign debt and credit is a central contribution of this dissertation.

Furthermore, I intend to contribute to the structural injustice literature by re-focusing the debate on the political economic critique of capitalism. Despite the important contributions made by recent work on structural injustice, I believe that too little attention has been paid to the institutional social order that governs many of the structural processes that scholars of structural injustice denounce. While debates surrounding structural injustice do well in bringing to the fore the underlying structures that are normally rendered invisible and thus remain unchallenged, the specific form that capitalism takes historically and how it shapes structural processes is not often emphasized. This disregard for capitalism as a governing institutional order is not, however, restricted to the literature on structural injustice. As Boltanski and Chiapello claimed over a decade ago, after the cultural and democratic turn in social critique that replaced the Marxian focus, most of the literature in social and political theorising became disconnected from the critique of the political economy of

capitalism.²⁴ Being grounded in an historical period of significant change within domestic and the global political economic order – 1971 (the year in which the Bretton Woods Regime was abolished by Nixon) until the present - this dissertation seeks to return to the analysis of one of the political economic dimensions of capitalism as an institutional social order.

Methodological Contribution

In addition to providing an alternative story to the dominant narrative about sovereign debt and credit, and contributing to the distinct theoretical debates on global justice and structural injustice, I also intend to make a methodological contribution. Contrary to the most common practice in political theory, which adopts a ‘view from nowhere’, my analysis is rooted in a concrete historical time period and relies on specific cases from which I draw my theoretical analysis.

First, the answer I provide to the two main questions of this thesis – the question regarding the wrongs characterising the SD&CR and the responsibility for these wrongs – is rooted in a specific historical time period, namely the period from 1971 to the present. To that extent, “I don’t claim to have achieved any great distance from the social world in which I live”.²⁵ Rather than leaving the cave, climbing the mountain and constructing an objective, universal standpoint, “I mean to stand in the cave, in the city, on the ground”.²⁶ In the first two chapters of this thesis, I situate the domain of injustice that concerns me, the SD&CR, in the broader historical developments witnessed in the global political economy since 1971.

In addition to rooting this analysis in a particular historical period, the debt histories of two sovereign states accompany us throughout this thesis. These are what

²⁴ Azmanova, 2014.

²⁵ Walzer, 1983, p.xiv.

²⁶ Walzer, 1983, p.xiv.

the *Financial Times* has come to call the Argentine ‘debt saga’ (particularly in Chapter 6 and 7) and the Greek sovereign debt crisis that shook the European Union (particularly in Chapter 3). While the international significance of Argentina’s crisis paled in comparison to the Eurozone crisis, Argentina’s default was the largest in the world at the time. Moreover, the similarities between the Argentine and the Greek debt crises inspired financial journalists and academics alike to compare the current Greek crisis with the 2001 Argentine crisis.²⁷ Revisiting the Argentine sovereign debt crisis and debt restructuring process from today’s vantage point therefore offers an invaluable opportunity not only to learn from the Argentine case as an end in itself, but also to challenge the monolithic crisis narrative constructed around the current crisis at the heart of the EU.²⁸

Methodologically, my case choices are justified as extreme case studies. Very few normative scholars have engaged with the methodological question of how case studies can be employed to develop normative theories.²⁹ However, from qualitatively trained scholars we learn that the most sensible case selection technique to develop theory inductively is the extreme case method.³⁰ An extreme case can be defined as one “that is considered to be prototypical or paradigmatic of some phenomena of interest”.³¹ Choosing an extreme case to develop theory inductively seems reasonable because in such cases, the object under investigation is “transparently observable.”³² The Argentine and Greek crises and debt restructurings represent such an ‘extreme illustration.’³³

²⁷ Krugman, 2012; Roubini, 2012; Weisbrot and Montecino, 2012.

²⁸ Panizza, 2014.

²⁹ Fung, 2007; Thacher, 2006.

³⁰ Eisenhardt, 1989.

³¹ Gerring, 2007, p. 101.

³² Eisenhardt, 1989, p. 537.

³³ Kacowicz, 2013, p. 77; see also Cooper and Momani, 2005; Das et al., 2012. Note too, that political philosophers employ a similar method when relying on hypothetical or even deliberately unrealistic cases to test their intuitions. Despite its strengths, using the extreme

Situating my analysis in a concrete time period and thinking through thorny normative questions using particular cases, I attempt to bridge two divides in social and political theorising, namely the divide between critical theory and normative theorising on the one hand, and the divide between normative theorising and a more robust empirical understanding of the object of analysis on the other. If the ambition of normative philosophy is, as it is often said to be, to be action guiding, it is important to pay a greater regard to the empirical circumstances that it is trying to address. Indeed, as I intend to show in this thesis, even to attempt to disentangle the normative and the empirical dimensions fully to answer the applied questions that concern us here is futile, because the empirical and normative claims are inexorably intertwined. The normative assessment of the wrongs of the regime and the claims about responsibility rely on an empirical account of the functioning of the regime which cannot be ignored.

Chapter Overview

Part I of this thesis is concerned with providing a structural diagnosis of the wrongs of the SD&CR. Chapter I serves as a general introduction to the domain of injustice that I am concerned with. It introduces what I refer to as sovereign debt and credit and tracks the most relevant historical changes from 1971 until the present. I show how financialisation affected the option sets of all states and defend the need for a structural explanation.

case method raises problems of generalisability. The worry is that selecting an extreme case may lead a researcher to confuse the narrow, idiosyncratic features of an extreme case for generalisable facts. The researcher must thus be careful not to overgeneralise from the findings. My aim here, however, is less ambitious than that of qualitatively trained scholars who aim to identify causes by looking at individual cases. I want to use the Argentine and Greek cases to illustrate what is wrong with the SD&CR and to analyse what follows normatively therefrom. To that extent, I do not aim to develop theory from within a case, but rather use these cases as an illustration. The same rationale for choosing an extreme case still applies, however, for it also makes sense to choose a case in which the object of analysis is transparently observable.

Chapter 2 characterises the empirical and normative features of the highly asymmetrical structure with reference to which a country's debt history needs to be explained. I argue that positions of advantage and disadvantage within the regime are structured along two key axes: statehood and class. The two central criteria that determine whether a state's position within the regime is one of advantage or disadvantage relate to the conditions of borrowing and to the vulnerability to crisis. Recognizing that the regime is not a level playing field but, instead, is deeply asymmetrical, is a central step in challenging the unilateral attribution of responsibility in the second part of the thesis. In addition to this first axis of (dis)advantage, the regime is also highly asymmetrical in terms of class. I argue that the state's creditors *qua* members of an international financial class occupy a position of advantage and that citizens of both debtor and creditor states *qua* members of what I call the 'wage-dependent class' occupy a position of disadvantage. I argue that occupiers of a position of disadvantage within the regime are vulnerable to structural domination and exploitation when the state accrues debt.

Chapter 3 turns to the question of injustice, for it is not enough to point at an asymmetrical background structure to show that a regime is unjust. A judgment of injustice differs from a description of normatively troublesome asymmetries in that one must analyse it as a consequence of what Pogge calls the "imposition of a skewed global order that aggravates international inequalities and makes it exceedingly hard for the weaker and poorer societies to secure a proportional share of global economic growth."³⁴ I argue that the injustices of the regime are not only reproduced by powerful agents who draw on social norms and institutions (what I call the 'structural-relational dimensions'), but also via two further dimensions, namely what I call 'structural processes proper' and the 'structural-systemic' dimension. These

³⁴ Pogge, 2002, p.167.

three dimensions serve as heuristic devices to distinguish between different forms by which structural domination and structural exploitation are reproduced. Distinguishing between these three levels is essential not only for a clearer understanding of how structural injustices are reproduced, but also to attribute responsibility, something which becomes crucial in the second part of the thesis.

Chapter 4 concludes the diagnosis made in the first part of the thesis by presenting the SD&CR as a liberal imperial order. By drawing on the insights made by scholars of imperialism, I not only emphasise the continuity between coercive and liberal forms of domination, but also answer some questions that remained open from the analysis in Chapters 2 and 3. First, I answer the question of how the two axes of (dis)advantage – class and statehood – interact. I argue that while both axes matter, an individual's class is more important in defining the extent of his or her privilege in the SD&CR than an individual's citizenship. I make this argument by introducing the language of a 'wage-dependent aristocracy' and a 'financial aristocracy.' Second, I draw attention to the role of the debtor state as a collaborator in the reproduction of structural domination and exploitation, and raise the question of the appropriate remedies for the current predicament. If the state plays a central role in instantiating an exploitative and dominating order, can the solution to these injustices really reside in the reaffirmation of the sovereignty of the nation-state? By connecting earlier debates among scholars of imperialism to contemporary debates regarding the fate of the European project, I flag potential dangers and discuss emancipatory prospects.

The second part of the thesis is concerned with the responsibility of individual agents for the injustices denounced in Part I. How can we think about individual responsibility against the backdrop of the structural diagnosis of the wrongs of the regime? In Chapter 5, I defend the view that neither an exclusively forward-looking

model of responsibility, which focuses on altering the unjust structures and that resists the distribution of responsibility, nor a solely backward-looking responsibility model, which is primarily concerned with righting a moral balance, suffices to make sense of the full responsibility picture in cases of structural injustice. While this argument is made for the domain of injustice that concerns us here, the integrated model of responsibility I defend is applicable to a wider set of contexts and other cases of structural injustice.

Chapters 6-8 are concerned with applying this integrated responsibility model by theorising the responsibility of individual agents or groups, such as the responsibility of creditors (Chapter 6), the responsibility of governments occupying a position of disadvantage within the regime (Chapter 7) and the responsibility of a debtor state's citizenry (Chapter 8). In contrast to Part I of the thesis, were I could give a definitive answer to the question of the wrongs of the regime, in this second part, I cannot give a general and definitive answer to the responsibility of all actors. I can, however, provide ways of thinking about the individual responsibility of these different agents and groups. How exactly the responsibility picture looks for each sovereign debt history is something that will need to be individually evaluated via a thorough study of each individual case.

In Chapter 6 I look at two types of creditors: private creditors *qua* members of the financial class and public multilateral institutions (both as creditors in their own right and as intermediaries). I argue that private creditors *qua* members of the financial class can be held morally responsible when the structural-relational dimension is at play and responsible on the basis of benefiting from the injustices characteristic of the SD&CR when the other two dimensions are at play. Put differently, I argue that moral responsibility and benefit are two grounds on the basis of which special responsibilities can be attributed to these private creditors. These

special responsibilities, which go beyond the shared responsibilities that they have by virtue of contributing to structural processes proper, can be discharged in different ways, ranging from changing some of the institutions governing the regime to cancelling past debt obligations. Public multilateral creditors can be held responsible by virtue of being complicit in the wrongs exerted by private creditors *qua* members of the financial class and on the basis of their role responsibility.

Chapter 7 is concerned with the obligations of the government of states in a disadvantaged position within the regime. I argue that a government in this position has the responsibility to resist domination and exploitation. Depending on the circumstances, this responsibility may give rise to different duties. First, it gives rise to the duty to not renounce its own agency, (despite its structural domination and exploitation) and to recognise itself as an outcome responsible agent. Second, it may give rise to the duty to engage in acts of state civil disobedience to defend the interests of its citizens *qua* members of the wage-dependent class. Thus, while there is latitude with regards to how the responsibility to resist domination and exploitation is discharged, the responsibility does need to be discharged somehow.

Finally, in Chapter 8 I turn to the responsibility of citizens to service debt that past and present governments accrued in their name. First, I argue that citizens cease to have debt servicing obligations if the state budget as a whole – regardless of its source – is systematically used in the interest of only a fraction of the citizenry, unless that fraction represents the most disadvantaged of the society. Second, I defend that whenever the acquisition of further debt threatens the state's ability to act in the public interest, this offers an additional normative ground to challenge the repayment norm.

PART I

CHAPTER 1

ON THE NEED FOR A STRUCTURAL EXPLANATION OF A COUNTRY'S SOVEREIGN DEBT HISTORY

Start your story with "Secondly," and the world will be turned upside-down. Start your story with "Secondly," and the arrows of the Red Indians are the original criminals and the guns of the white men are entirely the victims. It is enough to start with "Secondly," for the anger of the black man against the white to be barbarous. Start with "Secondly," and Gandhi becomes responsible for the tragedies of the British.³⁵

Sovereign debt and sovereign debt crisis have been at the centre of public attention for the last decades. Not least, the eruption of a sovereign debt crisis at the heart of the European Union and the legal dispute between Argentina and a portion of its private creditors in New York drew attention to a phenomenon that is not as uncommon as many would hope it to be.³⁶

With increased attention to sovereign debt and debt crises, a dominant public discourse emerged that portrayed sovereign debtors with unsustainable debt burdens as the pariahs of the international financial system and as the outcasts of the global political economic community. A country's sovereign debt levels became seen as "an objectified measure of some sort of underlying moral worth"³⁷ and sovereign debt became a byword for being irresponsible. At times, the government of the hour was singled out as the main culprit, suggesting that governments spend above their means and fail to keep their fiscal household in order. The discourse surrounding Argentina's debt debacle in the last fifteen years takes this form.³⁸ In other cases, the citizenry is considered the main culprit. The discourse surrounding Greece includes some of these strokes in its discursive canvas: "the moral discourse on Greek public

³⁵ Barghouti, 2005.

³⁶ Reinhart and Rogoff, 2009.

³⁷ Fourcade et al., 2013, p.22.

³⁸ Escudé, 2002, p.453. For a discourse analysis showing that international newspapers portrayed the Argentine government as the unique culprit of the crisis, see Horas, 2015.

finances focuses on ‘the Greek citizens’ and their presumed duty to pay off debt taken up by their past governments, supposedly to enable their voters to enjoy an easy life on unearned income.”³⁹

In this chapter, I intend to show that retelling a country’s debt history in this particular way is analogous to starting a story with ‘secondly.’ As Barghouti’s prose captures, stories have the power to distort and alter. The standard story of a country’s debt history is one such distorting story that starts with a ‘secondly.’ It ignores the all-important insight that states act against a particular background structure, namely the SD&CR, which is embedded in a highly-financialised economy.

I proceed as follows: First, I reconstruct the dominant agential story by arguing that it rests on two central pillars, which I call ‘the crisis problem’ and ‘the debtor problem,’ respectively. Second, I argue that offering an alternative to the standard agential story about a country’s debt history requires drawing attention to the relevant background structures. I describe what I mean by ‘structures’ and defend the need for a structural explanation. Finally, I argue that the relevant structure in the case at hand is the SD&CR, which is in turn shaped by processes of financialisation.

The Agential Story

Sovereign states have rich debt histories – histories of acquisition and servicing of debt, of default and restructuring; histories of moderate debt levels that become unsustainable and of exorbitantly high levels of debt which never do; histories of crises, and – by no means less central - histories of responses to these crises. So far, these histories have been explained with reference to one particular narrative: an agential story about a sovereign state which, in a position of freedom and equality,

³⁹ Streeck, 2013, p.18. For a discourse analysis on how the Greek state and its citizenry were portrayed as a ‘black sheep’, a ‘free rider’ and a ‘profligate state,’ see Antoniadis, 2012.

decides to accrue debt. If a crisis erupts and the state is no longer able to service its debt, then this default is the debtor country's responsibility. Emphasis is laid on the bad management of the debtor country, on expansionary macroeconomic policies, and on fiscal deficits leading to the accumulation of unsustainable levels of debt.⁴⁰ It only seems right, so this agential story continues, to insist that such a state service its debt, for contracts carry normative force and ought to be obeyed. Failing to live up to this contractual obligation, moreover, becomes a sign of irresponsibility on the part of the sovereign and provides good reasons to police, via various degrees of persuasion and intervention, the future policy choices of such a political pariah.

This agential story is composed of two main elements: first, the reduction of all problems pertaining to sovereign debt to the crisis as such. Second, the identification of the sovereign debtor - both of its government and its citizenry - as the main culprit of the crisis. Together, these elements reinforce and justify a particular form of story - an agential story that puts both the crisis and the agent centre stage. The problem with sovereign debt and sovereign debt crises is reduced to a contingent and unusual 'black swan'⁴¹ event in which it is the agent who causes the crisis, not any deeper, underlying structural phenomena.

In this section I reconstruct both pillars by drawing attention to the economic orthodoxy on which they are based and showing how the SD&CR embodies these ideas. To be sure, the aim of this section is not to specify how a particular economic orthodoxy takes root in the domestic or international policy regime. Rather, by reconstructing the logic that underlies the agential story, I start contesting the norm that informs the regime. As Harvey states:

[F]or any way of thought to become dominant, a conceptual apparatus has to be advanced, that appeals to our intuitions and instincts, to our values and our desires, as well as to possibilities

⁴⁰ Palley, 2003, Soederberg, 2005.

⁴¹ Taleb, 2007, p. xvii.

inherent in the social world we inhabit. If successful, this conceptual apparatus becomes so embedded in common sense as to be taken for granted and not open to question.⁴²

Reconstructing the economic orthodoxy on which the agential story is based is thus a way of challenging the dominant conceptual apparatus and a first step to contest the policy regime that it shapes.

The first pillar on which the agential story is based is what I call ‘the crisis problem.’ According to this view, the main problem is the crisis itself, not any deeper problems in the highly-financialised global economy that bring the crisis about.⁴³ This view finds backing in the classical liberal position, which see crises as events triggered by an external shock in an otherwise well-functioning market economy.

In his *Principles of Political Economy*, Mill – arguably the first to write about crises in a sustained manner - gives a good introduction to what still broadly represents the canonical liberal position today.⁴⁴ According to Mill, bubbles prompt crises. Bubbles are extreme cases of asset price deviations that cannot be explained by fundamentals.⁴⁵ For Mill, bubbles are triggered by external shocks that prompt speculation.⁴⁶ The underlying thesis is “that crises are born of events completely external to and separate from capitalism. (...) The problem originates not within the system but outside it.”⁴⁷

This ‘external cause idea’ remains anchored in the liberal school of economics to this day. The key proposition is that markets are fundamentally self-regulating and self-adjusting, and that they get the prices right, be it of normal goods or of financial assets. The idea is not that nothing ever changes in the economy or that no crises erupt, but that if and when they do, they are triggered by an external event, such as a

⁴² Harvey, 2007, p.5.

⁴³ I say more about what I mean by ‘financialisation’ in the third section of this chapter.

⁴⁴ Mill, 1848.

⁴⁵ Garber, 2000; Claessens and Kose, 2013, p.5.

⁴⁶ Mill, 1848, p.319.

⁴⁷ Roubini and Mihm, 2011, p.45.

war, rising oil prices, or the invention of the internet. Markets can be disrupted by external events, but are “fundamentally resilient and could not collapse.”⁴⁸ Crises are presented as ‘black swan events’ that are highly improbable and unpredictable.⁴⁹

Today, studies under the rubric of ‘behavioural finance’ have tried to explain the creation of bubbles by looking at the psychology of investors.⁵⁰ Evocative of Keynes’ argument of the ‘animal spirits’ of capitalism, according to which market actors’ behaviour is driven as much by the heart as by the mind,⁵¹ Robert Shiller – the founding father of behavioural economics – argues that extreme movements in asset prices are a product of the ‘*irrational exuberance*’⁵² of investors. Resisting the Efficient Market Hypothesis, as developed by Eugene Fama and his colleagues at the University of Chicago, Shiller rejects the idea that any change in prices must reflect a change in the underlying fundamentals, arguing instead that these movements are irrational crowd impulses.⁵³ In response to Shiller’s irrational exuberance thesis, defenders of the Efficient Market Hypothesis developed formal models to try to explain asset price bubbles by showing how individual rational behavior can lead to collective mispricing, which then leads to bubbles. Blanchard and Watson, for instance, attempt to show that under rational expectations, the asset price does not need to equal its fundamental value, leading to the creation of ‘rational’ bubbles.⁵⁴

Although scholars working under the school of thought of behavioural finance depart from the view that crises originate in events completely external to

⁴⁸ Roubini and Mihm, 2011, p.45.

⁴⁹ Taleb, 2007, p. xvii.

⁵⁰ Claessens and Kose, 2013, p.7.

⁵¹ Keynes, 1936.

⁵² Shiller, 2005.

⁵³ Shiller, 2005. Other scholars emphasise micro-distortions that can lead to mis-pricing. Examples are virtuous feedback loops (where rising asset prices, which increase net worth positions, allow financial intermediaries to leverage up and buy more of the same assets, and can contribute to the evolution of bubbles) and contagions (where spillovers occur that go beyond what fundamentals would suggest) (Claessens and Kose, 2013, p.7).

⁵⁴ Blanchard and Watson, 1979.

and separate from the normal functioning of a market economy, to a certain extent, they continue to uphold the view that crises are triggered by bubbles produced by deviations from an otherwise well-functioning market economy. The main problem, then, is the crisis itself, not any deeper problems in the highly-financialised global economy that bring the crisis about.⁵⁵ To anticipate the language I use in the proceeding sections: the problem is not one of background structures, but with the eruption of the crisis itself.

The second pillar on which the agential story rests is the idea that the debtor state is the main culprit of the crisis. This view also rests on a particular understanding of how the economy works. According to the efficient market hypothesis, financial markets shift savings from locations where they are abundant and cheap to places where they are scarce and expensive relative to the investment opportunities. In so doing, they allocate both credit and information efficiently. Of course, even “mainstream economics recognises that the world of perfect capital markets exists only in the classroom and that informational costs and uncertainty may introduce distortions in the allocation of credit.”⁵⁶ Importantly, however, liberal

⁵⁵ This classical liberal position is, of course, challenged by alternative schools of thought, most prominently the Marxist position and the Minskian view. On the most general level, what unifies Marxist accounts is their conviction that crises are both endemic to capitalism and ultimately unavoidable. This stands in stark opposition to the classical, liberal accounts in which crises are thought of as exogenous to capitalism itself, and hence at least potentially avoidable. Within Marxist accounts, the disagreement lies in what exactly makes crisis in capitalism unavoidable – where exactly the line of friction is to be found. While some defend the idea that the inevitability of crisis in capitalism springs from the inner contradictions within and between the spheres of production and exchange (see for instance Harvey, 2006), others take the line of friction to be between capitalism as an economic system and the polity or society (see for instance Streeck 2012, 2014). Minsky, in turn, proposed that finance was the locus from which crises originated (2008). During long periods of stability, the confidence of creditors and debtors grows, leading them to take on ever larger and riskier debt in the pursuit of profit. Instability does not originate outside of the system, but in the very financial institutions that make capitalism possible. Instability then, “is an inherent and inescapable flaw of capitalism” (Minsky, 2008, p.134).

⁵⁶ Devlin, 1989, p. 65.

economists believe that whenever deviations from the perfect allocation of credit occur, creditors tend to under-lend rather than to over-lend.⁵⁷

The technical explanation for this is called credit rationing. As profit-seeking rational agents, creditors will attempt to maximise their expected return on loans, subject to the risk of loss-inducing non-payment of borrowers. Put differently, they will continue to extend credit to the point when the debt levels are so high that the probability of illiquidity, insolvency, or the repudiation of debt becomes too large. In a world of imperfect information, however, creditors cannot calculate the points of illiquidity, insolvency, or repudiation with precision.⁵⁸ According to liberal economists, this makes creditors cautious. If there is a deviation from the efficient allocation of credit by financial markets, it must be a tendency to under-lend rather than over-lend.

But if creditors, on the supply side, are cautious and rational, it must be the behaviour of sovereign debtors, as the demand side, that makes debt burdens unsustainable. Liberal economists thus lay emphasis on the bad management of the debtor country; on expansionary macroeconomic policies and fiscal deficits leading to the accumulation of unsustainable levels of debt. Consider, for instance, how, in the wake of the 2001 crisis, Argentina was denounced as a parasite state which, despite its rich resources, survived at the cost of the global financial economy, and how Greece in the current crisis is referred to as a black sheep, a free rider and a profligate state. These allegedly descriptive claims are made in highly moralised language, suggesting that the economic arguments are intertwined with arguments about moral blame.

The agential story – based on the two pillars just described – is embodied in the SD&CR. First, on the level of principle, one norm governs the SD&CR: the idea that “sovereign borrowers must repay, regardless of the circumstances of the initial

⁵⁷ Buchheit et al., 2013.

⁵⁸ Buchheit et al., 2013.

debt contract, the actual use of the loan proceeds, or the exigencies of any potential default.”⁵⁹ The legal expression of this ‘repayment norm’⁶⁰ is *Pacta Sunt Servanda* – agreements must be kept.⁶¹ As put by Barry and Tomitova: “Pacta Sunt Servanda, or ‘pacts must be respected,’ is the basic norm that underlies the present treatment of sovereign debt contracts.”⁶² The repayment norm is the embodiment of the agential story on the level of principle, because by emphasising the normative weight of contracts to the detriment of everything else, it assumes that states accrue debt in a position of freedom and equality. Failing to live up to this contractual obligation thus becomes a sign of irresponsibility on the part of the sovereign.

Second, on the level of institutional design, “the international financial system lacks clear and systematic procedures for restructuring sovereign debt and handling sovereign default.”⁶³ The absence of a facility to restructure sovereign debt has been referred to as ‘the gaping hole’ of the international financial system,⁶⁴ and the Group of 77 and China are currently fighting to see such a facility established.⁶⁵ The first step towards such an establishment was taken in September 2015, when the United Nations General Assembly adopted basic principles on sovereign debt restructuring. To date, however, nothing has followed from this declaration. The absence of a sovereign debt restructuring facility exemplifies the agential story on an institutional level, because it places all the burdens arising from restructuring on the sovereign debtor.

⁵⁹ Lienau, 2014, p.1.

⁶⁰ Lienau, 2014, p.1.

⁶¹ Wollner, 2017, p.1.

⁶² Barry and Tomitova, 2006, p. 53.

⁶³ Wollner, 2017, p.1. The distinction between ‘the principle level’ and the ‘institutional level’ also comes from Wollner.

⁶⁴ Krueger, 2001.

⁶⁵ I call it SDRF to encompass all different proposals made (both statutory and market-based), and to distinguish it from Krueger’s specific proposal, which she termed ‘Sovereign Debt Restructuring Mechanism’.

The most important players of the SD&CR today are private creditors and multilateral public creditors. Private creditors coordinate their interests in Bank Advisory Committees, founded in 1975 and soon nicknamed ‘the London Club’ due to its location.⁶⁶ The London Club continues to be of great importance today, as no international, contractual sovereign debt restructuring facility currently exists. Multilateral public creditors such as the IMF, the World Bank, and other regional banks are also central actors in the sovereign debt regime. Not only do they lend to countries in distress, often becoming lenders of last resort, but also tend to coordinate the interests of other creditors. Private creditors give deference to the Fund “because it is seen as lead[ing] the ‘creditor coalition.’”⁶⁷

Private creditors fear that establishing a contractual solution to sovereign debt crises is not only an implicit recognition that sovereign debt crises do occur but may also lower the costs of restructuring.⁶⁸ This is thus a ‘debtor moral hazard’ argument: if the costs of default are reduced through the establishment of an orderly sovereign debt restructuring facility, the sovereigns may have less incentives to repay.⁶⁹ In other words, if it is easier to restructure, there exists less incentive to repay, and more restructuring may occur.⁷⁰

⁶⁶ The interests of bilateral public creditors, in turn, are coordinated by ‘the Paris Club’, also labelled by its location. The Paris Club is composed of 18 countries, though six of them (Germany, the U.S., the U.K, Italy, France and Japan) hold most of the late developing countries’ debt and thus dominate the forum. Although the Paris Club continues to exist, it lost some of its significance starting from the 1970s onwards, as the influx of petrodollars into the international financial system let the share of private credit being extended to sovereigns increase, and that of public credit decrease (Cooper and Momani, 2005, p.307). Moreover, it lost further significance when contractual solutions to sovereign debt were first established in 1996, first through the Heavily Indebted Poor Country Initiative and then through the Multilateral Debt Relief Initiative.

⁶⁷ Cooper and Momani, 2005, p.307.

⁶⁸ Buchheit et al, 2013.

⁶⁹ Becker et al., 2003; Simpson, 2006.

⁷⁰ There is very limited empirical evidence showing that debtor moral hazard actually occurs in the realm of private sovereign debt (Becker, 2003; Rogoff and Zettelmeyer, 2002; Anesi, 2008). As the report *Revisiting Sovereign Bankruptcy* of the Committee on International Economic Policy and Reform shows, sovereign debtors tend not to restructure too much and too fast (as the debtor moral hazard hypothesis, following the enforcement problem, would

Private creditors also prefer to resolve sovereign debt crises on an ad hoc basis, because negotiating in a bilateral manner with only one debtor at a time inhibits the emergence of a ‘debtor coalition’ that might be able to push for greater debt haircuts.⁷¹ The private creditor’s preferred option is, of course, an international bailout. What occurs when a sovereign debtor is bailed out by bilateral and multilateral creditors is that taxpayer money is used to pay back private creditors. It is thus unsurprising that international bailouts – combined with austerity policies in the debtor state – are the preferred option of private creditors.⁷² By avoiding the establishment of a facility to restructure private sovereign debt, the ‘creditor cartel’ managed to get its way and succeeded in “pushing the primary adjustment burden to the crisis on to the debtor countries.”⁷³

In sum, the agential story is based on two pillars: what I have called the ‘crisis problem,’ which puts the crisis at the centre stage and the ‘debtor problem,’ which maintains that it is the excesses of the debtor state that trigger the crisis. The agential story is embodied in the SD&CR, illustrating clearly how economic theory, moral arguments, and policy proposals are intimately connected in practice. Having

suggest) but too little and too late (Buchheit et al, 2013). Politicians with short-term political horizons, who wish to avoid reputational costs and maintain (or regain) continued access to external resources are often reluctant to restructure their debts. As a result, they sub-optimally postpone unavoidable defaults and settle for quick debt restructurings that fail at restoring debt sustainability. Restructuring also inflicts collateral damage on a debtor countries: “Defaults may have a negative effect on the country’s overall reputation (not just its reputation vis-à-vis its creditors) and increases the costs of all its transactions and agreements (economic and political, domestic and international)” (Buchheit et al, 2013, p.14).

⁷¹ In debt restructuring, a haircut is a percentage reduction of the amount that will be repaid to creditors.

⁷² Here, a line of disagreement can be found among private creditors and the IMF. While international bailouts are clearly the preferred option of private creditors, the IMF worried about the creation of an incentive structure in which private creditors would be encouraged to make ever riskier loans, knowing that, in case of a debtor’s inability to pay, a bailout from the International Monetary Fund (IMF) (and from multilateral institutions more broadly) would spare them from shouldering the costs of restructuring. Against the backdrop of this worry, Anne Krueger, deputy managing director of the IMF, thus proposed to implement a statutory Sovereign Debt Restructuring Mechanism. This proposal was, however, rapidly put to bed and a more minimal, market-based solution was implemented, namely the inclusion of Collective Action Clauses into bond contracts (Rogoff and Zettelmeyer, 2002).

⁷³ Helleiner, 2009, p.93.

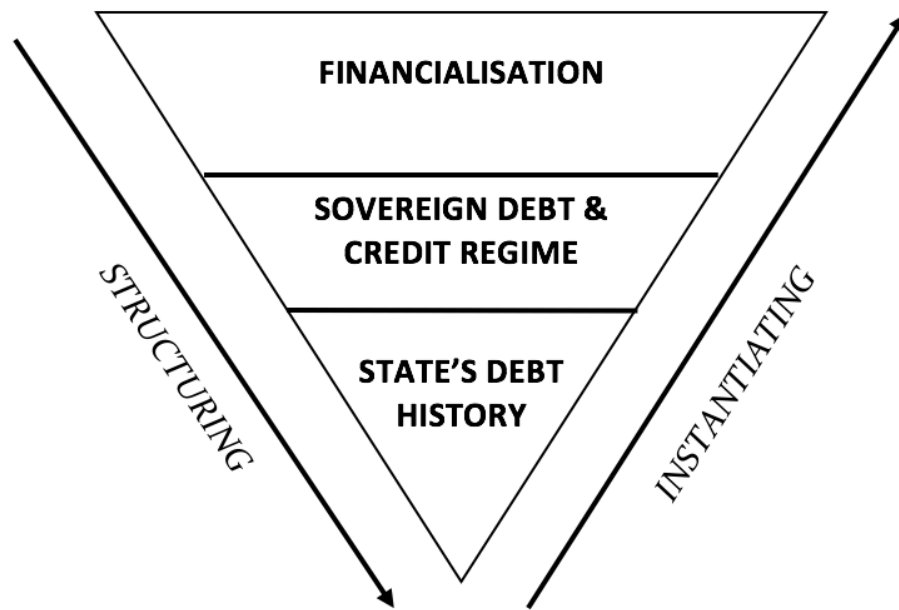
reconstructed the agential story and shown how it is embodied in the SD&CR, in the next section I now turn to criticising it. What this agential story fails to account for is the importance of deeper underlying structural phenomena.

Structural Explanations, the SD&CR, and Financialisation

Thus far, the debt histories of individual countries have been explained exclusively with reference to the agency of the debtor state. In this section, I argue that this agential story needs to be complemented with a structural explanation. A structural explanation brings into focus different kinds of evidence and considers a broader set of empirical phenomena. Ultimately, it is both more compelling and more revealing of the various kinds of injustices that lie beneath the agential focus that most assume to be unassailable.⁷⁴

Concretely, I argue that a country's debt history needs to be explained with reference to the SD&CR. The SD&CR, in turn, is embedded in a highly-financialised economy which shapes the regime. To offer an alternative to the standard agential story that is normally told about a country's sovereign debt history thus requires paying attention to both the SD&CR and the way the latter is shaped by financialisation (see figure below). In this section, I defend this argument, first, by defining what 'structures' are; second, by justifying the need for a structural explanation; and, third, by showing how the SD&CR, embedded in a highly-financialised economy, are the relevant structures that need to be understood to explain a country's debt history.

⁷⁴ Although the structural explanation does allow us to identify injustices that would otherwise remain obscure, I only address these injustices in the next chapter. In this chapter, I limit myself to arguing for the need of a structural explanation.



What are structures? The vast diversity of answers given to this question can be clustered around two main positions. One defines structures as a field or space in which positions stand in relation to each other and condition an actor's realm of action.⁷⁵ Each position is characterised by a particular option set, or choice architecture, and each position stands in particular relationships with other positions. The space of possibilities that the occupier of a position has is limited by relations internal to the structure. The second position focuses on what constitutes structures, arguing that structures are networks of social practices which are sustained by the interplay between schemas and resources.⁷⁶ Resources are things of all sorts – human, nonhuman, animate or not – that are taken to have some (including negative) value.⁷⁷ Schemas are collective concepts, beliefs and expectations that are public, but can also be internalised, and that guide behaviour. Social practices exist when resources and

⁷⁵ Blau (1977) and Bourdieu (2005) are representatives of this first way of conceptualising structures.

⁷⁶ Giddens (1979), Sewell (2005) and Haslanger (2016).

⁷⁷ Haslanger 2016, p.126.

schemas “mutually imply and sustain each other”⁷⁸ – when public schemas interpret, conceptualise, and respond to resources, resources are, in turn, utilised and modified to fit schemas.

I take these two positions to be complementary. Whereas the first focuses on the constraints of occupying a concrete position, the second concentrates on the more ontological question of what constitutes structures. Rather than rival accounts, these two positions offer definitions of structures that should map on to each other. Google Maps serves as a useful analogy here: while the ‘map option’ of Google Maps identifies the main buildings and streets, showing its users how these intersect, the ‘satellite option’ fills the street-skeleton with content, providing real-life images of how buildings, streets and intersections look in the real world. Although the map and satellite options of Google Maps highlight different things and may be useful for different purposes, both describe the same reality. Analogously, while the first and second account - the map and satellite option, respectively – focus on different aspects, what they both identify as ‘structure’ is the same. A complete analysis of any given structure would require both levels of analysis. At the same time, one might want to focus on any one of these two levels for different purposes.

When and why are structures important to explain an agent’s actions? I contend that when an agent’s actions are constrained by the position he or she occupies in a given structure, a good explanation would explain his or her actions, at least in part, with reference to that position. Put differently, when a structure determines the space of possibilities of actors as occupiers of positions, constraining possibilities in such a manner that only some are genuinely available, then an adequate explanation of the agent’s behaviour must be sensitive to the structure. A structural explanation does just this.

⁷⁸ Sewell, 2005, p.13.

The justification for a structural explanation can take a stronger and a weaker form. Let me illustrate this by means of two ‘classroom analogies,’ starting with the stronger justification for structural explanation. Imagine, first, a situation in which a teacher decides beforehand that the overall grade-distribution for an assignment will contain one A, twenty-four Bs and 25 Cs.⁷⁹ One student, Mary, gets the A. Now, if one were to ask why Mary got an A, the answer ‘because she wrote an original and thoughtful assignment’ is inadequate. It is inadequate because what is relevant here is that Mary wrote the *best* assignment, not that she wrote a thoughtful and original one. The *only* good explanation in this context is a structural one: an explanation, that is, that makes reference to the other students in the class and to the particular grading structure.⁸⁰

A second classroom analogy that delineates the contours of the weaker justification for structural explanations is offered in the context of repudiating purely agential explanations for poverty (‘explanatory nationalism’).⁸¹ To show that this “dominant view is quite true on the whole, but also totally one-sided,”⁸² we are asked to think of a class with great variation in student performance. Although this variation must be due to student-specific factors, it does not follow that these factors alone explain the performance of the class. Other ‘global’ factors, such as the quality of the teacher’s teaching, also impact the overall student performance. Similarly, while bad policies might indeed be an explanatory variable in poverty, this does not prove global factors to be inert. The reason why such agential explanations are ‘totally one sided’, then, is because they “hold fixed, and thereby entirely ignore, the

⁷⁹ Garfinkel, 1981, p.41.

⁸⁰ This example is also given in Haslanger, 2016.

⁸¹ Pogge, 2008.

⁸² Pogge, 2008, p.145.

economic and geopolitical context in which the national economies and governments of the poorer countries are placed” in.⁸³

All things considered, the stronger justification for structural explanations sustains that, *iff* an agent’s actions are constrained by virtue of the position s/he occupies in the structure - being part of a ‘structured whole’⁸⁴- then the *only* good explanation will be a structural one. The weaker justification for a structural explanation does not discard the purely agential explanation altogether, holding on to the idea that, while it may not always be accurate, it is ‘quite true on the whole.’ A purely agential explanation must simply be complemented by a structural explanation to make it less one sided.

While I tend to agree with the stronger justification more than I do with the weaker one, note that the weaker defence for structural explanations suffices to ground the importance of providing a structural explanation for a country’s debt history. If I manage to convince my readers that structural factors affect a country’s debt history – that not only good or bad governance factors into a country’s debt history - it would be sufficient justification for why a structural analysis is necessary.

Having defined what is meant by structures and delineated the cases in which a structural explanation is needed, I now wish to show that structural factors affect a country’s debt history and that, therefore, a structural explanation is required to complement and/ or offer an alternative to the standard agential story that is usually told about a country’s debt history. I do so by looking at the developments in the global economy since the abolition of the Bretton Woods regime, at how this impacted the SD&CR and at how this, in turn, impacted individual country trajectories. Where one situates the starting point for such a historical analysis is somewhat arbitrary, since every event has its pre-history. Yet the idea that the

⁸³ Pogge, 2008, p.149.

⁸⁴ Haslanger, 2016.

abolition of Bretton Woods represents some form of a critical juncture that marked the end of one era and the beginning of another has become common place and thus, I chose to lay my historical starting point here.

In 1944, toward the end of World War II, representatives of the allied nations came together in Bretton Woods, New Hampshire, with the aim of contributing to a more peaceful future by sketching out a new international financial and monetary order that was to be implemented after the war's conclusion. In a diplomatic tour de force, an agreement was reached to institute a fixed, but adjustable exchange rate system.⁸⁵ In addition to effectively fixing the dollar as the world's reserve currency, the Bretton Woods regime offered widespread provision of deposit insurance to stop bank runs by strict regulations of the financial system, such as the separation between commercial from investment banking, and by strict capital controls. These restrictions kept the financial system under tight regulatory control, making the Bretton Woods era a period of remarkable financial stability.⁸⁶

With the outbreak of the Vietnam War and the rise of the United States' fiscal and current account deficits, it became ever more difficult to sustain a fixed yet adjustable exchange rate regime that relied on confidence in the dollar. As U.S. creditors started fearing that there was not enough gold to back the dollars in circulation, Nixon took the unilateral decision in August of 1971 to unpeg the dollar from gold, thereby single-handedly abolishing the international monetary and financial system that had been in place since the end of WWII.⁸⁷ This marked the beginning of the period of 'financialisation' in which the tight fiscal control and stability of the Bretton Woods era was replaced by an international financial and

⁸⁵ Conway, 2017.

⁸⁶ Ruggie, 1982.

⁸⁷ "It was not just that Nixon deliberately abolished the Bretton Woods fixed exchange rate system – though often referred to euphemistically as the 'collapse' of the system, it was actually more like a deliberate act of sabotage" (Strange, 1998, p.40-41).

monetary environment in which the financial sector could blossom, both at the domestic and international levels.⁸⁸

To understand the impact that Nixon's freeing of the exchange rate had, it is useful to look at Mundell and Fleming's Impossible Trilemma and the solution that had been agreed upon during the Bretton Woods era. According to Mundell and Fleming, governments typically find three things desirable, namely: a stable exchange rate, free capital mobility, and the ability to set monetary policy to achieve domestic objectives. A stable exchange rate is thought to be valuable because it contributes to an increase in national and world income growth. On the national level, this is because a stable exchange rate contributes to greater price stability, and on the international level, it allows for a greater expansion of trade and investment, both of which are said to contribute to income growth.⁸⁹ Free capital mobility is seen by many economists as beneficial, since it facilitates efficient capital allocation across the globe, as resources flow from countries that have savings in excess of investment needs to those with investment needs unmatched by domestic savings.⁹⁰ Finally, setting monetary policy independently is valuable as domestic objectives, such as full employment, can be pursued.

The hypothesis of Mundell and Fleming, which gives the model its name, is that governments cannot have all three of these allegedly desirable things simultaneously for an extended period of time. The Bretton Woods solution to the impossible trilemma was therefore to have fixed but adjustable exchange rates and autonomous monetary policy, with the 'price' of putting in place capital controls.⁹¹ In

⁸⁸ Although the meaning of the concept of 'financialisation' is disputed, I chose to adopt a fairly minimal definition, defining it "as a tendency for profit making to occur increasingly through financial rather than through trade and commodity production" (Krippner, 2011). See also Lapavitsas (2013), Orhangazi (2008) and Epstein (2005).

⁸⁹ Reddy, 2003, p.87.

⁹⁰ Turner, 2016, p.124.

⁹¹ Conway, 2017.

contrast, the solution to the impossible trilemma that emerged in the Post-Bretton Woods era is one in which independent monetary policy is sacrificed. Advanced economies adopted floating exchange rates and free capital mobility, with the price of targeting their monetary policy in a way that protects the stability of their economy's external links (especially the exchange rate) rather than meeting domestic objectives. Late developer countries started progressively moving in that direction, as well. While they initially adopted capital controls to have a fixed exchange rate (pegging their currency to the U.S. dollar) and benefiting from an independent monetary policy, they progressively dismantled capital controls, at the expense of autonomous monetary policy, as a response to IMF pressure.

The dismantling of capital controls at the international level and the adoption of floating exchange rates made domestic credit controls appear unnecessary. In the United States - considered the pioneer in banking innovation - the *Glass-Steagall Act* of 1933 was abolished.⁹² With its abolition, banks became free to combine commercial banking (which took deposits and made loans) with investment banking (which underwrote, bought, and sold securities).⁹³ Although the United States took the lead in deregulating the banking system, and despite meaningful national and institutional differences among OECD countries, the trend towards progressive deregulation of the banking sector became a common feature among advanced economies.⁹⁴

⁹² Strange, 1998, p. 40-41.

⁹³ The Act suffered a death by a thousand cuts from the late 1980s onwards, and - after intense lobbying by commercial and investment banks - its remnants were abolished by Congress in 1999 via the Financial Services Modernization Act (Suarez and Kolodny, 2011).

⁹⁴ While some authors argue that the deregulation of the banking and financial sector was "made in America" (Strange, 1998, p.41), others emphasise that the deregulation of the financial system was a 'shared sickness' (Roubini and Mihm, 2011, p.125-127) among advanced economies. For an analysis on the national institutional differences among advanced economies, see the literature on varieties of capitalism. A good introduction can be found in "An Introduction to Varieties of Capitalism" in Peter A. Hall et al. (eds), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage* (2001).

The push for financial deregulation resulted in an increase in intra-financial activities, as well as in a surge of financial innovations. Whereas in the 1960s, the typical bank's balance sheet was made up of loans to households or businesses, with the exception of government bonds and cash, today more than half of the balance sheets of the biggest banks worldwide are made up of loans or deposits between them and other financial institutions. While the growth of intra-financial activities since the 1970s was spread out across many different types of assets, one of the most important ones was the increase in credit securities. Credit securities allow banks to pool loans and sell them to other financial institutions, thereby eliminating them from the bank balance sheet.⁹⁵

Not only did the emergence of credit securities allow the spread of risk, but it also contributed to the growth of many non-bank financial institutions. These non-bank financial institutions constitute what we today refer to as a 'shadow banking system,' since they replicate the maturity transformations of banks, but they do so outside the regulatory system that governs traditional banks. These shadow banks took over many of the traditional roles of banks, and where banks remained involved, they did so only as one more link in a multi-step lending chain.⁹⁶ Non-financial firms also became increasingly dependent on financial revenues for a supplement, or substitute, of the profit made in their traditional productive activities.⁹⁷ The automobile producer Ford Motor Company, for instance, has in recent years made the vast majority of its revenues from selling loans to purchase cars rather than through the sale of the cars themselves.⁹⁸

⁹⁵ Turner, 2016, p.24-25.

⁹⁶ Turner, 2016, p.9. The United States was, once more, "the epicentre of these developments. (...) But the impact of these changes was global" (Turner, 2016, p.96).

⁹⁷ Krippner, 2011, p.3.

⁹⁸ Froud et al. in Krippner, 2011, p.4.

To sum, the changes in the international monetary and financial system that took place since 1971, as well as the changes in the domestic economies that the abolition of the Bretton Woods System propelled, resulted in a process of ‘financialisation’, both on the domestic and on the international levels, in which the financial sector expanded vis-à-vis the real economy.

Crucially, for our purposes, this process of financialisation of the economy impacted and altered the SD&CR. Financialisation is itself a structure that constrains the SD&CR. This ‘structuring’, in turn, is one of a structure’s key characteristics,⁹⁹ for structures, as Sewell put it, “empower what they designate.”¹⁰⁰ Thinking about financialisation as a structure also rightly defies a static understanding of structures. Despite being a noun, ‘financialisation’ connotes a process, namely the *financialising* of domestic markets and of the global political economy. Calling financialisation a structure hence highlights the importance of conceiving of structures as dynamic constructs.

Once freed from the constraints of the Bretton Woods fixed-exchange rate regime, and in the context of the slowdown of post-war economic growth, advanced economies started making use of the printing press to stimulate their economy.¹⁰¹ Even before the 1973 oil crises, this use of monetary policy resulted in inflation in OECD countries. Stagflation – the combination of high inflation and recession – followed, with the two oil shocks in 1973 and 1979. Stagflation, diminished the demand for credit in OECD countries.

Stacked with petro-dollars they found difficult to invest in OECD countries, Western banks with excessive liquidity started lending to late-developing countries.¹⁰² Developing states welcomed this increased willingness by Western banks to extend

⁹⁹ Giddens, 1979.

¹⁰⁰ Sewell, 2005, p.2.

¹⁰¹ Streeck, 2013, p.13.

¹⁰² Cardoso and Helwege, 1992.

loans since, in contrast to multilateral public loans, these private debt contracts were unconditional and were not linked to political or technical conditions.¹⁰³ The need for fresh private loans, moreover, grew steadily throughout the decade: while the maturities were long in the early 1970s, they shortened throughout the decade. This lay bare a temporal gap between the repayment dates of the loans and the financial return generated by the investment of these loans in late developing countries. Consequently, debtor states had to return to the market to be able to service their debt obligations, essentially paying old debts with new ones. This created a ‘treadmill effect’ in which accruing debt today generated greater demand for credit tomorrow.¹⁰⁴

As the decade progressed, the stagflation in advanced economies continued to worsen. It was not until Paul Volcker became the chairman of the Federal Reserve in August of 1979 that the easy monetary policy that had characterised the decade was reversed. To control inflation, Volcker sharply raised interest rates “to stratospheric levels.”¹⁰⁵ As central bankers around the world emulated him, advanced economies faced a ‘shock treatment’: a deep recession with high levels of unemployment, which,

¹⁰³ Devlin, 1989, p. 47.

¹⁰⁴ Devlin, 1989, p. 51. Although more and more late developing countries gained access to private bank loans as the decade advanced, it is in the 1970s where we also witness a divergence between two sets of late developing countries, namely emerging economies on one hand and Least Developed Countries (LDCs) on the other. While the former gained access to private bank loans, the latter remained unattractive for foreign creditors and remained dependent on concessionary loans from public creditors (Fogarty, 2013). This marked the beginning of what can be called a two-tier developing country debt regime, in which emerging economies are associated with private sovereign debt and LDCs with public sovereign debt. Until fairly recently, this traditional distinction was upheld and the policy responses to sovereign debt crises erupting in each of the two sets of countries diverged. While contractual solutions were sought for public sovereign debt crises in LDCs - namely the Heavily Indebted Poor Countries Initiative (I & II) and the Multilateral Debt Relied Initiative (MDRI) - the resolution of private sovereign debt crises still lacks such a contractual approach (Fogarty, 2013; Helleiner, 2009). Since 2006, however, twelve Sub Saharan African countries made their debut in international financial markets. Eight of these twelve countries emerged from debt write-offs only a few years before under HIPC and MDRI (Mecagni et al, 2014). This challenges the traditional association of emerging markets with private sovereign debt, and of LDC (almost exclusively) with public sovereign debt (Fogarty, 2013).

¹⁰⁵ Roubini and Mihm, 2011, p.25.

although short-lived, was socially and politically costly. While governments, such as those of Reagan and Thatcher, “were willing to trade mass unemployment for the restoration of ‘sound money’ and to crush the expected social resistance at whatever cost,”¹⁰⁶ the radical turnaround in monetary policy was accompanied by an increase in sovereign debt levels, as governments tried to cushion the impact of the monetary shock treatment on the population. By the mid 1980s, inflation was controlled and advanced economies entered into an era of low inflation, high growth, and mild recessions, an era referred to as ‘the Great Moderation’.

What constituted a cure for inflation in advanced economies came at the price of a relatively short-lived recession. But for those developing countries that had extensively borrowed from Western banks in the preceding decade, this same prescription became a recipe for disaster. When Volcker increased the Federal Reserves’ interest rates in the early 1980s, a debt crisis erupted, starting first with Mexico’s default in 1982, and spread like wildfire throughout Latin America in the years that followed.¹⁰⁷ The rise in interest rates led to a dramatic increase in Latin America’s debt, much of which carried floating interest rates. Moreover, the short-lived recession in OECD countries resulted in a reduction in exports from the debtor countries.¹⁰⁸ The decline in exports, in turn, created (in Argentina and Venezuela) and further aggravated (in Brazil and Mexico) trade deficits, making Latin American countries even more dependent on loans to finance the excess of imports, loans which now became much more expensive to acquire.¹⁰⁹ Finally, higher interest rates made it all the more attractive to save money abroad, pulling foreign investment away from Latin America and further exacerbating capital flight.¹¹⁰

¹⁰⁶ Streeck, 2013, p.34.

¹⁰⁷ Cardoso and Helwege, 1992; Weeks, 1989.

¹⁰⁸ Cardoso and Helwege, 1992, p.116-118.

¹⁰⁹ Cardoso and Helwege, 1992, p.116-118.

¹¹⁰ Griffith-Jones and Sunkel, 1985, p.107.

Ultimately, the crisis was resolved with the introduction of the Brady Plan. The plan consisted of offering emerging economies in crisis the opportunity to exchange their outstanding bank loans into new sovereign bonds, which were partly collateralised by U.S. Treasury bonds.¹¹¹ The Brady Plan can be seen as the starting point for the modern-day era of sovereign bond trading for emerging economies or what has been referred to as the *securitisation* of the global economy.¹¹² The ability to issue tradable instruments created a liquid secondary market for sovereign bonds.¹¹³ This made lending to emerging economies less risky and hence lowered the interest rates, since private creditors could sell the sovereign debt obligations on the secondary market. Consequently, this period witnessed a vast diversification in private creditors. Long-term institutional creditors were joined by shorter-term domestic creditors, including retail investors, mutual funds, and banks that sought high returns with high-yield funds and liquid instruments as reserves. Hedge funds and governments of advanced economies also started purchasing emerging economies' bonds at the end of the decade, creating a situation in which "there are now numerous holders of sovereign debt covering a very wide geographic distribution and varying in size and sophistication from retail to institutional investors."¹¹⁴

Against this backdrop, the early 1990s were a period of low interest rates and large capital inflows into emerging economies. It was not until the outbreak of the South-East Asian crisis in 1997 and the Russian crisis in 1998 that these large capital flows dried up. The contraction in capital flows and lending to emerging economies that resulted from the South-East Asian and Russian crises led to further crises in emerging economies. Brazil devalued its currency in 1999 and was followed by

¹¹¹ Das, Papaioannou and Trebesch, 2012, p.11.

¹¹² Helleiner, 2009.

¹¹³ Das, Papaioannou and Trebesch, 2012, p.13. Such a market last existed during the interwar period.

¹¹⁴ Marx, Echague and Sandleris, 2006, p.57.

outright default in Ecuador, Turkey, Ukraine and Pakistan in the year 2000.¹¹⁵ In 2001, Argentina defaulted on its private sovereign debt. In 2002-2003, Uruguay managed to avoid succumbing to Argentina's fate by undertaking a voluntary restructuring of its debt.¹¹⁶

Despite the severity and sheer number of crises erupting in developing economies at the turn of the millennium, these events did not disrupt the discourse surrounding the era of 'Great Moderation' in advanced economies.¹¹⁷ Notwithstanding, in the 1990s, governments in advanced economies began to worry about the rising sovereign debt levels, while creditors – not least due to their experiences in developing economies – began to have doubts about the ability of states to repay their growing debt.¹¹⁸

The governments' response was a second wave of capital market liberalisation and a continued deregulation of the financial sector. Under the Clinton administration, attempts were made to balance the budget mainly through social spending cuts. Most advanced economies emulated this strategy and the rising

¹¹⁵ Marx, Echague and Sandleris, 2006, p.64.

¹¹⁶ Panizza, 2014. If one compares these crises at the turn of the millennium with the Latin American debt crisis in the 1980s, one can recognise important differences in the dynamics of crisis eruption and contagion that are important for the analysis at hand. First, whereas in the 1980s, the crisis was triggered by adverse external shocks that affected emerging economies instantaneously (most prominently, the sharp increase of interest rates in the U.S.), the crises of the late 1990s and early 2000s were a consequence of changes in creditors' perceptions about the ability and/or willingness of the debtor countries to service their debts (Marx, Echague and Sandleris, 2006, p.65). Second, whereas the crisis in the 1980s can be understood as a sovereign debt crisis narrowly defined, the crises in the late 1990s and early 2000s only turned into sovereign debt crises in the wake of an ongoing capital account crisis. Narrowly defined, sovereign debt crises can be understood – in line with Reinhart and Rogoff – as crises that erupt when a country is not able or willing to service its foreign or domestic debt, under the terms agreed. Now, whereas in the 1980s the Latin American crisis originated as a sovereign debt crisis – in which the very crisis was constituted by the fact that Latin American governments were unable to service their debt obligations – the crises at the turn of the millennium originated as capital account crisis. These crises, then, are sovereign debt crises broadly defined, for they did not erupt due to a government's inability to service its debts, but only resulted in sovereign debt crises as the economic conditions deteriorated. Here, I adopt this broad definition of sovereign debt crises.

¹¹⁷ Roubini and Mihm, 2011, p.30.

¹¹⁸ Streeck, 2013, p.36.

sovereign debt levels that characterised the previous decade were replaced by a growing private debt burden. Regulations were adopted that enabled households to supplement their income with private sector credit rather than with state benefits.¹¹⁹

While this form of ‘privatised Keynesianism’¹²⁰ allowed advanced economies to adhere to the discourse of the Great Moderation and to avoid the fate of their counterparts in developing countries, the 2007-2008 subprime mortgage crisis that erupted in the United States and reverberated through the world economy put an abrupt and unquestionable end to this. The crisis also raised serious doubts about the process of deregulation and financialisation that had been going on since the early 1970s and that had been, if not actively praised and defended, least accepted as the epoch’s unquestioned background tune.

What this brief historical analysis reveals is that an individual country’s debt history cannot be understood in isolation from the SD&CR and the process of financialisation that shaped it. In a heavily financialised economy, credit and debt flows move rapidly from different regions in the world to others. When advanced economies were battling inflation and recession in the 1970s, debt flows moved to developing countries. Once the Latin American debt crisis erupted, debt flows moved back to the advanced economies and sovereign debt levels rose there. With the introduction of the Brady Plan and the progressive shift from *sovereign* debt levels to *private* debt levels in advanced economies, debt flows returned to developing countries. Finally, since 2008, and parallel to the eruption of the debt crises at the heart of the European Union, there has been a sharp rise in the debt levels of emerging economies, especially China, “which could host the next leg of the global leverage crisis.”¹²¹

¹¹⁹ Streeck, 2013, p.39.

¹²⁰ Crouch, 2009.

¹²¹ Buttiglione et al, 2014, p.3.

The geographical interdependency and the contagion effects between different countries and regions in the world challenge explanations of a country's debt history that exclusively focus on agential aspects such as 'fiscal responsibility' and 'good governance.' They suggest that a country's debt history cannot be solely explained with reference to agential factors. To use the classroom analogy, doing so would be parallel to trying to explain a student's performance without reference to the quality of the teacher, or to try to explain poverty solely based on the policies adopted by a developing country's government. It would, in short, be an 'explanatory nationalist' explanation.¹²² Such an explanation is, at best, insufficient, for whether a state will be able to service its debt depends in part on whether it has historically been plagued by default and/or restructuring, which in turn depends on the position that the state occupies within the regime.

Conclusion and Road Ahead

In this chapter I sought to bring the 'firstly' of individual country's debt histories into the picture by drawing attention to the structures that affect an individual country's trajectory. First, I reconstructed the agential story by arguing that it rests on two main pillars, namely the idea that the crisis itself is the main problem and that the debtor state is solely responsible for it. Second, I defended the need for a structural explanation in cases where structural factors affect an agent's trajectory. Structural explanations enable different kinds of evidence to come into view and consider a broader set of empirical phenomena. I thus looked at the historical developments in the global economy from 1971 until present day. This revealed that structural factors, namely the SD&CR and the financialisation of the economy, do indeed affect a country's debt history and, therefore, a structural explanation is required.

¹²² Pogge, 2008.

My aim in the rest of this thesis is to challenge the agential story most commonly told and to provide an alternative, structural explanation. While the rest of Part I is concerned with challenging the first pillars of the agential story – the idea, that is, that the crisis itself is the main problem – Part II questions the second pillar – the idea that the debtor alone is responsible for the outbreak of sovereign debt crises. In the next chapter, I provide a structural explanation of a country’s debt history by adopting the ‘macro view’ introduced in this chapter. I argue that the SD&CR is a highly asymmetrical structure, which puts certain individuals *qua* citizens of certain states and *qua* members of particular classes in a position of disadvantage. Those occupying a disadvantaged position in the asymmetrical SD&CR are vulnerable to domination and exploitation by virtue of the position they occupy.

CHAPTER 2

ON THE WRONGS OF THE SD&CR

There is something wrong with the way in which sovereign debt and credit operate today. The signs held by protestors in the street of Athens – with slogans such as “IMF Go Home,” “Troika – Keep Calm and Go to Hell,” and “People Over Banks” contain complaints that are much older than the outbreak of the most recent Greek debt crisis, and resonate with the demands made by many around the world.

In this chapter I explore what precisely is wrong with the SD&CR. What makes the contemporary SD&CR normatively problematic, I argue, is the fact that it puts agents – individuals *qua* citizens of a particular state and *qua* members of a particular class – in a position of disadvantage, which makes them vulnerable to domination and exploitation when the state accrues debt in their name. This builds on and nuances the analysis of the previous chapter, since it is a critique of the first pillar of the agential story, namely the idea that all that is wrong with the way in which the financialised global economy works today is the rare outbreak of a crisis. It nuances the analysis of the previous chapter because, while it is true that financialisation structures the SD&CR and thereby shapes the sovereign debt history of all countries (something which makes a structural explanation necessary), not all states and classes are shaped equally. Instead, financialisation (re)produces a highly asymmetrical SD&CR, with clear positions of advantage and disadvantage.

I proceed as follows: After short preliminary remarks, I describe the empirical features of the positions of advantage and disadvantage that exist within the SD&CR. Positions of advantage and disadvantage are structured along two axes, namely *statehood* and *class*. The statehood axis describes how individuals *qua* citizens are vulnerable to domination and exploitation in virtue of the position that their state occupies within the SD&CR. The class axis further nuances the state axis, for a state’s

citizenry is not a homogeneous group. Although certain individuals may be disadvantaged *qua* citizens of a disadvantaged state, they may occupy a position of advantage *qua* members of a given class. Both axes need thus be considered. Second, I define what I mean by ‘structural domination’ and ‘structural exploitation’ and show how individuals *qua* citizens of disadvantaged states and *qua* members of a disadvantaged class are vulnerable to domination and exploitation when debt is accrued in their name due to their position in the structure.

Crucially, this chapter brings to the fore that the problem is not with sovereign debt as such. After all, nearly all states are sovereign debtors. Yet not all individuals are vulnerable to domination and exploitation when their state accrues debt in their name – only those who find themselves in a position of disadvantage within the regime. While sovereign debt itself is not necessarily problematic, sovereign debt accrued by those in a position of disadvantage within a highly asymmetrical SD&CR is.¹²³

Preliminary Remarks: Self-determination and Self-Development

The reflections in this chapter start from the conviction that agents have an interest in at least two things: in being self-determined and in self-development. It also presupposes that individuals and communities should have an opportunity – and a

¹²³ In Chapter 8 I complement this view by arguing that there is a second element that makes sovereign debt problematic. First, as argued here, sovereign debt may result in structural exploitation and structural domination when accrued by a state in a position of disadvantage within the regime. Second, sovereign debt is problematic when too much debt is accrued (quantitative aspects) and invested in a way that is neither equitable nor sustainable (qualitative aspect). Crucially, as will be argued in Chapter 8, the question is not only one about ‘debt sustainability’ as a technical-economic threshold, but also as a political threshold: When the state accrued too much debt, it becomes unable to act in the name of those it is supposed to represent.

roughly equal opportunity, at that – of being self-determined and of developing.¹²⁴ To this extent, this chapter presupposes a “moderate ethical universalism.”¹²⁵

A self-determined agent can shape the terms that govern his or her existence. S/he has a certain control over his or her fate. Of course, all agent actions are constrained to a certain extent by the structures that s/he inhabits. But a self-determined agent can choose from a range of viable options what course of action to pursue. Self-determination, then, does not reside in the totally unconstrained and unencumbered actions of individuals, but in the conscious and intentional choice of a particular course of action, given a reasonable choice architecture or decision-tree.¹²⁶ For individuals *qua* citizens of democratic states, the political expression of self-determination resides in the ability to shape the political arrangements that govern their existence. They are self-determined because they participate in a democratic process that results in self-legislated laws that shape their lives. If one holds the conviction that agents should have a roughly equal opportunity to being self-determination, one “should study and should criticize codified and institutionalized human actions that create patterned asymmetries in the social capacity to act.”¹²⁷ Doing so for the SD&CR is the ambition of this chapter.

¹²⁴ Hayward and Lukes, 2008, p.9.

¹²⁵ White, 2003, p.262.

¹²⁶ Conversely, if individuals are so structurally constrained that they are unable to act otherwise, their actions are determined, not self-determined. They simply enact or transmit the dictates of the structures that uniquely constrain them. But this is rare, for structures do not tend to determine action, but produce predictable patterns of actions. Structures are problematic, or the occupation of a given position in the structure is problematic, when two conditions hold: First, when certain forms of action are made, “if not impossible, then highly improbable, and others, if not inevitable, then exceedingly likely” (Hayward and Lukes, 2008, p. 16). Second, when the abilities of occupiers of certain positions are so constrained due to things that are social in origin. While I focus on the first of these two features in this chapter, the next chapter is devoted to showing that the constraints that those in a position of disadvantage within the SD&CR suffer from are social in origin.

¹²⁷ Hayward and Lukes, 2008, p.16.

Self-development entails the ability to cultivate and exercise one's capacities.¹²⁸ I explicitly abstain here from endorsing any specific theory of 'the good life' and/or conception of the virtuous agent. Whatever conception of the good life and of the virtuous agent one endorses, however, self-development entails the ability to progressively realise that conception. To that extent, self-development can be seen as a form of flourishing. Self-development has certain prerequisites relating to the production of distributive inequalities. An agent in a position of disadvantage within the structure cannot self-develop when the structure s/he inhabits is such that distributive inequalities are reproduced through the continuous transfer of productive powers from those in a position of disadvantage to those in a position of advantage. While self-determination is thus connected to an agents' political standing - the citizens' ability to shape the terms that govern their existence via democratic participation - self-development is predicated on the agents' ability to reap the fruits of their labour.

Positions of (Dis)advantage

First Axis: Statehood

As I have shown in the preceding chapter, financialisation has changed the option sets of all states acting within a financialised economy. Not all countries are affected by financialisation equally, however, and countries can occupy different positions. Identifying these positions is crucial to understanding why the acquisition of debt by a sovereign may have such a divergent impact on citizens of that state. While for the citizens of states that occupy a position of advantage within the regime, the acquisition of debt may have positive effects for their self-determination and self-

¹²⁸ Young, 1990, p.38.

development, for citizens of states occupying a position of disadvantage, the inverse is true. Whether a position is one of advantage or disadvantage will depend on two, interrelated features, namely the conditions of borrowing and the vulnerability to crisis.

Although most sovereign states borrow, the *conditions* under which they do so vary greatly from state to state. Most significantly, the interest rates that different countries need to pay to be able to borrow vary significantly, both quantitatively (how much they need to pay) and qualitatively (whether the interest rates are fixed or floating.) Floating interest rates have the effect of pushing the risk for the deterioration of the economic and financial environment on the debtor, for if the economic environment changes, the interest rates will change, as well. In an unstable economic and financial environment, then, a disadvantaged position in the SD&CR will be characterised by high and floating interest rates.

Another central difference characterising positions of advantage and disadvantage in the SD&CR relates to the currency denomination in which the debt contract is made. Most importantly, the question is whether the state can accrue debt in its own currency and whether other states use said currency to accrue debt. Being able to borrow in one's own currency and having other states do the same provides vast advantages. A position of 'exorbitant privilege'¹²⁹ in the SD&CR, then, is one in which you are not only able to borrow in your own currency, but where also other countries prefer your currency to save, trade, and speculate.

To be able to borrow in your own currency and have others do the same brings vast advantages. First, if states, foreign banks, and firms trust and value holding your country's currency, they will be willing to hold it by charging lower interest rates and earning less. This provides cheap foreign finance and keeps interest

¹²⁹ Eichengreen, 2011.

rates low. The result of this advantage can be substantial: the U.S. – which, after the Nixon’s abolition of the Bretton Woods regime, continues to be the issuer of the world’s preferred currency for saving, trading and speculating - needs to pay two to three percentage points less on its foreign liabilities than the rate of return of its foreign investments. This, in turn, allows the U.S. to run an external deficit in the amount of this difference, importing more than it exports and consuming more than it produces without growing its external debt.¹³⁰ A second advantage is seigniorage. Seigniorage can be defined as the difference between the value of money and what it costs to produce it. If the seigniorage is positive, the government will make an economic profit, and when it is negative it results in economic loss. On the domestic level, a positive seigniorage is used by governments to finance part of their expenditure without having to raise taxes. On the international level, a positive seigniorage consists of the real resources that other countries provide to the issuer of the preferred currency to obtain it. As Eichengreen writes, “it costs only a few cents for the Bureau of Engraving and Printing to produce a \$100 bill, but other countries have to pony up \$100 of actual goods and services in order to obtain one.”¹³¹ A third advantage is what Robert Wade calls the ‘hegemonic debtor’s gain,’¹³² which describes the situation in which, when your debt is denominated in your own currency, a fall in that currency translates into a reduced debt burden.¹³³

¹³⁰ Eichengreen, 2011, p.4.

¹³¹ 2011, p.3. About \$500 billion of U.S. currency circulates outside the United States, for which foreigners have had to provide the United States with \$500 billion of actual goods and services (Eichengreen, 2011, p.3).

¹³² Wade, 2003

¹³³ Wade qualifies this hegemonic debtor’s gain by saying that the ability of external and domestic debt to increase by running large deficits is not infinite. Focusing his analysis on the U.S. dollar, he argues that the limits to the U.S. autonomy in its monetary policy are greater than one may think, since creditors themselves also have an interest in a stable dollar. On one hand, countries trading with the U.S. also benefit from a stable dollar and diversifying out of dollars would make the dollar more volatile. Thus “they see the likely commercial losses as bigger than the likely financial losses of holding mainly dollars” (Wade, 2003, p.83). On the other hand, if most of a country’s reserves are denominated in dollars, a fall in the dollar would also signify a fall in the value of that country’s reserves.

Conversely, if you are unable to borrow in your own currency, a decrease in your currency's value results in an increased debt burden. This makes it harder for countries who are unable to borrow in their own currency to attract capital because, knowing that shocks affecting the real exchange rate can disrupt a country's ability to service its debt, foreigners become less willing to lend.¹³⁴ Moreover, if a country's external debt is denominated in foreign currency, then real exchange rate depreciation will make it more difficult to service that debt by reducing the purchasing power of domestic output over foreign claims. Therefore, a debt burden that may be manageable for some countries becomes unsustainable for others.¹³⁵

In addition to the structuring of positions of advantage and disadvantage in the SD&CR with differential conditions for borrowing, a country's position is also structured along a second axis, which is *vulnerability to crisis*. Countries who are not able to borrow in their own currency, for instance, are more vulnerable to the monetary decisions of those controlling the major world currencies and, consequently, also more exposed to crisis. The Latin American crisis of the 1980s is a case in point, where the sharp increase in the interest rates by the Federal Reserve triggered the Mexican default and the debt crises that followed. While "it is difficult to establish that the rise in world real interest rates was the decisive factor in debt crisis (...) it is clear at the very least that timing and scale of the debt crisis were linked to the rise in world real interest rates (...). The developing country debt crisis was an unintended consequence of U.S. monetary policy."¹³⁶

More generally, fluctuations in the major currencies significantly determine global liquidity and the supply of capital to invest, thereby affecting the cost of borrowing in the global market. This, in turn, affects individual countries in several

¹³⁴ Reddy, 2007.

¹³⁵ Reddy, 2007.

¹³⁶ Reddy, 2007, p.84.

ways. First, increases in the costs of borrowing influence the cost of repayment for those debt obligations that are constantly rolled over. As it becomes more expensive to accrue more debt, servicing the old one becomes more expensive. Second, the cost of borrowing may also influence the level of domestic income. An increase in the cost of borrowing on the international market can lead to a decrease in domestic consumption and investment, which in turn lowers domestic growth.¹³⁷ Third, the cost of borrowing also affects a country's balance of payments and thereby its exchange rate. While all countries immersed in the global economy are affected by the world credit market and by the monetary decisions taken by the issuers of global currencies, "[d]eveloping countries experience them in the most acute way."¹³⁸ To this extent, the issuing of sovereign debt can be seen as a consequence of existing inequality among states and their position in the international monetary system.

When asked what factors affect the position a country holds in the SD&CR along the two axes –conditions of borrowing and vulnerability to crisis – most orthodox economists will point to variables such as the trust that creditors have in repayment (a variable which is further influenced by the underlying health of the economy), a country's credit ratings, and a country's history of restructuring and default. Reinhart, Rogoff and Savastano, for instance, argue that the inability of emerging markets to manage levels of external debt that are manageable for advanced countries – something they call 'debt intolerance' – is explained "by a very small number of variables related to its repayment history."¹³⁹ Countries that have defaulted in the past and that exhibit histories of inflation have lower credit ratings in

¹³⁷ Reddy acknowledges here that these linkages may be of a diverse kind. It may be the case, for instance, that a slowdown of economic growth elsewhere increases the investment flows to a particular country. Yet, "insofar as the foreign investors' animal spirits toward any given country are determined primarily by the global level of economic activity, that is unlikely to be true" (Reddy, 2007, p.84).

¹³⁸ Reddy, 2007, p.85.

¹³⁹ Reinhart, Rogoff and Savastano, 2003.

the present, which makes a debt burden that is manageable for advanced countries unsustainable for emerging markets. Reinhart, Rogoff and Savastano's is thus a purely agential explanation of a country's debt history.

Eichengreen and Hausmann endorse the insight that a country's history of default affects its credit rating and also demonstrate that the ability to borrow in one's own currency affects a country's credit rating, thereby affecting their conditions for borrowing and their vulnerability to crisis. The ability or inability of a sovereign state to borrow in their own currency, they argue further, is largely determined by factors that lie outside a country's control. This is why they chose to call a country's inability to borrow in their own currency 'original sin.' The choice of the label is supposed to convey the idea that the problems that spring from not being able to borrow in one's own currency may not result only from the actions of the affected country, but may, as they argue, "have something to do with factors largely beyond its immediate determination and control."¹⁴⁰ Put differently, the position that a particular country has within the SD&CR may have less to do with a country's repayment history (as Reinhart, Rogoff and Savastano's agential explanation suggests with their concept of debt intolerance), and more to do with the position a country occupies within the global political economy more generally (a structural explanation).

In sum, while financialisation made credit available to a broader set of countries, it also created and reinforced positions of relative advantage and disadvantage. Whether the position that a particular country occupies within the SD&CR is one of advantage or disadvantage depends on two crucial features, namely the conditions of borrowing, on the one hand, and a country's vulnerability to crisis, on the other. An advantageous position within the regime will be one in which the

¹⁴⁰ Eichengreen and Hausmann, 2005, p.8.

conditions of borrowing are very favourable and in which the state *qua* occupier of a particular position, will be less exposed to crisis.

Looking at the different positions that exist within the SD&CR demonstrates once more why particular debt histories must be understood in relation to the position that any given country occupies within the regime, since it is a crucial part of the explanation for why different countries can accrue more or less debt, why debt tolerance and sustainability levels differ, and why certain countries are more vulnerable to sovereign debt crises.

Second Axis: Class

The analysis so far has revealed how positions of advantage and disadvantage within the SD&CR are structured along lines of statehood. Yet leaving the analysis here would miss the crucial role that class plays at the global level. Before turning to the normative diagnosis of what is wrong with the SD&CR, in this section, I discuss this second axis and show how financialisation did not only lead to the establishment of a field structured along lines of statehood, but also along lines of class.

A good starting point to see how class matters in the global arena in general, and the SD&CR in particular, is to ask why the state would adopt policies to create a macro-economic environment conducive to the rise of finance in the first place.¹⁴¹ A prominent response is that OECD countries turned to finance because it allowed them to avoid confronting domestic political dilemmas that it faced in the late 1960s

¹⁴¹ Four main theory clusters trying to explain the rise of financialisation can be identified. These theories are not necessarily contradictory. Whereas the theories that explain financialisation through speculative manias focus on how speculative bubbles emerge and develop, theories focusing on the rise of shareholder value as a new mode of management seek to explain the financialisation of non-financial firms. Marxist and World-System theorists, in turn, provide a systemic explanation for the rise of finance. Finally, the theories explored here try to explain the state's motivation in adopting policies that are conducive to the rise of finance.

and early 1970s.¹⁴² Over the course of the post-war period, states had assumed responsibility for providing direction to the economy and for managing the social consequences of growth. But as growth slumped and unemployment grew, fulfilling these obligations became ever more challenging and the state was threatened by the eruption of a ‘triple crisis.’ First, a social crisis loomed large on the horizon, as the distributional conflicts heightened over a pie that was no longer expanding at the same pace as before.¹⁴³ Second, OECD countries faced a fiscal crisis, as tax revenues ceased to be sufficient to cover its expenditures. Third, a legitimization crisis became ever more likely, as advanced economies feared having to adopt politically costly austerity measures to bring expenditures in line with its revenues.

Turning to finance offered a temporary way out of this triple crisis. First, advanced economies started accruing substantial debt.¹⁴⁴ When creditors started fearing that the state would not be able to service its debts, the advanced economies adopted policies to expand private credit.¹⁴⁵ Not wanting to implement a more progressive tax system, nor wishing to lower expenditure, policies that allowed both the state and consumers to borrow from private financial markets was an attractive solution for the state to postpone the materialisation of any of the three crises. This turn to borrowing (either directly by the state, or indirectly by establishing policies that allowed individuals to borrow) is what Streeck calls the transition from the ‘tax state’ to the ‘debt state.’¹⁴⁶ Rather than financing its expenses through the rising of taxes, a debt state “covers a large, possibly rising, part of its expenditure through borrowing, (...) thereby accumulating a debt mountain that it has to finance with an

¹⁴² See Krippner, 2011 and Streeck, 2013 for a more extensive defence of this response.

¹⁴³ While Streeck is explicit on this social conflict being one between capital and labour, Krippner talks about it in more general, less Marxist terms.

¹⁴⁴ For an analysis of this argument for the U.S., see Krippner. For a defence of this argument for Western Europe, see Streeck.

¹⁴⁵ Streeck, 2013.

¹⁴⁶ Streeck, 2013.

ever greater share of its revenue."¹⁴⁷ Interestingly, the turn to finance and the move away from a 'tax' to a 'debt state' was a choice made across partisan divisions by political leaders across the political spectrum.¹⁴⁸

A crucial implication of this rise of finance is that financialisation was neither inevitable nor planned. It was not inevitable, but rather political, because it arose from state officials attempting to extricate themselves from the problems that the slowdown of the economy posed in the 1960s. It was thus the outcome of concrete political choices. It was not planned, either, for the financialisation of the economy was not what policy-makers intended when adopting the macro-economic policies that ultimately resulted in the expansion of finance. In that sense, financialisation can be seen as the inadvertent result of policy-makers' attempts to solve, or at least postpone, the triple crisis that the state was facing in the 1960s.

A further unintended consequence that came hand in hand with the financialisation of the economy was the rise of a financial class that became increasingly detached from the domestic economy that nurtured their riches.¹⁴⁹ With the changes witnessed at the international level since the end of the Bretton Woods era, domestic upper classes with capital to invest had the chance of going global, investing not only in their own state, but also in others. The abolition of capital controls and the domestic regulatory changes that followed allowed the upper class to seamlessly move their capital across territorial borders. What the gradual financialisation and liberalisation of the global economy permitted, then, was a progressive detachment of the new international creditor class from their domestic economies-cum-societies. It allowed a 'going global' of the domestic upper class,

¹⁴⁷ Streeck, 2013, p.72.

¹⁴⁸ Hopkin and Lynch (2016) show, for instance, how financialisation in Britain was not only the outcome of policies adopted under the Thatcher government, but continued under New Labour.

¹⁴⁹ Duménil and Lévy, 2011, p.7.

which seizes the opportunities for profit that the financialisation of the global economy offers, to secure the maximum return on their capital.¹⁵⁰

With the securitisation of the economy, ever more members of this financial class became the state's creditors. Recall that during the bankerisation of the global economy, the main private lenders to states were banks, which operated as intermediaries between debtors and creditors. After the securitisation of the economy, banks stopped operating as intermediaries, and became creditors in their own right. Moreover, the transition from loans to bonds also led to a great diversification of creditors, ranging from individual pensioners to hedge funds.¹⁵¹

The political power attained by this financial class with spare capital to extend credit to states precedes any contractual agreement, for the mere fact that one has what the other requires, creating a power imbalance that allows the financial class to threaten the state with termination of lending. This political power is exacerbated when the financial class extends credit to their own and to other governments, for once a debt contract is signed, the financial class attains a new form of claim on states – one based on commercial contractual agreements.

To use Walzer's distinction between monopoly and dominance, the financial class becomes dominant.¹⁵² The good they hold – spare capital – does not only allow them to command control within one sphere (monopoly), but also to determine value in all the spheres of distribution (dominance). Our society today is “organized on what we might think of as a social version of the gold standard: one good or one set of goods is dominant and determinative of value in all the spheres of distribution. And that good or set of goods is commonly monopolized.”¹⁵³

¹⁵⁰ Duménil and Lévy, 2011, p.8.

¹⁵¹ Helleiner, 2009, p.95.

¹⁵² Walzer, 1983.

¹⁵³ Walzer, 1983, p.10.

Streeck makes a similar argument, labelling what I call ‘financial class’ the state’s ‘second constituency,’¹⁵⁴ whose claims the debt state must consider, and whose interests can come into conflict with the state’s citizenry, whose claims on public policy are predicated not on a commercial contract, but on their membership in the state as a political community. According to Streeck, the rise of this second constituency challenges the first constituency. The dilemma that the debt state faces, then, is trying to satisfy these two different constituencies, both of which operate on the basis of incompatible logics. The politics of the debt state thus becomes one of a distributional conflict between citizens and creditors. In moments of crisis, it becomes apparent that this distributional conflict between the two constituencies is resolved in the interest of the former. First, the debtor state itself tends to prioritise repayment to its second constituency, the domestic and international creditors. This is so in cases of both sovereign debt crises and in cases in which the crisis erupts in the private sector, in which financial institutions are saved with public funds. The attempts to solve Europe’s ongoing crisis and the resolution of the 2008 crisis that originated in the subprime mortgage sector are emblematic examples in which the interests of the creditors were prioritised over those of the country’s citizens. Streeck refers to this prioritisation of the second constituency as the transition from the ‘debt state’ to the ‘consolidation state,’ the main objective of which is to reassure creditors that they will be repaid.¹⁵⁵

While my argument resembles Streeck’s, I think that he is mistaken in calling the financial class a ‘second constituency’ and in stating that their interests conflict with those of the state’s first constituency. What this occludes is that this is a relation of class, not of constituencies. This is particularly problematic when thinking about Streeck’s first constituency, for it is by no means a homogenous group. It is not the

¹⁵⁴ Streeck, 2013.

¹⁵⁵ Streeck, 2013, p.154.

first constituency as a whole that is the counterpart to the financial class, but a particular class therein. The fight against inflation as the maximal policy priority and the implementation of austerity measures does not harm the whole citizenry equally. They are, in fact, class-specific policies. The policy of cutting inflation is best thought of as a class-specific tax since it targets the interests of creditors over those of debtors:

When 'too much money' chases 'too few goods' – an inflation – it benefits debtors over creditors since the greater the inflation, the less real income is needed to pay back the debt accrued. (...) The politics of cutting inflation therefore takes on the form of restoring the 'real' value of money by pushing inflation rate down through 'independent' (from the rest of us) independent central banks. Creditors win, debtors lose. One can argue about the balance of benefits, but it's still a class-specific tax.¹⁵⁶

Austerity is also a class-specific policy, for its effects are felt differently across the income distribution – those at the bottom of the distribution lose more than those at the top.¹⁵⁷ There are several reasons for this. First, austerity policies result in an increase in unemployment rates. While labour income is the major source of income for the middle and lowest income percentiles - what I call the *wage-dependent class*, - the higher income population has alternative or additional sources to finance their living standards.¹⁵⁸ Thus, an increase of unemployment rates disproportionately affects those who are already relatively worse off. This effect is exacerbated because austerity also entails a cut in public services, services on which the lower income brackets rely more than the higher income brackets. These policies also affect a deteriorating middle class.¹⁵⁹ Furthermore, austerity does not only affect those who currently find themselves towards the bottom of the income distribution, but also

¹⁵⁶ Blyth, 2015, p.9.

¹⁵⁷ Blyth, 2015, p.8.

¹⁵⁸ D'Errico et al., 2015.

¹⁵⁹ Balourdos, 2014.

future generations. It is future generations that will no longer have the possibilities that the welfare state provided to enhance intra-generational social mobility.¹⁶⁰

What I am arguing, then, is that in addition to financialisation structuring along lines of statehood, we see how the rise of finance goes hand in hand with a further entrenchment of positions along class lines. On one hand, we have the financial elites who become the state's creditors. On the other hand, we have the domestic lower and middle income classes that depend on their wage and who are most affected by the attempts to re-establish monetary and fiscal discipline.¹⁶¹ These two classes – which, for simplicity's sake, I will call the *financial* and the *wage-dependent* classes – are co-constitutive, for the advantages that the financial class *qua* creditors of the state enjoys are causally connected to the disadvantages of the wage-dependent class.

The understanding of class that I adopt, therefore, is not one that defines social classes in terms of clusters of individual attributes and conditions, but as a relational concept. My argument is that the international financial elite, which becomes the state's creditors, constitutes a class whose advantages are causally connected to the disadvantage of the wage-dependent class, both in the debtor state – via austerity measures that are supposed to ensure the repayment of the outstanding debts – and in creditor countries, where they are asked to shoulder part of the burdens of restructuring via bailouts and rescue packages.¹⁶²

It is not only the consolidation state through which these two classes are reproduced. The SD&CR also functions in a way that, in moments of crisis, prioritises the repayment of private creditors and the interests of the financial class. As we saw

¹⁶⁰ Blyth, 2015.

¹⁶¹ I say more regarding why this is the case in the proceeding paragraphs.

¹⁶² This is a relational understanding of class. For an excellent topology of different forms of understanding class, see Wright (2015).

in the proceeding chapter, the SD&CR lacks any form of sovereign debt restructuring facility, which results in the bailing out of private creditors in moments of crisis.

This burdening of the global wage-dependent classes, both in the debtor state (through austerity measures) and in those countries, that subsidise the bailout of private creditors, became ever more apparent in the last 40 years. During the 1980s debt crisis, there was at least a legitimate concern that the default to private creditors (in this case, mostly banks) signified a systemic risk to the financial system as a whole. Conversely, by 1994, the Mexican government was defaulting on thousands of individual bond-holders in northern Mexico. Here, “bailouts now appeared simply to reward investors for their poor investment choices at the taxpayers’ expense.”¹⁶³ When the 1997-1998 crisis struck the East Asian region, large international bailouts were once again offered to repay private creditors and stem the crisis, which provoked some opposition from many European countries, and especially the United States. Paul O’Neill, the treasury secretary under the Bush administration, was particularly critical that international investors gained from bailouts at taxpayers’ expense, stating that “as we in the finance ministries of the world talk glibly about billions of dollars of support for policies gone wrong, we need to remember that the money we are entrusted with came from plumbers and carpenters who sent 25 percent of their \$50,000 annual income to us for wise use.”¹⁶⁴

As O’Neill’s complaint makes apparent, the critique of international bailouts stretches beyond partisan divisions. On one side of the political spectrum, free-market advocates oppose them due to the market distortions they cause. Similarly, they are concerned with moral hazard: the fear that if global investors know that they will be bailed out, they will have the incentive to make increasingly risky loans.¹⁶⁵ On

¹⁶³ Helleiner, 2009, p.96.

¹⁶⁴ Helleiner, 2009, p.99

¹⁶⁵ Gallagher, 2011, p.8

the other side of the political spectrum, the critique is presented as one of fairness, for bailouts seldom help the nation regain its economic footing, and essentially send taxpayer money outside of the economy to repay creditors.¹⁶⁶ Often evoked in political discourse that calls for greater solidarity, bailouts – the policy-manifestation of the repayment norm - treats states as homogeneous units with joint liability, paying no attention to relations of class, and turning international support for the sovereign debtor into solidarity with the creditor class.

The absence of a sovereign debt restructuring facility and the practice of both domestic and international bailouts clearly illustrates how the rise of a financial class as the unintended consequence of financialisation structures the SD&CR. We recognise, moreover, that this is a ‘gaping hole’ in the international financial architecture¹⁶⁷ and the policy response by governments protect the riches of the financial elite in times of busts, while the wage-dependent class in debtor and creditor states carry the burdens of unsustainable public and private debt.

To summarise, understanding a country’s debt history in all its scope – not looking only at the eruption of crises, but also at the responses to them – requires that we consider financialisation and the structuring effect it has on the SD&CR along the axes of both statehood and class. As I proceed to show in the next section, the existence of these positions of advantage and disadvantage structured along the axes of statehood and class makes individuals *qua* citizens of a state in a position of disadvantage and *qua* members of a disadvantaged class vulnerable to the systematic undermining of their self-determination and self-development.

¹⁶⁶ Gallagher, 2011

¹⁶⁷ Soederberger, 2005

The Wrongs Befalling the SD&CR

So far, I have argued that the SD&CR is an asymmetrical regime structured along lines of class and statehood rather than a level playing field. In this section, I demonstrate that when a state in a position of disadvantage accrues debt, individuals *qua* citizens of that state and *qua* members of a particular class become vulnerable to domination and exploitation.¹⁶⁸ Because this occurs by virtue of the position they occupy within the regime, I call the two main wrongs characterising the SD&CR ‘structural domination’ and ‘structural exploitation.’ I have relatively little to say about agent-relative forms of domination and/or transactional exploitation.¹⁶⁹

Structural Domination

I define structural domination as the systematic constraint on self-determination that an agent suffers due to the position of disadvantage s/he occupies within the structure. The lack of control of an agent over his/her fate is problematic because it violates the minimally-universalistic value of self-determination.¹⁷⁰ When it is the self-determination of a political community that is being systematically undermined, it erodes the democratic accountability of governments to their citizens.

Of course, all agents’ actions are constrained to a certain degree by virtue of the position they occupy. An agent is subject to structural domination, however, when their choice architecture is so constrained by factors that are social in origin,

¹⁶⁸ I am bracketing the debate on how the two wrongs that I am concerned with here – domination and exploitation – relate to each other. For the view that exploitation is a form of domination, see Vrousalis (2013). For the position that, on the conceptual level, domination implies exploitation, see Roemer (1989). For the position that as an empirical matter, domination and exploitation often coincide, but that more people are dominated than those who are exploited, see Young (2011).

¹⁶⁹ Agent relative domination can be defined as the ‘pre-institutional’, ‘unregulated state of nature where relationships of brute mastery obtain’ (Laborde, 2010, p.10; Pettit, 1997, chapter 2). Transactional accounts of exploitation maintain that ‘A exploits B when A takes unfair advantage of B’.

¹⁷⁰ To this extent, a concern with domination thus presupposes a ‘moderate ethical universalism’ (White, 2003, p.262).

that they cannot participate in determining their actions or the conditions of their actions in a meaningful manner.¹⁷¹ According to the definition proposed here, to determine that an agent is structurally dominated, it is neither required to make an empirical, causal assessment that proves it was impossible for an agent in a given situation to act otherwise, nor to show that those in a position of advantage fully determined the actions of those in a position of disadvantage. Making this causal assessment is, in a way, the wrong approach. What is important, instead, is that those in a position of disadvantage see their self-determination significantly and systematically inhibited.

Within the SD&CR an agent is structurally dominated when it is so positioned that the acquisition of debt results in the systematic undermining of the self-determination of individuals *qua* citizens and members of a particular class. Note that merely occupying a position of disadvantage is not enough to make the citizenry of a given state and the classes therein vulnerable to domination. Similarly, the acquisition of sovereign debt as such does not make all citizens and all classes vulnerable to domination. That is why something that can signify a reassertion of political position and economic strength for some can result in the exact opposite for others. A state's citizenry and particular classes therein are vulnerable to domination when a state in a position of disadvantage in the SD&CR accrues debt in their name.

Concerns about the systematic undermining of the self-determination of debtor states and individuals *qua* citizens and the disadvantaged classes therein have long been articulated with regards to conditionalities imposed by multilateral creditors. Citizens of states in Asia, Africa and Latin America that have been subject to Structural Adjustment Programs with highly specific and demanding conditionalities have expressed this critique since the IMF's inception. As the

¹⁷¹ Here I closely follow Young's definition of domination (1990, p.37).

European Debt Crisis unfolded, citizens of the ‘European periphery,’ or ‘PIIGS’ countries (Portugal, Italy, Ireland, Greece, and Spain), joined their plight. Their concern seemed to be one about multilateral creditors imposing policies on allegedly democratic states, thereby undermining the self-determination of the citizenry. As Hurrell states, “the economic choices of developing countries are, if not dictated, then certainly shaped by institutions dominated by the strong and often backed by coercion in the form of an expanding range of conditionalities.”¹⁷² These conditionalities are problematic because, “quite apart from the question of whether conditionality is actually effective (...) it undercuts the meaningfulness of political community and runs directly counter to such favoured liberal goals as the democratic accountability of governments to their citizens.”¹⁷³

Moreover, as we saw in the preceding section, the rise of a financial elite also has the potential of systematically undermining the self-determination of those classes occupying a position of disadvantage within the highly-financialised global political economy. First, as states finance more of their expenses via the acquisition of debt (rather than taxes), their dependence on the financial elite *qua* creditors grows. If the state begins to act in the interest of this international financial elite rather than in the interest of its citizenry, the latter will see their self-determination undermined by virtue of the position of disadvantage they occupy within the regime.

Second, as we also learnt in the preceding chapter, the absence of an international restructuring mechanism allows for the creation of a ‘creditor cartel’ in the London and Paris Clubs, backed by powerful multilateral institutions that further undermine the capacity of the debtor state to shape the terms of repayment and conditionalities. The worry regarding the undermining of the debtor states’ self-

¹⁷² Hurrell, 2001, p.43.

¹⁷³ Hurrell, 2001, p.49.

determination and that of the citizenry it allegedly represents thus no longer applies exclusively to public, multilateral sovereign debt, but also to private sovereign debt.

I do not claim that every debtor state is dominated, nor that all domestic wage-dependent classes are, but the structure of the SD&CR as described in the previous section makes it an imperative to analyse what position different states and classes occupy. If a debtor state or a given social group occupies a position of disadvantage along the empirical lines described above, then it is my view that the state or social group is vulnerable to structural domination once debt is accrued in their name. This is because the acquisition of debt requires the state to make empirical choices that result in the systematic constraint of the individuals' self-determination. Along the lines of statehood, these choices may entail the adoption of conditionalities that are not self-legislated. Along lines of class, the dilemma may be one about the interests of the financial elite *qua* private creditors being prioritised over those of the citizenry.

To be sure, what is normatively significant about a state being dominated is not that the state officials who act in its name are dominated, but that its citizenry is. If we assume that the ultimate unit of moral concern is the individual, and that the state's value derives from serving the interests of its citizenry, then the normative significance of the state's domination is not the direct effect this status has on the state or on state officials, but the effect it has on the state's citizenry.

Moreover, despite the fact that the main victims of domination are the citizens of the debtor state, it is not true that the citizens are a homogenous group. An important caveat is that some citizens of the debtor state are also part of the second constituency, in the sense that they are domestic creditors to the state. These citizens, then, have some form of double identity, first as citizens of the debtor state, and second, as part of the second constituency. Since these domestic creditors are

seeing their interests represented both by multilateral creditors and by their own states, who give priority to their claims over those of their fellow citizens, they can only partly be thought of as dominated. By virtue of their identity as the state's private creditors, they are actually part of the dominating party.

Structural Exploitation

I define structural exploitation as the process through which the productive power from those in a position of disadvantage is progressively transferred to those in a position of advantage, thereby systematically constraining the self-development of the former.¹⁷⁴ I use productive power rather than 'surplus product,' since surplus product has a strong connotation of industrial forms of capitalism and is, in that sense, too restrictive. I also want to remain neutral with regard to whether every transfer of productive labour necessarily means that the powers of those in a disadvantaged position are "diminished by more than the amount of transfer."¹⁷⁵ According to Macpherson, labouring not only uses an individual's labour power, but also reduces his/her development power – "his ability to use his energies and capacities for all other purposes, that is, his ability to engage in activities which are simply a direct source of enjoyment and not a means of material production."¹⁷⁶

Adopting this definition distances me from those defending a liberal account of exploitation with focus on transacting individuals.¹⁷⁷ According to the definition endorsed here, exploitation is not always agential and transactional, but may be built

¹⁷⁴ Here I follow closely Young's definition of exploitation, who sees it as one of the five faces of oppression (1990).

¹⁷⁵ Macpherson, 1973, p.64.

¹⁷⁶ Macpherson, 1973, p.64. This is an insight picked up by Young, who builds on it to argue that exploitation is one face of oppression – one way, that is, in which self-development is institutionally constrained.

¹⁷⁷ Disagreement continues to exist among scholars defending these transactional accounts of exploitation, regarding what makes a transaction unfair (Wertheimer, 1996; Goodin, 1987; Sample, 2003; Miller, 1999).

into the very structure.¹⁷⁸ Structural exploitation captures the process through which the positions of disadvantage are reproduced and thereby describes how those who already occupy a position of disadvantage are rendered worse off. In other words, “structural exploitation both takes those subjects pre-positioned as socially inferior and constitutes subjects as socially inferior, and extracts their productive powers, reinforcing their disadvantage.”¹⁷⁹ If one holds the conviction that agents should have a roughly equal opportunity to flourish, then structural exploitation is a normatively problematic feature of any order it characterises.

Analytical Marxists have long debated whether exploitation is a normative or a technical concept.¹⁸⁰ Among those scholars who defend exploitation as a normative concept, there is vast disagreement on what makes exploitation wrong. While some argue that what makes exploitation wrong is the fact that it is a *forced* transfer of the productive power of a disadvantaged group to those in a position of advantage,¹⁸¹ others argue that the wrong resides in the unequal distribution of assets in the background against which an exchange takes place.¹⁸² Others still argue that exploitation is wrong because it violates other values we care about, such as the duty of protecting the vulnerable for Goodin, or because it is a form of domination for Vrousalis. The understanding of exploitation adopted here is a version of this latter argument: what makes exploitation wrong is that it inhibits self-development.¹⁸³

¹⁷⁸ Jeffrey Reiman argues that the force that structural exploitation entails is invisible under capitalism, precisely because it is not overt and always agential, but built into the very structure of capitalism as a social order. The origin of the structural force, according to Reiman, is the class system: the effect, that the positions of individuals differently positioned within this class system, face a different ‘array of fates’. This array of fates in turn makes it seem rational for the worker to seek employment in a factory.

¹⁷⁹ McKeown, 2016, p.177.

¹⁸⁰ For a defence that it is a technical concept, see Arneson (1981). For an exegetical critique of the view that Marx’s own view on exploitation is a technical one, see Vrousalis (2016).

¹⁸¹ Reiman, 1987; Holstrom, 1977.

¹⁸² Roemer, 1986.

¹⁸³ This is not to say that this is the only thing that may make exploitation wrong. One can adopt a ‘list theory’ approach to the wrongs of exploitation, according to which there is not necessarily only one thing that makes exploitation wrong. Such an argument has been made

Ultimately, then, the concern about exploitation is driven by the commitment to human emancipation and by the conviction that individuals and communities should have the opportunity to flourish. Such a project is inherently normative.¹⁸⁴

Within the SD&CR, an agent is vulnerable to exploitation when s/he is so positioned that the acquisition of debt results in the progressive transfer of his/her productive power to those occupying positions of advantage within the structure. In combination with the empirical description of the asymmetrical SD&CR in the previous section, my contention is that those citizens and classes therein that find themselves in a position of disadvantage within the regime are vulnerable to exploitation when debt is accrued in their name.

The worry that the progressive transfer of resources from debt servicing agents to their creditors may be exploitative has been raised in the past. In the context of the Highly Indebted Poor Country Initiative, for instance, organisations campaigning for debt relief and debt forgiveness were particularly forceful in denouncing the bleeding out of states via debt servicing, something which was portrayed as a progressive transfer of resources from the poorest to the wealthiest countries. Arguments were made regarding usurious interest rates, which ensured that the poorest nations continued to have debt servicing obligations even after having paid back the principal in full.¹⁸⁵ Comparing debt servicing with development aid figures, the question was raised about who was really developing whom, using

by Butt (2013) about the wrongs of colonialism. This understanding of the wrongs of exploitation is particularly plausible when one conceives of exploitation as a 'family resemblance' concept (McKeown, 2016). There is not one core conception of exploitation; there may be different kinds of moral wrong at play when exploitation occurs in different settings (in intimate relationships, market transactions or within economic, social or political systems).

¹⁸⁴ See Hayward and Lukes for a similar point regarding the definition of power (Hayward and Lukes, 2008, p.9).

¹⁸⁵ Some go as far as arguing that the principal has already been repaid 'multiple times'.

estimates of what could have been achieved had the resources been invested in poverty alleviation and development initiatives instead of debt servicing.¹⁸⁶

Indeed, many have pointed out that the very logic of debt predisposes and magnifies unequal social positions.¹⁸⁷ It predisposes these positions because it requires an agent (the creditor) with spare capital that it does not need, to extend it to another agent (the debtor), who does require it for a specific end. The very logic of debt, then, rests on this initial inequality of positions, no matter how minor it may be initially. Debt then takes on the job of magnifying this initial inequality, most prominently through the charging of interest. It is, to use Piketty's language, a mechanism of divergence. Those with spare capital to invest will thus see their capital expand through the magic of compound interest. If it is a risky debtor, creditors will be able to charge extra to compensate the risk they take in extending credit. These credit conditions can play a major role in exacerbating inequality.

My argument here differs from the argument that debt itself is a mechanism of divergence, for what I am arguing is that, while some states can accrue debt and see it work in their interest (creating the preconditions for self-development), for other states - their citizenries and particular classes therein - the opposite is often the case. For debt to be a mechanism of divergence, those who already occupy a position of disadvantage within the SD&CR need to be the ones accruing debt. Ultimately, then, it is those who already occupy a vulnerable position within the regime that end up paying more, benefitting those who are already occupying a position of advantage.

¹⁸⁶ See, for instance <https://www.one.org/international/issues/debt-cancellation/>. Denham (1990) summarizes the attitude of NGO's to debt reduction. The largest NGO coalition campaigning for debt relief was Jubilee 2000.

¹⁸⁷ In "Debt: The First 5000 Years", David Graeber makes this point, arguing that throughout history, relatively small initial differences in wealth resulted in debt contracts between the less and the more affluent that could produce long-term dependency and even debt bondage (2011).

This applies as much to debt accrued by natural persons as it does to sovereign debt. First, as is the case for individual borrowers, developing states that are considered risky will borrow on worse conditions than advanced economies that are seen as safe debtors. Moreover, as the debt burden increases and creditors become wary of the sovereign debtor's willingness or ability to repay, interest rates and risk premiums increase further for the already-disadvantaged. Second, if debt is accrued with any purpose other than sustainable investment into the economy, it can be another mechanism by which inequality is exacerbated. This is most evident when new debt is accrued to service older debt obligations. As Devlin puts it, when describing the treadmill effect that Latin American countries faced in the 1970s: "due to the law of compound interest, greater and greater proportions of a given level of borrowing were committed to repaying old debt. Thus, to maintain a given net transfer (new loans > debt service) a country had to borrow ever greater amounts."¹⁸⁸ This form of critique highlights debt as a mechanism of divergence and points at a structural process through which resources are transferred from those in a position of disadvantage to those in positions of advantage.

Along the lines of statehood, those vulnerable to exploitation are the citizens of debtor states, who find themselves in a position of disadvantage within the SD&CR, a position characterised by the empirical features outlined in the previous section. Note here that adopting the structural viewpoint allows us to respond to potential critics who point out that nearly all countries are debtors and that, because of this, it would be implausible that sovereign debt serves as a mechanism of exploitation. Such a critic would have missed a key dimension of the global political economy that governs modern-day debt. The analysis provided thus far renders this argument outdated.

¹⁸⁸ Devlin, 1989, p.51.

Structural exploitation also occurs along lines of class, where the exploited group are those social classes that find themselves in a position of vulnerability characterised by the empirical features outlined in the previous section. Here, it is important to highlight that it is not solely the domestic wage-dependent classes of the debtor state who are vulnerable to exploitation, but also those of creditor countries, albeit through different channels. Domestic wage-dependent classes of the debtor state are vulnerable to exploitation as the government takes on new loans from multilateral institutions to service private debt - increasing the debt burden and making it even more difficult, if not impossible, to restructure - all the while imposing austerity measures on the population, justified on the basis of having to meet their contractual obligations. Domestic wage-dependent classes in creditor states are vulnerable to exploitation as their governments help finance bailout packages for the private bondholders of crisis-stricken countries. In Chapter 4, I will return to the discussion about how these two axes of disadvantage – statehood and class – interact.

Conclusion and Road Ahead

In this chapter I have shown why we have reason to worry about the asymmetries described in the preceding section. We have reason to worry firstly because those citizens and classes in positions of disadvantage can be dominated and exploited when debt is accrued in their name, by virtue of the position they occupy in the regime. In the next chapter, I will argue that the positions of disadvantage that make their occupiers vulnerable to domination and exploitation when debt is accrued in their name are social in origin. That they are social in origin does not mean, however, that one dominating and/or exploiting agent can always be identified and singled out as the culprit, rather that the wrongs of the regime have a structural origin.

CHAPTER 3

ON THE SOCIAL ORIGINS OF THE INJUSTICES OF THE SD&CR

It is time to explode once and for all the popular myth that the IMF was dictating policy to Buenos Aires through the 1990s. This view is based on a cartoonish sort of logic that paints cause-and-effect correlations with an absurdly broad brush, not unlike blaming juvenile delinquency on rock and roll.¹⁸⁹

The previous chapter was devoted to establishing what makes the SD&CR normatively worrisome. First, I presented the empirical features characterising the asymmetrical SD&CR. Then I argued that we have reasons to be worried about these asymmetrical positions, since certain individuals are vulnerable to domination and exploitation based on that very position once their state accrues debt. Yet, I said very little - if anything at all - about the origins of these normatively troublesome asymmetries.

Doing so is relevant in at least two regards. First, it is important because a judgment of injustice requires that these normatively worrisome asymmetries be social in origin. Put differently, judgments of injustice do not apply to the consequences, even if they are normatively worrisome, of any form of non-human, natural catastrophe - they need to be produced and reproduced by human agents.¹⁹⁰ Second, showing how these normatively troublesome asymmetries are reproduced is important in order not to fall prey to what financial journalist Paul Blustein denounces as a “cartoonish sort of logic.” Evaluating the 2001 Argentine crisis, a sovereign debt crisis often compared to the Greek case, he warns us against simply

¹⁸⁹ Blustein, 2005, p. 198-99; p.196.

¹⁹⁰ In the assessment of what makes a global order unjust, I follow Pogge, according to whom a global system of rules and norms is unjust when it systematically creates positions of advantage and disadvantage, imposed by those who benefit from it (Pogge, 2002). As will become clearer as I proceed, I revise the second part of this definition, arguing that the global order is not unilaterally imposed by those who benefit from it, but that it is reproduced through structural processes, in which both winners and losers participate.

blaming prominent actors, such as the IMF, for the vulnerability to domination and exploitation of those in a position of disadvantage.¹⁹¹

In this chapter I show how these positions of disadvantage are social in origin. First I argue that neither of the two responses given so far regarding the social origins of the injustices – the agential thesis and the structural injustice thesis – manage to fully grasp how the injustices of the SD&CR are reproduced. To grasp how they are reproduced, we need to expand our conceptual apparatus. To do so, I introduce a case study, namely the adoption of the first Greek ‘rescue package’ in 2010. On this basis, I argue that the injustices in the SD&CR are produced and reproduced through structural processes that can be grouped into three distinct heuristic categories, what I call *structural processes proper*, the *structural-relational* and the *structural-systemic* level.

Preliminary Remarks: Agential Thesis & Structural Injustice Thesis

The central feature that differentiates injustices from cases of misfortune is the fact that in the former, the asymmetries are social in origin, whereas in the latter they are not. Whereas injustice is human-made, misfortune is not, and can be a consequence of natural catastrophes. Consequently, while there is a group of agents who can be held responsible for having caused injustice, there is no such group for misfortunes.¹⁹² Who can be held responsible for an unjust global order is something which continues to be debated among global justice scholars and scholars of structural injustice.

¹⁹¹ The similarities between the Argentine and the Greek debt crises inspired financial journalists and academics alike to compare the two (Mercille, 2013; Krugman, 2012; Roubini, 2012; Weisbrot and Montecino, 2012). While some see the Argentine crisis resolution as the European’s worst nightmare, others present the Argentine default and non-voluntary restructuring as the preferable alternative over austerity policies, which they see as asphyxiating the economy.

¹⁹² Kahn, 2012, p.51.

In his work on world poverty and human rights, Thomas Pogge tried to show how the global political economic order foreseeably and avoidably puts some agents in a systematic position of advantage and others in a position of disadvantage.¹⁹³ Crucially, he shows how this order is produced and reproduced by those *who benefit from it*. I will call this the ‘agential thesis.’ Pogge goes as far as comparing ‘the moral position’ of those in advantaged positions (citizens of affluent states, in his account) with that of Mao Tse-Tung.¹⁹⁴ How exactly and to what extent citizens of affluent states (re)produce the global political economic order, however, continues to be debated.¹⁹⁵

The central contribution of the structural injustice literature has been to show that, although no single agent or group can be held responsible for the existence of structural injustice, individuals whose actions contribute to its creation and instantiation through a combination of actions, policies and social practices, can indeed be held responsible for it. I call this position – the position that maintains that injustices can be reproduced by the interplay of manifold actions, none of which can be isolated and held solely responsible for the unjust outcome – the ‘structural injustice thesis.’ Structural injustices are defined as those “produced and reproduced by thousands or millions of persons usually acting within institutional rules and

¹⁹³ Pogge, 2002.

¹⁹⁴ “To be sure, we do not intend these harms [global poverty], and we are thus not on a par with Stalin, who used economic policies and institutions specifically in order to impoverish and kill segments of the population he deemed hostile to the Soviet regime. We may not even have foreseen these harms when we constructed the new global economic architecture beginning in the late 1980s. Now that we do know, our moral situation is more akin to that of Mao Tse-Tung in 1959. Mao did not foresee that his Great Leap Forward, begun in 1958, would acutely aggravate poverty in China. But when the catastrophic effects of these policies became evident in the great famine of 1959-62, he continued his policies and declined foreign help. Twenty to thirty million Chinese perished as a direct consequence of this moral failure. Continuing our current global economic structures and policies unmodified would manifest a similar moral failure” Pogge, 2002, p.10.

¹⁹⁵ For an excellent critique on Pogge’s argument that citizens of affluent societies harm the global poor, see Risse, 2013.

according to practices that most people regard as morally acceptable¹⁹⁶ or as those “which cannot be causally linked to a specific perpetrator and is not imposed by any identifiable actor or agency.”¹⁹⁷ The contributions made by different agents to the instantiation of this structural injustice is not specified.

In this chapter I defend two claims. First, I show that the asymmetries of the SD&CR are indeed social in origin and that those who are in a position of disadvantage are therefore victims of injustice and not merely of misfortune. Second, I argue that neither of the two responses given so far regarding the social origins of the injustices of the global political economic order – the agential thesis and the structural injustice thesis – manage to fully grasp how the injustices of the SD&CR are reproduced.

In the case of the SD&CR, we can observe that those who benefit from the regime do not unilaterally impose the unjust order, but only do so in conjunction with the actions of other actors, many of whom occupy the instantiated disadvantaged positions. To that extent, structural injustice scholars are right in arguing that the injustices characterising the SD&CR cannot be linked to one, specific perpetrator. At the same time, however, analysing a concrete case in which injustice is perpetuated in the SD&CR also reveals that more can be said about the reproduction of injustices in the SD&CR than just that they are instantiated through structural processes to which millions of individuals contribute. I propose to distinguish between three dimensions through which the injustices in the SD&CR are reproduced. Although I distil these dimensions from an analysis of a concrete case in which injustices within the SD&CR are reproduced, they are applicable to other cases within the SD&CR and to other domains of injustice altogether, serving as heuristic categories to analyse the perpetuation of other unjust structures.

¹⁹⁶ Young, 2011, p.97.

¹⁹⁷ Kahn, 2012, p.59.

First Greek Restructuring

To live up to the promise of providing a nuanced, non-dogmatic answer to the question of how the injustices characterising the SD&CR are reproduced, I propose to look in greater detail at one concrete case in which positions of disadvantage along class and statehood are reproduced. The concrete case I have chosen is the adoption of the first Greek rescue package. Those familiar with the case can skim through the next paragraphs, in which the context of the adoption of the rescue program is introduced.

After assuming power in 2009, Papandreou declared that the debt levels, which had been made public by the previous government, did not correspond to the country's grim reality. As yields on Greek bonds continued to grow, the quandary confronting Papandreou and Papaconstantinou – his finance minister - was what to do if market sentiment turned so negative that fresh funds became unavailable at a reasonable cost. Since they knew better than to expect credit from their European partners, who adhered to the 'no bailout clause' of the Maastricht treaty, which forbade emergency aid, Papandreou turned to the IMF.

During the January 2010 World Economic Forum, Papandreou and Papaconstantinou met with the then-Managing Director of the IMF, Strauss Kahn, in a restaurant kitchen in Davos. According to Papaconstantinou's memoir, Papandreou begged the managing director to promise IMF funds if the financial markets dried up or became too expensive, to which Strauss Kahn replied that "lending money to countries which had lost access to markets was the Fund's mission; if Greece asks, [the IMF] would have to help."¹⁹⁸ The fact that this meeting took place in a Davos kitchen is particularly telling: recounting the situation using extensive primary and

¹⁹⁸ Papaconstantinou in Blustein, 2016, p.81.

secondary research, financial journalist Paul Blustein states that the restaurant's kitchen was "one of the few places where Papandreou and Papaconstantinou could parley with the IMF managing director away from the prying eyes of the numerous journalists attending the conference. Waiters bearing trays laden with dishes and glasses were bustling in and out, and security guards were keeping a watchful eye for unwelcome intruders as the three men stood and talked."¹⁹⁹ Although Strauss Kahn initially expressed the IMF's support for Greece, the negotiations that led to the first rescue package dragged on much longer than anyone would have wished for. The main reason behind this delay was disagreement between the IMF and the European Central Bank (ECB) on the involvement of the private sector – on the question, that is, of whether Greece should also engage in a voluntary restructuring with its private creditors.

The IMF insisted on private sector involvement due to what became known in IMF jargon as the 'No More Argentinas Rule.' The IMF's greatest debacle occurred at the turn of the century in Argentina, a country which, throughout the 1990s, had been the darling of Wall Street and of the IMF.²⁰⁰ In August of 2001, the Fund decided to lend Argentina \$8 billion on top of the \$14 billion rescue package that the IMF had previously provided. The Argentine default, which came four and a half months later and was the biggest default of the time, proved that the Fund had done a major disservice to the Argentine citizens. The extra funds provided by the IMF had gone directly to the bank accounts of some of Argentina's private creditors, leaving the nation's taxpayers with a bigger burden of debt, one that was even harder to restructure due to the Fund's preferred creditor status. The lesson learned by the IMF was that it should only give an exceptionally large loan to a country if a rigorous analysis showed that the country's debt had a 'high probability' of being sustainable.

¹⁹⁹ Blustein, 2016, p. 93.

²⁰⁰ Blustein, 2005.

If this standard was not met, the Fund would provide aid only on the condition that the country's private debt was restructured. The IMF's concern with giving Greece a loan was that the 'No More Argentinas Rule' was not met. Giving Athens a big international rescue loan with no haircut would shift the burden from private creditors to taxpayers, and to the wage-dependent classes therein.

ECB president Trichet, however, was radically opposed to any debt restructuring. According to several negotiators, he 'blew up' every time it was mentioned.²⁰¹ His rationale was based on the fear of losing the trust of the markets. Once faith in the credit worthiness of one Eurozone country was shattered, Trichet feared that confidence in the bonds issued by other European governments would be destroyed as well, resulting in a Lehman-like event in which investors pulled money out of markets all over the continent. Trichet's fear of market panic and his anxiety over financial contagion was widely shared in Europe.

Ultimately, as a junior partner, the IMF had to concede, and the program approved in 2010 did not involve the private sector. The conditionalities of the program were, moreover, extremely arduous and have been said to have included 'everything but the kitchen sink'. This ran contrary to the IMF's own institutional development, which had progressively reduced conditionalities, emphasising that 'ownership' – the willingness of leaders and parliaments to pass laws and faithfully implement the terms – was crucial for the program's success. But 'the kitchen-sink' list of conditionalities reflected the desire of the Germans and other European policy-makers to ensure that the rescue package would be perceived as unpleasant for the borrowing country.²⁰²

²⁰¹ Blustein, 2016, p. 118.

²⁰² Blustein, 2016, p. 122.

The Social Origin of the Asymmetries of the SD&CR and the Three Dimensions Through Which the Regime is Imposed

What do the negotiations about the first Greek rescue package reveal? It is my contention that Greek citizens were dominated *qua* citizens and exploited *qua* members of the wage-dependent class once Papandreou decided to accrue debt in their name. They suffered from this domination and exploitation by virtue of the choice architecture they had, or believed they had, at their disposal. Analysing how exactly they came to occupy this position of disadvantage is the aim of this section.

At first glance, Greek citizens' self-determination does not seem to be systematically constrained. After all, it was Papandreou who first approached Strauss Khan in a Davos Kitchen, asking for the IMF's support in case market sentiments turned sour. The complaints of those who denounce the 'cartoonish logic' of powerful multilateral institutions, such as the IMF and the ECB, unilaterally dictating harsh conditionalities on "manipulable, passive victims"²⁰³ proves justified.²⁰⁴ This does not demonstrate, however, that Greek citizens protesting on the streets of Athens, holding signs such as 'IMF Go Home' or 'Troika – Keep Calm and Go to Hell' are wrong about being dominated by the IMF and the ECB. The 'everything but the kitchen sink' conditionalities that Greece's first rescue program included were anything but self-legislated and certainly bypassed the self-determination of the Greek citizenry. To that extent, Hurrell is right in his claim that Greece's policy choices were "if not dictated, then certainly shaped by institutions dominated by the strong and often backed by coercion in the form of an expanding range of

²⁰³ Kedar, 2013, p.4.

²⁰⁴ Often those denouncing the 'cartoonish sort of logic' of their opponents turn their opponent's arguments into a straw-man, too. Although I recognise this, I grant that many of the views may need greater refinement. For excellent, nuanced accounts of the relationship between the IMF and its borrowing states, see Chwieroth (2010) and Kedar (2013).

conditionalities.”²⁰⁵ So while the outcome seems to be one in which the self-determination of the Greek citizenry was systematically constrained, this is not to say that the way in which this occurred is through the unilateral imposition of conditionalities by the Troika.

The Greek rescue package that ended up being adopted also resulted in the progressive transfer of the productive power from those in a position of disadvantage (the domestic wage-dependent classes) to those in a position of advantage within a structure (the financial elite *qua* private creditors). As Paulo Nogueira Batista - a particularly critical and outspoken IMF executive director - argued, the program which the Troika ended up negotiating to bail out Greece “may be seen not as a rescue of Greece, which will have to undergo a wrenching adjustment, but as a bailout of Greece’s private debt holders, mainly European financial institutions.”²⁰⁶ What we witness here, then, is the textbook definition of an exploitative relationship in which the productive powers of one particular social group, namely the wage-dependent class, is appropriated by another, namely its private creditors. However, the exploitation of the wage-dependent class, which benefits private creditors is - and this is crucial - not directly exerted by private creditors themselves. Rather, the exploitation of wage-earners and the benefit of the financial elite *qua* private creditors is mediated by the adoption of the first Greek rescue program, a program whose adoption cannot simply be reduced to an alleged unilateral imposition by multilateral institutions, co-opted by the interests of those benefiting from the bailout (private creditors).

²⁰⁵ Hurrell, 2001, p.43. Later in the unfolding of the Greek debt crisis, the systematic constraints on the Greek citizenry’s self-determination became even more blatant. During the negotiations for the second Greek rescue program in March of 2012, for instance, it was not even a Greek negotiator that was sitting on the debtor side of the negotiating table. Rather, an Italian official was negotiating with private creditors. Despite it being the future of Greek citizens that was on the negotiating table, no Greek official was present during those meetings.

²⁰⁶ Blustein, 2016, p.136.

This class-specific effect of austerity policies is well established in the Greek case. According to an OECD working paper studying the distributive consequences of the Greek austerity measures from 2009-2014, absolute poverty rose “steadily and steeply.”²⁰⁷ The proportion of population whose income fell below an anchored benchmark (anchored in pre-crisis terms) increased from 13,2 % in 2010 to 27, 4% in 2014. Similarly, inequality and unemployment rose as the recession deepened. Those most affected by austerity policies were the unemployed, the self-employed, the young, the middle-aged, families living in Athens, and – crucially for the relational understanding of class I adopt here - families paying rent or mortgage rather than property owners. Those traditionally seen as poor, such as farmers and the elderly, were particularly affected by difficulties in the access of health care. Moreover, fiscal austerity also resulted in significant increases in overall suicide rates in Greece.²⁰⁸

The adoption of the first Greek rescue package thus evidences three things. First, it unmistakably shows the social origins of the injustices suffered by those in a position of disadvantage in the SD&CR. Second, it shows that the injustices characterising the regime are not unilaterally imposed by those who benefit from it – the agential thesis – but are reproduced by the interplay of actions by various agents. The domination of Greek citizens and the exploitation of the domestic wage-dependent class is not a consequence of misfortune, but arises from the position of the latter in a highly asymmetrical SD&CR that is reproduced by the actions of the debtor government, multilateral and bilateral public creditors and private creditors

²⁰⁷ Leventi and Matsaganis, 2016.

²⁰⁸ The effects of austerity on suicide were found to be gender and age specific in Greece. Suicide rates significantly increased among males, with no significant effects on female suicide rates (Antonakakis and Collins, 2014). The age category most negatively affected is the population between 45 and 89 years of age (since this is the age bracket most dependent on fixed incomes, such as state pensions). The public suicide of a 77-year-old Greek pensioner shooting himself with a handgun in front of one of the capital’s busiest main squares near the Greek Parliament is thus decisively not an isolated case (Kitsantonis, 2012).

alike; a regime which – as argued for in the preceding chapter - is further embedded in a highly-financialised global political economy.

Third, presenting the empirical case of the first Greek bailout package in relative detail also allows us to recognise that there is more to the picture than just the contributions of manifold actions in reproducing injustices in the SD&CR – the structural injustice thesis. It is not that the structural injustice thesis is wrong, but rather that it ought to be used as a starting point to offer a more granular analysis of different contributions made by those producing and reproducing structural injustices. Concretely, three distinct dimensions can be distinguished through which injustices are perpetuated: structural-processes-proper, the structural-relational and the structural-systemic dimension.

These three different dimensions of structural injustice serve as a heuristic device to provide a more nuanced picture of the different ways in which structural injustice is produced and reproduced. On one level, the three dimensions describe the same thing: the reproduction of structural injustices. What I call the structural-systemic dimension, for instance, is not something different or apart from the structural processes proper, or from the structural-relational level identified. Rather, they serve as heuristic devices to delineate different dimensions through which the structural wrongs of the regime are reproduced.

The importance of distinguishing between them is (at least) twofold. First, as I argue here, distinguishing between these three dimensions allows me to give a more nuanced view of the paths through which domination and exploitation are exerted in the SD&CR, without falling prey to a ‘cartoonish sort of logic’. Second, as I move on to show in the second part of this thesis, distinguishing more clearly between these three sources also allows for a form of responsibility attribution that – while fully recognising the structural nature of the injustice we are facing – can attribute

individual responsibility, not only in a forward-looking and shared manner, but also in a backward-looking and distributive manner.

First, *structural processes proper* describe those processes that structural injustice scholars have in mind when defining structural injustice, or those where “thousands or millions of persons usually acting within institutional rules and according to practices that most people regard as morally acceptable.”²⁰⁹ Such structural processes surpass individual actions – they lack an individually identifiable perpetrator, come about through the interplay of manifold actors going about what may be considered their day-to-day business, and often take on a dynamic of their own. Financial crises might be among the best examples of dynamics that surpass individual decision-making. Within the academic discipline of economics, financial crises are often referred to as ‘panic in the theatre’ events. Young describes them as the paramount example of “large-scale social processes in which masses of individuals believe they are following the rules, minding their own business and trying to accomplish their legitimate goals... [resulting] in undesirable, unintended consequences when looked at structurally.”²¹⁰

In the Greek case, we can see how structural processes proper play a significant role. It was the looming outbreak of a liquidity crisis that pushed Greek officials to turn to the IMF in the first place. The turning of market sentiment, in turn, is nothing but millions of individual investors ceasing to trust Greece’s solvency and choosing to cease lending to Greece. Similarly, the fact that Papandreou and Papaconstantinou met the Managing Director of the IMF in a kitchen sheltered from public scrutiny is emblematic of the fact that all agents feared the outbreak of such a structural process, in which mere rumours about Greece requiring IMF assistance

²⁰⁹ Young, 2011, p.97.

²¹⁰ Young, 2011, p.97.

could result in individual creditors starting to sell Greek bonds in secondary markets in a fire sale.

There is more to say, however, about the individual agents' contributions to the Greek crisis than can be captured by the 'structural processes proper' dimension. There also seem to be distinct contributions of individual agents to the production and reproduction of structural injustice, which can and ought to be individuated. Normally, agents so placed as to make such a distinct contribution to structural injustice are those in positions of power within the structure they inhabit. I call these *structural-relational* contributions to structural injustice. They are structural-relational because, although an agent of wrongdoing (a dominating or exploiting agent, in our case) can be identified - and is in that sense relational - their wrongdoing is structural in two ways. First, just like individual agents contribute to structural processes proper by going about their daily business, these actions and decisions are also part of the overarching structural process which creates and reproduces structural injustice. Second, these agents draw on and require various kinds of complicity from other actors and from enabling structures to make their individual contribution possible.²¹¹

In the Greek case, we can see how the adoption of 'everything but the kitchen sink' list of conditionalities is a case in which the structural injustice is perpetuated via the structural-relational dimension. As discussed above, the claim that conditionalities are unilaterally imposed by multilateral institutions on 'manipulable,

²¹¹ In her analysis of colonial structural injustices and of Japanese colonialism in Korea in particular, Lu gives a powerful example of how such a structural-relational source of injustice looks. Lu convincingly shows how the unjust social structures relating to class and gender both in international, and in Korean, society were necessary for the structural injustice of Japanese colonialism to come about. While Japanese colonisers may be relational wrongdoers, it is only in combination with the unjust structures of class and race that the structural injustice of colonialism can be explained (See Chapter 4, 2017).

passive²¹² subjects is a caricaturised reading of how structural injustices are perpetuated.²¹³ Notwithstanding, it is also incorrect to cluster all contributions to the instantiation of structural injustice under the same heading of morally innocent contributions, which cannot be causally connected to the injustice.²¹⁴ More specifically, the Troika did impose conditionalities on the Greek citizenry, and even though this imposition was mediated by the fact that the debtor government first approached the IMF, there are various reasons why a debtor government may have chosen to do so, which will be discussed below.

What is important here is that the contributions of the Troika to the perpetuation of structural injustices can be individuated, even though their contribution also draws on established social norms and relies on the complicity of other actors to do so. While the Troika's contributions are comparable to 'structural processes proper,' they are distinct from the contributions made by other actors who do not occupy such a position of power within the structure, actors such as non-institutional bond-holders who threaten to sell Greek assets and generate a 'panic in the theatre' type event.

These two dimensions – structural processes proper and the structural-relational – need to be complemented by a third dimension, what I call the *structural systemic* level. As argued back in Chapter 1, a country's individual debt history can only be understood in the context of the SD&CR first, and of the financialisation of capitalism second. While financial crises may be a prototypical example of what I called a structural process proper, they also occur within a broader institutional order. The concrete political decisions taken by states since the abolition of the

²¹² Kedar, 2013, p.4.

²¹³ As I argue in Chapter 7, treating those occupying positions of disadvantage as passive victims is not only descriptively incorrect, but also disrespectful to their agency.

²¹⁴ I defend the point that different forms of contributions to the reproduction of structural injustices ought to be more clearly distinguished than they currently are by structural injustice scholars in Chapter 5.

Bretton Woods regime and analysed in the preceding chapters resulted in a process of financialisation, which made financial crises ever more likely. While it is also true that this had consequences that none of the policy makers predicted or intended, the financialisation of the economy was a result of concrete political decisions that established a particular institutional social order.

Recognising that certain positions of disadvantage are reproduced not only because of the outbreak of structural processes proper – financial crises as ‘fire in the theatre’ type events – but also because of the institutional order in which the SD&CR is embedded is crucial. Injustices in the SD&CR are not only reproduced because thousands or millions of people act in ways that, though morally acceptable, reproduce positions of disadvantage, nor only because powerful actors draw on established norms and on the complicity of other actors to make distinct contributions that perpetuate injustice. Rather, injustices in the SD&CR are also reproduced due to the particular institutional social order, a particular form of capitalism, in which it is embedded. If we fail to explicitly draw attention to this, the critique is reduced to the structural-relational level and structural processes proper, missing what I propose to call the ‘structural-systemic level’.

Alford and Friedland use the game metaphor to distinguish between the three different levels of analysis, namely the systemic, institutional and situational levels. The systemic level asks what game to play (capitalism or socialism), the institutional level concerns the rules of the game (varieties of capitalism, for instance), and the situational level relates to the moves within a fixed game with fixed rules (the struggle of interest’s groups over immediate economic interests.)²¹⁵ The analogy to sport is helpful to elucidate these different levels. Think about two different athletes, one who is tall and agile and the other, who is shorter, but very strong and heavy.

²¹⁵ Wright, 2015, p.119.

They live in a world in which only one game can be played. Now, if basketball becomes the hegemonic game, clearly the former of the two athletes would have an advantage over the latter. Conversely, were the game to be rugby, the heavier, stronger athlete would have an advantage over the taller and more agile athlete. Once playing a particular game, rules can be changed to favour athletes with certain attributes.²¹⁶ Finally, given a set of fixed rules, the players adopt specific training regimes and strategies to maximise their chance of winning the said game.²¹⁷

A critique in line with what I call the structural-relational level denounces relational injustices related to asymmetries in power or access to resources that arise from the position that different agents occupy within a given game with specific rules and moves. Using the sport analogy, a structural-relational critique would denounce that there are non-coincidental reasons that establish a structured relationship between the two different athletes, such as the game and the rules of the game being played. This relational critique goes beyond a mere assessment of distribution. To overcome this relational injustice, it is not enough to simply equalise the rewards that result from winning the game. Rather, emancipation from this form of injustice would require an equalisation of the forms of structured relations.

Applied to the case that concern us here, a structural-relational critique denounces those relationships of domination and exploitation where an agent in a position of power within the regime draws on the complicity of other actors and/or on enabling social norms to exploit or dominate those in whose name debt is accrued while they are in a position of disadvantage within the regime. Chapter 7 is devoted to further dissecting the question of responsibility of different actors – ‘the primary

²¹⁶ The change in the rules of basketball that made dunking possible, for example, added to the advantages of height.

²¹⁷ Wright, 2015, p.119.

wrongdoer' and the 'complicit' agent – in cases in which the structural-relational dimension is prominent.

A structural-systemic critique, by contrast, goes beyond a structural-relational critique, calling the whole game into question. What is missing from a structural-relational analysis, then, is the possibility of challenging not only particular asymmetries of position within the game, but the ability to call for a different game altogether. Take the case of gender equality in the workforce as an example. With important variations across geographies, sectors, level of professional skills, and race (to name just a few), women continue to encounter important challenges when fighting for equality in their workplace. Not only are many women inhibited from joining the public sphere, but when they do, they are often not treated as equal to their male counterparts. A structural-relational critique would denounce this inequality. What this form of critique is not able to question, however, are the working conditions of all the workers. Female workers may fight for greater equality with men, but this is a different form of critique than one challenging the capitalists' ownership of the means of production. The latter is a structural-systemic critique. My contention is that something is lost if we only have tools to criticise the former, but not the latter form of injustice.

On the structural-systemic level, moreover, all participants in the game can suffer from injustices, even those who – due to the specificities of the game and the rules of the game – hold a position of advantage within the game being played. Each game requires certain things for its own preservation and it is this systemic logic that can subjugate all participants of the game to a form of systemic injustice. Of course, only agents can act, thus the game being played has no agency of its own. Nonetheless, the systemic logic imprints itself on agent's choices in two central ways. First, it confronts agents with a particular option set which makes it their rational,

material interest to act in a way that preserves the game being played. Second, the logic of the game being played is internalised by the agents in the form of a system of thought or mode of consciousness. The systemic logic thus imprints itself on agents' choices either by making it materially rational to do what is required for the game's preservation, or by making it seem rational. I give empirical examples in the Greek case of both ways in which the systemic logic imprints itself on agents' choices in the final paragraphs of this section.²¹⁸

We saw how Greek officials turned to the IMF due to the fear of a potential drying up of financial markets and thus, of being cut off from private credit. Anyone who pays even the slightest bit of attention to developments in international political economic diplomacy will know that a country would prefer nearly any other option over asking the IMF for assistance. But Greece's alternative, namely the inability to pay maturing bonds, pensions, or salaries – together with the potential for panic in the markets – seemed far worse than the medicine.²¹⁹ In a way, then, Greece officials *considered* that they had no alternative other than approaching the IMF for assistance.

The fact that Greek officials thought that they had no viable alternative speaks volumes about Greece's position in the SD&CR, a position of disadvantage that is characterised by a restricted choice architecture. At the same time, the fact that it *seemed* rational for Greek officials to turn to the IMF also illustrates how the systemic

²¹⁸ I remain purposefully vague about how exactly I wish to spell out this logic. First generation Frankfurt School theorists may think about it as ideology. For them, ideologies are particular modes of consciousness, in specific historical contexts of social injustice, in which the constructs of false or distorted consciousness (suffered by all actors) are the product of the modern capitalist system, which serve to maintain and reproduce it (Azmanova, 2014). Followers of the work of Michel Foucault, instead, may want to think about it as a normative reason that, when it becomes ascendant, takes shape as a governing rationality (Brown, 2015, p.30).

²¹⁹ As the saying goes, "The only thing worse than being exploited by capitalists, is not being exploited by capitalists."

logic is reproduced in action, by imprinting itself in the minds of actors and presenting itself as the only alternative.

The fear of extreme reactions of the market is shared by other players, as well.²²⁰ Trichet's justification for the lack of private creditor involvement was that he feared market hysteria. Besides Greek officials, the IMF itself also seemed to have succumbed to a 'There Is No Alternative' logic (TINA). The minutes released from the IMF board meeting on 9 May 2010, in which the program was approved, reveal that the IMF opposed the first Greek rescue package on the basis that it violated the 'No More Argentinas' rule. Notwithstanding, they determined that no plan B existed. As a commentator noted: "as they entered, the directors and other IMF personnel attending the meeting knew how it would end. Given the combustible market environment, the board was certain to approve the program, based on the usual consensus or something very close to it."²²¹ This brings to the fore a central feature of the structural-systemic level that my definition of domination accommodates, namely that there are instances in which all players in the game, or all agents living under a highly-financialised form of capitalism, are dominated by virtue of the game that is being played.

That everybody can see their self-determination systematically constrained by virtue of the game being played does not mean that power relations cease to matter. Again, using the example of gender equality in the workforce as a useful analogy, one can see that both types of critique – the structural-relational and the structural-systemic – can run parallel in the same domain of injustice. Both workers *and* capitalists can be said to have their self-determination constrained by virtue of the

²²⁰ Interestingly, the notion of the market here functions as an oxymoron, personifying what it abstracts. The way in which the market is talked about involves, first, an idealisation in which one abstracts from the individual investors that actually constitute the market, only to then exalt and personify 'the market'.

²²¹ Blustein, 2016, p.133.

institutional social order under which they live. This does not suggest, however, that the power relations between workers and capitalists, and the relative position of advantage of male workers over female workers, ought to be ignored.

The same applies to an asymmetrical and unjust SD&CR embedded in a highly-financialised economy. Trichet, as the head of one of the most powerful institutions relating to the Greek debt debacle - clearly occupied a position of power. This enabled him to defend the interests and economic orthodoxy of the ECB over and above the opinion of that of the IMF, something which resulted in the structural domination of the Greek citizenry and the exploitation of the domestic wage-dependent classes across Europe. This does not mean, however, that he, and the institution he represented, were not also caught in the systemic logic of a highly-financialised form of capitalism that only enabled him to recognise certain options.

Without making any claims of exhaustiveness regarding the systemic logic of financial capitalism in the Greek debt debacle, two aspects of the systemic logic of the game come to the fore, namely a fear of market panic and, relatedly, a TINA-logic. We can recognise this systemic logic in the rationale of all agents, from the Greek officials asking for IMF assistance due to fear of financial markets drying up, to the IMF board of directors who approved a program that they knew would be unsuccessful and would only further burden domestic wage-dependent classes, to Trichet, who insisted on excluding the private sector from restructuring to avoid losing trust in the market.²²²

Indeed, one way of interpreting the history of the past half-century is to note that there has been a gradual shift in the levels of the game at which the ‘There Is No

²²² As the Greek crisis unfolded, more and more people –in public discourse, academia and the leading political and public policy circles – started seriously considering the option of ‘Grexit’. This was not an option considered at the time of the first restructuring, however.

Alternative' logic has taken root.²²³ Before the financialisation of capitalism really took off, in the 1960s and 1970s, TINA was not yet established at any of the three levels. By the 1960s and 1970s, all three levels – the system, institutional and situational – could be questioned. In the 1980s, Thatcher proclaimed 'There Is No Alternative' and with the collapse of the USSR, no real alternatives on the level of the game seemed to exist. The debate moved from the system level, where capitalism had become the only game in town, to the institutional level, where the debate surrounding 'varieties of capitalism' boomed. With the turn of the century, variations in the rules of the game of capitalism seemed to arise. In the years of what economists proudly (and mistakenly) proclaimed to be the years of 'the Great Moderation,' globalisation and financialisation appeared to have triumphed in regard to the optimal rules for managing the capitalist economy. TINA thus spread from capitalism versus socialism to variation in the rules within capitalism itself. Today, the most contentious debates are being fought on the level of the moves within the game, or system.²²⁴

The TINA logic operates on the two different levels regarding the way the systemic logic imprints itself on the choices of actors. Take different forms of financial crises as an example. Sovereign debt crises can be understood as crises that erupt when a country is not able or willing to service its debt, whether foreign or domestic, under the terms agreed. Banking crises occur when an actual or potential bank run induces banks to suspend the convertibility of their liabilities.²²⁵ The TINA rhetoric regarding how to respond to these crises applies to both equally.

²²³ Wright, 2015, p.124.

²²⁴ This trajectory notwithstanding, recent crises triggered moments and movements in which the rules of the game became questioned again outside of radical circles. Occupy Wall Street, los Indignados, and the student movement in Chile are such examples. For the case that concerns us here, the victory of Syriza in Greece embodies a moment in which the rules of the game are called into question.

²²⁵ Reinhart and Rogoff, 2009.

In sovereign debt crises, it is argued that default and obligatory restructuring of private debt must be avoided at all costs and that voluntary restructuring involving the private sector are also strongly discouraged. This rhetoric is clearly demonstrated in the Greek sovereign debt crisis. The rationale is that all players would be materially worse if default or restructuring were to occur. The Greek officials, in particular, were worried about the reputational costs of defaulting or of a forced restructuring. It is, however, very questionable whether there is, in fact, no alternative in the case of sovereign debt crises. Historically, we see that states who default or are forced to restructure regain access to private financial markets quite rapidly, so the reputational effect is not as long-lasting – and some may add, not as grave – as the TINA rhetoric suggests. Ecuador is a good example of this.²²⁶

This is not the case for banking crises. It is true that bailing out the banks with taxpayer money not only exacerbates inequality (distributively), but also the structured relations of inequality between the financial class and the domestic wage-dependent classes. Notwithstanding, letting the banks fail would be immensely materially costly for all participants of the game. This is the sense in which banks have become ‘too big to fail,’ and it is also in this sense that all parties, including the wage-dependent class, have a material interest in saving the banks. Sovereign debt crises, then, are good examples of cases in which the power of the systemic logic comes from influencing the consciousness or systems of belief of the agents. Banking crises, by contrast, are a good example of the systemic logic imprinting itself on the choices of agents by truly making it rational for everyone to do what is required for the game to continue, in this case by saving the banks.²²⁷

²²⁶ Vidal, 2017. See also *Ecuador’s winning strategy* in the Economist, June 17th, 2009, <http://www.economist.com/node/13854456>

²²⁷ Blyth makes a similar point concerning austerity, arguing that this ‘bad idea’ remains dominant both due to ideological and material reasons (2015).

Conclusion and Road Ahead

This chapter started with the promise of showing that the normatively worrisome asymmetries of the SD&CR were social in origin, without falling prey to the ‘cartoonish sort of logic’ denounced by the financial journalist Paul Blustein. I argued that while the agential thesis is not able to capture how injustices are reproduced in the SD&CR, the ‘structural injustice thesis’ can be developed further to offer a more granular analysis of how injustices are actually perpetuated in the SD&CR. First, there are sources of structural injustice that truly are nothing but the aggregation and complex interplay of the actions of millions of individuals, a source I called ‘structural processes proper.’ Second, there are individual contributions to structural injustices by primary wrongdoers who are enabled and supported by wider social structures in which many participate. While also contributing to structural injustice and feeding into the structural processes proper, the actions of primary agents of wrongdoing can and ought to be individuated as a distinct dimension through which structural injustice is reproduced. I called this a structural-relational contribution to structural injustice. A third dimension through which structural injustice is instantiated is the institutional social order within which structural processes unfold. The institutional social order - in our case, a highly-financialised form of capitalism - makes the unfolding of certain structural injustices more likely.

Crucially, introducing the three dimensions proposed here as heuristic devices can help us think through other cases, as well. In no way am I suggesting here that private creditors as members of the financial class are always dominating or exploitative. While the three dimensions identified are a powerful tool to examine what is wrong with the SD&CR, one still needs to analyse each individual debt history in more detail in order to make an assessment of responsibility. This is something to which I will pay more attention in the second part of the thesis.

In combination with the analysis made in chapters 1 and 2, this chapter provided a complete structural analysis of the SD&CR. In Chapter 1, I emphasised how the most visible aspect – the outbreak of a sovereign debt crisis – is only the tip of the iceberg and argued that we would do well to resist the ‘black swan’ logic that certain scholars within economics continue to uphold. In Chapters 2 and 3, I showed how the far-reaching injustice resides not in the event itself (the sovereign debt crisis), which, allegedly, deviates from the baseline, but in the underlying background structure. This is where most of our critical attention should be directed. Finally, in this chapter, I have shown that, whilst financial crises are the best examples of what I have been calling ‘structural processes proper,’ they also illustrate how these structural processes do not unfold in a vacuum, but in a regulatory and institutional social order that enable them - an order which was shaped by individual actors taking crucial socio-political decisions at different points in time and in different policy areas. These insights will prove crucial when turning to the question of responsibility allocation for structural injustice in the second part of this thesis.

But before I turn to questions of responsibility for structural injustice, a couple of open questions still need to be addressed in the next, and final, chapter of the first part of this thesis. First, while this chapter answered the question regarding the main wrongs characterising the SD&CR, little has been said about the role that other actors play therein. The financial class does not and cannot exploit and dominate the wage-dependent class directly, but requires collaborators to do so. Second, although we know that positions of disadvantage exist along lines of both class and statehood, we are yet to learn how exactly these two axes of disadvantage interact. Finally, although Chapters 1-3 provide a complete structural critique of the wrongs pertaining to the SD&CR, we are now left to wonder what might be potential

emancipatory routes going forward. By drawing on the insights from scholars of imperialism, in the next chapter I turn my attention to these three sets of questions.

CHAPTER 4

ON THE SD&CR AS A MECHANISM OF LIBERAL IMPERIALISM

If in earlier times domination was exerted by means of arms, today the new servitude is external debt.²²⁸

Allusions to the imperial nature of the current world reside in popular literature and public discourse alike. “‘Imperialism’, as a word, has gone imperial; ‘colonialism’ has colonized our languages.”²²⁹ As a central feature of the contemporary world order, sovereign debt and credit has often been denounced as an instrument for imperial control. The allegation is that, whereas in the past imperial control was exerted via arms and territorial annexation, “today the new servitude is external debt.”²³⁰ In this chapter I want to interrogate this and explore the extent to which the study of imperialism provides a fruitful theoretical lens through which to look at the SD&CR.

I proceed as follows: In Section I, I provide my own working definition of imperialism. Since most recent normative work within political theory has been concerned with colonialism and with the wrongs that characterise it, I also briefly discuss how imperialism and colonialism differ and what distinguishes their respective wrongs. In Section II, I defend the first substantive claim of this chapter: I argue that we do not live in a post-imperial world. The end of colonialism did not bring about the end of imperialism, but a partial shift in the mode that imperialism takes in the present. While most states in the world enjoy formal independence, and are not subject to coercive forms of direct political control, a form of control I call *liberal imperialism* persists. Against this backdrop, the first claim I defend in this

²²⁸ Olmos, 2004, p.33, my translation.

²²⁹ Howe, 2002, p.11. While Marxist scholarship and post-colonial theorising probably continue to be the richest and most established sources of theorising about empire and imperialism, even within academia the study of imperialism reached the mainstream. See, for example, Held and McGrew, eds., *The Global Transformations Reader*.

²³⁰ Olmos, 2004, p.33.

chapter is that sovereign debt and credit is one channel through which liberal imperialism is exerted today.

Although I do hope to convince my readers of the plausibility of the argument made regarding the liberal imperial character of the SD&CR, the rest of the analysis in this chapter does not depend on it. A sceptical reader can, therefore, reject the argument that the SD&CR is a channel through which liberal imperialism asserts itself, and still see value in the remainder of the chapter.

In sections III and IV, I move on to show how the conceptual apparatus and theoretical insights provided by theories of imperialism allow us to answer questions that remained open from the preceding chapters. These are, first, the question regarding how exactly the two axes of (dis)advantage – statehood and class - interact (Section III) and, second, the question of what may be the potential routes forward (Section IV). It is my contention that debates among different theorists of imperialism illuminate the possibilities and the dangers of potential ways forward.

In providing relevant insights to answer these two questions, the work of scholars on imperialism also indicates valuable direction for those wishing to contribute to the global justice debate. In Part II of this thesis I spell out a few of the normative conclusions that follow from some of the most crucial insights from the work of the scholars explored here.

A Working Definition of Imperialism

No fixed meaning for the term imperialism exists, in part because of the following challenge: “Define the term too narrowly, and particular communities who have experienced injustice which they characterize as colonial are excluded; too broadly,

and almost any form of relation featuring inequality of power between different international parties appears to be an instance of colonialism.”²³¹

The closest English equivalent to the Latin *imperium* is ‘sovereignty’ or ‘rule.’ In ancient Rome, *imperium* denoted the dual capacity to wage war and to make and execute laws. A further connotation was size: *imperium* came to mean rule over extensive, far flung territories, far beyond the original homeland of the rulers. European Christian monarchs adopted the connotation of size, adding two further associations, namely absolute sovereignty – meaning that the imperial power had no overlord or rival claimant to power – and that the empire builder had an aspiration of universality.²³²

The original meaning of *imperialism* was thus not the direct or indirect domination of colonial or dependent territories by a modern industrial state, but the personal sovereignty of a powerful ruler over numerous territories, whether in Europe or overseas.²³³ “If an empire is a kind of object, usually a political entity, then imperialism is a process – or in some understandings, an attitude, an ideology, even a philosophy of life.”²³⁴ For most late-Victorian users of the word, imperialism did not mean the facts of dominance, conquest, or overseas expansion, but a policy, a philosophy, or just an emotional attitude of enthusiasm for such things.²³⁵ Only in later years did the notion of empire and imperialism lose the connotation of a system based on the pre-eminence of an imperial ruler and came to be generally understood

²³¹ Butt, 2013.

²³² Howe, 2002, p.13.

²³³ Friedjung, 1919.

²³⁴ Howe, 2002, p.22.

²³⁵ Later, Joseph Schumpeter was to build a whole theory around the idea that imperialism stemmed from mindless aggression, expansion as an end in of itself. While today calling something imperial almost always implies hostility (viewing it as immoral and illegitimate), this has not always been the case. In the 20th century, to be an empire-builder was to be an adventurer. While the ‘Age of Imperialism’ (1890-1900) was probably the last time in history in which people happily called themselves imperialists, in the last century, we witnessed a transition from general approval to near-universal distaste.

as signifying the expansion of a nation state beyond its own borders for the purpose of acquiring overseas dependencies and, if possible, uniting them in a world-wide empire'.²³⁶

Colonialism, by contrast derives from the Latin 'colon,' – which means farmer, tiller or planter – and refers to the Roman practice of settling in a territorial unit outside of the original borders of the Roman Empire by citizens who retained their rights of original citizenship, while working on the land bestowed to them by the occupying authorities.²³⁷ This association of colonialism with the settlement of geographical areas outside of the original borders of the motherland remained central in the 16th and 17th centuries with the colonisation of the Americas.

Some scholars continue to use the term colonialism in a way which remains closer to its etymological root. While other forms of colonialism that did not involve settlement also exist(ed), the defining feature shared by all forms of colonial control, according to this narrow definition, is that the political community being subjugated does not enjoy formal independence and/or formal political sovereignty.²³⁸ Others, however, have broadened the original meaning of the word, using it to identify “the general imperial policy of, in particular, Western states from the sixteenth century onwards.”²³⁹ Scholars of neo-colonialism or post-colonialism do precisely this, disassociating colonialism from direct colonial rule and emphasising the many indirect ways in which political and economic control continue to be exerted on dependent territories after, and despite, formal political independence.²⁴⁰

²³⁶ Mommsen, 1980, p.4.

²³⁷ Ypi, 2013, p.162.

²³⁸ Descriptively, the lack of territorial independence is connected with the lack of formal independence. This is not to say that distinguishing these two aspects normatively is important. See Ypi, 2013.

²³⁹ Butt, 2013.

²⁴⁰ For a canonical (by now) definition of neo-colonialism, see Nkrumah, 1965, p.1-6.

If one adopts the narrow understanding of colonialism as direct rule, then colonialism can be understood as a specific form of imperialism, namely one in which the political community is directly dominated by a separate metropole. Put differently, if a political community retains formal independence and political sovereignty, it cannot be colonialism, but it can be imperialism. If, however, one adopts the broader definition, then colonialism and imperialism become more difficult to differentiate.

I propose to adopt the narrow descriptive definition of colonialism, which describes it as a subset or a particular type of imperialism. I define it as the domination, often accompanied by exploitation, of a political community by an external agent. I define political community as any large-scale association of people who are capable of and claim a *de jure* right to self-rule.²⁴¹ This includes but is not limited to states. The fact that it is a political community that is dominated and exploited is crucial, for it is precisely this that differentiates imperialism from other forms of dominating and exploitative relations and structures.²⁴²

Two caveats need to be added to this definition, one regarding the political community being dominated and exploited, and the other relating to the imperial master. First, I adopt an individualised understanding of political community, according to which, the normative significance comes from the fact that individual members of a political community are being dominated. As I argue in the next section, while it is a political community that is being dominated and exploited, and while individuals composing that community are victims of this form of subjugation by virtue of their membership, this does not necessarily entail – and in practice seldom does – that all members are equally dominated and exploited. This is

²⁴¹ Vrousalis, 2016, p.73.

²⁴² As Ypi writes, “colonialism is a practice that involves collective political agents, not individuals, family members, interest groups or civil society associations” (2013, p.162).

emphasised by theorists of imperialism across the board, from classical liberals, to Marxists and neo-Marxists, to post-colonial theorists and even contemporary liberals.

Second, the definition proposed is purposefully vague regarding the dominating and exploiting agent. Some definitions erroneously assume that the dominating agent also needs to be a political community.²⁴³ While this may be true for the definition of empire, I do not believe it applies to imperialism. Empires must be composite entities, formed out of previously separate political communities. Diversity – ethnic, national, cultural, and often religious – is their essence, but it cannot be a diversity of equals. If it were, if there were no relation of domination between ‘core’ and ‘periphery,’ then the system is not an empire but more like a commonwealth.²⁴⁴ The dominating and exploitative agent can be a state or groups of states, as well as other economic actors, such as trading companies, multinational corporations, or financial institutions.

Another distinct feature of imperialism’s definition proposed here is that it is a moralised definition in that it incorporates into its very definition two wrongs, namely domination and exploitation.²⁴⁵ Many scholars of imperialism across disciplinary boundaries define imperialism in this way. In his introduction to the study of empire, for instance, Howe states that while it comes in very different guises and takes different forms throughout time, imperialism is characterised by the same “underlying inflexible relations of dependency...[in which] a small group of powers *dominates* and *exploits* the rest of the world” (my emphasis).²⁴⁶ Writing about the wave of colonisation of the Americas, post-colonial writer Anibal Quijano proposes to think about imperialism as a “form of political *domination* and economic

²⁴³ See Vrousalis, who defines imperialism as “the domination of one political community or state by another.”

²⁴⁴ Howe, 2002, p.15.

²⁴⁵ In line with the definition adopted in the previous chapter, I take both of these to be not merely technical, but normative, concepts.

²⁴⁶ Howe, 2002, p.24-25.

exploitation” (my emphasis).²⁴⁷ Similarly, Vrousalis, who as we saw in the previous chapter sees exploitation as one particular type of domination, defines imperialism as the “the *domination* of one political community or state by another.”²⁴⁸

Now, while adopting a moralised definition of imperialism is not uncommon, and although many scholars point at the two wrongs singled out here, it remains a contentious definition. By adopting a moralised account of imperialism, the conceptual question of how to define imperialism leads straight into the normative debate regarding what, if any, are the distinctive wrongs of imperialism or colonialism.

Broadly speaking, political theory provides three answers to the question of what makes colonialism distinctively wrong. On one side of the spectrum, there are those who argue that, whilst colonialism is wrong for countless reasons and can be associated with a wide range of injustices, none of them are necessary.²⁴⁹ On the other end, there are those who contend that the thing that makes colonialism uniquely wrong is the fact that it embodies a particular form of problematic political relation, namely one that “denies its members equal and reciprocal terms of cooperation”²⁵⁰ and one where the subjects cannot affirm the political institutions imposed on them by their rulers.²⁵¹ In between these positions, there are scholars who provide a list of wrongs commonly associated with colonialism. Butt, for example, identifies three such wrongs: exploitation, domination, and cultural imposition.²⁵² According to proponents of this ‘list theory,’ the sheer diversity of forms of political

²⁴⁷ Quijano and Ennis, 2000.

²⁴⁸ Vrousalis, 2016.

²⁴⁹ Valentini (2015) is one proponent of this view.

²⁵⁰ Ypi, 2013.

²⁵¹ Stilz, 2015.

²⁵² Butt, 2013.

organisation that are referred to as colonial makes the singling out of one wrong, and the provision of a definite definition of colonialism, undesirable.²⁵³

At the conceptual level, my definition takes the domination of political communities by an external agent to be a necessary and sufficient condition for imperialism. It associates imperialism with exploitation, although exploitation is neither a necessary nor a sufficient condition.²⁵⁴ This does not necessarily require that I take political domination to be the central wrong characterising imperialism (rather than seeing it as one of several, as with the list approach). I want to remain agnostic with regards to this question, for even those who disagree that there are unique wrongs that distinguish colonialism and imperialism, and those who argue that it is only political domination that is the distinctive wrong of colonialism, could agree with the descriptive assessment that domination and exploitation are two wrongs which are often exerted under colonial/imperial rule. Thus, despite the disagreement on the normative terrain regarding what makes colonialism and/or imperialism wrong, the definition of imperialism proposed here could still be accepted by all parties, as long as the more limited claim is accepted that both political domination and economic exploitation are defining features of imperialism and colonialism. My working definition of imperialism as “the domination, often accompanied by exploitation, of a political community by an external agent” will become more refined as the discussion proceeds.

²⁵³ Moore, 2016.

²⁵⁴ David Landes warns of the dangers of conflating every form of dependency leading to the exploitation of native populations or the working class with imperialism. According to him, such a wholesale definition would make serious research impossible. Instead, he proposes to define imperialism in a way which explicitly links it with formal or informal political control. In line with Landes, I contest that what distinguishes imperialism from market relationships (that result in exploitation) between countries of different economic potential, is the presence of what I call liberal and/or coercive domination (Landes in Mommsen, 1980, p. 88).

The SD&CR as a Liberal Imperialist Order

In Chapter 3 I argued that the structural injustice pertaining to the SD&CR is characterised by domination and exploitation across the two axes of statehood and class. Having defined imperialism as the domination, often accompanied by exploitation, of a political community by an external agent, I now argue that the SD&CR can be seen as part and parcel of an imperial order of a particular kind, namely a liberal or informal one.

Contemporary theorists of imperialism and post-colonial scholars have drawn attention to the fact that while formal, direct colonial control may have ended (for the most part), more indirect, informal control continues to be exerted by former colonial masters on newly-independent states. A major distinction here is between theorists who highlight the epistemic dimension of imperialism and the socio-psychological consequences of imperialism (scholars who mostly self-identify as post-colonial writers),²⁵⁵ and the main body of neo-Marxist writers who maintain that, to this day, there exists a continued dependence of colonies on their former masters, which helps explain the continued under-development of what is most commonly referred to as ‘the periphery.’²⁵⁶ Contemporary liberals are also drawing on the work of classical radical liberals, such as Hobson and Schumpeter, to analyse the extent to which imperialism is still a feature of the contemporary world order.

According to writers working in this tradition, the historical turning point demarcating the shift from formal to informal imperialism can be roughly located at the end of WWII: “On the morrow of the Second World War, the colonial revolution

²⁵⁵ Scholars such as Franz Fanon, Edward Said and Anibal Quijano.

²⁵⁶ Scholars such as Samir Amin, Dos Santos, Celoso Furtando, Geoffrey Kay, Bill Warren, Osvaldo Sunkel and Gunnar Myrdal, to name but a few. While in Section V, I turn to the contributions that the central insights of post-colonial writers can make to better illuminate the wrongs of the SD&CR, in this section, I mostly focus on the material dimension of the continuity of imperialism.

shook the foundations of the imperialist system.”²⁵⁷ While different theories exist regarding the catalyst for the turn from formal to informal imperialism,²⁵⁸ the basic argument is that metropolitan countries which, up until then, exerted direct colonial control, moved to indirect forms of control. From this view, the colonial period of formal imperial control served the aim of adapting the socio-economic institutions of the periphery country, as well as the international economic, financial and political structures to the needs of the metropolitan core. Once these structures were adopted, the core could continue to exert indirect political control over the periphery, even in the absence of direct political control, for these structures “guaranteed that the forms of colonial domination that had prevailed in the past would ‘reproduce’ themselves indefinitely without the need of further political action by the ex-metropolis.”²⁵⁹

An interesting variation of this argument is the ‘continuation theory’ advanced by Robinson and Gallagher. For them, identifying the end of the Second World War as a demarcation point between two radically different forms of imperialism is misguided. It is simply not the case, they argue, that in the past imperialism was primarily formal in nature, whereas today we chiefly observe informal forms of political domination and economic exploitation. There are, in fact, numerous types of informal imperialist domination which precede or accompany the establishment of formal rule, even making the latter unnecessary. According to Robinson and Gallagher, *informal* political control was extended whenever possible, and formal political control used only when it was necessary to preserve economic control over the periphery.²⁶⁰

What is most decisive about this view of informal imperialism, is that it breaks with the tradition of defining imperialism exclusively in terms of formal political control over a colonial territory. The crucial feature that sets imperialism apart is not

²⁵⁷ Mandel, 1962, p.480.

²⁵⁸ See the ‘peripheral’ school of imperialism in Mommsen, 1980.

²⁵⁹ Magdoff in Mommsen, 1980, p.124.

²⁶⁰ Gallagher and Robinson in Mommsen, 1980, p.88.

direct political control over a territory, but political domination, often with the aim of economic enrichment.²⁶¹ While territorial control may be associated with a particular sub-type of imperialism (direct colonial rule), it is political domination that characterises imperialism and it is this domination which continues after formal political independence, even if it is exerted more indirectly.²⁶²

Vrousalis makes a similar argument, distinguishing between ‘coercive’ and ‘liberal’ forms of domination. Recall that one central feature of domination, as defined in the previous chapter, related to the multifarious ways in which it can be exerted, often not requiring actual force or interference, but being “as silent as gravity.”²⁶³ This form of silent domination is what Vrousalis has in mind when defining liberal domination. Actual, direct interference, by contrast, is coercive domination.²⁶⁴ Each of these two forms corresponds to one form of imperialism: coercive domination to formal territorial control and liberal domination to liberal imperialism. Liberal imperialism, then, is characterised by a form of domination where the bully never gets her hands dirty: “Much like the drug pusher who increases her hold over the addict by offering drugs,”²⁶⁵ liberal imperialism may enhance the dominated states genuine options (such as, for instance, with a lucrative trade deal). This expansion of options

²⁶¹ This is in line with the normative position that sees political control as the main wrong of imperialism. Ypi’s answer to the question of what is wrong with colonialism is congenial to this conclusion (2013).

²⁶² This differs from the distinction drawn by most historical scholars of empire and imperialism, who sustain that, whereas formal imperialism also controls the political processes via territorial control, informal imperialism does not control the political process. Conversely, according to the view defended here, formal and informal imperialism do not differ in terms of the presence or absence of political control (for political control or domination is present in both), but simply in the means used to exert this domination (more direct, through territorial control, or more indirect means).

²⁶³ Pettit, 2012, p.79.

²⁶⁴ Formally, Vrousalis defines coercive domination as the type of domination that “involves P physically forces Q to do things, or issues coercive threats, or coercive offers that subordinate Q to P’. Liberal domination, by contrast, involves ‘P getting Q to do things in non-coercive but subordinating ways. P might manipulate or deceive Q, bribe Q or simply brainwash Q to want what P wants.”

²⁶⁵ Vrousalis, 2016, p.76.

ultimately only increases the hold of the imperial master (the drug dealer) over the dominated state (the addict).

I wish to adopt Vrousalis' definition of liberal imperialism, highlighting two further aspects. First, although liberal domination is associated with liberal imperialism and coercive domination with formal imperialism, this does not mean that these two forms of domination cannot be simultaneously exerted. In line with the thesis of the continuity theory – according to which informal forms of political control accompany formal means, often making the latter unnecessary – I conceive of coercive and liberal domination as complements.²⁶⁶

Second, although liberal imperialism is less readily apparent than coercive imperialism, I would caution one from deducing that the former is necessarily more benign. Endless horrors can be assigned to formal rule, including “burning native settlements, torturing innocents, slaughtering children, enslaving entire populations, [and] exploiting the soil and natural resources available to them.”²⁶⁷ There is at least one way, however, in which liberal imperialism could be considered more pernicious than coercive imperialism. The allegation is that, under coercive imperialism, at least some responsibility is attributed to the imperial master both at home and in the international arena, but under liberal domination the imperial power gets a free ticket. “It is the worst form of imperialism. For those who practise it, it means power without responsibility, and for those who suffer from it, it means exploitation without redress. In the days of old-fashioned colonialism, the imperial power at least had to

²⁶⁶ Vrousalis sketches three possibilities: formal imperialism in which the imperial master coerces the dominated state via direct political control (entailing ‘an army and a viceroy’); liberal imperialism, in which the dominating agent bullies without direct political control (involving no army and no viceroy); and hybrid forms where coercive domination forces the door open, and liberal domination keeps it that way (with armies but no viceroys) (Vrousalis, 2016, p.78). In line with scholars defending the continuity theory, I would add to this that, in the same way in which formal domination may ‘force the door open’ for liberal domination, the inverse is also true historically and may actually be more common.

²⁶⁷ Ypi, 2013, p. 162.

explain and justify at home the actions it was taking abroad.”²⁶⁸ According to this reading, then, liberal domination is the worst of both worlds, for the imperial master can wash its hands and claim no responsibility, while the subjugated state continues to lack self-determination despite formal independence.²⁶⁹ “Many may even develop nostalgia for the days of formal colonial rule, when the European powers were, at least in principle, responsible for developments at the periphery, whereas today they are formally relieved of the burden.”²⁷⁰

I have already described in previous chapters the positions that disadvantaged states can occupy within the SD&CR. Empirically, a position of disadvantage is one where the disadvantaged debtor state has worse conditions of borrowing, entailing things such as not being able to borrow in their own currency or borrowing with high and fluctuating interest rates, and is more vulnerable to crisis. Normatively, I argued that disadvantaged debtor states find themselves in positions where they are vulnerable to domination and exploitation. According to the structural-relational critique made in the previous chapter, moreover, it is private and public creditors who – within the highly asymmetrical and unjust SD&CR – dominate and exploit debtor states and particular social classes therein. These private and public creditors do not exploit via direct forms of intervention, but via indirect means, drawing on and requiring various kinds of complicity from actors, as well as the existence of enabling structures that make the domination and exploitation possible. If one accepts the analysis of the previous chapters and the definition of liberal imperialism

²⁶⁸ Nkrumah, 1965, p.3.

²⁶⁹ Tully emphasises this aspect by describing liberal imperialism as informal and interactive. It is informal because it entails a complex form of rule that governs imperialised peoples by means other than colonies. It is interactive because hegemonic powers and accompanying institutions recognise the imperialised or subalternised people as self-governing constitutional states and they interact with them on that basis, leaving intact the deeply unequal hegemon-subaltern relations. This, in turn, allows hegemonic powers to renounce all forms of responsibility attribution (Tully, 2008).

²⁷⁰ Mommsen, 1980, p.145.

I propose here, then it follows that the SD&CR can rightly be described as a liberal imperial regime.

Vrousalis himself uses the example of Argentina's debt history at the end of the 19th century to illustrate how liberal imperialism operates in practice. In the second half of the 19th century, Argentina embarked on an ambitious railway building program, financed by debt largely provided by the London-based Barings Bank.²⁷¹ As its debt levels continued to rise, Argentina became unable to service its debts and a sovereign debt crisis ensued. With the direct involvement of Nathan Rothschild and other prominent British bankers, the Bank of England orchestrated an international bailout for the Barings Bank. British and Argentinian banks raised interest rates and the Argentinian government embarked on a decade-long austerity program with the aim of servicing the debt in full. Argentina's 'recovery' intensified the exploitation of certain domestic classes, namely workers and peasants, because it resulted in reductions in real wages and pensions, and a surge in poverty and unemployment.

This is an all too familiar scene for European taxpayers on the losing side of the most recent attempts to 'save the Euro.' As Vrousalis notes "one need only replace 'British Empire' with 'Germany', 'Barings Bank' with 'Deutsche Bank' and 'Latin America' with 'PIIGS' (Portugal, Italy, Ireland, Greece, Spain) to get another instance of liberal imperialism, this time in the context of the contemporary European Union."²⁷² Indeed, as the European debt crisis unfolded, Greek and Irish news were full of descriptions of the Troika officials marching into government ministries as "the country's de facto colonial administrators."²⁷³ An editorial in the Irish Times read: "having obtained our political independence from Britain to be masters of our own

²⁷¹ Vrousalis, 2016, p.77.

²⁷² Vrousalis, 2016, footnote 25.

²⁷³ Blustein, 2016, p.189.

affairs we have now surrendered our sovereignty to the European Commission, the European Central Bank and the International Monetary Fund.”²⁷⁴

I believe that the most plausible interpretation of the work of dependency scholars is one where they are seen not as making a causal claim about dependency, but as denouncing this form of liberal imperialism. In certain sections of academia, dependency theory is looked upon with suspicion. While some argue that dependency theory belongs in the ‘dustbin of history,’²⁷⁵ others argue that it is “alive and well in other guises.”²⁷⁶ After an initial interest from global justice theorists, the work of dependency scholars dropped out of the debate. Independent of the explanatory force that one attributes to the causal mechanism that dependency scholars identify as a cause for underdevelopment, I believe that the real force of the account lies in the identification of the structured relation between the core and the periphery, where the former dominates and exploits the latter as a political community. Put differently, dependency theorists’ claims can be re-interpreted, not to explain (under)development (the ‘development of underdevelopment’ thesis), but about the nature of the order within which both interact, namely a liberal imperial order.

First generation dependency scholars argued that it was the inability of the periphery to innovate technologically which led to the establishment of a structural dependence between core and peripheral countries. Whereas the former produced manufactured goods for itself and the periphery, the periphery mainly produced

²⁷⁴ The Irish Times, 2010, ‘Was it for this?’ November 18.

²⁷⁵ Velasco, 2002.

²⁷⁶ Topik, 1998; Vernengo, 2006 and Velasco, 2002.

commodities for core countries.²⁷⁷ It was this international division of labor which resulted in the ‘development of underdevelopment’ in the periphery.²⁷⁸

Today, a second generation of dependency scholars, largely based at the Universidade of Campinas and the Universidade Federal do Rio de Janeiro, makes a different argument. They suggest that the ‘original sin’ of not being able to borrow in their own currency, and not the lack of technological innovation, lies at the heart of the periphery’s dependence on the core. In the first chapter, we encountered Eichengreen and Hausmann’s claim that the ability or inability of a sovereign state to borrow in their own currency, as well as the associated problems that follow, is largely determined by factors that lie outside a country’s control. Second generation dependency scholars take this ‘original sin’ argument one step further, arguing that it is the inability to borrow in one’s own currency that explains the late and/or underdevelopment of countries in the periphery.

I propose a reading of second generation dependency scholars that does not make their argument stand or fall only on the predictive power of their causal claim. Rather, I think that the most valuable contribution of their analysis is to denounce the existing structural relationship between core and peripheral countries, which can rightly be described as liberal imperialism. According to this interpretation of dependency scholars work, it is not just that certain market relations facilitate the progressive transfer of productive power from the periphery to the core, but also that these interactions are ripe with forms of political domination of a liberal kind. If we understand the contribution of dependency scholars in this manner, I think that global justice scholars may have been too quick to renounce a tradition that has the potential of providing extremely valuable insights to their own debates.

²⁷⁷ There are two distinct traditions of dependency scholars, namely the American Marxist and the Latin American structuralist tradition (Brewer, 1980).

²⁷⁸ Frank, 1991.

Robert Wade explicitly adopts the line of argument that the SD&CR is part of a liberal imperial order. In his article, 'The Invisible Hand of the American Empire,' he describes a post-imperial empire. Encouraged to accrue debt denominated in currencies that are not their own and at variable interest rates, peripheral states are affected by the decisions made by core countries regarding their currency, interest rates, and import protections. Not only is the inverse not true, but the regime has a zero-sum logic in which "currency crises in poor countries help your [the core country's] economic growth, your economic preeminence and your hegemony. (...) This economic system depends on a political system of sovereign states, not colonies, that can be made responsible for handling the crises it generates in particular territories. It is a post-imperial empire."²⁷⁹ Similarly to the contention of post-colonial or neo-colonial writers such as Nkrumah, for Wade, the SD&CR is not only a mechanism through which liberal imperialism is exerted today, but is also the worst form of imperialism, for it entails influence without responsibility.

Let me recap the argument thus far in this, and in the two preceding chapters. In this section, I identified imperialism as the domination, often accompanied by exploitation, of a political community by an external agent. Liberal imperialism is a particular form of imperialism in which the domination is of a liberal sort. In Chapter 3, I demonstrated at length that the two wrongs that characterise imperialism – domination and exploitation – characterise the contemporary SD&CR. Continuing to work backwards, this normative diagnosis of Chapter 3 is based on the empirical analysis of Chapter 2. So the diagnosis that the SD&CR is a mechanism of imperialism is not made lightly, but rather, linked to the extensive empirical and normative discussion in the two previous chapters. To defend the liberal imperial character of

²⁷⁹ Wade, 2003, p.80.

the order at large, however, is a much larger empirical and normative project than what I can undertake here.²⁸⁰

To be clear, the analysis made in the two preceding chapters is independent from the claim defended in this section regarding sovereign debt being a mechanism through which liberal imperialism is exerted. One could agree with the arguments defended in Chapters 2 and 3 and still disagree with the claim defended here about the SD&CR's liberal imperial nature. The analysis of the preceding two sections is similarly independent from the claim defended in this section. In the next two sections I approach the work of scholars of imperialism, asking whether parts of their analysis or the conceptual tools they offer make sense of two questions which have remained unanswered. I begin the next section with the question of how exactly the two axes of disadvantage identified in the preceding chapters – class and statehood – interact.

The Interplay Between the Two Axes of (Dis)advantage

The discussion in the preceding chapters demonstrated that positions of advantage and disadvantage within the SD&CR are structured along lines of class and of statehood. In Chapter 2, I argued that a position of disadvantage for states is one where the debtor state cannot borrow in its own currency, faces high and flexible interest rates, and is more vulnerable to crisis and financial contagion. Domestic wage-dependent classes occupy a position of disadvantage by virtue of inhabiting a regime where no restructuring mechanism exists and where states prioritise the repayment of their creditors ahead of their citizens. The portion of the citizenry most

²⁸⁰ Defending the claim that the contemporary global political economic order is a liberal imperial order connects to much larger debates. From a liberal perspective, the empirical work of Andrew Hurrell points in this direction (Hurrell, 2001). Pogge went a long way to show what follows normatively from an analysis such as Hurrell's. Successfully defending the claim that the contemporary world order as a whole is a liberal imperial order, however, goes beyond these analyses, which are already disputed themselves (Pogge, 2002).

burdened with debt servicing partly depends on the tax system in place (both in debtor states to service the debt and in creditor states to pay for the bailout of private creditors). The more regressive the tax system, the more the burden rests with those least well-off. In the same vein, austerity policies in the debtor state disproportionately burden the less affluent.²⁸¹ In Chapter 2, I argued further that those in positions of disadvantage are vulnerable to structural domination and exploitation, a vulnerability that is produced and reproduced through different channels.

Emphasising the importance of the class dimension is crucial, particularly in light of the near total neglect of this subject within global justice debates. Relegating the question of class to debates surrounding social justice, the global justice debate so far has a very limited theoretical understanding of how the class axis structures positions of advantage and disadvantage internationally. To simply present class as a second axis along which (dis)advantage is structured in the international arena, however, would be too quick of a fix. Similarly, it also seems insufficient to ask which one of these axes has the greater effect on the option set and choice architecture that individuals in different positions face. Rather, the more interesting question is how these two dimensions - class and statehood - interact. This is a question that I kept open until now, and one where scholars of imperialism can provide us with fruitful theoretical lenses that the global justice debate still lacks.

Concretely, scholars of imperialism bring to the fore two crucial aspects. On one hand, they emphasise that the domination and exploitation of the domestic, wage-dependent class in states occupying a position of disadvantage within the SD&CR are intrinsically connected to the exploitation of those domestic wage-dependent classes who occupy positions of advantage in terms of their citizenship.

²⁸¹See Blyth, 2015; D'Errico et al., 2015; Balourdos, 2014; Leventi and Matsaganis, 2016.

Second, they provide us with an appropriate vocabulary to differentiate, with greater nuance, between financial elites and wage-dependent classes living in disadvantaged and advantaged states, respectively. I will now examine each of these in turn.

First, scholars of imperialism draw attention to the fact that often, injustice along the lines of class and statehood are not separated from each other, but are intrinsically connected. As J.A Hobson, a classical liberal scholar of imperialism wrote:

Aggressive Imperialism, which costs the taxpayer so dear, which is of so little value to the manufacturer and trader, which is fraught with such grave incalculable peril to the citizen, is a source of great gain to the investor who cannot find at home the profitable use he seeks for his capital, and insists that his Government should help him to profitable and secure investment abroad.²⁸²

What Hobson argues here is that imperialism (domination and exploitation along lines of statehood) is not distinct from the hierarchical class system. Instead, the anachronistic political structure in Britain is the reason why imperial subjects are exposed to domination and exploitation in the first place.

From a Marxist perspective, Rosa Luxemburg draws attention to the same connection. She argues that one of the drivers of imperialism (which, in her earlier work, she calls ‘militarism’) is that it serves as “an instrument of class domination over the labouring population inside the country.”²⁸³ This equation of imperialism with reaction and repression at home has influenced Marxist-Leninist thought to this day. Luxemburg is most famous for the argument made in her later work regarding the dependence of capitalism on economically virgin territories, not only in its initial stages of development, but even more so during its maturity.²⁸⁴ However, what is most interesting here is the fact that she, like Hobson, connects the domination and

²⁸² Hobson, 2005, p.55.

²⁸³ Luxemburg in Mommsen, 1980, p.35.

²⁸⁴ Luxemburg, 1976.

exploitation of the population in colonial territories with that of the proletariat at home. It is the restriction of the purchasing power of the masses which makes impossible the transformation of surplus value into investment capital, necessitating the exploitation of pre-capitalistic social structures.

For our purposes, the analysis of the previous chapters revealed how the domination and exploitation of wage-dependent classes in peripheral countries is connected with that of core countries. First, as Chapter 1, showed, debt and credit flows seamlessly between core and peripheral countries. When the economic conditions in core countries are disadvantageous for the financial class, they move to the periphery. The case of the Latin American debt crisis in the 1980s, in which stagnation in the OECD countries led to the extension of unsustainable debt contracts to Latin American countries and eventually caused an outbreak of crisis, is a perfect example. Second, as the recent European crisis revealed, if the debtor state is bailed out, this is not only harmful for the most vulnerable classes in the debtor state, but also for the wage-dependent classes in creditor states, who need to shoulder the costs of the bailout package.

In line with Hobson and Luxemburg's analyses, then, the domestic injustices in the core countries along lines of class are neither separate from the domination and exploitation of peripheral states on lines of statehood, nor from the exploitation and domination of the disadvantaged class therein. More generally, were global justice scholars to integrate the axis of class into their future analyses, we should treat Hobson's and Luxemburg's remarks as an invitation not to regard questions relating to class and statehood as separate, but to theorise them together.

The second insight that we can gain regarding the interplay between the two axes relates to the exact nature of the stratification of the categories of (dis)advantage. In Chapter 3 I argued that in the example of Greece's rescue program,

we observed the transfer of productive powers from one class to another. This is not, however, the only thing that we can learn from the detailed review of this case. While a transfer of productive powers took place from one (the wage-dependent) class to another (the leading financial class), what we also witnessed was the exploitation of the wage-dependent class *of a given state* by private creditors. In the discussion surrounding the exact content of the rescue program and of the conditionalities that were to be imposed, for instance, German Chancellor Angela Merkel insisted that the program had to give the impression of being tough on the Greek people. This was not only because of German concern with moral hazard, but also because Merkel knew that the German citizenry was “overwhelmingly negative toward rescuing a country that had clearly gotten itself into a mess.”²⁸⁵ If only because politicians are concerned with keeping their voters somewhat content, and precisely because of the position of power that Germany held in the negotiations, the interests of the German wage-dependent class could be given priority over those of the Greek citizenry. As Blustein writes, the rescue packages “piled debt atop existing debt, extracted crushingly high interest charges and imposed excessively harsh conditions on the countries that were borrowing the money (...) suited nations such as Germany and France, whose banks were anxious to stave off losses and whose voters were incensed at paying to bailout countries they perceived as irresponsible. (...) The legitimate interests of crisis-stricken nations were sacrificed in the process.”²⁸⁶

This point comes out even more clearly in a commentary written by Barry Eichengreen in response to the resolution to the Irish banking crisis, which preceded the Greek debt debacle. The Irish banking crisis, which has been referred to as the ‘canonical case’ where “a moral argument could be made for administering a haircut,”

²⁸⁵ Blustein, 2016, p.101.

²⁸⁶ Blustein, 2016, p.15.

was resolved by burdening the Irish taxpayers.²⁸⁷ In an article entitled '*Irish Taxpayers the Sacrificial Lambs of European Financial Stability*,' the crucial question was asked as to why the Irish taxpayers should cover the cost of spillover concerns in the rest of the Euro area.²⁸⁸ Barry Eichengreen's answer illustrates how both class and citizenship matter to the structuring of privilege. According to Eichengreen, "policy makers in Germany – and in France and Britain – are scared to death over what Ireland restructuring its bank debt would do to their own banking systems.(...) The appropriate response is not to lend to Ireland – to pile yet more debt on the country's existing debt – but to properly capitalize their own banking systems so that the latter can withstand the inevitable Irish restructuring."²⁸⁹ Why was this option not considered? Because "European officials are scared to death not just by their banks but by their publics, who don't want to hear that public money is required for bank recapitalization."²⁹⁰ "In other words, the Irish program was, in substantial part, a bailout of European banks. If such a bailout was needed, fine; but why put so much of the burden on the Irish government budget instead of, say, those of France and Germany?"²⁹¹

What this reveals then, is that while wage-earners are dominated and exploited *qua* members of the wage-dependent class, some are more exploited than others. Those among the wage-dependent class who, by virtue of their citizenship, are part of a privileged group within their class – members of the German, French or British domestic wage-dependent class, for example - constitute what I call, inspired by Lenin and Bukharin, a 'wage-dependent aristocracy'.²⁹²

²⁸⁷ Eichengreen, 2010.

²⁸⁸ Carroll, 2010.

²⁸⁹ Eichengreen, 2010.

²⁹⁰ in Blustein, 2016, p.176.

²⁹¹ Eichengreen, 2010.

²⁹² For an excellent analysis of the commonalities and differences between Lenin's and Bukharin's understanding of the 'labour aristocracy,' see Brewer, 1980, p.123-127.

Lenin and Bukharin were writing at a time in which the working classes of Europe were killing each other on the battlefields of the First World War. This horrible fact ran completely against Marx's prediction that "working men have no country."²⁹³ How could this be explained? Bukharin and Lenin's answer was that there was a stratification in the working class and that sections of the working class in the core countries benefited from the position that their capitalist masters held in the global political economic order. These workers no longer had "nothing to lose but their chains."²⁹⁴ According to Lenin and Bukharin, 'national interest did exist and had a real material basis'.²⁹⁵

This interplay between privilege and disadvantage based on citizenship and on class is something that can also be recognised within the financial class. Recall that with the abolition of capital controls that came with the dissolution of the Bretton Woods system, it became easier for the financial class to move their capital around the globe. This, in turn, enabled a progressive detachment of the financial class from their domestic economies-cum-societies. It allowed a 'going global' of the domestic financial upper class, which seized the opportunities for profit that the financialisation of the global economy offered, to secure the maximum return and safety for their capital.

While this detachment of the domestic financial upper class is not new for peripheral countries, it was made easier for the financial class of core countries. Duménil and Lévy describe this as a divorce between the upper classes and the domestic economy of the U.S., arguing that:

what is really new in this pattern of events is not the disconnection itself. Many countries in the periphery are or have been ruled by upper classes or fractions of classes that are not committed to the

²⁹³ Brewer, 1980, p.127.

²⁹⁴ Brewer, 1980, p.128.

²⁹⁵ Brewer, 1980, p.128.

progress of their own countries. (...) What was new (...) is that neoliberal strategies meant a divorce in the center of the neoliberal world, similar to that observed in too many less advanced countries.²⁹⁶

Echoing Hilferding's understanding of 'finance capital'²⁹⁷ and Hobson's description of "the little group of financial kings,"²⁹⁸ the differences in wealth today became so extensive that they gave rise to a fusion of economic and political power. "It may already have gone so far that the rich may rightly consider their fate and that of their families to have become independent from the fates of the societies from which they extract their wealth."²⁹⁹

Crucial for our purposes here, however, is that not all members of this financial class behave the same way. Whereas financial elites from peripheral countries "exit their societies to let them rot," moving preferably to New York or London, members of the American financial class "are both more cosmopolitan and more patriotic."³⁰⁰ They extract their wealth globally and store it locally in the global financial firms of Manhattan, exercising their political influence to ensure that the United States remains a safe haven for themselves as well as their non-American fellow oligarchs.³⁰¹ In the same way in which Merkel does not only care about the second constituency, but also about her voters, the American financial class cares about both their class and their nation. Here, again, we see the interplay between class and statehood, which takes the form of a financial class aristocracy. The table below summarises this interplay between class and citizenship in core and peripheral countries.

²⁹⁶ Duménil and Lévy, 2011, p.27.

²⁹⁷ Hilferding, 1981.

²⁹⁸ Hobson, 2005, p.57.

²⁹⁹ Streeck, 2013, p.28. Streeck calls this a form of 'neo-feudalism'.

³⁰⁰ Duménil and Lévy, 2011, p.27.

³⁰¹ Streeck, 2013, p.30.

To summarise, today's SD&CR is characterised by the following chain of domination. The financial elite of states in a position of advantage within the regime (the financial aristocracy) dominate the financial elite of those states in a position of disadvantage, as well as the domestic wage-dependent class. The financial elite of disadvantaged states, in turn, dominates the domestic wage-dependent class of states occupying both positions of advantage and disadvantage. Finally, the domestic wage-dependent class of states occupying a position of advantage (the wage-dependent aristocracy) are complicit in the domination of members of the wage-dependent class of those states occupying a position of disadvantage within the regime.³⁰²

	Core	Periphery
Financial Class	Care first about their class, then about their state (Financial class aristocracy)	Only care about their class
Political Class	Care first about the financial class, and then care about their voters	Only care about the financial class
Wage-Dependent Class	Care first about their state, then about their class (Wage-dependent aristocracy)	Have nothing to lose but their chains

The Role of the State and Potential Routes for Emancipation

In the previous section, we saw how some of the theoretical lenses provided by scholars of imperialism proved fruitful to better comprehend the way in which the two axes of disadvantage interact. I now want to show how debates among theorists of imperialism concerning the preferred routes of resistance against domination can be illuminating for the case at hand. Although they cannot provide us with one

³⁰² Vrousalis expresses this formally by stating that CapitalRich (Cr) dominates CapitalPoor (Cp), LabourRich (Lr) and LabourPoor (Lp). Cp in turn dominates Lr, and Lp and LR dominates Lp. This is bracketing the state as an actor. Incorporating the state, the following chain of domination emerges: Cr, Sr (StateRich), Cp, Sp (StatePoor), Lr, Lp (2016, p.81).

definitive answer regarding which institutional responses have the greatest emancipatory potential in the current predicament, they do flag the dangers posed by some of the proposals that are currently on the table.

a) The state as a mediator and collaborator

Let me begin by returning to the role of the dominated state – that is, the state that is vulnerable to domination and exploitation because of its position in a financialised economy and the SD&CR in particular. So far, I have remained vague about how the wage-dependent classes in both the dominating and dominated states are dominated and exploited. I talked about the underlying structure of the regime – the fact that certain states occupy positions of advantage and disadvantage. I talked also about the absence of a sovereign debt restructuring facility and about the decision of heads of states to prioritise the repayment of debt contracts over the fulfilment of obligations held vis-à-vis their citizenry. I have also looked in greater detail at how the decision to adopt the first Greek bailout package was reached, to understand on a micro-level how such decisions are actually made in practice. What I have not yet drawn attention to, however, is that whilst the financial class may be the main wrongdoer (in the case of structural-relational injustices) and/or beneficiary (in the case of structural processes proper and structural-systemic injustices), the domination of the wage-dependent classes is only possible with the collaboration of the state.³⁰³ It is the state that acts in the international arena and it is the state that ultimately decides what to do with its always-finite resources.

³⁰³ When talking about ‘the state’ here, I am referring to state officials acting in the name of “the organization which is at the back of law and government” (Hobhouse in Skinner, 2009, p. 358). With ‘state officials’ I am referring to all public functionaries in the executive, legislative, and judicial branches. This is in line with the International Law Commission’s (ICL) Articles on State Responsibility, which regulate whose behaviour counts as the conduct of states and determines that it is acts of a ‘public functionary under national law’ (Crawford and Watkins, 2010, p.288).

The role played by the ruling political class in the domination of the periphery, both during periods of formal and informal rule, has been emphasised by scholars of what came to be known as the study of 'peripheral imperialism.' According to this strand of theories, classical theories of imperialism (both liberal and Marxist) erroneously assumed "that all active components of the imperialist process were necessarily European, while leaving out of [their] account equally vital non-European factors."³⁰⁴ Contrary to the classical theories that saw either economic or socio-political reasons as the main driver, for this school of thought, there was no 'grand design' explaining imperialism.³⁰⁵ Even during the age of imperialism, state officials of that period tended not to have the imperial mindset that was so often ascribed to them, adopting, instead, a hesitant and distrustful view of imperialist expansion.

Careful historical analysis within this school of thought suggested that the move from informal to formal control (and vice versa) took place due to the interplay between the actions and reactions of both imperial masters and their subjects. A particularly pertinent catalyst for the move from informal to formal rule was the collapse of the more or less informal cooperation between native elites and the

³⁰⁴ Gallagher and Robinson in Mommsen, 1980, p.100.

³⁰⁵ Mommsen, p.109-110. The argument that it was the interplay between the actions and reactions of both imperial masters and subjects that led to the establishment of formal control does not only challenge the unilateral imposition of imperial domination on passive subjects, but also questions the 'single cause theory' of imperial expansion. Also writing with the tradition of 'peripheral imperialism,' Fieldhouse, for instance, explicitly warns against attributing this later phase of European expansion policies (formal imperialism) to economic causes: "It is impossible to devise a theory of imperialism which covers all possible cases. (...) In each case the situation on the periphery constitutes a framework within which the traditional type of Eurocentric explanation gains considerably in plausibility." At the same time, Fieldhouse sustains that the establishment of formal rule was generally preceded by informal economic penetration, and it is this economic penetration which can ultimately be attributed to the drive for economic profit. The crucial addition of the peripheral school is that the connection between the economic motivation of the metropolitan core and the exploitation of the periphery is always mediated by the latter, and by the local political elite in particular (Fieldhouse in Mommsen, 1980, p.105-108).

Europeans.³⁰⁶ The basic premise here is that white colonialists, being extremely few in number and with relative scarce support from the metropolitan country, could have never built such great empires without the support of local collaborators.³⁰⁷ Periods of informal rule were characterised by a relatively smooth cooperation between the imperial masters and their subjects. In due course, however, the cooperation with the imperial powers undermined the position of the local elites in their own countries, creating a situation which, exacerbated by European rivalries, necessitated the establishment of direct colonial rule.

I find that the peripheral school of imperialism offers two particularly interesting insights. First, it highlights that both direct and indirect forms of imperial penetration in the periphery require the dominated state's cooperation. This mediating role of the periphery is what post-colonial writers refer to as "multiplex hegemon-subaltern relations."³⁰⁸ The basic idea here is that imperial relationships are not unilaterally and monologically imposed on passive subjects who submit to the logic of capitalist development.³⁰⁹ Rather, 'hegemon' and 'subaltern' are multiplex: "they are dispersed across complex, criss-crossing and overlapping fields of unequal and mutually constitutive relationships of interplay. They are not conveniently located in the West and the non-West or the North and South, but within and across these binary categories of colonial geography."³¹⁰

Second, the peripheral school of imperialism emphasises that liberal domination is preferred (and sufficient) as long as the collaboration of the dominated state's leaders is forthcoming. Once this collaboration deteriorates and can no longer be relied upon, more direct forms of coercive domination are adopted. Wishing to avoid falling

³⁰⁶ Fieldhouse in Mommsen, 1980, p.108.

³⁰⁷ Howe, 2002, p.16.

³⁰⁸ Tully, 2008, p.159.

³⁰⁹ Tully, 2008, p.158-159.

³¹⁰ I say more about what is entitled by and what normatively follows from this complicity in Chapter 7.

back on the ‘grand design’ theory of imperialist drivers, the most recent European crisis demonstrates how once the collaboration of political leaders of the European periphery started to recede, some heads of states were replaced by others with the ‘right’ economic orthodoxy and background (a background not in politics, but in finance). As colorfully depicted by Assheuer:

The market whisperers, reaching for Machiavelli’s toolkit, remove inconvenient leaders like Berlusconi, pull the strings of debtor countries, chant the incantation of austerity, and respect national sovereignty precisely for as long as it obeys the dictates of Brussels and the market.³¹

Combining the insights made in Chapter 3, then, we can see how, although creditors may be identified as the wrongdoers in cases of structural-relational forms of structural injustice, the state always serves as a mediator, and sometimes as a collaborator. More will be said regarding the subsequent normative consequences in Chapter 7.

Actors	Involvement
Private institutional & public multilateral creditors	Wrongdoers (structural-relational dimension)
Debtor states	Collaborators

b) The state as an agent of emancipation and potential routes forward

Once we recognise the centrality of the dominated state as a mediator of the domination of the wage-dependent class, the question becomes whether we think the state capable and willing of becoming an agent of emancipation, or whether we are pessimistic about the state’s willingness and ability to do so. This is the question at the heart of the debate held by two of Germany’s most prominent contemporary public intellectuals, Jürgen Habermas and Wolfgang Streeck.

³¹ Assheuer, 2013, my translation.

Despite their differences of emphasis, Streeck's and Habermas' views on the ills befalling the European Project have important commonalities and are, to a large extent, compatible. While Habermas' analysis focuses on the undermining of democratic values and practices at the European level,³¹² Streeck argues that it is behind the hidden abode of Habermas' *Brüssler Analyse* where the real action lies. It is only by moving beyond the critique of the obvious democratic shortfalls of European institutions and practices, that we recognise how the financial elite – Streeck's second constituency – is pulling the strings to turn the European Project into a union made in their own image and likeness.³¹³

The real disagreement between the two intellectuals, however, lies in their prescriptive conclusions regarding the way forward. On one hand, Habermas advocates for a deepening of the fiscal union, for greater socio-political integration and for a democratisation of European institutions and decision-making processes. Without such a deepening, he asserts, national democracies would drown in the sea of neoliberal globalisation.³¹⁴ In sharp contrast, Streeck calls for a return to the nation state and full political and economic sovereignty. The Euro represents a 'frivolous experiment' conducted on the hearts of the *Staatsvölker* of Europe³¹⁵ and the only way to protect European democracies from the tyranny of the market and European bureaucracy is to return to national currencies and national sovereignty.³¹⁶

Interestingly, a similar disagreement and deep ambivalence existed among Marxist scholars in the early 20th century. On one hand, Lenin defended the idea that the best

³¹² Habermas observes how in the 'theatre for Europe' that Brussels has become, politicians court the favour of the markets and fall prey to the capitalist bureaucratic whirlpool. That is why Europe needs to be radically rebuilt and its democracy deepened. In the last years, Habermas has written three books on Europe (2008, 2011, 2013).

³¹³ Streeck's analysis of the dilemma faced by the debtor state regarding whether to prioritize the interest of the first or of the second constituency has already been presented. For Streeck's analysis on Europe, see Chapter 4 of *Buying Time* (2013, p. 605-689).

³¹⁴ Meyer, 2013, p.18.

³¹⁵ Assheuer, 2013.

³¹⁶ Meyer, 2013, p.18.

way for workers to resist exploitation at home and imperial domination abroad was national self-determination. The encouragement of nationalism in the periphery seemed to Lenin a promising way to revolutionise the colonial systems, and therefore, was seen as an excellent weapon with which to combat capitalism.³¹⁷ Stalin later adopted this view, proclaiming an alliance with the national movements in the colonies with the objective of overthrowing capitalism in the periphery, even when the national movements, as such, were bourgeois and not proletarian. By contrast, Luxemburg argued in numerous pamphlets at the time that nationalism was a bourgeois ideology and no longer had any significance for the proletariat. She wrote that “the duty of the class party of the proletariat to protest and resist national oppression arises not from any special rights of nations, (...) [but] arises solely from the general opposition to the class regime and to every form of social inequality and social domination.”³¹⁸

I think that this earlier debate sheds light on some of the difficulties with the Streeckian position in the contemporary discussion regarding the way forward. The comment about the bourgeois character of many of the nationalist movements in the periphery is crucial. It points to the central insight that the rally behind the flag of nationalism often occludes: the fact that nationalist mobilisation serves a particular agenda, namely the material interests of the political and economic elites of the given state.³¹⁹

³¹⁷ see Lenin’s ‘Decree of Peace’ on November 8, 1917, in which Lenin expressly declared the right of self-determination to colonial peoples and used as a revolutionary weapon against the capitalist world. “The Right of Nations to Self-Determination”.

³¹⁸ Luxemburg in ‘The National Question’: Selected Writings, 1976, p.110.

³¹⁹ David Miller famously argues the opposite (1995). “Social justice will always be easier to achieve in states with strong national identities” (1995, p. 96). “The welfare state - and indeed, programmes to protect minority rights - have always been national projects, justified on the basis that members of a community must protect one another and guarantee one another equal respect. If national identities begin to dissolve, ordinary people will have less reason to be active citizens, and political elites will have a freer hand in dismantling those institutions that currently counteract the global market to some degree” (1995, p.p.187). I offer my own

From a classical liberal perspective, Hobson and Schumpeter both make this point, highlighting the role that nationalism plays in manipulating the masses to support things that are against their own material interests. As discussed above, Hobson did not believe that imperialism was in the material interest of the “manufacturer and trader” or of the citizen, but only “a source of great gain to the investor.”³²⁰ Nationalism and the ‘nationalist enthusiasm for empire’ was used as a way to manipulate public opinion by the narrow circle of the ruling class to get the masses to support something (imperialism) which was against their own material interests.³²¹ Hobson’s analysis of the political milieu that enabled the upper class to impose its interests on society was later taken on by Hannah Arendt and developed in a broader context so as to link imperialism with fascism. In a nutshell, then, these earlier debates relating to the potential emancipatory power of nationalism bring to the fore two dangers, dangers which anyone endorsing the Streeckian position will have to respond to. First, they highlight that often, behind the noble exaltations of national self-determination, we may find the defence of the material interest of the few, not the many.³²² Second, it draws attention to the potentially pernicious and highly dangerous consequences that nationalist movements can bring about.

critique of the state’s limited ability and willingness to serve the public interest qua general interest in Chapter 8.

³²⁰ Hobson in Mommsen, 1980, p.14.

³²¹ Hobson in Mommsen, 1980, p.14. Post-colonial writers also make this point, often arguing not only that nationalist movements were projects by and for the bourgeois, but also for a racialised bourgeois. “In certain Ibero-American societies, then, the small white minority in control of the independent states and the colonial societies could have had neither consciousness nor national interests in common with the American Indians, blacks and mestizos. On the contrary, their interests were explicitly antagonistic to American Indian serfs and black slaves, given that their privileges were made from precisely the dominance and exploitation of those peoples in such a way that there was no area of common interest between whites and non-whites and, consequently, no common national interest for all of them. Therefore, from the point of view of the dominators, their social interest was much closer to the interests of their European peers, and consequently they were always inclined to follow the interests of the European bourgeoisie. They were in this specific way not because they were subordinated by a greater economic or political power” (Quijano, 2008, p.214).

³²² The extent to which this is the case is, of course, open to debate. As we saw, David Miller would argue that the opposite is the case and that social justice is always easier to achieve in

Another aspect of the Streeck-Habermas debate that can be compared with the work of earlier theorists of imperialism brings to the fore the somewhat ambiguous assessment of the state. On one hand, Streeck goes far in showing how the state today is co-opted by the interests of the *Marktvolk* (his second constituency). For him, the consolidation state is the ultimate proof that the state has positioned itself in line with the financial elite and against the state's citizenry.³²³ Against this backdrop, his ardent defence of the return to the nation state seems somewhat puzzling. Why return to a form of political organisation that - according to Streeck himself - is classist in character?

Hobson's argument reveals a similar tension: writing against the backdrop of the Boer War, the roots of his theory go back to studies of the problem of mass poverty in the great industrial cities of Britain. As a radical liberal, he did not think that the roots of imperialism resided in capitalism as such, but rather in the anachronistic

states with strong national identities. Another critic may argue that also behind the hidden abode of noble exaltations of internationalism and/or cosmopolitanism, the perpetuation for particular interests can be recognised. My point here is more limited: what I want to suggest is that it cannot be assumed that in the contemporary world order, rallying around the flag necessarily serves the interest of the masses and that the state is both able and willing to be a champion of the general public interest. I say more to defend this position in Chapter 8.

³²³ In his analysis, Streeck makes it seem as if the rise of the second constituency is something utterly novel, springing from the breakdown of the Bretton Woods System, the slowdown of the post-WWII economic boom, and the political choices made by states to turn to credit to finance their expenses. For Streeck, it is this transition from the 'tax' to the 'debt-state' which explains the rise of the second constituency. The underlying assumption is that before the 'tax state' turned into the 'debt state' - during the post-war boom, in which the state had the ability to satisfy the interests of different classes - the state acted with the interests of its first constituency in mind. Scholars of imperialism would question this assumption. Marxist anti-imperialist scholars would question the extent to which the state can and/or did ever act in the interest of all classes constituting the first constituency. Moreover, historically minded anti-imperialist scholars would argue that the colonial state has, since its inception, served the interests of an international (and largely foreign) class. It is thus neither new, nor surprising, that the state, in the context of the historic specific form that capitalism takes, serves the interests of an international financial class. Serving the interests of an international (and largely foreign) class was precisely what the Westphalian state system was set up to do in the colonies. Tully, for instance, argues that the constitutional modern state did not precede the institutional global imperial order. Rather, the constitutional modern state took the form it did within an imperial, institutional global order. This is important because it points out that - rather than a break with a formerly sovereign state which acted in the interests of the first constituency it allegedly represents - the rise of the second constituency within a financialised economy is actually no more than the continuation of an imperial relationship under different guises.

political structure which enabled the upper classes to co-opt the state and make it a servant of its particular interests.³²⁴ Notwithstanding, and in line with his conviction that capitalism could be reformed, he believed that the state had the ability, in principle, to radically alter the character of the economic system by adjusting the distribution of social product. Put differently, while at the time of writing he saw the state as a puppet of the interests of the upper class, he believed in its ability to act in the interest of the masses, and thereby make imperialism an unnecessary solution to the problem of under-consumption. This optimism is shared by Streeck.

Habermas points out this tension that Streeck shares with Hobson. Why does Streeck think, Habermas wants to know, that the state – once liberated from the restraints that the European Union imposes on its sovereignty – will defend the interests of the Staatsvolk? And where will the small, isolated democratic states of Europe find the power and the scope of political influence to face up to the power of the Marktvolk? While I think that Habermas is right in asking these questions, I think that his own assessment of the state is no less mistaken and his positive proposal for a greater supranational European Democracy no less naïve than Streeck's hope that the consolidation state may magically become a champion of the interests of the Staatsvolk.

Habermas presents a picture of the current predicament where financial markets 'outgrew' nation states and globalising markets 'ran away' from politics. There are two particularly problematic aspects of this picture, one of which leads to the underestimation of the state's ability to govern the economy, and the second which may overestimate its willingness to do so. First, Habermas' imagery makes it sound as though politics and the economy were separate from each other. This misrepresents the multifarious ways in which the state daily interferes and governs

³²⁴ Hobson in Mommsen, 1980, p.16.

the market economy and ensures that the market can continue with 'business as usual.' Contrary to the picture Habermas paints, where the state is unable to govern the market, the state is extremely capable in this regard. Second, and also springing from this illusion of the separateness of the economy from politics, Habermas makes it sound as if the economy were somehow natural. This fails to recognise that if the markets 'outgrew' government today, it would precisely because the latter set up the institutional framework for them to do so. If today the state insists that it can no longer govern the markets, this lies less in its inability than in its unwillingness to do so.³²⁵ In this sense, then, Habermas seems to overestimate the state's willingness to regulate the market. To sum, while Habermas may underestimate the ability of the state to govern the markets, Streeck may overestimate the state's willingness to do so.

To a certain extent, the conclusion to draw from this Streeck-Habermas debate may seem fairly under-whelming, if judged by the theoretical insights generated. Ultimately, it seems, the debate between two of Germany's most prominent contemporary public intellectuals boils down to an empirical question – an empirical question which, it will suffice to say, is extremely difficult to disentangle from our deepest convictions relating to the emancipatory potential of the state and market. Put differently, the debate between Habermas and Streeck ultimately boils down to an empirical judgment regarding the basket in which we want to put our eggs: do we think that a regional organisation such as the European Union will prove to be a better champion of the interests of the disadvantaged along lines of class and statehood? Or do we think that the nation-state is the most able and willing body to serve as the defender of said interests?

³²⁵ A critic of this view may argue that globalisation has fundamentally changed the rules of the game, curtailing a nation state's ability to direct and control the economy. Globalisation has "weakened the ability of the nation state to regulate capital and utilize traditional economic policy instruments to secure traditional social democratic policy goals" (Whyman, 2006, p. 27).

The connection to earlier debates among theorists of imperialism, however, allows us to say something slightly more interesting about the Streeck-Habermas debate and the positions therein. First, prior debates quarrelling over the potentially emancipatory character of nationalism rightly highlight the dangers that this allegedly emancipatory solution can bring about. Anyone endorsing (the return to) the nation-state will have to respond not only to the theoretical warnings regarding the potential dangers of a return of nationalist movements, but also to their historical track-record.

A promising normative position is the one put forward by Vrousalis. Writing in defence of a qualified endorsement of a right to national self-determination as a way of resisting imperialism, he contests that states whose members are victims of imperialism have a right to national self-determination “if and only if the ascription of such a right strengthens the hand of the victims of imperialism taken as a whole.”³²⁶ Vrousalis’ endorsement of national self-determination movements thus represents a qualified, cosmopolitan defence of the nation-state that I also endorse. It defends the nation-state to the extent that it serves the aim of protecting the interests of the oppressed across national borders. Although Vrousalis is silent on the question of how much the rights of members ought to be ‘weighted’ vis-à-vis those of non-members, the option of not considering the interests of the latter at all is excluded. I say more regarding the type of actions that this qualified right for national self-determination entails in Chapter 7, where I defend the view that under certain circumstances, the state has a duty to engage in acts of civil disobedience.

Second, reviewing the positions of some of the scholars of imperialism, draws attention to routes forward that neither Habermas nor Streeck emphasised. The real debate does not seem to be one about being for or against the return to the state as

³²⁶ Vrousalis, 2016, p.88.

such. Nor is it completely accurate to argue, à la Streeck, that the state is presented with a binary choice between acting in the interests of its first or its second constituency. Rather, the state seems to face an amalgam of options, ranging from the further endorsement of a neoliberal orthodoxy to the socialisation of the economy, with all the intermediary options, which would take it down the road of a social-democracy. This is the point that the preceding discussion of the work Hobson and Schumpeter and other radical liberals emphasises. Both scholars sustain that capitalism does not necessarily result in an imperialist drive outwards, but that a certain form of capitalism does – a form of capitalism that is embedded in an anachronistic socio-political structure. Radically overhauling this anachronistic socio-political structure should be the real focus of any emancipatory struggle.³²⁷ Chapter 8 of this thesis will say more about this intermediary, conventionalist account of the state and its emancipatory potential.

Conclusion and Road Ahead

Let me conclude by summarising the main insights gained thus far. In Part I of this thesis, I sought to provide a structural explanation for a country's debt history. I outlined the structures (namely financialisation and the SD&CR) and laid out the relevant considerations to explain a country's debt history with reference to these structures. I argued that the injustice of the SD&CR – a crucial part of a financialised economy – resides in the existence of positions of advantage and disadvantage, where those in the latter positions are vulnerable to structural domination and exploitation. Characterised by these wrongs, the regime can be recognised as a mechanism through which liberal imperialism is exerted. The positions of advantage and

³²⁷ This seems in line with some of the recommendations made by Piketty in arguing for policy reforms, such as a global capital tax (see chapter 15 in *Capital in the 21st Century*, 2014).

disadvantage, in turn, are structured along lines of class and statehood, and these axes interact in a way to create what I call a class of 'taxpayer aristocracy' and of 'financial aristocracy.' While the primary wrongdoers in cases of structural-relational injustices are the members of the financial class, the debtor state is a necessary collaborator. Provided my reader finds these arguments convincing, the structural explanation given leads directly into the following question: How to think about responsibility attribution to individual actors against the backdrop of such a structural explanation? This is the question to which the second part of the thesis is devoted.

PART II

CHAPTER 5

ON RESPONSIBILITY FOR STRUCTURAL INJUSTICE

How should we think about the responsibility of particular agents against the backdrop of structural injustice? This is the question with which we shall concern ourselves here. In the first section of this chapter, I present two different responsibility models (the liability and the social connection model). The social connection model was developed with the explicit purpose of answering the question of how to think about individual responsibility for structural injustice and it remains the most insightful account of responsibility for structural injustice to this day. While the social connection model was not intended to replace, only to complement, the liability model, advocates of the former do defend that it is the most appropriate model to make sense of cases of structural injustice.³²⁸ My ambition in the first section of this chapter is to disprove this claim. I argue that the social connection model is not by itself sufficient to make sense of the full responsibility picture for cases of structural injustice. Rather, an integrated model is needed that combines the social connection model with the liability model. In the second section of this chapter, I outline how such an integrated responsibility model might look for the case that concerns us here. In Section III, I consider a powerful objection to my integrated model. It could be argued that integrating different understandings and models of responsibility is like wanting to have the cake and eat it too. Ultimately, my critic may argue, the logics and aims of these understandings of responsibility pull in different directions and are incompatible. In the third section of this chapter I respond to this critique before concluding.

³²⁸ Scholars who have defended the social connection model in some of its forms are Young (2006), Moncrieffe (2011), Lu (2011), Kahn (2012), Parekh (2011), Calder (2010), Neuhäuser, (2014), Hayward (2017), Ingram (2011), Mckeown (2015), among others.

Two Models of Responsibility

The traditional way of thinking about responsibility can be lodged under the ‘liability model of responsibility.’³²⁹ The liability model of responsibility focuses on establishing a causal link between action and outcome, and attributes responsibility to the agent who brought the particular outcome about. In that sense, it is backward-looking and isolating: *backward-looking* because responsibility is attributed for an act that came to an end and resides in the past, and *isolating* because once responsibility is attributed to one agent, the others are ‘off the hook.’

The social connection model of responsibility is opposed to the liability model in many ways. It holds that all those who contributed to a structural process that resulted in injustice are responsible for that injustice. The responsibility that the contributing actors hold is forward-looking and shared. It is *forward-looking* in the sense that responsibility resides in taking action to change the unjust structures. It is *shared* and non-isolating because the fact that one actor is held responsible does not relieve the others from being similarly responsible. Indeed, since the injustices at stake are structural, and therefore it is highly unlikely that one individual actor will have the power to change the structures by him or herself, the responsibilities will most likely have to be discharged collectively, by coming together and organising politically to achieve change.

Though the social connection model is forward-looking and shared, and the liability model is backward-looking and isolating, these responsibility models are not rivals. Instead, the social connection model was developed with the aim of complementing, not replacing, the liability model. The claim is made by social connection theorists, however, that the liability model is not applicable to injustices

³²⁹ This is a categorisation introduced by Young (2011), which was then picked up by scholars working on responsibility for structural injustice.

that are structural in nature.³³⁰ For structural injustices, the social connection model is more appropriate.

Structural injustices differ from relational wrongs. Relational wrongs deviate from a commonly-accepted baseline, have come to an end, and can be causally traced back to the action of a single perpetrator. Structural injustices, by contrast, are ongoing and are “produced and reproduced by thousands or millions of persons usually acting within institutional rules and according to practices that most people regard as morally acceptable.”³³¹ Albeit it may not be difficult to identify persons who contribute to structural processes that produce injustice, it is impossible to identify how one particular individual or collective agent directly produces the injustice.³³² The unique nature of structural injustices, then, calls for a different responsibility model; a responsibility model to complement the liability model.

As I see it, the definition of structural injustice contains the rationale and justification for the social connection model, for it is the fact that structural injustices are (a) produced and reproduced by thousands or millions of persons, (b) who act according to what most would accept as morally acceptable norms and practices, which establishes the need for (c) a responsibility model that attributes forward-looking, non-isolating and not distributed responsibilities. In what follows, I take issue with these three components (a-c).

First, I argue that the fact that millions of individual agents contribute to the structural injustice in a diffused manner does not inhibit us from distinguishing more clearly between different sources of structural injustice. Returning to the threefold distinction made in Chapter 3 between structural processes proper, structural-

³³⁰ Young, for instance, states the following: “I propose a social connection model of responsibility specifically for thinking about responsibility in relation to structural injustice. In proposing this model, I do not aim to replace or reject the liability model. I am claiming instead that the liability model is appropriate in some contexts but not all.” (2011, p.100).

³³¹ Young, 2011, p.95.

³³² Young, 2011, p.45.

relational, and structural-systemic contributions to structural injustice, I argue that failing to make this distinction occludes, behind the vague invocation of structural processes, the very responsibility that the social connection model is supposed to be able to attribute. Second, I argue that some of the agents contributing to structural injustice are by no means morally innocent and that these agents ought to be made individually liable for their contribution to structural injustice. Together, this challenges the contention that the social connection model alone is enough to make sense of the responsibility picture pertaining to cases of structural injustice.

(a) Structural injustice is produced and reproduced by thousands or millions of persons

The attribution of responsibility under the liability model predisposes, first, a causal connection between an action and the outcome and, second, that the agent to be held responsible holds certain features of voluntary agency.³³³ The problem with attempting to apply the liability model to cases of structural injustice is that the type of causality that is required for the attribution of responsibility under the liability model is not present in the latter cases. Since the type of causality required by the liability model is absent, as the argument goes, the model is inappropriate for cases of structural injustice.

The diagnosis that the identification of causality in cases of structural injustice is difficult can take a stronger and a weaker form. The stronger version of this argument maintains that the attribution of the isolating form of responsibility is problematic because it is epistemologically impossible to directly link an actor's deeds to the structural injustice. The causal link is so occluded by complex interactions that

³³³ This is not fully correct, as there are forms of responsibility attribution under the liability model which do not require causation. Culpable negligence and strict liability are examples of these. Social connection theorists, however, see these as mere exceptions to the general rule of the liability model.

it is not possible to trace the causal mechanism. The weaker form that this critique can take is one that questions how sensible it is to identify one causal mechanism and single it out as the normatively relevant one. Even if it were possible to identify one such link (a possibility that the stronger version of this critique rejects), how sensible is it—in light of the complexity of the causal events—to single out one agent's contribution and attribute an isolating form of responsibility to that agent?

So far, the contention of social connection scholars that it is difficult to identify causal connections between agents and outcomes in cases of structural injustice has been criticised in two ways. First, an empirical challenge has been raised, according to which it is possible to identify a causal link between an actor and a structural injustice in more instances than often assumed. Second, the critique has been made that the understanding of causality adopted by social connection theorists is too narrow. According to this critique, there is no reason to accept the particular causal requirement attributed to the liability model, namely the criteria that the occurrence of harm be counterfactually dependent on some agent's conduct.³³⁴

The critique I want to make is neither of these two, but a third one. My contention is that, in failing to differentiate between the three dimensions through which structural injustices are (re)produced, we lump together very different sources of structural injustice. In doing so, we fail to recognise that different contributions are not necessarily comparable. While some truly are nothing but a contribution to a structural process (a source of structural injustice I call 'structural processes proper'), others are socio-political decisions which can be attributed to powerful individual agents (at the structural-systemic and the structural-relational levels.) Like contributions made to structural processes proper, these decisions also contribute to the structural processes that result in structural injustice, but they need to be

³³⁴ Barry and MacDonald, 2016.

individuated, as well. Not doing so runs counter to the professed aim of the social connection model of holding individual agents responsible for structural injustice. The rest of this sub-section is devoted to defending this argument.

While I think that the social connection model is appropriate to think about structural processes proper, it is insufficient for thinking about the other two dimensions through which structural injustice is reproduced, namely wrongful contributions on the one hand (the structural-relational level), and decisions made by powerful actors further up the value chain on the other (the structural-systemic level).³³⁵ My worry is that if we fail to distinguish between these different dimensions of structural injustices, we end up occluding real (often political) choices made by powerful actors in related or unrelated policy areas. Socio-political decisions of the most powerful actors are thereby rendered invisible.

Social connection theorists warn us of the danger of employing reification strategically as a way of avoiding responsibility. As Young suggests:

Nearly all the matter of the world we encounter is marked by culture, human projects, and human decisions. As thus materialized, however, we do not encounter the action as such; indeed, many of these actions whose material consequences we experience were performed a long time in the past. The inter material things and constraints we encounter bear marks of past praxis'³³⁶

I believe that the failure to distinguish more clearly between these three forms of contributions – those of powerful individual actors who either act wrongfully or who make decisions in related policy areas and those that more readily fall under the label of ‘structural process proper’ –results in the very reification Young warns us about.

³³⁵ Examples of such decisions discussed so far are, for instance, the abolition of the Bretton Woods Regime by Nixon. In the Greek case discussed in Chapter 3, an example of a structural-systemic contribution could be the adoption of the Euro under the European monetary arrangement that was agreed on at the time.

³³⁶ Young, 2011, p.54.

This is not only deeply problematic socio-politically, but also runs against the whole purpose of the social connection model, which consists of conceptualising individual responsibilities in relation to issues of structural injustice. As Barry and MacDonald put it, there is a clear sense in which the social connection model “absolves agents of responsibility to address structural injustice.”³³⁷

Social connection scholars might counter that the bracketing of responsibilities of powerful public and private institutions, and the focus on responsibilities of civil society, are intended and justified. First, most theorising on social and global justice has focused on the responsibilities of the powerful public and private institutions. The increased attention paid to civil society actors by social connection scholars could thus be interpreted as an attempt to balance out the scale, or as an acceptance of a certain division of labour within the discipline.

The second reason provided by social connection scholars relates to the responsibilities of states and other *public* institutions. Public institutions can be said to be failing in their task of fighting for a more just world. These institutions are “indeed important and powerful agents relevant to transforming structural processes to make them more just.”³³⁸ They can limit the power of private powerful agents, establish incentive structures that work for the many instead of the few, and offer remedial solutions that directly improve the livelihoods of the most vulnerable. Often, however,

States fail to do some or all of these things; and when they do, it is not because they are corrupt or incompetent. More often, it is because the rules and practices of these institutions are more aligned with the powers and processes that produce or perpetuate injustice than with those who seek to undermine it (...). The policies and programs that states and international organizations

³³⁷ Barry and MacDonald, 2015, p.110.

³³⁸ Young, 2011, p.151.

enact themselves tend more to reflect the outcome of those struggles than to balance between or adjudicate them.³³⁹

Since citizens cannot turn to the state or international institutions as intermediaries in a struggle between different sets of interests, it could be concluded that citizens not only have an obligation to “demand that government correct injustice,”³⁴⁰ but also an obligation to mobilise politically to fight the structural injustices directly, without the state or other public institutions as intermediaries.

This is hardly a justification, however, for excluding the theorisation of the responsibilities of the public institutions themselves. Moreover, it is somewhat puzzling that after correctly recognising that public institutions are failing to meet their obligations to work on reducing injustice in the status quo, the questions of whether, for what, on what grounds, and with what consequences these public institutions are responsible, is completely neglected by social connection scholars. In my opinion, the fact that public institutions turn out to be serving the winners of the struggle between different sets of interests gives us an added reason to theorise the responsibilities of these public institutions, not a reason to exclude them. In the chapters to come, I explore the responsibility of public institutions (of public multilateral creditors in Chapter 6 and of the debtor state in Chapter 7).

Another surprising thing about this argument is that it upholds an extremely pessimistic view of public institutions and of the prospects of these institutions choosing to act otherwise, parallel with a very noble view of citizens and private actors. This portrays a picture in which we, as private actors, will simply assume the political responsibilities attributed to us. But if there is one thing that the pessimistic and overly deterministic vision of public institutions reveals, it is that there are

³³⁹ Young, 2011, p.151.

³⁴⁰ Young, 2011, p.150.

powerful private actors who will not want the structures to be changed.³⁴¹ In assuming that everyone wants to – and has an interest in – changing the unjust structures, the argument made to exclude public institutions from the responsibility picture is neglected; the argument – that is – that there are ingrained material interests that militate against the form of political mobilization advocated for by social connection theorists.

To summarise, I have thus far argued that we need to distinguish more clearly between three different sources of the production and reproduction of structural injustice, namely structural processes that create injustice, and individual decisions (either in the structural-relational or in the structural-systemic variant) made by powerful actors which, albeit contributing to structural injustice, also offer independent grounds on which to hold the given agent liable. Put differently, I understand the contributions that powerful private and public actors make to the structural process to differ from those made by other actors, who contributed only in way of being part of the structural process proper.³⁴² While powerful private and public actors should not necessarily be held responsible for the structural injustice itself – and also individual consumers should be held responsible for their contribution to the structural process – the powerful actors can be made responsible for their contribution to the structural process in a way that latter actors can or should not.

³⁴¹ If those actors who do not have an interest in seeing the structures changed fail (as we might expect) to take up the shared, collective, and forward-looking responsibilities that Young ascribes to them, the structures will most likely not be changed. This is a real problem for social connection scholars – whose focus, after all, is on altering unjust structures, – and further adds to the free rider/time-inconsistency problem identified by Nussbaum, Barry and MacDonald (Nussbaum in Young, 2011; Barry and MacDonald, 2016).

³⁴² It may be the case that all of these different sources are necessary for the structural injustice to materialise. Conversely, it may also be that either one of these sources would suffice to bring about the structural injustice. Independently of whether or not the structural injustice is over-determined, I take the contribution of the powerful private and public actors to be different to the one made by individual consumers.

(b) Structural injustice is produced by agents acting within institutional rules and according to practices that most people regard as morally acceptable

A relatively benign definition of structural injustice underlies the social connection model of responsibility. It is because of the twofold feature that (i) not one, but a multitude of individual actions lead to the production and instantiation of structural injustice (the causality condition discussed above), (ii) most of which are not considered immoral (the condition I discuss here), that social connection theorists seem to scruple to assign distributed, backward-oriented responsibilities. The shared, collective and forward-looking distribution thus hinges on this somewhat benign definition of structural injustice. This, in turn, lets social connection theorists reject the intuition that attributing backward-oriented responsibilities is possible and desirable in the context of structural injustices.

Here I want to argue that this benign definition of structural injustice misses the fact that structural injustices are not only produced by what I have called 'structural processes proper,' which may indeed be morally innocent contributions, but also by the type of contributions I referred to as structural-relational and structural-systemic. More often than not, these later contributions are not morally innocent. The benign definition of structural injustice underlying the social connection model is incapable of accommodating these forms of morally guilt or the morally tainted contributions to structural injustice.

Let me start by reviewing Young's discussion of 'Eichmann in Jerusalem.' In her discussion of Arendt's work, Young suggests that it was crucial for Arendt to distinguish between the contributions made by Eichmann and those made by German citizens, whose contributions consisted of believing in the Nazi party and supporting its leaders. Young endorses Arendt's opposition to the claim that

Eichmann's contribution is comparable to those of other German citizens. While the contributions made by German citizens reside in "dwell[ing] within the social system that enables the crimes and supply[ing] that system with at least passive support,"³⁴³ Eichmann's contributions lie in organising the movement of trainloads of Jews to death camps. According to both Arendt and Young, these contributions to the Nazi horrors are different in nature and warrant different forms of responsibility attribution.

While Young endorses Arendt's distinction, her definition of structural injustice, as well as her social connection model of responsibility, ultimately fail to capture it. In her model, all contributions for structural injustice end up being assigned the same heading of 'responsible but not guilty.' Eichmann-type contributions seem to drop out of the picture in Young's social connection model of responsibility. Put differently, while Young forcefully condemns Eichmann's actions on moral grounds, she does not distinguish between his contributions to the structural process that resulted in the death of millions of individuals in death camps, and those of individual German, whose contribution to the same crime consisted of not resisting the Nazi regime. But Eichmann's acts are not only morally culpable on their own – they also contribute to the structural injustices of the Nazi party. My suggestion is that while we should blame Eichmann on moral grounds for his actions, we should also allow that moral condemnation to enter in our assessment of his contribution to the structural injustice in which his actions resulted.³⁴⁴

Contrary to this benign definition of structural injustice, in which the individual agents that contribute to the production of structural injustice are

³⁴³ Young, 2011, p.86.

³⁴⁴ Distinguishing more clearly between these two forms of contributions is also what Nussbaum seems to suggest in her introduction to Young's book, where she argues that although we should not "blame an agent for not shouldering the entirety of the social task all by herself (...) we [should] blame her for not shouldering the part that she ought to have shouldered, and thus we blame her for her contribution to the bad outcome" (p.xxii).

depicted as morally innocent, the example given above clearly suggests that not all contributions to structural injustice are equally innocent. This a point made by many of the critics of the social connection model. Gould argues at length that the involvement of the CEOs of multi-national corporations and that of sweatshop workers are not comparable.³⁴⁵ Goodhart, in turn, argues that there is something ‘perverse’ about the claim that the contribution of sweatshop workers to their own exploitation is comparable to that of their exploiters.³⁴⁶

Moreover, despite the emphasis on bringing to the fore the underlying structures that constitute injustice (and not merely the deviations therefrom), it is not sufficiently emphasised that these very background norms did not become dominant by chance, but to serve particular interests. Goodhart introduces the notion of ‘constitutive power’ to defend the claim that the norms that become accepted as the epoch’s unquestioned background music are intentionally shaped by powerful actors with particular sets of interests.³⁴⁷ Many of the social processes that are characterised as

unintentional or as complex, compound consequences of seemingly insignificant or harmless individual behaviour are actually products of constitutive power – specifically, of a carefully orchestrated, decades long program of neoliberal economic policy designed to serve the interests of capital and to restore class power.³⁴⁸

So while social connection theorists might be correct in that most people pursue their aims and interests innocently, they miss, first, that some actors do not do so innocently, but rather benefit purposefully from the structural injustice to which they contribute. They fail to emphasise, second, that it is the very actors who contribute

³⁴⁵ Gould, 2009.

³⁴⁶ Goodhart, 2017, p. p.190.

³⁴⁷ Constitutive power “is power that produces effects manifest in ‘the identities of the occupations of social positions’ – their self-understandings, subjectivities, frameworks of meaning, and so on” (Goodhart, 2017, p.187).

³⁴⁸ Goodhart, 2017, p.187.

purposefully to structural injustice who shape background norms in a manner that serves their material interests.³⁴⁹ This is so despite the stated intention of bringing the underlying background structure, which the liability model is said to accept as a given, to the fore.

So far, the resistance to attribute isolating, backward-looking responsibility and the insistence on keeping responsibility and liability separate has been criticised most forcefully due to the inter-temporal inconsistency it creates. In other words:

The [social connection] model simultaneously claims that those in a position to achieve results by alleviating structural injustice have weighty moral reasons to do so while also being committed to the view that, should these agents fail to take action, they should not be judged to have weightier reasons in the future than they would otherwise have.³⁵⁰

According to these critics, it is logically inconsistent and gives the wrong incentives to hold individuals responsible in time x to do y and fail to hold them responsible at time $x+1$ for not having done y . According to Nussbaum, it is difficult to maintain the retrospective/prospective portion of the distinction, guilt being appropriate only to past acts, “for the simple reason that time marches on.”³⁵¹ If the distinction is upheld, then people would get a free pass indefinitely, since no task they have failed to shoulder ever goes onto the debit (or guilt side) of their ledger.³⁵²

What I have argued in this section is that, while it is true that the time-inconsistency problem creates a moral hazard type structure, which creates incentives for free riding on your responsibilities, this only adds to the more central problem that a non-distributive type of responsibility distribution occludes the fact

³⁴⁹ Paying too little attention to how the background norms are shaped by the most powerful actors, she also fails to acknowledge sufficiently how agents are shaped by structures.

³⁵⁰ Barry and MacDonald, 2016, p.110.

³⁵¹ Nussbaum in Young, 2011, p.xx.

³⁵² Nussbaum in Young, 2011, p.xxi.

that some of the contributions to structural injustice are not morally innocent. Contributors do not necessarily purposefully and in mean spirit reproduce structural injustices with the intent to harm, or because they are thoughtless (like Arendt's family man). Most of the agents contributing to structural injustice in a morally blameworthy, or even in a morally tainted way, know very well what they are doing, but they keep on doing it because it serves their material interests.

(c) For structural injustice, responsibility attribution needs only to be forward-looking, non-isolating and not distributed

Social connection theorists resist the distribution of backward-looking responsibility in cases of structural injustice for three main reasons. First, focusing on the distribution of backward-oriented responsibility can be said to be consequentially unwise for mobilising individuals for political action, for it renders both wrongdoers and victims passive. While wrongdoers either react with defensiveness or self-indulge in their blame, victims adopt a slave morality and cultivate a spirit of resentment, neither of which is useful in mobilising action to change unjust structures.³⁵³ Second, a focus on backward-oriented responsibility can also be said to be deontologically erroneous, for it is “mean-spirited to seek equivalence for every harm that must come from the flesh next to someone’s heart.”³⁵⁴ Third, as argued in the sub-section above, social connection scholars tend to adopt a very benign definition of structural injustice. This, in turn, allows them to reject the intuition that a fair distribution of backward-oriented responsibility is possible and desirable in the context of structural injustices.

³⁵³ Young, 2011, p. 116.

³⁵⁴ Young, 2011, p. 115.

The forms of responsibility which are appropriate to attribute in cases of structural injustice are non-isolating, shared, and political. Non-isolating means that where an agent is found responsible for acting in a way that contributes to the production of a structural injustice, this attribution does not absolve others from responsibility.³⁵⁵ Shared responsibility describes a form of responsibility that “I personally bear, but (...) I bear it in the awareness that others bear [it] with me.”³⁵⁶ Finally, political responsibility is one that can only be collectively discharged. Fulfilling this political responsibility entails acting with others to alter the background structures that produce and reproduce structural injustices.³⁵⁷

This is not to say that it is not acknowledged that actors differently positioned in social structures may have different “kinds and degrees” of political responsibility.³⁵⁸ To provide guidance about what differently positioned agents ought to do ‘parameters of reasoning’ are introduced. These ‘parameters of reasoning’ are power, privilege, interest, and collective ability. While they do not serve the aim of distributing responsibilities, they are intended to guide agents in their efforts to discharge their responsibilities by organising politically to change the unjust structures.³⁵⁹

As the analysis in the previous two sub-sections suggests, however, it is crucial to distinguish more clearly between the different forms of contributions made to structural injustice. Once we recognise, first, that not all sources of structural

³⁵⁵ Young, 2011, p.106.

³⁵⁶ Young, 2011, p. 109-110.

³⁵⁷ The other two characteristics of Young’s social responsibilities are that they are forward-looking (focusing on injustices that are still ongoing) and that they bring neglected background structures to the fore which, albeit often considered morally acceptable, contribute to the production of structural injustice (Young, 2011, p.108).

³⁵⁸ Young, 2011, p. 144.

³⁵⁹ Miller, who fears that undistributed responsibilities will not be acted upon, would not be convinced by these parameters of reasoning, for “an undistributed duty such as those to which everybody is subject is likely to be discharged by nobody unless it can be allocated in some way” (2007, p.98).

injustice are comparable - that we need to distinguish more clearly between structural process proper on one hand, and socio-political decisions made by powerful actors on the other - and, second, that we ought to distinguish between morally innocent contributions and those that are morally blameworthy or tainted, the resistance to responsibility distribution becomes difficult to defend. In my opinion, once we see, for instance, that the background norms that we accept are not manna from heaven, but are, more often than not, purposefully shaped by and in the interest of powerful actors, it becomes both acceptable and appropriate to attribute backward-looking, distributive forms of responsibility. Similarly, once we challenge the overly benign conceptualization of structural injustice and begin to paint a more nuanced and granular picture regarding the different forms of contributions made to structural injustice, the intuition to put the moral scale back into balance by assigning backward-looking, distributive responsibilities resurfaces.³⁶⁰ This becomes all the more important when we recognise the discrepancy between the (overly) negative and deterministic assessment of public institutions and the (overly) optimistic conception of individual citizens' willingness to pick up their share of political responsibilities.

Put differently, only assigning forward-looking, shared responsibilities, which ought to be collectively discharged with the aim of altering the unjust background structures, no longer seems to suffice. Contrary to what is suggested by its advocates, the social connection model by itself does not account for the full responsibility picture in cases of structural injustice. An integrated model of responsibility that allows us to both alter unjust structures and attribute backward-looking

³⁶⁰ Claiming that the intuition of distributing responsibilities regains force is not the same as advocating for an isolating form of responsibility attribution. As will become clearer as I proceed, distributing responsibilities does not directly nor necessarily translate into an isolating form of responsibility attribution.

responsibility to individually liable agents becomes desirable. In the next section, I sketch what such an integrated model might look like.

An Integrated Responsibility Model

Most scholars that defend different responsibility models agree that an integrated model is required to capture the full responsibility picture of concrete sites of injustice. Notwithstanding, to this day, no one has applied them to a concrete site of injustice and integrated them in practice. In this section, I want to do precisely this, applying the theoretical question of the previous section to the case that concerns us here, namely the injustices of the SD&CR. My aim is to show how the different responsibility models pick up on normatively and politically relevant features of the case at hand and how the different responsibility models are needed in order to capture the full responsibility picture. Thus, in this section, I do not focus on the responsibility of concrete actors in the regime - this is something I will pick up in the chapters to come. Rather, I argue that other understandings of responsibility that are excluded from the social connection model are also relevant to make sense of the full responsibility picture of the SD&CR.

In the previous section, I suggested that distinguishing more clearly between different contributions to the (re)production of structural injustice is crucial in two ways: first, to distinguish between different sources of structural injustice, and second, to distinguish between those agents acting in a morally innocent way and those whose actions are morally tainted or blameworthy.

Distinguishing more clearly between the millions of decisions taken by individual agents on the one hand, and of those powerful private and public actors on the other, also points at the forms of responsibility attribution that is appropriate for each of these sources of structural injustice. I think that social connection scholars

are right in arguing that those participating in what I call ‘structural processes proper’ carry a forward-looking, shared, and collective responsibility to politically organise to change the structures that shape their existence. Take the example of a bank run that results in a sovereign debt crisis: depositors should not be held responsible in a backward-looking way or held individually liable for their action of retrieving money from the bank. Individuals connected to the sovereign debt crises arising from a bank run do, however, have a responsibility to mobilise and exert pressure on key decision-makers to change the monetary and financial system under which they live. They can also ameliorate some of the consequences of the structural injustice by organising alternative forms of payment, such as by introducing barter or different currencies, or by providing the social services that the government may be cutting as a response to the crises.

The same does not apply for individual actors who made the decisions that created the financial and monetary structures within which an individual country’s debt history is embedded. Not only are these concrete socio-political decisions that can be isolated from structural processes proper, such as a bank run, but they also more closely resemble Eichmann-like contributions to structural injustice than the contributions of individual German citizens. Actors making these types of decisions can and ought to be held individually responsible for the way in which their actions contribute to structural injustice.³⁶¹

Stating that socio-political decisions, such as the abolishment of the Bretton Woods system, more closely resemble Eichmann-like contributions to structural injustice is not to say that I find these actions morally comparable. Eichmann was

³⁶¹ That they can be held individually responsible for their contribution to the structural injustice does not entail that these actors need to have intended the outcome, or need to have been able to control or foresee it. As I show in the next chapter, these *capacity*-related requirements are only needed for one ground on which responsibility can be attributed. Responsibility for structural injustice can also be attributed to individual agents on the basis of their *authority*, even when they lack the relevant capacities.

doing something that was deeply immoral, whereas Nixon was making a political decision with regards to how the U.S. and the global political economy was to be organised. What these actions have in common, however, is that they are individual contributors to structural injustice, which ought to be isolated from the structural processes proper. The grounds on which they can be made liable, in turn, are various and allow us to distinguish more clearly between Eichmann-like contributions to structural injustice and Nixon's contribution. In the next chapter, I introduce three such grounds on which private and multilateral creditors can be held responsible.

It is not my intention here to defend the attribution of particular forms of responsibility for the structural injustices pertaining to the SD&CR to different actors. In the chapters to come, I will elaborate on the varying responsibilities of different agents. For now, it will suffice to note that different forms of responsibility exist, some of which may draw on grounds of responsibility attribution associated with the 'liability model,' which allows us to make sense of the individual contributions that concrete agents make to the (re)production of structural injustices.

Put succinctly, what I am proposing is to attribute shared, forward-looking responsibility to all agents who are part of the structural process proper and to those who made socio-political decisions from higher positions of influence. In addition to the forward-looking, shared responsibility, distributed responsibility (both forward-looking and backward-looking) also needs to be attributed, on different grounds, to the latter agents. Attributing these special responsibilities does not only serve the aim of holding agents accountable and avoiding free riding, but also of putting the moral scale back into balance.

Objections and Response

A powerful objection to my proposal of combining Young's social connection model with other forms of responsibility that are more backward-looking in nature is that these responsibility models have different logics, pursue different aims, and are ultimately incompatible, if not contradictory. This is a serious challenge and I want to devote the rest of this chapter to responding to it. I argue, first, that both the liability and the social connection model are more closely connected theoretically than they appear to be at first glance, and, second, that the practical implications of attributing shared and forward-looking vs. distributed and backward-looking responsibility are also more similar than previously assumed. The models are therefore both theoretically and practically compatible.

Miller introduces a useful analogy to start identifying the contours of the different aims pursued by the different models of responsibility. He asks us to think about a classroom, where the teacher steps out for a minute and, upon her return, finds the classroom in a state of chaos. When the teacher asks who is responsible for the mess, she could be asking one of two things: either who is responsible for producing the mess or who is responsible for clearing it up.³⁶²

The two ways in which the teacher's questions can be interpreted hint at two different aims that can be pursued when attributing responsibility. The first question is primarily concerned with singling out an agent from a general stream of causation who can be attributed the outcome, and who can be praised or blamed. The reason we want to single out this agent is not primarily to fix the situation (the messy classroom), but to put a moral scale back into balance which was disrupted by the

³⁶² As Hart suggests, these two questions are not exhaustive. He provides a different analogy, namely that of a captain on a ship and says that we can distinguish between four different forms of responsibility, namely: causal responsibility, liability (which includes moral and legal liability), capacity and role responsibility (Hart, 1961, p.211). I will talk about all of these forms of responsibility as I proceed.

actions or omissions of the agent. By contrast, the second question of who is responsible for clearing up makes the cleaning up of the classroom the priority. Here, we are not primarily concerned with praising or blaming the agent we deem responsible in the first place, but with ensuring that the situation is resolved. Whereas the first question can be associated with the liability model, the impulse of the second question is best captured by the connection model.³⁶³

Miller's motivation is to account for the two perspectives of human agency. Humans, so Miller believes, are both agents and victims.³⁶⁴ While the first way of understanding responsibility privileges the agency of individuals – in that human beings are choosing agents who must take responsibility for their own lives – the second question asked by the teacher in our class room analogy puts the vulnerability of humans centre stage. While the liability model puts human agency at the centre and has the aim of putting a moral scale back in balance, Miller's connection model focuses on the vulnerability of subjects and starts with an urgent situation that must be put right.

If we think about the different understandings of responsibility in Miller's terms, my proposal of combining a backward-oriented, distributive understanding of responsibility with a forward-looking, shared one does indeed seem to be pulling in two opposite directions. Thought about in this way, these are two ways of attributing responsibility that pursue different aims and, at some point, we will have to decide

³⁶³ Miller calls the first form of responsibility 'outcome responsibility' and the second 'remedial responsibility.' Remedial responsibility is to be attributed on the basis of his 'connection theory.' In order not to introduce more terminology than absolutely necessary, I will not discuss remedial responsibility separately here. Moreover, since outcome responsibility falls under the 'liability model,' I will discuss outcome responsibility in that context. In Chapter 7 I also discuss outcome responsibility at greater length.

³⁶⁴ "On the one hand, human beings are needy and vulnerable creatures who cannot live decent, let alone flourishing, lives unless they are given at least a minimum bundle of freedoms, opportunities and resources. (...) On the other hand, human beings are choosing agents who must take responsibility for their own lives. This means that they should be allowed to enjoy the benefits of success, but it also means that they must bear the burdens of failure" (Miller, 2007, p.5-6)

what our priority is – to put a moral scale back into balance or to put an unjust situation right. Indeed, on the face of it, Young seems to affirm something similar to Miller with his two perspectives on human agency. When discussing the practical problems arising from attributing backward-looking responsibility, namely the fact that it makes both victims and perpetrators passive, she seems to suggest that focusing on putting the moral balance right comes at the expense of fixing structural injustice. On a deeper level, however, Young combines these two perspectives of human agency in a way that Miller does not, thereby challenging the idea that doing one thing (putting the moral scale back into balance) comes at the expense of the other (fixing the problem).

I take Miller's connection model to be a non-moralised responsibility model. To be sure, some of the grounds he identifies do make an appraisal of the agent to whom responsibility is attributed.³⁶⁵ But whether or not a ground is moral makes no difference to the question of whether it ought to be prioritised in any specific situation. What matters normatively is that the unjust situation be remedied. Rather than bringing a moral scale back into balance, the obligation to relieve deprivation and suffering is the overriding concern. As Miller states, "by using multiple criteria, we ensure that there is always some agent who can be assigned responsibility for remedying [the] condition."³⁶⁶

Young's model, by contrast, is moralised. Albeit forcefully defending that her account is neither backward-looking, nor interested in questions of blame or culpability, she does connect the teacher's two questions in a way that Miller does not. Recall that, for Young, responsibility derives not from a constitutive link between action and outcome, but "from belonging together with others in a system of

³⁶⁵ Miller distinguishes between moral and non-moral grounds, with outcome and moral responsibility falling in the former, and community, capacity and causal responsibility in the latter category.

³⁶⁶ Miller, 2001, p.471.

interdependent processes of cooperation and competition through which we seek benefits and aim to realize projects.”³⁶⁷ In her account, the answer to the question of who is responsible for creating the structural injustice (the classroom mess) therefore is connected to the question of who is responsible for remedying it (cleaning up the classroom). To that extent, her model is backward-oriented and moralised. Moreover, to the extent that it is the social connection to the structural injustice that grounds our responsibility, discharging that responsibility politically does both things at the same time - it puts the moral balance back right and remedies the structural injustice.

With my integrated responsibility model, rather than keeping Miller’s two perspectives of human agency separately, I want to explicitly endorse what Young does implicitly, namely connecting these two perspectives. In other words, I want to concentrate on fixing injustice, while also putting the moral scale back in balance and holding responsible agents accountable. Young’s social connection model shows that connecting these two perspectives and aims is not theoretically untenable.

A critic may counter that there is still a way in which, in practice, these two aims may conflict and cases in which one will have to choose what aim to prioritise. On one hand, we start by looking at the problem that needs fixing and ask what needs to be done. All players who are in a position to do something to fix the problem ought to do so. In the process of doing so, the moral scale may also be righted, for agents who could also be attributed responsibility individually, in a backward-looking manner, are discharging these by acting politically. But the priority is to remedy the situation. On the other hand, we can start with the ambition of putting the moral scale back into balance and ask, as a second step, how these agents can discharge these responsibilities in practice.

³⁶⁷ Young, 2011, p. 105.

Since this is an empirical objection, I will respond to it with this same level of argumentation. My contention is that, whatever perspective of human agency or aim one prioritises, the practical steps which will have to be taken to discharge these responsibilities are very similar, if not the same. Recall that even when aiming to put the moral scale back into balance, doing so will require that the agents to whom responsibility was attributed also discharge these responsibilities. When asking, in turn, how these responsibilities can be discharged, the question of what an agent in position X within structure Y can do gains relevance. The question of the moral grounds on which responsibility can be attributed then becomes a question about where the pressure points are within the structure, that would allow for meaningful change to occur. On this level, then, shared, forward-looking, and distributed, backward-looking responsibilities align. Let me illustrate this by giving some examples of the different ways in which agents within the SD&CR can discharge both shared forward-looking and distributed backward-looking responsibilities.

As articulated above, the vast majority of states are simultaneously creditors and debtors. This creates the potential for collaboration between states *qua* debtors, albeit a small one, because there may be a mutual interest in building a set of rules and institutions to govern the extension of credit, the debt servicing process, and the debt restructuring process in moments of crisis. Institutions serve the purpose of reducing uncertainty and stabilising expectations. They do so by revealing the preferences of the participants in the institutions, monitor the behaviour of others, and provide predictability. In the case of sovereign lending and borrowing, the absence of institutions that govern the practice leads to ad hoc crisis management and restructuring negotiations.³⁶⁸ It also leads to economically and politically costly bailouts that governments around the world have an increasingly difficult time

³⁶⁸ Rogoff and Zettelmeyer, 2002.

justifying to their taxpayers.³⁶⁹ Thus, in the absence of a formal institution to govern the practice of sovereign borrowing and lending, all states *qua* debtors are worse off. Even the minimal shared interest among states *qua* debtors provides one pressure point to alter this structure. By virtue of the possibility that this common interest creates, no matter how minimal, states *qua* debtors can be said to have a responsibility to establish a coalition to set up such institutions.³⁷⁰

Of course, one may counter, not all countries have the same interests in setting up these institutions. A country's leading political class, in particular, may hold a complex set of interests: the more it sees its interests aligned with those of the leading financial class, the less likely the state *qua* actor in the international arena is to choose to support a sovereign debt restructuring facility. Moreover, the more a state thinks of itself mainly as a creditor (instead of mainly as a debtor, which all creditor states are), the less likely the state *qua* international player will be to support formal institutions to govern sovereign lending and borrowing practices. Indeed, while a coalition of developing countries (the G77 + China) have been fighting to see such institutions established, powerful creditor countries (the U.S., the U.K., and Germany, most prominently³⁷¹) have been throwing sand in the wheels of such negotiations. Countries that occupy a position of relative disadvantage in the SD&CR are thus more likely to push for the implementation of formal institutions that would ameliorate the injustices of the regime. To that extent, they have the responsibility to continue exerting pressure at the international level in the fight for the establishment of such an institution.

³⁶⁹ Helleiner, 2008.

³⁷⁰ I say more about the exact nature of these institutions in the conclusion of this thesis.

³⁷¹ Eleven countries opposed the UN Resolution.

<https://www.theguardian.com/business/2015/sep/11/debt-campaigners-hail-un-vote-as-breakthrough>.

Conversely, countries occupying a particularly influential position in the global political economy have special responsibility, not only due to their individual contributions to structural injustice in the past, but because their actions have consequences that those of less powerful countries do not. Issuers of the main currencies to trade, save, and speculate, for instance, have the obligation to consider the implications of their monetary policy decisions on other countries. Although this responsibility must be specified further, for now, it must suffice to delineate its contours by pointing at a modern practice that clearly fails to meet this responsibility, a practice that is best illustrated by John Connally's statement that "the dollar is our currency, but it is your problem."³⁷²

In the same way in which states *qua* debtors are not a homogenous group, creditors are also far from homogenous.³⁷³ The heterogeneity of creditors and creditor interests represents a political opportunity to alter the current unjust structures. Importantly, the interests of multilateral public creditors and private creditors do not always align. Indeed, as recent crises and policy discussions regarding the establishment of a sovereign debt restructuring facility reveal, a progressive divergence between the interests of these two sets of actors can be observed.³⁷⁴ Fearing incentivising creditor moral hazard, the IMF is sceptical about large bailout packages. Some within the IMF have long been advocating for a more orderly and less ad hoc way of governing sovereign borrowing and lending practices.³⁷⁵

Moreover, despite being portrayed the defender of private creditors and as the puppet of only a handful of its member states' interests – those with the largest

³⁷² <http://www.handelsblatt.com/politik/international/henry-a-kissinger-prize-schmidt-shultz-has-been-friend-of-germans/6681918.html>

³⁷³ Lienau, 2014, p.34.

³⁷⁴ See, for instance, "Greek bonds sell off sharply as EU-IMG rift deepens"

<https://www.ft.com/content/95157062-eee7-11e6-ba01-119a44939bb6>

³⁷⁵ Anne Krueger, first deputy managing director of the IMF between 2001 and 2006, was one of the main advocates of the implementation of a Sovereign Debt Restructuring Mechanism. See Krueger (2001, 2002).

quotas, most prominently the U.S. - the IMF itself is by no means a unified institution. Friction exists, for one, between the Fund's Independent Evaluation Office, known for publishing very critical reports of Fund policies, and the rest of the IMF.³⁷⁶ Moreover, although the IMF presents a united front, detailed studies of the institution reveal that a culture of discussion exists within the institution.³⁷⁷ Finally, the division between the institution's principal (member states) and the agent (IMF officials and bureaucrats) also opens up a space for political contestation that could create a less unjust SD&CR.³⁷⁸

Rather than continuing to push for the traditional, orthodox set of conditionalities, for instance, the IMF could start putting pressure on debtor states to implement a set of policies that make them less dependent on sovereign borrowing and, consequently, less dependent on the financial elite as their second constituency. One such policy is tax reform, turning the 'debt state' back into the 'tax state.' A conditionality that the IMF could insist on, then, is to adopt a more progressive tax system and a global tax on capital, as advocated for by Piketty.³⁷⁹

These reflections are not exhaustive and as more empirical details and political feasibility constraints are introduced, the picture grows blurrier. However, I hope that they help illustrate how, once one starts thinking about responsibility not only in terms of the grounds on which responsibility can be attributed, but in terms of how these responsibilities can be discharged in practice, shared forward-looking and distributed backward-looking responsibilities do not look so different after all. If our ambition goes beyond the purely theoretical, and in to the practical, then the most crucial question may indeed be what each individual actor can do today to start altering unjust structures.

³⁷⁶ Chwioroth, 2010.

³⁷⁷ Breen, 2013; Chwioroth, 2013; Momani, 2007.

³⁷⁸ Vaubel, 2006.

³⁷⁹ Piketty, 2014, chapter 15.

Conclusion and Road Ahead

In this chapter, I raised the question of how we ought to think about agential responsibility attribution against the backdrop of a structural diagnosis of the wrongs of the SD&CR. I argued that, contrary to the established position among social connection theorists who see the social connection model as the only appropriate one for cases of structural injustice, an integrated model is needed to make sense of the full responsibility picture in cases of structural injustice, both generally and in the case of the SD&CR in particular. In the final section of this chapter, I defended this position from possible objections.

One crucial aspect that my integrated model of responsibility shares with the social connection model is that both defend a more expansive view of responsibility, opening space for responsibility attribution. As Lu states in the context of her analysis of colonial structural injustice, “a structural approach to assessing responsibility admits a more expansive view of (...) responsible agents, as well as a more complex view of the different kinds and degrees of responsibility that attach to individual wrongful actions and to their participation in background social structures that produced (...) injustice.”³⁸⁰

In the chapters that follow, I build on this more expansive and complex view of responsibility, analysing how the different participants in the said structural processes are to be held responsible. In Chapter 6, I look at the responsibility of creditors. Chapters 7 and 8 are concerned with the responsibility of those that can rightly be identified as victims of injustice. Chapter 7 tackles the responsibility for the structural injustice that characterises the regime as a whole, arguing that creditors *qua* members of the financial class can be considered ‘primary wrongdoers’ in cases

³⁸⁰ Lu, forthcoming, p.148.

when the structural-relational level is at play and considers governments of disadvantaged debtor states to be 'complicit' agents. While Chapter 7 is concerned with assessing the responsibility of state officials *qua* representatives of states in a position of disadvantage within the SD&CR, Chapter 8 turns to the responsibility of the citizens of such states.

Chapter 6 and 8 are narrower: they focus on offering an alternative critique of the repayment norm to the one provided by normative scholars working on sovereign debt. Chapter 6 turns the tables of the debate, starting with the question of what creditors owe. Chapter 8 identifies two sufficient conditions to challenge the citizens' obligations to service debt accrued in their name.

CHAPTER 6

WHAT CREDITORS OWE

It's like a nephew who becomes dependent on a very rich, doting uncle. Suddenly the uncle dies and leaves the money to someone else, or decides he doesn't love the nephew anymore and cuts him off. You can ask—who is responsible—the uncle or the kid?³⁸¹

The agential explanation of a country's sovereign debt history is characterised, first, by the identification of the crisis itself as the main problem, and second, by the unilateral responsibility attribution to the debtor state. This agential explanation thus results in the debtor state being burdened with the costs that arise from a sovereign debt crisis. The repayment norm and its legal expression, *Pacta Sunt Servanda*, reflect this agential explanation.

While both the government and the citizenry of sovereign debtors are identified in public discourse as primary culprits in the eruption of sovereign debt crises, the responsibility of creditors is hardly ever thematised. Whenever creditors are made to shoulder part of the burden that arises from the eruption of debt crises, it is only for the pragmatic reason of restoring debt sustainability, which ensures continued debt servicing. The primary concern, therefore, is to maximise the repayment of outstanding debt, maintaining the implicit normative assumption that the debtor must pay.

Against the backdrop of the structural diagnosis of the injustices of the SD&CR and the structural genesis of sovereign debt crises, this unilateral attribution of responsibility to the debtor state becomes questionable. In light of the complexity of the historical genesis of debt crises, how sensible is it to single out one agent's contribution (the debtor), attribute responsibility to that agent, and then conclude

³⁸¹ Blustein, 2005, p.6.

that this justifies the distributive consequences, letting the burdens of harm fall where they lie? As McDonough, former President of the Federal Reserve Bank asks, “who is responsible – the uncle or the kid?”³⁸²

In this chapter, I seek to turn the tables of the debate, starting not with the question of how much of the burden creditors can be made to carry, but how much they ought to carry. Against the backdrop of the integrated responsibility model I defended in the previous chapter, I ask: on what grounds, if any, are creditors responsible for carrying part of the burden arising from sovereign debt crises? Note that the focus here is narrower than both the previous and the following chapter. I do not start by asking what the responsibility is of creditors for the injustices of the SD&CR, as outlined in Part I of this thesis, but on what grounds responsibility can be attributed to creditors to carry part of the burden of sovereign debt restructuring. This is important, since it allows us to directly challenge the repayment norm, the ‘one background rule’ that continues to govern the SD&CR.³⁸³

At the same time, examining the genesis of one concrete sovereign debt history – namely Argentina’s debt history from 1976 to present – by using the heuristic categories developed in the preceding chapter, brings to the fore the contributions of creditors to the regime’s structural injustices. Thus, while starting with the narrower aim of challenging the repayment norm, looking at the contributions made by creditors in a backward-looking manner results in the attribution of responsibility that is also forward-looking and requires creditors to discharge these responsibilities by working together to alter the unjust SD&CR.

Since the sheer variety of types and the number of creditors makes speaking “of creditors as a single group in sovereign lending ... not only historically problematic

³⁸² Blustein, 2005, p.6.

³⁸³ Lienau, 2014, p. 1.

but also theoretically untenable,”³⁸⁴ in this chapter, I chose to focus on two classes of creditors, namely public multilateral institutions, such as the International Monetary Fund, and private creditors *qua* members of the financial class.

When talking about the responsibility of the IMF, I assume that responsibility can be attributed to collective agents – that is, I treat the institution as an agent to whom responsibility can be attributed. The question of how this collective responsibility is to be distributed to different natural persons who comprise the institution is one which I chose to bracket out for my purposes here.³⁸⁵

The reason I chose to focus on private creditors *qua* members of the financial class is that not all creditors are members of the financial class. In the case of Argentina’s default and later debt restructuring, for instance, the ‘Italian pensioner’ was often invoked as a symbol that led to the condemnation of the Argentine default. It seemed intuitively unjust that thousands of Italian pensioners, whose pension funds had invested in Argentine bonds, were driven to poverty due to the alleged irresponsibility of Argentina’s government and its citizenry. In this chapter, I propose to focus solely on the responsibility of creditors *qua* members of the financial class and bracket out those private creditors who are not.

To begin, I briefly review the underlying logic of the repayment norm, focusing both on the economic orthodoxy on which it rests and on the understanding of responsibility that underlies it. Then I introduce Argentina’s sovereign debt history, concentrating especially on the crisis of the 1980s and the crisis in the early 2000s. As a third step, I show how the three dimensions through which structural injustice is reproduced make possible a form of responsibility attribution that does not only recognise the structural nature of sovereign debt crises, but also allows us to identify distinct normative grounds on which creditors can be held responsible for

³⁸⁴ Lienau, 2014, p.34.

³⁸⁵ For interesting discussions on this question, see Erskine, 2001, 2003; Stilz, 2011.

the perpetuation of structural injustice. Finally, I consider objections and then conclude.

Revisiting the Repayment Norm

Who is responsible for the accumulation of unsustainable debt? How should the burden of adjustment be distributed among debtors and creditors once a country is unable to service its debt? A monolithic answer to these questions implicitly underpins the dominant academic and policy debate: the debtor country must pay. “Sovereign borrowers must repay, regardless of the circumstances of the initial debt contract, the actual use of the loan proceeds, or the exigencies of any potential default.”³⁸⁶ If the creditor is to shoulder any of the consequences of a country’s inability to service its debts, this is only for the pragmatic reason of restoring debt sustainability and so ensure continued debt servicing. However, morally, the responsibility and burden of high indebtedness and ultimate default resides with the debtor.

The SD&CR, with the absence of a sovereign debt restructuring facility, embodies this repayment norm. Moreover, the repayment norm is also reproduced with vehemence in policy discourse. According the World Bank, for instance, “international lending based on any other conception than that ‘debts are debts’ was considered as not only financially irresponsible but immoral.”³⁸⁷ Anybody following the coverage of the Argentine and Greek sovereign debt crises in mainstream international newspapers will recognise a very similar logic in public discourse.³⁸⁸

The theoretical commitments on which the repayment norm is based are twofold: first, it relies on a particular understanding of how the economy works and

³⁸⁶ Lienau, 2014, p.1.

³⁸⁷ Mason and Asher, cited by Lienau, 2014, p. 18.

³⁸⁸ Antoniades, 2012; Horas, 2015.

how sovereign debt crises erupt (the descriptive claim). Second, it is based on a particular understanding of responsibility. On the basis of the discussion in the previous chapter surrounding responsibility, I now bring to the fore both of these claims.

First, as we saw in Chapter 1, the monolithic answer that the debtor must pay is predicated on a particular understanding of how the global economy works and why debt crises erupt. Liberal economists depict financial markets as efficient intermediaries: financial markets shift savings from locations where they are abundant and cheap to places where they are scarce and expensive relative to investment opportunities. In so doing, they allocate both credit and information efficiently (the efficient market hypothesis). Whenever deviations from the perfect allocation of credit occur, creditors tend to under-lend rather than over-lend.³⁸⁹ But if creditors, as the supply side, are cautious and rational, it must be the behaviour of sovereign debtors, as the demand side, that makes debt burdens unsustainable. Bad management of the debtor country, expansionary macroeconomic policies, and the running of fiscal deficits are highlighted as the main reasons leading to the accumulation of unsustainable levels of debt.³⁹⁰

Second, the monolithic attribution of responsibility to the debtor state also rests on an understanding of responsibility that is in line with the liability model. It is exclusively backward-looking, isolating and has immediate distributive implications. The understanding of responsibility underlying the repayment norm is isolating in the sense that, if one agent is found to be responsible, then others are, by definition, relieved from their responsibility for that state of affairs. The repayment norm also seems to predispose that the attribution of responsibility implies that the costs and

³⁸⁹ Bucheit et al., 2013.

³⁹⁰ Palley, 2003; Soederberg, 2005.

benefits of an outcome for which the agent is attributed responsibility should remain where they fall – the principle, that is, of “taking the rough with the smooth”.³⁹¹

Argentina’s Sovereign Debt History and the Challenge to the Repayment Norm

In this section, I present Argentina’s sovereign debt history and show that the understanding of responsibility that underlies the repayment norm — with its isolating nature and the distributive implications the attribution entails — is problematic when applied to a real-world case, rather than living in the idealised world of orthodox economic models. More concretely, I defend the view that attributing responsibility to the debtor state alone rests on a misleading diagnosis of the genesis of debt crises (the descriptive challenge) and that this, in turn, challenges the responsibility story of the dominant position that follows therefrom (the normative challenge).

Argentina has witnessed two major external sovereign debt crises since the 1970s.³⁹² First, along with the rest of Latin America, Argentina started accruing debt in the 1970s after gaining access to private financial markets (the bankerisation of the global economy). During the period of Argentina’s military dictatorship (1976–1983), Argentina’s sovereign debt skyrocketed.³⁹³ When the U.S. Federal Reserve sharply increased its interest rates in the early 1980s, Argentina was confronted with a debt crisis that, in the years that followed, spread like wildfire throughout Latin America. This debt crisis was only overcome with the help of the Brady Plan, which allowed

³⁹¹ Honoré, 1999. As I have shown in the preceding chapter, however, the social connection model and the liability model can complement each other, and the liability model does not necessarily need to be isolating and have immediate distributive implications. The liability model can be complemented with the social connection model and generate a plausible responsibility picture for cases of structural injustice in the global political economy. The understanding of responsibility that underlies the repayment norm, though, is predicated on an isolating and distributive conceptualisation of responsibility.

³⁹² Reinhart and Rogoff, 2009.

³⁹³ Griffith-Jones and Sunkel, 1985, p. 107.

bank loans to be exchanged for U.S.-backed securities, and which introduced Argentina to the bond market (the securitisation of the global economy). In 2001, a second external debt crisis erupted, leading to the biggest sovereign default of its time.

In both cases, we see three different, interacting factors at play that ultimately resulted in the eruption of a full-blown sovereign debt crisis. These are, first, the coinciding of interests between the Argentine government and private creditors; second, the incentives for and actions by public creditors; and, third, the general global economic environment. We can see this by briefly examining the run-up to each of Argentina's crises.

In the run up to Argentina's sovereign debt crisis in the 1980s, the military junta borrowed extensively from private creditors. With the eruption of the oil crisis, Western banks — stacked with petrodollars and with few investment opportunities in stagnating OECD countries — faced strong incentives to lend to developing countries. The opening of new markets, unscarred by competition, was an attractive way of ensuring growth and expansion, so major Western banks started extending bank loans to emerging economies. The unprecedented growth of the Argentine sovereign debt during the military junta's rule and the run-up to the 1980s debt crisis can thus be explained by what Cardoso and Faletto would call a coincidence of interests between the government and private creditors.³⁹⁴

The IMF was also implicated in the outbreak of the 1980s sovereign debt crisis. Before assuming power in Argentina, the newly-elected president Raúl Alfonsín pledged that all debt contracts extended under the military dictatorship would be scrutinised, and stated that he considered debt repudiation as a policy option. Yet, under the threat that the IMF would cease granting Argentina loans if the newly-

³⁹⁴ Cardoso and Faletto, 1971, p. xvi.

elected government did not recognise the accumulated debt, Alfonsín nationalised the private and public debt which had been accrued by the military regime.³⁹⁵ The role played by the IMF was thus crucial in the size of the Argentine debt burden. Moreover, “in its role as the broker of the bank cartel,”³⁹⁶ the IMF protected the conditions that were favourable for unrestrained lending and allowed commercial banks to exercise monopoly of power.

The interplay between the actions of both the private and public creditors and the Argentine government led to the accumulation of a vast sovereign debt burden. The catalyst for the ultimate outbreak of crisis, however, was the increase in interest rates by the U.S. Federal Reserve in the early 1980s. Practically overnight, this dramatically increased Argentina’s debt burden, most of which was based on floating interest rates. Moreover, because this induced another recession in the OECD countries, the higher interest rates also led to a reduction in the exports of the debtor countries. The decline in exports, in turn, created trade deficits, making Argentina even more dependent on loans to finance the excess of imports, loans which became much more expensive to acquire due to high interest rates.³⁹⁷ Finally, higher interest rates made it all the more attractive to save money abroad, pulling foreign investment away from Argentina and exacerbating capital flight.³⁹⁸

In sum, we observe three distinct, interacting factors that ultimately resulted in the eruption of the sovereign debt crisis in Argentina, namely the concurrence of interests between the Argentine government and its private creditors, the decisions made by public, multilateral creditors, and a rapidly deteriorating global economic environment.

³⁹⁵ Neubauer, 2009, p. 12.

³⁹⁶ Weeks, 1989, p. 53.

³⁹⁷ Cardoso and Helwege, 1992, pp. 116–118.

³⁹⁸ Griffith-Jones & Sunkel, 1985, p. 107.

The lead-in to the 2001 crisis shared many of these features. First, a coincidence of interests between the Argentine government and private creditors can be observed. On one hand, it was the unwillingness to incur the political costs associated with exiting what became known as the ‘convertibility plan,’ together with a tight fiscal budget, which made the Argentine government turn to the financial bond market. In an attempt to curb the high inflation levels that had plagued Argentina since the prior crisis, in 1991, the newly-elected president Carlos Menem fixed the exchange rate (one peso to one U.S. dollar). By pegging its currency to the U.S. dollar, the Argentine government gave up its independent ability to create money. The convertibility plan thus required strict fiscal policies, for the central bank had to have enough dollars or gold reserves to be able to exchange pesos for dollars *and* to inject money into the economy in times of recession.³⁹⁹ The adoption of the convertibility plan was not enough, however, to ensure a tight fiscal policy, for the government could still borrow. Unwilling to make costly political reforms (such as confronting powerful domestic interests by revising the functioning of the federal system and the high payments to provinces), the Argentine government started borrowing.⁴⁰⁰

On the other hand, the incentive structure of the finance industry was such that private creditors were keen to invest precisely in those emerging economies that already had the most outstanding bonds.⁴⁰¹ In the emerging economies’ bond-market, investment firms decide whether or not to buy a sovereign bond on the basis of an index—the Emerging Markets Bond Index-Plus (EBMI-Plus). In the world of the EBMI-Plus, the weighting of every country depends on the number of bonds sold

³⁹⁹ The inability to use the monetary policy lever to stimulate the economy is one of the reasons why the Argentine and the Greek crises have so often been compared (Krugman, 2012; Roubini, 2012; Weisbrot and Montecino, 2012).

⁴⁰⁰ Setser & Gelpert, 2006, p. 475.

⁴⁰¹ Blustein, 2005, p. 71.

compared with all bonds issued by all countries combined. Countries with the heaviest weighting in the index — those with the most bonds outstanding and that are the most heavily indebted — are the ones to which investors are incentivised to direct their money. From 1996 to 2001, Argentina tended to have the heaviest weighting of any nation, and thus, investors continued lending it vast sums, although they knew that a debt crisis was likely.

Second, the IMF — according to its own assessment — extended loans to Argentina well beyond the point of sustainability.⁴⁰² With the IMF enduring widespread criticism for its involvement in Asia and with Western capitalism facing calamity in light of the Russian crisis, the IMF wanted to be able to point to at least one country where its involvement appeared to be successful.⁴⁰³

Third, as in the sovereign debt crisis of the 1980s, the onset of the 2001 crisis was also marked by a deterioration in external conditions. The appreciation of the U.S. dollar, the devaluation of the Brazilian real, and the loss of market confidence due to the Asian financial crisis and the turmoil in Russia weakened the Argentine economy to such an extent that convertibility broke down and the crisis erupted. Overall, while some analysts emphasise the role of domestic politics, such as the adoption of the convertibility plan,⁴⁰⁴ and others highlight the role of powerful international actors such as Wall Street firms and the IMF,⁴⁰⁵ “the Argentine economic crisis of 2001–2002 is a case of methodological over determination.”⁴⁰⁶

What this detailed exposition of Argentina’s sovereign debt crises reveals is that the dominant position can be challenged both on the descriptive and the normative levels. First, on the descriptive level, what this historical account reveals is

⁴⁰² Takagi, 2004; Teunissen, & Akkerman, 2003.

⁴⁰³ Setser & Gelpert, 2006.

⁴⁰⁴ Escudé, 2002.

⁴⁰⁵ Morgan-Foster, 2003; Neubauer, 2009; Stiglitz, 2003; Weisbrot & Baker, 2002.

⁴⁰⁶ Kacowicz, 2013, p. 174.

that debt crises cannot be exclusively explained by the demand side, such as bad management or fiscal overspending by the debtor state. Rather, sovereign debt crises spring from the interplay of three different factors, namely the coincidence of interests of private creditors and the government of the hour, the contributions of multilateral public creditors, and deteriorating market conditions. They are, therefore, the result of a complex interplay of contributions.

This is not to say that one cannot identify distinct contributions made by different players. There is more to say than simply that the sovereign debt crises of the 1980s and 2000s erupted “through the interplay of the actions of thousands or millions of individuals,”⁴⁰⁷ which is the explanation that would be given by traditional structural injustice scholars. The actions of the Argentine government and of both private and public creditors can be individuated in a much more concrete manner than the vague invocation of ‘structural processes’ allows us to. Yet, there are also external factors at play, such as the deterioration of the global and regional economic environment – factors that equally contribute to the ultimate outbreak of the sovereign debt crises – that cannot be individuated in the same manner. Put differently, the interplay between contributions made by individual players (that can be distinctively identified) with the unfolding chain of events where the actions of multiple players result in deteriorating market conditions, resulted in the outbreak of both of the Argentine sovereign debt crises. This analysis of the historical unfolding of sovereign debt crises unequivocally challenges the repayment norm and the economic orthodox models that underlie it.

If the repayment norm is challenged on the descriptive level, the singling out of the debtor state as the sole agent to whom responsibility ought to be attributed, and the distributive implication that this entails, becomes difficult to justify. An

⁴⁰⁷ Young, 2011.

isolating understanding of responsibility with immediate distributive implications seems inappropriate for cases where the outbreak of sovereign debt crises – only the tip of the iceberg of a structurally unjust SD&CR – is the result of the contributions of manifold of actors.

This normative critique does not only question the singling out of the debtor as the responsible actor, but questions the whole exercise of singling out a unique culprit. It equally criticises, therefore, the singling out of creditors. For what this isolation of individual creditors as unique culprits does, is to divert attention away from the structures on which the global credit and debt regime is predicated. Put differently, the critique states that singling out one actor's contributions in the light of the complex historical genesis of the previously mentioned sovereign debt crises misunderstands the way in which unsustainable debt burdens are accumulated and the way in which debt crises emerge. It is not enough to turn the tables of the blame-game and point at private or public creditors as the sole responsible agents. What is required is an altogether different understanding of responsibility.

The obvious alternative to an isolating understanding of responsibility is the social connection model of responsibility reviewed in the preceding chapter. The social connection model explicitly endorses and defends a more expansive, non-isolating form of responsibility attribution, where the attribution of responsibility does not have immediate distributive consequences. Yet, as shown in the preceding chapter, the social connection model does not enable us to do something which seems of utmost importance here, namely to attribute responsibility for the distinct contributions made by powerful actors. Moreover, being exclusively concerned with forward-looking forms of responsibility, the social connection model does not offer us the necessary theoretical tools to make a more nuanced, backward-looking assignation of responsibility.

In the next section, thus, I re-introduce the integrated model of responsibility defended in the preceding chapter, to show how it allows us to recognise the structural nature of the outbreak of sovereign debt crises, while also enabling us to hold individual agents responsible for their distinct contributions. This responsibility is both backward and forward-looking, for while it rests on the distinct contributions made by different agents in the past, the attribution of responsibility entails that these very same agents have forward-looking responsibilities. It will become evident how the threefold distinction made between structural processes proper, the structural-relational, and the structural-systemic level are not only useful to understand how structural injustices are reproduced, but also hint at normatively relevant grounds on which to attribute responsibility for each of these dimensions. By associating distinct normative grounds for each of these dimensions through which structural injustice is reproduced within the SD&CR, I am able to answer my research question regarding the responsibility of public, multilateral creditors, and private creditors *qua* members of the financial class.

Three Normative Grounds to Attribute Responsibility to Creditors: Moral Responsibility, Benefit, and Role Responsibility

In Chapter 3 I argued that invoking an agent's contribution to a structural process, generally defined, occluded the very different forms of contributions and the dimensions through which structural injustices are reproduced. I identified three such dimensions: structural-relational level, the structural-systemic level and structural processes proper. These dimensions are not mutually exclusive, but are, instead, heuristic devices that allow us to recognise where and how different factors reproduce injustice. On one hand, identifying these dimensions helps us analyse the different ways through which structural injustice is perpetuated. This is something

which I showed in Chapter 3. But it also allows us to distribute responsibility in a more expansive and nuanced manner. It is my contention that whenever we recognise that structural injustice is perpetuated through one of these dimensions, we will also be able to identify an agent who is distinctively responsible.

In this section, I first show how applying the three distinctions to Argentina's sovereign debt history allows us to better understand the genesis of a debt crisis. Second, it enables us to identify distinct normative grounds on which creditors can be held responsible for carrying part of the burden that spring therefrom. While identifying these grounds does not give us a definitive answer to the question of creditor responsibility in general, it does provide us with the relevant normative categories to analyse individual countries' debt histories, challenge the unilateral attribution of responsibility to the debtor state, and turn the tables of the debate.

Argentina's sovereign debt history can be interpreted through the three dimensions of structural injustice described in previous chapters. First, we can recognise the structural-relational dimension at play. Recall that structural-relational contributions to structural injustice are distinct forms of contributions for which agents can be held liable. While an agent of wrongdoing can be identified - and is, in that sense, relational - their wrongdoing is structural, first, because the actions and decisions are part of an overarching structural process which creates and reproduces structural injustice and, second, because the agents require enabling structures and acts of complicity from other actors to make the individual contribution possible.

Consider, for instance, the role of creditors during Argentina's military dictatorship. Here, the biggest Western banks extended credit to the military junta, despite knowing that the military government was neither democratically elected, nor using the accrued debt in the interest of the people. By continuing to extend loans to the military government, these private creditors were thus violating the

norm set out by the ‘odious debt doctrine’ and were thereby committing a moral wrong.⁴⁰⁸ By pressuring Alfonsín to nationalise that debt, the IMF was implicating itself in the same norm violation.

While individually morally deplorable, these actions both rely on and reproduce structural injustice. First, as Alfonsín’s decision to nationalise odious debt shows, the distinct contributions of creditors rely on the complicity of other actors. The fact that Alfonsín only accepted to nationalise the debt out of fear that future sources of credit would dry up, further highlights that the creditors’ contributions to the instantiation of structural injustice also relied on the internalisation of certain beliefs of how the global economy operates. Second, these distinctive, morally deplorable actions of creditors (lending to an autocratic regime known for human rights abuses) also contributed to the structural process which ultimately resulted in the outbreak of the sovereign debt crisis as well as in the reproduction of the unjust background structures of the SD&CR.

If asked on what normative ground responsibility ought to be attributed in cases like this, where the structural-relational dimension is at play, I believe the answer to be fairly straight-forward. In instances where the structural-relational dimension seems most prominent, responsibility ought to be attributed on moral grounds, which entails making a judgment of moral praise or blame. To hold an agent morally responsible, certain conditions of agency must hold. Hart called these relevant features of agency ‘capacity’: “The significance of capacity is that it enables individuals to control themselves and their environment, and in that way to influence their impact on the world and the consequences of their conduct’.⁴⁰⁹ While some disagreement remains, there is some limited consensus that holding an agent morally

⁴⁰⁸ For a defence of why extending debt to an autocratic regime is morally deplorable, see Pogge (2002) and Barry and Tomitova (2006). I say more about this in Chapter 8 of this thesis.

⁴⁰⁹ Miller, 2001, p.455.

responsible requires evaluating whether the agent intended the outcome, whether it could have been foreseen, or whether the agent's behaviour violated some standard of reasonable conduct or moral norm.⁴⁰ This ability to control, which follows from having the relevant capacity, grounds the attribution of moral responsibility.⁴¹

To say that an agent is morally responsible, then, is to make an appraisal of an agent's conduct. It is to say that an agent has done something that attracts moral praise or blame. The case of private and public creditors extending loans to the Argentine military junta is a clear example of a case in which creditors could be held morally responsible for extending odious debt, which became unsustainable, and which both relied on, and contributed to, reproducing a structurally unjust SD&CR. When morally responsible in this manner, creditors can be attributed backward and forward-looking responsibility. They can be attributed backward-looking responsibility by virtue of their moral failings, which can be discharged – for instance – by carrying part of the burden of restructuring. But they are also responsible in a forward-looking manner, to change the structures of the unjust SD&CR to whose reproduction they contribute .

As has already been highlighted, not all contributions to structural injustice are morally blame-worthy. There are indeed those contributions to structural injustice, where the interplay of manifold actions, which cannot necessarily be individuated and none of which are morally deplorable on their own, constitute a structural injustice in the aggregate. I have called these forms of contributions 'structural processes proper'.

⁴⁰ Miller, 2001, p.455. Miller gives two boundary examples here which prove useful. He asks us to think about an exceptionally talented athlete, who wins a race and about a clumsy gardener. While in both cases we would want to hold the agent outcome responsible, we would not to hold them morally responsible, for neither the gardener nor the athlete violated or excelled in meeting a moral principle - the gardener did not intend the lousy outcome and, in both of their cases, the outcome depends too much on natural talent and too little on qualities of intention and will to attract moral assessment (Miller, 2007, p. 90-91).

⁴¹ Cane, 2016, p. 280.

Examples of such structural processes proper are, for instance, the deterioration of the economic environment, following the increase in interest rates by the Federal Reserve. The increase in interest rates resulted in the outbreak of a vicious cycle in which Argentina's debt burden was radically increased, a recession in OECD countries broke out, Argentine fell, imports became even more expensive, and capital flights skyrocketed.⁴¹² A similar chain reaction occurred after the appreciation of the U.S. dollar and the devaluation of the Brazilian real in the early 2000s.⁴¹³

The fact that individual, agential contributions to these structural processes proper cannot be identified does not, however, mean that no normative grounds exists on which distinct actors can be held responsible (both in a backward and a forward-looking manner). In cases in which injustices are reproduced by the uncoordinated actions of thousands or millions of players, I find it most appropriate to attribute responsibility on the basis of benefit. The intuition underlying this ground for attributing responsibility is simple: "benefits that owe their origins to past or present injustice are 'morally tainted' and therefore the behaviour of beneficiaries of injustice itself becomes morally tainted."⁴¹⁴

The intuitive appeal behind my proposal is evident in the case of private creditors extending credit in the run-up to the debt crises of the 1980s and of 2001. Here, the individual lender extending credit to the Argentine government was not, in itself, morally deplorable. Yet, the lender's behaviour does not seem completely morally innocent, either. In particular, the continued extension of credit in circumstances in which it was becoming more and more apparent that the debt

⁴¹² Griffith-Jones & Sunkel, 1985, p. 107.

⁴¹³ Kacowicz, 2013.

⁴¹⁴ Page & Pasternak, 2014, p. 331.

burden was no longer sustainable in order to make greater earnings seems, at the very least, ‘morally tainted.’⁴⁴⁵

Investment banks in the 1990s did not only protect themselves from suffering losses once Argentina’s inevitable collapse materialised, but also managed to gain from it. When Argentina restructured its debt in 2001 in the *megacanje* (mega-swap), for instance, Wall Street firms earned a commission of USD \$ 137-150 million.⁴⁴⁶ The IMF was also free from suffering the negative consequences that its guidance brought about. As Blustein states, the role of “global markets and the IMF in pumping up the Argentine bubble would be less deplorable if the bubble had been gently deflated – that is, if the international community had effectively assisted Argentina in minimising the impact once its economy fell on hard times and market psychology turned negative.”⁴⁴⁷ They did not do so, however, and the pattern which emerges is a clear one: while international creditors make use of the system of hierarchical interdependence when market conditions are favourable, it is the weakest actors who pay the bill when things turn sour. Regardless of whether or not individual actors are also structurally-relationally implicated and morally to blame, beneficiaries of structural processes proper can be held accountable on the basis of this benefit to carry special responsibilities.

Finally, the third dimension through which structural injustice is instantiated in the SD&CR is the structural-systemic one. The structural-systemic level draws attention to those contributions to the perpetuation of structural injustice that appear from the institutional social order in which the SD&CR is embedded. Capital flight in the run up to the 1980s crisis, and the incentive structure of the finance industry in the late 1990s and early 2000s, offer excellent examples of this. First,

⁴⁴⁵ Page & Pasternak, 2014, p. 331.

⁴⁴⁶ Blustein, 2005, p.113.

⁴⁴⁷ Blustein, 2005, p.8.

under another institutional order – the Bretton Woods system – capital flight was regulated much more tightly using capital controls.⁴¹⁸ This radically decreased the frequency of financial crises.⁴¹⁹ Second, the EBMI-Plus Index neatly illustrates how the institutional order may negatively impact all actors involved. The EBMI-Index did not reflect the interests of either party (debtor or creditors). The accumulation of an unsustainable debt burden was harmful for both creditors and debtors alike, yet creditors followed it blindly nonetheless. If there is any distinct contribution that ought to be captured here, then it is not the contribution of creditors choosing to further extend credit to those states which were already most heavily indebted. Instead, the most normatively relevant contribution here seems to be that of those actors who enabled the creation of such an incentive structure in the first place.

Against this backdrop, in instances where the structural-systemic dimension seems to be central to explaining the unfolding of a sovereign debt crisis and the reproduction of structural injustice in the SD&CR, I think that the most appropriate grounds on which to identify the responsible agent is role responsibility. Role responsibility is a form of responsibility which pertains “whenever a person occupies a distinctive place or office in a social organization, to which specific duties are attached to provide for the welfare of others or to advance in some specific way the aims or purposes of the organization.”⁴²⁰ In contrast to a morally relevant agent, a role responsible agent does not need to have the capacity to control the outcome. Role responsibility rests on authority - the power of one person, under a given system

⁴¹⁸ Roubini and Mihm, 2011, p.24.

⁴¹⁹ Reinhart and Rogoff, 2009.

⁴²⁰ Hart, 1968, p.212. Whenever an agent is role responsible in this manner, s/he can be said to be responsible for the performance of these duties, or for doing what is necessary to fulfil them. The very point of creating roles is to promote certain outcomes. To ensure that these outcomes are met, a role-responsible agent must be held accountable. Accountability, “refers to a relationship in which an agent, A, is required to ‘give account’ to another B, of A’s involvement in phenomenon X” (Cane, 2016, p. 280).

of norms, to alter the normative position of another person within that system.⁴²¹ Authority attaches to agents as office-holders, not as possessors of capacities.⁴²² While the attribution of moral responsibility requires a certain capacity to control the conduct of events, role responsible agents can be held responsible regardless of this control.

The intuition underlying the idea that agents who influenced the concrete form that the institutional social order takes are to be held role responsible is simple: Since structural-processes-proper do not unfold in an institutional vacuum, but are likely to occur within specific institutional orders, in cases where injustices are reproduced via processes that may appear to be nothing more than the interplay between the uncoordinated actions of millions of agents, role responsible agents also ought to be held accountable. The table below summarises how I propose to think about responsibility in cases in which the different dimensions through which structural injustices are reproduced are observed.

Structural dimensions	Grounds for responsibility
Structural-relational	Moral responsibility
Structural-systemic	Role responsibility
Structural-processes-proper	Benefit and role responsibility

Crucially, I am not maintaining that this allocation of responsibility is always the most appropriate for every individual case. Each country's debt history is different and needs to be individually assessed. No single answer can be given in the abstract regarding who is responsible for the injustices of the SD&CR and who should

⁴²¹ I am defining authority without any connotation of legitimacy.

⁴²² Cane gives the extremely insightful example of 'ministerial responsibility' under the UK's constitutional system. Under the UK's system it seems clear that ministerial responsibility for performance of public functions by officials in a hierarchical relationship with a Minister does not depend on the capacity of the Minister personally to control performance of those functions, and even less on the Minister's capacity to perform those functions. Rather, ministerial responsibility is grounded in the authority of the Ministers - the power, that is, to alter the constitutional, legal and political positions of those subject to their authority.

shoulder the burden of sovereign debt crises. What I propose is to use the three dimensions through which structural injustice is reproduced and the grounds of responsibility associated with them as a heuristic device to guide our reasoning in the assessment of individual cases. Doing so allows us both to acknowledge the structural nature of credit and debt crises and, at the same time, hold on to the powerful intuition that not all contributions to structural injustice are comparable. Importantly, it also allows us to recognise that there are morally relevant reasons to want to distinguish between them.

When applied to Argentina's sovereign debt history, we recognise that can indeed be attributed responsibility on the basis of moral responsibility, benefit, and role responsibility. This insight allows us to challenge the monolithic responsibility attribution underlying the repayment norm and turn the tables of the debate, starting not with the question of how much of the burden creditors can be made to carry (for the pragmatic reason of ensuring debt sustainability), but on what normative basis they ought to carry them. To be sure, holding creditors responsible on any of these three grounds does not signify that creditors need to carry the full financial burden of sovereign debt crisis. This would entail falling back on both an isolating and an immediately distributive understanding of responsibility. What it does entail, however, is that the repayment norm, in the way in which it is currently upheld, is not normatively defensible.

In practice, the association of normative grounds to attribute responsibility with the three dimensions of structural injustice is a two-way street. Whenever one recognises one of the dimensions at play, it is likely that one will be able to attribute responsibility based on the associated normative ground. Similarly, if one recognises that an agent is, for instance, morally responsible one will most probably be able to recognise the structural-relational level at play.

But where, some may counter, does the emancipatory potential of this analysis lie? I believe that providing a counter-narrative to the dominant position explicitly opens new fields of contestation. The way in which we think and speak about debtors and creditors, debt restructuring, and debt crises shape the norms that ultimately inform the functioning of the SD&CR. Thus, by thinking differently about both, the genesis of debt crisis on the one hand and the responsibility picture resulting therefrom on the other, we can start contesting the norm that governs the practice.⁴²³

Objections

Attributing responsibility on the basis of benefit, moral responsibility, and role responsibility is a complicated matter. Many may not be persuaded by the intuition that underlies it, claiming that neither basis is sufficient to ground responsibility and trigger any special duties. My aim here is not to convince these sceptics. Rather, it is more narrow: I am preaching to the converted in arguing that *iff* one has the intuition that moral responsibility, benefit, and role responsibility are sufficient grounds to trigger duties, responsibility can be attributed to creditors to shoulder part of the burden of restructuring, whenever the respective dimension (structural-relational, structural-system and structural processes proper) is at play. Consider the following objections to my argument.

First, it may be argued that it may not be clear for the creditor at the time of entering the contract whether s/he benefits from or contributes in an immoral manner to the accumulation of an unsustainable debt. Put differently, it may not be clear in time T_1 whether the creditor will contribute to the structural processes that result in a debt crisis in time T_2 . The question thus becomes: What are reasonable

⁴²³ In the conclusion of this thesis I say more regarding the way forward.

assumptions about the future sustainability of debt? There are two ways of answering this. First, if a creditor can reasonably be expected to know that the debt will become unsustainable, yet does it nonetheless because s/he knows that s/he will benefit from it in some manner, then the creditor can be said to be on the hook for carrying part of the burden that comes from restructuring. In the case of Argentina, for instance, the argument is made that, knowing that Argentina was at the verge of a severe debt crisis, the IMF continued lending because the institution required the recognition.⁴²⁴ Although it was already clear in 1998 that Argentina's debt was unsustainable, the IMF continued to give the country credit, for Argentina, as its poster child, "was needed there, for the worlds sake, if not its own."⁴²⁵ Wollner calls this the ex-ante perspective.⁴²⁶ The case of the vulture funds that purchased Argentine bonds after the country defaulted for a fraction of their price, only to litigate against the state and be repaid in full, is an even clearer case in which it was obvious to the creditor that the debt was unsustainable. Second, the creditor can be expected to carry part of the burden of debt restructuring if the lender shares moral responsibility for the fact that the debt became unsustainable (the ex-post perspective).⁴²⁷ The debt extended to the military junta, which was odious and became unsustainable, is a case in point.

A second objection that could be made to my argument is that, in the same way in which the structural production of injustice makes the attribution of isolating forms of responsibility implausible, the complex web of interactions between agents that create and instantiate structures also makes the allocation of moral responsibility and benefit implausible. After all, moral responsibility and benefit also rest, to a certain extent, on some link between an agent and an outcome. This is a version of

⁴²⁴ Takagi, 2004.

⁴²⁵ Blustein, 2005, p. 59.

⁴²⁶ Wollner, 2017.

⁴²⁷ Wollner, 2017.

the argument disproven in the previous chapter, regarding the incompatible logics of the liability model and the social connection model.

Although I agree that moral responsibility and benefit require the existence of such a link between agent and outcome, it does not need to be — and this is crucial — a direct causal link between an agent’s action and the production and constitution of the outcome. In the case of moral responsibility, it can be argued that, in some cases, causal responsibility is not necessary at all for the attribution of moral responsibility. This is so, for instance, in cases in which an agent negligently fails to take steps to prevent something from occurring.⁴²⁸ Moreover, even in cases in which the attribution of moral responsibility goes hand-in-hand with causal responsibility, it can be argued that it is the acting in a way in which the agent knows it contributes to harm, rather than the indirect contribution itself, that grounds the attribution of responsibility. It is in the knowing, and not in constituting the outcome, that the normative work is produced here. In the case of benefit, it is the fact of having profited from the production of harm, rather than one’s own contribution to it, which establishes a moral link between an individual agent and the outcome: “Beneficiaries of injustice may have played no causal role in the creation of this injustice.”⁴²⁹

Conclusion and Road Ahead

The norm that sovereign debtors must repay their debts remains largely unchallenged in the global financial economy. Indeed, against the backdrop of the most recent sovereign debt crises, it can be argued that this repayment norm is as powerful today as it has ever been. The repayment norm is not only embodied in the SD&CR, and in

⁴²⁸ Miller, 2001, p. 456.

⁴²⁹ Page & Pasternak, 2014, p. 331.

the dominant discourse in academia and policy debates, but also in the economic orthodoxy that underlies them.

In this chapter, I challenged this dominant norm. I argued that the genesis of debt crises is structural (the descriptive challenge) and that this structural explanation requires an altogether different understanding of responsibility from an isolated account of responsibility (the normative challenge). Applying the integrated model of responsibility to Argentina's sovereign debt history, I argued that creditors can be held responsible on the grounds of moral responsibility, benefit, and moral responsibility. This responsibility is both backward and forward-looking, for while it rests on the distinct contributions made by different agents in the past, the attribution of this responsibility entails that these very same agents have forward-looking responsibilities to change the unjust SD&CR of which they are an active part.

Associating these normative grounds for responsibility attribution to the three dimensions introduced in the preceding chapters (the structural-relational level, the structural-systemic level and structural processes proper) allows me to recognise the structural genesis of debt crises, which brings to the fore the unjust background structures characterising the SD&CR without giving up the powerful intuition that the contributions of different agents are not comparable and ought to be normatively distinguished. By associating distinct normative grounds with each of these dimensions through which structural injustice is reproduced within the SD&CR, I provided the relevant normative categories to answer the question of the responsibility of public, multilateral creditors, and private creditors *qua* members of the financial class.

The inevitability of the inter-weaving of moral and economic arguments also became clear throughout this chapter. First, the examples given of how – in policy circles, public discourse, and academia – sovereign debtors are referred to as

parasites, black sheep, free riders, and profligate states, who are not only financially irresponsible, but immoral, illustrates how the intertwining of economic and moral arguments has long taken root in practice. More importantly, however, the argument made here also shows that this intertwining seems ultimately unavoidable. As I tried to show, it is not enough for economists to rely on theoretical models of how the economy works to be able to attribute responsibility to debtors. They must, instead, specify what they mean by responsibility for their argument to work. At the same time, normative scholars cannot say anything informative about the practice of sovereign borrowing and lending — indeed, they may not even know what the relevant normative concepts and questions are — if they do not also engage with both theoretical economic arguments and historical evidence about the functioning of the market. They will not, at the very least, be able to say anything about how responsibility ought to be attributed in individual sovereign debt histories.

CHAPTER 7

WHAT GOVERNMENTS OWE

Are we, who live and work in the developing world, fated to remain consumers of acts, whether these are acts of harm or of duty, performed by the West? (...) Do we lack status as moral beings who count?⁴³⁰

Those who can properly be argued to be victims of structural injustice can also be called to a responsibility they share with others to engage in actions directed at transforming those structures⁴³¹

Current debates approach the question of global justice by asking “what do we owe to the Global poor?”⁴³² By understanding the ‘we’ the affluent minority of the so-called Global North, this question reveals a binary vision of responsibility, in which the duties of the affluent minority in the Global North are discussed with respect to the deprived and disenfranchised majority in the Global South. While looking at the duties of those who establish and benefit from unjust global structures is certainly important, Young’s statement rightly captures the lacuna in the contemporary global justice debate concerning its silence on the duties held by those “who can properly be argued to be victims of structural injustice.”⁴³³ Recognising agents whose options are constrained by unjust global structures not only as victims, but also as duty bearers, however, is critical. First, it is important because it respects the agency of the marginalised. Global justice theories must seek to strike a delicate balance between treating actors as vulnerable creatures who may be in urgent need of help and

⁴³⁰ Chandhoke, 2010, p. 80.

⁴³¹ Young, 2011, p. 17.

⁴³² Satz, 2005, p. 47.

⁴³³ Young, 2011, p.17. The gap in current global justice literature must be qualified in two ways. First, this gap exists most prominently regarding the responsibilities of vulnerable states. When it comes to the responsibility of individuals, responsibility or diminished responsibility is often assigned to victims of injustice. This is so, especially in the context of the criminal justice system. Second, a small handful of scholars have started wrestling with these issues and made invaluable contributions. See Caney (2015), Culp (2014), Gans (2010), Guariglia (2010) and Erskine (2001; 2003).

assistance, while at the same time honouring them as responsible agents with choices.⁴³⁴ It is the failure to recognise this agency that Chandhoke denounces when rhetorically asking, “do we lack status as moral beings who count?”⁴³⁵. Second, recognising the agency of the victims of injustice is instrumental in helping mobilise them to take the actions required to alter these injustices.

In this chapter, I contribute to filling this lacuna by drawing attention to the responsibilities held by the governments of those states in a position of disadvantage within the SD&CR: debtor states whose citizens – or the wage-dependent class therein – are vulnerable to domination and exploitation by virtue of the position the state occupies in the asymmetrical and unjust SD&CR.

To turn the tables on the global justice debate and answer the question of what responsibilities and duties disadvantaged governments may hold, I draw on two main bodies of literature. First, I draw on the work done by various theorists on ‘complicity.’ Complicity is a fascinating normative concept that allows us to think about the responsibility of those that can rightly be called victims of injustice. At the same time, the work done on complicity so far has not adopted a structural viewpoint. The language used to describe an act of complicity is thus very much anchored in the liability model of responsibility: what defines an act of complicity is that it enables, in one way or another, the wrongdoing of the primary agent of wrongdoing. While this way of thinking about responsibility is useful for the structural-relational dimension identified in the preceding chapters, it is more difficult to apply to the structural-systemic dimension and to structural processes proper. In this chapter, I will thus focus on the structural-relational dimension. To be sure, this does not mean that I am working within the liability model of

⁴³⁴ Miller, 2007, p.81

⁴³⁵ Chandhoke, 2010, p. 80

responsibility. Rather, it offers an opportunity to further develop the conceptual apparatus of the integrated model of responsibility defended in Chapter 5.

Second, I illustrate my analysis with Argentina's debt history. Instead of focusing on the run up to the crises in the 1990s and 2000s, like I did in the preceding chapter, I mainly focus on Argentina's negotiations after the 2001 default – the biggest default of its time. Argentina's negotiation tactics with its creditors are fascinating because they show the space for manoeuvre that states have, despite their disadvantaged position in the SD&CR. Following the outbreak of the crisis, a unilateral debt moratorium was imposed on Argentina's private debt. Despite arduous opposition from all creditors, Argentina managed to separate its negotiations with the Fund from those with the private international creditors, breaking up the 'creditor cartel' and adopting a 'take it or leave it' approach with the latter.⁴³⁶ Although Nestor Kirchner's negotiation strategy resulted in a litigation saga in New York courts in the decade that followed, Argentina's economy recovered rapidly during his time in office. It is against this backdrop that economists such as Paul Krugman, Mark Weisbrot, and Nouriel Roubini often present Argentina's default as an alternative to the austerity policies imposed on other debt-stricken countries.⁴³⁷

I proceed as follows: First, I argue that disadvantaged governments have the duty to not be complicit in the domination of its members and non-members alike. I then turn to the responsibilities that disadvantaged governments have vis-à-vis their own citizens, arguing that they have a responsibility to resist domination and exploitation by creditors. This responsibility entails the duty to resist domination in an internal, attitudinal sense, and that it may also entail resisting externally, by actions of state civil disobedience.

⁴³⁶ For an excellent account of Argentina's negotiation strategy and the way in which the country made the most use of the room of manoeuvre it had available, see Cooper and Momani (2005).

⁴³⁷ Krugman, 2012; Roubini, 2012; Weisbrot and Montecino, 2012.

On the Duty of Disadvantaged Governments to Not Be Complicit in the Domination and Exploitation Carried Out by Creditors

A good starting point to discussing what responsibilities disadvantaged governments may have is to ask where the normative significance of the domination of the state lies. In this chapter, I assume that the state's value is instrumental. I assume, moreover, that the legitimacy of the coercive authority of the state over its citizenry requires, minimally, that the state itself is neither dominating and exploiting nor dominated and exploited. In the following section, I argue that the obligation not to be dominating and exploiting that states have vis-a-vis their citizens grounds a duty of disadvantaged governments not to be complicit in the domination and exploitation of their own citizenry by other agents. I argue, furthermore, that disadvantaged governments also have a duty not to be complicit in the domination and exploitation of non-members, which results from the duty not to harm, a duty which is universal in scope: everyone has the duty not to harm anybody with their actions. First, I define the concept of complicity and delineate which acts can be said to involve complicity. Second, I elaborate on how the disadvantaged government is complicit in the domination and exploitation of its own citizens. Third, I elaborate on how the dominated state can be complicit in the domination of non-members. I illustrate this by using examples from my case study.

In its simplest form (*complicity simpliciter*), complicity can be defined as a contribution to another actor's wrongdoing, which facilitates or magnifies the wrong itself.⁴³⁸ The complicit actor does not commit the wrongful act him- or herself - s/he is not the primary agent of wrongdoing. Rather, by "wrapping up"⁴³⁹ or making the primary agents wrongdoing possible, the complicit agent becomes the secondary agent of wrongdoing. The act itself is not necessarily wrong, but becomes so by virtue

⁴³⁸ Lepora and Goodin, 2013, p.34.

⁴³⁹ Lepora and Goodin, 2013, p.34.

of its contribution to the wrongful act. S/he is complicit in the primary agent's wrong by contributing to it. These contributions can be both actions or omissions, may be more or less essential to the overall wrong, and may come before, during or after the principal wrongdoing.⁴⁴⁰

Not every act that causally contributes to wrongdoing can, however, qualify as a complicit act. Two conditions need to be in place for an action to be an act of complicity. First, an action must causally contribute to the principal wrongdoing (the *actus* condition). According to this minimal understanding of complicity, it is not necessary for the action to be a joint action with the principal wrongdoing. Second, for an act to qualify as a complicit act, the actor must have known or should have known, at the time of acting, that her action contributes to the primary actor's wrongdoing (the *mens* condition). Note here that no intention to participate in the wrongdoing is required. All that is needed for an act to be an act of complicity, then, is that the actor know, or should have known, that his or her action would contribute to the primary actor's wrongdoing. In addition to fulfilling the *actus* and *mens* conditions, for an actor to be a secondary agent of wrongdoing, none of the excusing conditions ought to apply, such as involuntariness, duress and unavoidable ignorance.⁴⁴¹

The account of complicity I adopt here is the one that Lepora and Goodin defend in "On Complicity and Compromise."⁴⁴² This account differs from Christopher Kutz's account in his book "Complicity: Ethics and Law for a Collective Age."⁴⁴³ For Kutz, an act is only an act of complicity if the secondary agent (i) has the intention to share in a joint action with the primary agent of wrongdoing, and (ii) the former has the intention of pursuing a purpose that s/he shares with the latter. Kutz focuses on

⁴⁴⁰ Lepora and Goodin, 2013, p.42.

⁴⁴¹ Lepora and Goodin, 2013.

⁴⁴² Lepora and Goodin, 2013.

⁴⁴³ Kutz, 2007.

the ‘participatory intentions’ of individual agents, because he seeks to make sense of the collective nature of many of the wrongs committed today, wrongs in which the principal wrongdoer is a collectivity. In such cases, the defining criterion of whether an act qualifies as a complicit act is the intentional, and not the causal, participation in the wrong. I argue, in line with Lepora and Goodin, that weaker forms of contributing acts also qualify as complicit acts. “We do not deny that there can be joint action of that form; we do not deny it is bad, when the shared purposes are bad. We merely deny that complicity is necessarily confined to anything so strong as that.”⁴⁴⁴ Voluntarily performing an action that contributes to the wrongdoing of another, while knowing that it does so, represents the necessary *actus* and *mens* conditions that are minimally required for an agent to be complicit with the wrongdoing of another. Sharing the other’s wrongful purpose is not necessary.⁴⁴⁵ Henceforth, when talking about complicity, I adhere to Lepora and Goodin’s account.

Complicity is a central normative concept for the purpose at hand, since the wrongs being considered – structural domination and exploitation – are collective actions. It is a collective action not because the only principal wrongdoer is a collective agent, but because it requires the contributions of manifold actors. We saw how the injustices of the regime are reproduced through structural processes proper, through the structural-systemic, and through the structural-relational levels. Crucially, even when zooming in on the structural-relational level – as I propose to do in this chapter – the individual wrongdoer requires the contribution of others to commit the wrong. The domination and exploitation of the wage-dependent class requires the actions of the agent making the structural-relational contribution to structural injustice – the ‘primary agent of wrongdoing’ - and of ‘secondary agents.’

⁴⁴⁴ Lepora and Goodin, 2013, p.9.

⁴⁴⁵ Lepora and Goodin, 2013, p.83.

Disadvantaged governments acquire debt in a SD&CR characterised by highly asymmetrical and unjust conditions. Creditors in a position of power vis-à-vis borrowing countries abuse their position to engage in transactions that are highly profitable for them. Once cash-starved governments acquire debt, they must continue to borrow to pay interest rates, which, in turn, steadily increase in tandem with the total sum of capital owed. The resulting dependence of the borrower on the lender puts enormous pressure on the former to comply with the guidelines of an economic policy laid out by its creditor and the global financial interests they represent. The implementation of these policies reproduces the unjust structures that characterise the SD&CR and that made the initial borrowing necessary in the first place.

I propose to think about certain actions of creditors as primary acts of wrongdoing and those of disadvantaged governments as secondary acts of wrongdoing. To increase their profits, commercial banks exploit the dependency of cash-starved governments and extend loans with full awareness that once they do so, politicians will have to repay them, no matter how high the price may be for the country's population. The IMF, in turn, pressures governments to repay all private debt and accept debt attained under exploitative conditions, as if it were legitimate. The second agents of wrongdoing are the officials who accrue unsustainable amounts of public debt.

What is crucial here is that the domination and exploitation that the creditor exercises over the debtor on the structural-relational level is not possible without the debtor's contribution, for over-lending requires over-borrowing, and neither can take place without the other.⁴⁴⁶ Moreover, officials of disadvantaged governments are also secondary agents of wrongdoing when following through with the servicing of debts

⁴⁴⁶ Devlin, 1993, p.4.

accrued under dominating and exploitative conditions. A similar argument can be made regarding restructuring programs linked to adjustment programs, which come at the expense of the domestic, wage-dependent classes in debtor and creditor countries alike. This connects back to the crucial insight made by scholars of imperialism presented in Chapter 4, namely the idea that the imperial domination (whether coercive or liberal) is enabled and made possible by the contributions of local political elites.

To assess whether officials of disadvantaged governments are indeed secondary agents of wrongdoing, we must now consider whether the *actus* and *mens* conditions are fulfilled, and whether any of the excusing conditions apply. First, to the extent that state officials know or could know that particular actions or omissions contribute to their domination or exploitation by a financial elite, they are complicit in the wronging of all those who are subject to the primary agent's domination and exploitation. In the case of sovereign debt accumulation, state officials making the decision to borrow over and above a certain quantitative threshold can be expected to know that this puts their state in a dependent position in relation to its creditors, who, in turn, can easily exploit and subordinate them in pursuit of their own interests. Second, I believe that neither of the excusing conditions applies. Argentine state officials adopted the debt voluntarily and not merely by accident, and they knew, or most certainly should have known, about the domination that creditors can exercise over their debtors and the exploitation that can result. Furthermore, they had other options available to them. As its default and the subsequent recovery suggests, the recognition of the loans and the continued borrowing were not forced, but genuinely chosen.

Now, by being complicit in the wrongdoing that powerful international players exercise over the vulnerable, and by facilitating the primary agent's

wrongdoing through contribution to the collective action, state officials of disadvantaged governments harm those being subjugated. On one hand, they are complicit in the domination and exploitation of their own citizens *qua* members of the wage-dependent class, who will have to service the accrued debts and to be vulnerable to the enforcement of adjustment programs once the debt requires restructuring due to its unsustainable levels. In this sense, they violate the obligation they have vis-à-vis their own citizenry not to be dominating and exploitative, an obligation on which their authority rests. But they are also complicit in the domination and exploitation of non-members. First, they are complicit in the domination and exploitation of non-members *qua* members of the wage-dependent class of creditor states, who service the ‘solidarity packages’ for the debtor states, money which ultimately ends up in the bank accounts of the financial elites.

Moreover, since the same actors dominate and exploit several states, disadvantaged governments are also complicit in the wrongdoing against citizens of other debtor states. In the Argentine case, for instance, the very same actors which dominated and exploited Argentine citizens (public and private lenders, such as the IMF and commercial banks) also wronged other states and their respective citizens. By instantiating the power of these international players through their own policy choices, the disadvantaged government is complicit not only in its own citizens’ domination and exploitation, but also in that of non-members.

But how exactly are state officials, who are themselves being wronged, complicit in the wronging of non-members? First, they are complicit simpliciter because they facilitate the domination and exploitation of members of other debtor countries by “shut[ting] the eyes to their domination and exploitation.”⁴⁴⁷ Negotiations involving debt restructuring are a case in point. In these negotiations,

⁴⁴⁷ Lepora and Goodin, 2013, p.44.

public and private lenders negotiate with the debtor government about a reduction in the amount of debt (principal or interest rates) or changes in the maturity schedule.⁴⁴⁸ These negotiations have always been asymmetrical: while lenders negotiate as a bloc, debtors are disorganised and scattered.⁴⁴⁹ It is not coincidental, however, that debtors negotiate individually. Commercial banks consciously prevent solidarity among debtor governments by insisting on case by case battles and keeping the bargaining power of the latter limited, preventing them from pursuing their interests effectively. The IMF supports, and in fact, advocates for, these forms of isolated negotiations, which take place in the Paris Club (for public debt) and the London Club (for private debt.)⁴⁵⁰

The creditor's efforts to keep the individual cases separate suggests that they do, in fact, fear the power of the debtor countries, were they to negotiate together. When there are negative financial flows from borrowing countries, for instance, it is the debtor governments who must decide to repay and who, consequently, have the greater bargaining strength.⁴⁵¹ Were debtor governments of disadvantaged governments to unite, they would have much greater bargaining power vis-à-vis the creditors, being able to better resist the conditions imposed by creditors and even demanding their own.⁴⁵² Argentina's default in 2001 is a powerful illustration of just how significant the repercussions of national choices made by disadvantaged governments can be for the dominated and exploited non-members. As a key participant in the negotiations of Argentina's debt restructuring noted, "The Argentine restructuring shows that in case of default, sovereigns have much more power than before, maybe even the upper hand. The rules of the game have

⁴⁴⁸ Brahms, 2013, p. 2.

⁴⁴⁹ Griffith and Sunkel, 1985, p.111; Weeks, 1989, p.53.

⁴⁵⁰ Brahms, 2013.

⁴⁵¹ Griffith-Jones and Sunkel, 1985, p.116.

⁴⁵² Griffith-Jones and Sunkel, 1985, p.116.

changed.”⁴⁵³ The lack of IMF involvement in the design and management of debt restructuring, and the record amounts of restructured debt in recent history, attest to the fact that Argentina’s refusal to accept the demands of its creditors not only reduced the influence that creditors had on Argentine citizens, but changed the rules of the game in a way that also benefits non-members.⁴⁵⁴

If uniting with other debtor countries can widen the universe of outcomes in cases of sovereign debt restructuring and offer the opportunity to resist domination and exploitation exerted by creditors, then failing to do so is an omission that facilitates the creditors’ wrongdoing. This form of contribution qualifies as complicity simpliciter since it magnifies and facilitates wrongdoing, without the secondary agent accepting the primary agent’s plan of wrongdoing (complicity by collaboration).

In addition to being complicit simpliciter, Argentine state officials are complicit by connivance. Being complicit by connivance means to tacitly assent to the wrong being perpetuated by simply standing aside while the wrongdoer acts. An act of connivance becomes an act of complicity under conditions in which the same wrong is committed repeatedly by the same actor, and a secondary agent’s connivance makes it more likely for the wrongdoer to repeat the act in the future.⁴⁵⁵ The global context is one in which domination and exploitation is indeed a wrong which is repeated time and time again by the same few, powerful global payers. Disadvantaged states, which simply tolerate their domination and exploitation without clearly signalling that this is wrong, are therefore causally contributing to it.

Again, a good example of this are the negotiations in which debt restructuring is managed. Creditors have the expectation that, were a country to be unable to repay its debt, asymmetrical negotiations will ensure that their interests are upheld and

⁴⁵³ Rother, 2005, March 4.

⁴⁵⁴ Damill et al, 2006.

⁴⁵⁵ Lepora and Goodin, 2013, p.46.

prioritised. Consequently, creditors have strong incentives to lend, even if they know beforehand that the loans are irresponsible. By failing to unite with other debtor countries or show any form of solidarity, disadvantaged governments make creditors believe that they will remain mere onlookers in the future.

State officials' complicity by connivance implies that a state cannot only harm its own citizens by letting them be wronged indirectly through their state's domination and exploitation, but can also harm citizens from other disadvantaged governments by sending the message that it is permissible for external actors to do so. This, in turn, can make domination and exploitation seem acceptable, or even make it appear as though there is no wrongdoing at all.⁴⁵⁶ By sending the message that it is permissible for powerful players to dominate and exploit vulnerable states, the disadvantaged government is being complicit by connivance to the wrong that the primary agent of wrongdoing commits by subjugating the disadvantaged. In a nutshell, disadvantaged state officials are not only victims of arbitrary interference, but can also contribute to the domination and exploitation of non-members by being complicit in the wrongdoing of the powerful.

On the Disadvantaged Government's Responsibility vis-à-vis its Citizenry to Resist External Domination and Exploitation

Having argued that disadvantaged governments have a duty, towards members and non-members alike, to not be complicit in their domination and exploitation, I now turn to the question of the responsibilities that disadvantaged governments can be said to have vis-à-vis their citizenry specifically. Let us return to the basic premise of this chapter regarding the legitimacy of coercive authority possessed by the state, which requires, minimally, that the state itself is neither dominating/exploiting nor

⁴⁵⁶ Hay, 2011, p.22.

dominated/exploited. State officials ought to represent the will of the people and it is the control of the latter (either through deliberative or checked control) that makes the rule of the former non-dominating. In the international arena, this entails that the state is supposed to operate as a representative of its citizenry, thereby enhancing their control.

Two things follow from this regarding the disadvantaged state's responsibility vis-à-vis their citizenry. First, if we assume that the ultimate unit of moral concern is the individual and that the state's value is instrumental, the normative significance of the state's domination and exploitation is not in the direct effect this status has on the state or on state officials, but in the effect it has on the state's citizenry. What is normatively significant is that, via the state official's domination by external parties, the state's citizenry loses control. Second, since state legitimacy is based on being non-dominated/exploited, the state can be said to have a responsibility vis-à-vis its citizenry to protect them from external domination and exploitation. If state officials are dominated by the interests of the most powerful, the choices they make will no longer reflect the will of the people they represent, and the state will lose legitimacy.

These two points directly lead to the first partial answer to the question of the responsibilities of disadvantaged governments: disadvantaged governments have a responsibility vis-à-vis their citizenry not to be dominated and exploited. The obvious objection here is that if the state is the victim of domination and exploitation, it can hardly be said to have a responsibility not to be wronged in this way. While increased interdependence limits the ability of virtually every state to protect its citizenry from external domination and exploitation, expecting the least powerful states to protect their citizens from domination and exploitation is especially problematic, since their very position makes it difficult for them to do so. What I propose, therefore, is not that relatively powerless states have the responsibility to provide complete and full

protection from domination and exploitation, but rather, they have a responsibility to try to resist in any way that is feasible and consistent with other moral parameters.⁴⁵⁷

As I will illustrate with the Argentine case in the sections to come, the domination and exploitation of the strong over the weak does, indeed, constrain the disadvantaged government's actions. Nevertheless, the government retains the ability to act as an intermediary or 'transmission belt' which, by enacting policy in the domains of capital flows, trade, monetary issues, migration, labour, welfare and social spending, can ameliorate or exacerbate the effects of dominating and exploitative structures and relationships.⁴⁵⁸ Thus, even if unable to provide complete protection from domination and exploitation for its citizens, within its available range of policies, the state can choose to resist the wrongdoing exerted by the powerful.

The choice of the concept of 'responsibility' rather than 'duty' is crucial here. Whereas a moral duty is a moral rule that specifies what exactly we are supposed to do, responsibility is more flexible, allowing for different action paths to be taken.⁴⁵⁹ It does not prescribe specific actions, but is a general maxim that must be adopted.⁴⁶⁰ What, then, must disadvantaged governments do to fulfil the responsibility they have vis-à-vis their citizens to resist domination and exploitation? In the following sections, I consider ways in which the state can fulfil this responsibility. In contrast to the responsibility to resist domination and exploitation, I call these possible action paths 'duties,' since they prescribe a concrete action which ought to be taken.

On the Government's Duty to Recognise Itself as An Outcome Responsible Agent in The Name of Its Citizens

⁴⁵⁷ I say more about what I take to be the most relevant moral parameter, namely responsibilities held to non-members, in the last section of this chapter.

⁴⁵⁸ Held, 2004, p.4-5; Kacowicz, 2013, p.79; Miller, 2000, p.163. For an extensive empirical analysis of the options that were available to the Argentine state (from 1982-2008) despite its exposure to globalising forces that disadvantaged it, see Kacowicz, 2013, chapter 5, pp.143-197.

⁴⁵⁹ Feinberg, 1966; Richardson, 1999.

⁴⁶⁰ Hay, 2011, p.29.

A distinctive contention of scholars is that domination does not only reduce the available options, but, most importantly, results in a ‘dominated status.’ This is something that republicans and post-colonial theorists have in common. Post-colonial theorists have long contested that the domination exerted by colonial powers cannot be reduced to economic, political and military power, but “involves also and primarily the epistemic foundations.”⁴⁶¹ A central aspect of this epistemic dimension is the generation of collective identities, both of the colonisers and the colonised. What Quijano called “the coloniality of power” is nothing but “the colonialization of the imaginary of the dominated.”⁴⁶²

For republicans, the dominated status is one in which the subjugated party is forced to take the wishes of the dominator into account. Once the subjugated party becomes aware of his or her subjugated position, further constraints follow. First, the agent starts perceiving his/her actions not as his/her own but as his/her master’s. Second, since living at the mercy of the dominator’s will involves an “unending anxiety about one’s fate, to have permanently to anticipate the other’s reactions, and to have to curry favour by behaving in a self-bashing, servile manner,”⁴⁶³ the dominated party will start behaving with servility. In other words, “Not knowing what may happen to them, and desperate to avoid the tyrants rage, they tend to behave in appeasing and ingratiating ways, becoming ‘a servile crew’, engaging in ‘flatteries and prostrations,’ displaying ‘the perpetual bowings and cringings of an abject people.’”⁴⁶⁴ Third, since the dominating power can take everything the subjugated agent acquires from him/her, in a status of subjugation, there is no incentive to aim to succeed in doing things that are considered valuable.⁴⁶⁵

⁴⁶¹ Quijano, 2000.

⁴⁶² Quijano, 2008, p.281.

⁴⁶³ Maynor and Laborde, 2008, p.5.

⁴⁶⁴ Skinner, 2008, p.90.

⁴⁶⁵ Skinner, 2008, p.90.

Once the dominated subject becomes aware of this position, s/he will not only start behaving and acting differently – by taking actions which reflect her master’s will, behaving with servility, and not necessarily doing that which is socially valuable – but will also start conceiving of him/herself in a different manner, namely as a victim of domination and a servant to his or her master’s wishes. S/he will, to use the language of post-colonial writers, start identifying with a new collective identity, namely that of the dominated and exploited. It is the internalisation of this image as a mere victim of circumstance and not as a meaningful agent in his/her own right, that we witness what I call ‘internal domination.’ An agent is thus internally dominated when s/he comes to believe, and may actually endorse, what his/her dominated status threatens to turn him/her into: a mere servant of the will of the dominator. In this light, internal domination can also be a self-fulfilling prophecy: a dominated subject can become what everyone already believes it to be.⁴⁶⁶

While the language employed by these scholars evoke images of individual, natural persons behaving in this way, I believe that it also applies to disadvantaged governments. When looking at the rationale given by Argentina’s executive to preserve convertibility, one recognises the servile attitude Skinner so disdainfully describes as “the perpetual bowings and cringings of an abject people.”⁴⁶⁷ Afraid of losing the ‘good name’ it had so arduously worked to attain, Argentina’s executive thus adapted and moulded its policy choices (i.e. not breaking out of convertibility) to what it perceived to be in its creditors interests. “Argentina had no sense of multiple objectives or strategies, focusing instead on pleasing the United States (...) [and] a fear of taking foreign or economic policy action that could threaten (...)

⁴⁶⁶ Hay, 2011, p. 26. In Fanon’s famous essay, “Concerning Violence,” he laments that the only response to the internalisation of this identity is the turn to violence. “For the native, life can only spring up again out of the rotting corpse of the settler.” (2001, p.73)

⁴⁶⁷ Skinner, 2008, p.90.

Argentina's image as a 'reliable partner.'⁴⁶⁸ Argentina's state officials thus internalised an image of themselves as mere servants to the will of their creditors. They thought of themselves not as agents who are to devise their own policy and make their own choices, but as subject to their creditor's domination and exploitation.

In the first instance, then, for state officials to resist their dominated status, no actions are required. Rather, the image of the state they represent as a dominated agent needs to be contested. Dominated state officials ought to resist internalising the image of the state for which they act as a mere victim of circumstance. I believe that this attitudinal change can occur if state officials of disadvantaged governments recognise themselves as outcome responsible agents and embrace the responsibility to resist internal domination.

Coined by Tony Honoré's 1999 work, "Responsibility and Fault," outcome responsibility can be defined as "the basic type of responsibility in a community,"⁴⁶⁹ which follows when an outcome can be rightly attributed to an agent. When asking whether an agent is outcome responsible, one is asking whether an outcome can be rightly assigned to that particular actor. Can a line be drawn between a changed state of affairs in an existing or expected world, on one hand, and an actor's intervention, on the other? If the answer is affirmative, an agent can be said to be outcome responsible for bringing about that state of affairs. An actor is in control of the outcome if (i) s/he causally contributed to it, (ii) s/he possessed the capacity to foresee it (iii) and s/he had the ability and opportunity to take steps, on the basis of what could have been foreseen, to avoid it.⁴⁷⁰ As such, outcome responsibility must be strictly distinguished from both, moral and legal responsibility. While I do not

⁴⁶⁸ Gutman and Cohen, 2003, p.145-146.

⁴⁶⁹ Honoré, 1999, p.27.

⁴⁷⁰ Perry, 2001, p.74. In contrast to moral and legal responsibility, these are very minimal 'conditions of voluntariness' (Miller, 2007, p.90), conditions which disadvantaged governments can fulfil.

deem it to be desirable to attribute moral or legal responsibility to dominated states, I do think that outcome responsibility can be allocated to them for three reasons.

First, attributing outcome responsibility is possible even when the freedom of agents is restricted, as is clearly the case with disadvantaged states. Miller illustrates this point neatly by giving an example of a bank robbery: a bank employee, threatened by an armed-robber, is forced to hand over the money in the safe or see her colleague being killed.⁴⁷¹ Although it seems intuitively wrong to make the employee responsible for the situation that forces her to choose between either of these bad options, she can indeed be called to account for her choice between either handing over the money and protecting the life of her fellow colleague, or not handing over the money and seeing her colleague killed. By assigning outcome responsibility to her in this way, we are recognising that even in coercive situations, she is still an agent with choices to make. Abstracting from Miller's example, we can now see that, while attributing moral or legal responsibility to an agent in a coercive situation seems intuitively undesirable, attributing outcome responsibility to disadvantaged governments does seem attractive. The concept of outcome responsibility takes into account that the options available to disadvantaged agents are narrowed, while at the same time highlighting that the disadvantaged actors can still make choices that reflect their will.

Second, assigning responsibility in this way seems desirable, since recognising the outcome responsibility of disadvantaged governments is a vindication of their status as agents. According to Honoré, our status as agents is bound up with the recognition of outcome responsibility. Subjects act in the world and these actions, in turn, create the agent's history and identity. In order for actions to create this history and identity, however, the agent needs to accept, in a very fundamental sense, that

⁴⁷¹ Miller, 2007, p. 95.

the consequences of its actions are in some way its own.⁴⁷² “If their behaviour could not be attributed to them in this way, they would have to conceive of themselves as attenuated beings: objects to which things happen.”⁴⁷³ What holds for a subjected individual also holds for disadvantaged states. As Honoré states, “to accept responsibility (...) can be for a nation the condition of self-respect.”⁴⁷⁴ The attribution of outcome responsibility to disadvantaged governments serves as a vindication of their status as an agent.⁴⁷⁵ Recognising this agency, then, is a sign of respect.

Third, assigning outcome responsibility to disadvantaged governments is valuable because it encourages socially valuable (and discourages socially invaluable) behaviour. Since “being responsible serves as an incentive to aim at and succeed in doing things that are regarded as valuable,”⁴⁷⁶ it is “only by being responsible for what we do and take on can we be motivated to get things right.”⁴⁷⁷ Knowing that they will be associated with a particular outcome – that a line will be drawn between their actions and their outcomes – encourages state officials of disadvantaged states to only contribute to outcomes that they want their state to be identified with. While the attribution of outcome responsibility thus discourages behaviour such as that of corrupt leaders allying with the most powerful to fill their own pockets, it encourages disadvantaged state officials to take on the role as ambassadors and lobbyists of the interests of the most vulnerable they represent.

⁴⁷² Honoré, 1999, p.29; Perry, 2001, p. 74.

⁴⁷³ Honoré, 1999, p.135. In moving and powerful prose, Fanon makes a similar point when stating “I am a Negro, and tons of chains, storms of blows, rivers of expectoration flow down my shoulders. But I do not have the right to allow myself to bog down. I do not have the right to allow the slightest fragment to remain in my existence. I do not have the right to allow myself to be mired in what the past has determined. I am not the slave of Slavery that dehumanized my ancestors” (p.231).

⁴⁷⁴ Honoré, 1999, p.133.

⁴⁷⁵ Perry, 2001 p.71 -72.

⁴⁷⁶ Honoré, 1999, p. 131.

⁴⁷⁷ Honoré, 1999, p.132.

A possible objection that could be put forward against the attribution of outcome responsibility to disadvantaged governments is that assigning outcome responsibilities does not only have positive consequences, such as the ones outlined here, but also negative consequences. This objection presumes that, where outcome responsibility is assigned, the gains and losses that agents' actions produce ought to remain theirs.⁴⁷⁸ By stating that the disadvantaged state is outcome responsible, we would thus be saying that whatever consequences its actions have, the resulting outcome should not be altered. This seems counterintuitive, however, since the disadvantaged state's condition is, after all, not brought about merely by its own choices, but most importantly, by being dominated and exploited by the powerful. I would like to respond to this criticism by pointing at two different interpretations that can be given to the concept of outcome responsibility.

Stephen Perry argues that Honoré's analysis in "Responsibility and Fault"⁴⁷⁹ can be interpreted in two different ways, which he calls the 'social' and the 'personhood' understanding of outcome responsibility. According to the social understanding, the ascription of outcome responsibility brings with it an allocation of "social credits and discredits."⁴⁸⁰ These do not necessarily need to be material benefits or burdens, but can be such intangible things as an apology or social approval/disapproval. In his book "National Responsibility and Global Justice,"⁴⁸¹ David Miller elaborates on this social reading of outcome responsibility. According to Miller, outcome responsibility asks to what extent an agent can be reasonably credited and debited with the results of their conduct.⁴⁸² When agents are outcome responsible, the gains and losses resulting from a particular action ought to remain

⁴⁷⁸ Miller, 2007, p.87.

⁴⁷⁹ Honoré, 1999.

⁴⁸⁰ Perry, 2001, p.62.

⁴⁸¹ Miller, 2007.

⁴⁸² Miller, 007, p.81.

theirs. This reading of outcome responsibility clearly puts its emphasis on the (re)distributive implications and sees outcome responsibility as a system of outcome allocation.

Although correct, the (re)distributive emphasis on outcome responsibility as a system of allocation of social credits and discredits is only one of the readings that can be given of outcome responsibility. The second reading of outcome responsibility – outcome responsibility in its ‘personhood understanding’⁴⁸³ – is not concerned with questions of (re)distributive fairness and does not see it as a system of outcome allocation. Rather, it focuses on the role that the attribution of outcomes plays in the formation of a subject in his or her status as an agent. Outcome responsibility in its personhood understanding emphasises how the attribution of outcome responsibility contributes to an agent’s identity and history: “The best argument for outcome responsibility is surely that it is central to the identity and character of the agent.”⁴⁸⁴

For the current purpose, I concentrate on the personhood interpretation and show how embracing outcome responsibility can, for disadvantaged state officials, be a form of resisting internal domination. Recognising outcome responsibility is one way of resisting the image of victimhood that disadvantaged state officials are susceptible to internalising, since its attribution promises to reverse the three constraints that the acknowledgment of their subjugation threatens to bring about.

First, by being clearly set apart from moral and legal responsibility, outcome responsibility makes the attribution of responsibility possible even to agents acting under coercive situations. As such, outcome responsibility enables disadvantaged state officials to recognise the state in whose name they act as a responsible agent, albeit acting within a narrowed set of options. Disadvantaged state officials can recognise that the disadvantaged state on behalf of which they act still has choices to

⁴⁸³ Perry, 2001, p.63.

⁴⁸⁴ Honoré, 1999, p.10.

make that reflect its will. In the same way in which Miller's bank employee decides to hand over the money to save her colleague, despite the coercive situation under which she finds herself, disadvantaged state officials can, within the narrowed set of options, make choices that reflect their state's will. Recognising this by embracing outcome responsibility is a way for them to resist the thought that the dominated status produces, namely the idea that the choices they make do not reflect the state's will.

Second, by recognising that outcome responsibility can be attributed to their state in this manner, disadvantaged state officials can resist the thought of being mere servants of dominating players and vindicate the disadvantaged state's status as an agent. Recall Honoré's argument that accepting authorship over outcomes creates our personal history, contributes to our identity and, as such, is part of what makes us an agent. By seeing themselves as authors of their actions and not merely as victims and servants, disadvantaged state officials vindicate the agency of the disadvantaged state and strengthen the very condition that the control of dominating players threaten to take away: the state's status as an agent.⁴⁸⁵

Third, embracing outcome responsibility also provides incentives to behave in ways that are socially valuable. Disadvantaged state officials know that the consequences of their actions will be associated with their state and thus, will seek to contribute only to those outcomes that, within their limited range of options, they actually want to be associated with their state. This provides a powerful incentive to act in ways that are socially valuable and counters the third constraint that follows once subjects become aware of their domination and exploitation. It counters, that is,

⁴⁸⁵ Here the collective agency of states complicates the individual state analogy. Dominated individuals can resist their subjugation by embracing outcome responsibility and contributing to their own history and identity. Conversely, disadvantaged governments whose actions are those of state officials, resist subjugation by the attitude that state officials adopt. The history and identity of disadvantaged governments is constructed by state officials recognising the consequences of their actions as the outcome responsibility of the dominated state.

the tendency to internalise the image of victimhood and servitude that their dominated status otherwise produces.

But how can disadvantaged state officials resist internal domination by embracing outcome responsibility in practice? Take Argentina's acquisition of an unsurmountable amount of debt as an example. In the run up to the crisis of the 2000s, Argentina's options were significantly narrowed by external economic shocks and by the behaviour of its creditors, who, while continuing to grant financially irresponsible loans, used the threat of ceasing to do so as a means to put pressure on the Argentine government to act in their interest. That their options were narrowed, however, does not mean that Argentine state officials did not make choices. Within an unfavourable global and economic order, the Argentine state did have choices to make and decided to borrow to finance its deficits. In this situation, what it means for Argentine state officials to embrace their outcome responsibility, is to accept that this acquisition of debt was their choice. By recognising that these decisions and the consequences they brought about were their own making, Argentine state officials challenge the image that their domination produces – the image, that is, of being mere victims of circumstance.

This attitude seems opposite to the one that Argentine officials adopted during and after the 2001 crisis. In this case, state officials adopted a rhetoric of victimhood in which external actors were blamed for Argentina's predicament, trying to stick the blame on someone else.⁴⁸⁶ Despite its obvious political advantage, such an attitude perpetuates an image of disadvantaged governments as victims and not as agents. It is this image that the embracing of outcome responsibility by state officials seeks to reverse. In a nutshell, then, by embracing outcome responsibility, and accepting their actions and the outcomes of those actions as their state's own doing,

⁴⁸⁶ Blustein, 2005.

disadvantaged state officials can free their state from the image of being a mere victim of its dominators' actions, interests and desires.

So far, I have outlined why recognising the state on behalf of which they act as outcome responsible agents can be a way for disadvantaged state's officials to resist the internal domination that results from the control that powerful international players exert over them. I have not yet demonstrated that state officials ought to do so. Recall that disadvantaged state officials have the responsibility to try to protect the individuals they represent from domination and exploitation. It is by virtue of this responsibility that resisting the self-image of servitude and victimhood becomes their duty rather than merely a right. Due to the position they hold in the current world order, disadvantaged state officials have the duty to recognise the state they represent as an outcome responsible agent.

This is an internal duty, an attitude towards the state that is reflected in their actions, rather than an external form of resisting domination and exploitation.⁴⁸⁷ It is internal because it does not prescribe what actions ought to be taken, but suggests how state officials ought to envision the state that acts through them. What is required from disadvantaged state officials is that they not give up the image of the state they represent as the author of its actions. Even while being dominated and exploited, they must conceive of the state as an actor with choices to make, choices which have consequences that can be rightly attributed to it as their author.

As an attitude that state officials ought to have towards the state they represent, this duty does not conflict with other duties and must, therefore, not be weighted and ranked in relation to other duties. A disadvantaged state can fully recognise itself as an outcome responsible agent without hampering its capacities to fulfil other social or global justice duties. In this light, there is no latitude with regard

⁴⁸⁷ Hay, 2011, p.31.

to when this duty applies. State officials must adopt the appropriate attitude on every single occasion.

The possibility of this sort of resistance, therefore, captures the intuition that there is something that can be done by victims of domination and exploitation to resist their subjugation, even when external resistance is imprudent or impossible.⁴⁸⁸ At the same time, however, it is important to note that internal resistance is insufficient, since it leaves dominating and exploiting structures and relations intact. That state officials envision the state which acts through them as a responsible agent is a crucial prerequisite for taking the necessary steps to establish a non-dominating and non-exploiting world order, but it needs to be followed by a change in state officials' actions in order for disadvantaged governments to get the chance to break free from domination and exploitation. How, then, should disadvantaged state officials act in order to fulfil the responsibility of resistance that they have towards their citizens? In the following section I turn to the question of what disadvantaged governments can and ought to do to resist domination and exploitation externally.

On the Government's Duty to Engage in Acts of State Civil Disobedience in the Name of Its Citizens

While democratic political theorists acknowledge civil disobedience as a measure of last resort to challenge unjust laws, a legitimate form of defending that which is just over and above that which is legal,⁴⁸⁹ relatively little has been written about the possibility of state civil disobedience.⁴⁹⁰ Despite being significantly under-theorised, acts of state civil disobedience can be a form in which disadvantaged governments challenge institutional forms of domination and exploitation. By disobeying

⁴⁸⁸ Hay, 2011, p.32.

⁴⁸⁹ Arendt 1972; Habermas, 1983; Bedau, 1961; Dworkin, 1977; Rawls, 1971.

⁴⁹⁰ Notable examples are Höffe, 1999; Goodin, 2005; Buchanan, 2004; and Neubauer, 2009.

international rules, state officials of disadvantaged governments could resist domination and exploitation externally.

Having argued that disadvantaged governments have a responsibility to resist their domination and exploitation in Section 2, and that they have the duty to do so by embracing their outcome responsibility in Section 3, I now argue that under particular circumstances, disadvantaged governments have the duty to engage in acts of state civil disobedience. First, I explore what a normative theory legitimising the violation of unjust international laws by states might look like. Then I illustrate what state civil disobedience entails in practice by applying it to the Argentine debt management experience in the years that followed the 2001 crisis. Based on the arguments presented above regarding the state's responsibility to resist domination and exploitation, I argue that the domination and exploitation of citizens of vulnerable states by powerful international players gives rise to a context in which states do not only have a right, but a qualified duty, to engage in acts of state civil disobedience.⁴⁹¹

What would a normative theory legitimising states to violate unjust international laws look like? In line with Goodin and Neubauer, I propose to extend the standards used to assess individual civil disobedience on a domestic level to the actions of states on the international level. Concretely, I propose to apply Rawls's conception of civil disobedience to state action. According to Rawls, civil disobedience is "a public, nonviolent, conscientious yet political act contrary to law usually done with the aim of bringing about a change in the law or policies of the

⁴⁹¹ One may counter that there may be disadvantaged governments that are "so structurally constrained or determined that they are unable to act otherwise than they do" (Hayward and Lukes, p.12) If this is the case, I am willing to concede that the responsibility to resist domination must not to be fulfilled via action (Section IV), but still ought to be resisted in an internal, attitudinal sense (Section III).

government.”⁴⁹² Rawls identifies five criteria, or moral standards, to distinguish mere rule breakers from possible rule-makers. To qualify as such, an act of civil disobedience must be (i) illegal, (ii) conscientious, (iii) aimed at changing law or policies, (iv) non-violent, and (v) public. I now assess how these five criteria used to define an act of civil disobedience can be extended to the context of state civil disobedience. I illustrate what this means in practice by applying it to my case study.

First, to qualify as such, an act of state civil disobedience must be illegal.⁴⁹³ Establishing this illegality is much harder in the international arena, in which ‘soft law’ prevails, than in the domestic realm of ‘hard law.’⁴⁹⁴ In contrast to hard laws, which are precise and delegated for their interpretation and implementation to an assigned authority, soft law is “by definition imprecise, and has no authoritative interpreter to make it more precise.”⁴⁹⁵ Thus, the only way to establish whether a state’s action meets the illegality criterion is to assess whether, at the time the state committed the action, it was likely to face legal prosecution *ex post facto*.⁴⁹⁶ Second, acts of state civil disobedience must be committed conscientiously. In justifying their act, state officials must appeal to universal moral arguments, rather than to reasons of national interest.⁴⁹⁷ Third, a state’s act of civil disobedience must seek to promote a change in laws or policies that affect other states, as well as their own. States can, for example, try to establish a new customary law, change the interpretation of the old one, convince international courts to establish new case law, or criticise international

⁴⁹² Rawls, 1971, p.364.

⁴⁹³ Since civil disobedience pursues the aim of challenging the illegality of the committed act and might turn out to be legal retrospectively, the relevant consideration to meet the illegality criterion is whether the act was illegal at the time it was committed.

⁴⁹⁴ Goodin, 2005, p.238.

⁴⁹⁵ Goodin, 2005, p. 239.

⁴⁹⁶ Neubauer, 2009, p.8.

⁴⁹⁷ Neubauer, 2009, p.8. Note here, that it is not necessary for state officials to exclusively have interests in mind that surpass the national interest narrowly defined.

institutions.⁴⁹⁸ Fourth, as with its domestic analogy, state civil disobedience must be non-violent. A state action can only be an act of civil disobedience as long as it does not employ extra legal violence.⁴⁹⁹ Finally, state civil disobedience must be public in character. This criterion is easily fulfilled, since the type of actions which could be considered cases of state civil disobedience cannot possibly be kept from the public. No state can enact laws that violate an international treaty privately.

In addition to the conditions posed by these five criteria, I would also like to carry over Rawls's 'last resort clause' from the national to the international level. According to Rawls, acts of civil disobedience are only acceptable if employed as a last resort. "The normal appeals to the political majority" must have been made and must have failed.⁵⁰⁰ Acts of state civil disobedience must be used as a last resort because they might come at the expense of the rights of the citizens of the disobedient state and have detrimental effects upon non-members. Take the example of a government defaulting on sovereign debt. As Pogge argues, the refusal of governments to repay their loans may lead to an indiscriminate reaction of creditors not to lend to any fledgling democracies.⁵⁰¹ This is detrimental, since the acquisition of reasonable amounts of debt is often required for governments to fulfil the socio-economic rights of their citizens. The more general point is, therefore, that an act of state civil disobedience might have negative consequences for present and future generations, both at home and abroad, and therefore, ought to be employed with care and used as a last resort.

But should Rawls' criteria be carried over from the national to the international level without amendments or addendums? Rawls clearly delineates the context in which his theory of civil disobedience applies, namely a context of 'near

⁴⁹⁸ Neubauer, 2009, p.10.

⁴⁹⁹ Neubauer, 2009, p.11.

⁵⁰⁰ Rawls, 1971, p.373.

⁵⁰¹ Pogge, 2008, p. 160.

justice.’ A near-just society is one which is “well-ordered for the most part, but in which some serious violations of justice nevertheless do occur.”⁵⁰² It is due to this context of near justice that Rawls believes that acts of civil disobedience ought to be non-violent and public. By acting non-violently and publicly, the disobeying agent expresses his/her general respect for a nearly just law. Although imperfect, s/he believes the law to be worth respecting and, through disobedience, wants to contribute to making it more just. In sum, “The law is broken, but fidelity to law is expressed by the public and non-violent nature of the act.”⁵⁰³

However, the international context of domination and exploitation – a context in which state and non-state public and private actors dominate and exploit the most vulnerable in the pursuit of their own interests – clearly does not qualify as a context of near justice. In such a context, I do not believe that the agents engaging in acts of disobedience must do so while being generally committed to the law. It seems absurd to demand from state officials who ought to resist their domination and exploitation that they also ought to be generally committed to the law that contributes to their oppression. To the extent that state officials of disadvantaged governments ought not to show themselves as being generally committed to the law, the question becomes whether the criteria set out by Rawls for a nearly just society also applies for the context at hand. I contest that they do, albeit for different reasons.

In contrast to Rawls, who argues for non-violence as an expression of one’s general commitment to the law in a context of near justice, I believe that acts of state civil disobedience in the international context of domination and exploitation must be non-violent merely because of the harm, destruction, and suffering that violence brings about in human terms. This is especially so, given the means available to states - to wage a nuclear war, for instance - that are not available to individuals. A second,

⁵⁰² Rawls, 1971, p.363.

⁵⁰³ Rawls, 1971, p.366.

more practical reason for why I wish to take Rawls's non-violence criteria over to the proposed theory of state civil disobedience is that non-violence is usually seen as the defining criteria distinguishing civil disobedience from other forms of more militant resistance. Although I believe it is worth examining whether the current international legal system is so unjust that it merits other forms of (militant) resistance,⁵⁰⁴ the scarcity of normative analysis in this area of thought makes it desirable to start with a case in which the legitimacy threshold is somewhat lower.

Must an act of state civil disobedience be public? I see one normative and one practical reason to answer this question affirmatively. Normatively, I believe it to be of relevance that state officials act in their role as representatives of the people. Representation, in turn, requires a certain degree of transparency. Letting the public know that they are engaging in acts of state civil disobedience is part of such transparency. Publicity is thus required, not because it expresses a commitment to the law, but because state officials owe it to those they represent to inform them of their actions. More pragmatically, publicity cannot be avoided in cases of state civil disobedience, since the type of action which could be considered in these instances cannot possibly be kept from the public.

What, then, does an act of state civil disobedience look like in practice? In line with Neubauer, I would argue that Argentina's refusal to pay qualifies as an act of state civil disobedience. First, Argentina's refusal meets the illegality criterion. In the absence of both legal procedures to declare sovereign debt invalid in cases other than state succession, as well as of state insolvency procedures, international credit law dictates that indebted countries must continue servicing their debt under any circumstance. Refusing to do so, thus, qualifies as an illegal act. Second, the Argentine presidents Saá (in 2001) and Kirchner (in 2005) both justified the refusal

⁵⁰⁴ For an analysis of what individuals who bear the brunt of global injustice are entitled to do in order to ensure their entitlements, see Caney (2015).

with reference to universal moral reasons. While arguing, on one hand, that sovereign debt could not be serviced “at the expense of [the] hunger and exclusion”⁵⁰⁵ of Argentines, they also pleaded for reform of international credit law that, by definition, affects all states. In a speech addressing the UN General Assembly in 2003, for instance, President Nestor Kirchner demanded a reform of the IMF so that it would serve in the fight against poverty. Third, Argentina combined this conscientious justification with concrete initiatives that aimed at changing laws and policies. A case in point is the establishment of the Banco del Sur (Bank of the South), a cooperative project between Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela, which seeks to develop an alternative to the IMF. Finally, in refusing to pay its debt, the state of Argentina did not use any extra legal violence and it announced its decision publicly.⁵⁰⁶

I believe the Argentine case illustrates what states can do, despite being dominated and exploited, to try to protect their citizen from wrongdoing. While Argentine state officials could not realistically have succeeded in protecting their citizens from domination and exploitation, they were able to put up a fight against those dominating and exploiting them by refusing to pay the debt and thereby engaging in an act of state civil disobedience. In doing so, they challenged an international legal system, which gives more value to debt servicing than to the most basic rights of individuals. State civil disobedience thus reveals itself as one possible way in which the responsibility to resist domination and exploitation externally takes concrete form. As such, state civil disobedience ought to be seen not only as a right held by states, but as a duty that state officials ought to exert as a way of resisting external domination and exploitation in the name of their citizens.

⁵⁰⁵ Kirchner, 2003.

⁵⁰⁶ Neubauer, 2009.

There may be occasions, however, in which fulfilling the responsibility to resist domination and exploitation by engaging in acts of state civil disobedience might seem plainly wrong. It might be the case, for instance, that it causes much more suffering than it prevents or that it may come at the expense of other values we esteem. Relevant questions here are how the disadvantaged state's duty to engage in acts of civil disobedience in the name of their citizens is to be weighed in relation to the rights of non-members or against the state's duty to guarantee (basic) socio-economic rights; how future generations ought to be considered and how much weight should be attached to their interests vis-à-vis those of current generations. In other cases, the duty to engage in acts of state civil disobedience may seem too demanding. Should there be limits regarding state officials' responsibility to resist domination by engaging in acts of state civil disobedience?

Although answering these questions exhaustively would go beyond the scope of this project, I do wish to make two brief comments regarding the latitude, first, of the duty to resist domination and exploitation via acts of state civil disobedience, and second, of the responsibility to resist domination and exploitation more generally. Beginning with the former, in Chapter 4 we saw how the right to national self-determination is a qualified right that depends on the extent to which the national struggle supports the emancipation of the victims of imperial domination across national borders. I believe that a promising avenue to continue thinking about the limits to the duty of resisting domination and exploitation via acts of state civil disobedience in the future is along these lines. The idea would be that states only have a duty to engage in acts of state civil disobedience if their resistance contributes to, or at least does not run against, the struggle of all those resisting domination and exploitation across national borders.

These limits to the latitude of the duty to engage in acts of state civil disobedience also correspond to another potential objection. It can be argued that one meaningful difference between the international and the domestic arenas is the fact that the former relies on a degree of compliance and cooperation that the latter, due to the coercive powers of the state, does not. According to this line of argument, states must play by the rules to be considered members in good standing of the international order. In the absence of sovereignty and the associated power of coercion on the international level, the compliance of states in ensuring that international order is preserved is fundamental in a way that the obedience of citizens domestically is not. Once states start acting up, the illusion of order disappears and the international order collapses. But if we limit the duty for acts of state civil disobedience as I propose here, this threat is contained. It is only when the resistance of disadvantaged governments contributes to the struggle of all those dominated and exploited that the resistance is both justified and required.

Let me conclude by saying something more about the latitude of the responsibility to resist domination and exploitation more generally. There are two dimensions along which the latitude of this responsibility can be assessed, namely latitude regarding *what* action ought to be taken and latitude regarding *when* action should be taken.⁵⁰⁷ Analysis of these two duties reveals that latitude exists along only the first of these dimensions. Sometimes state officials may resist domination and exploitation by engaging in acts of state civil disobedience. On other occasions this might not be demanded, or even justified, and disadvantaged state officials must fulfil their responsibility to resist domination and exploitation solely by recognising themselves as outcome responsible agents. Latitude does, therefore, exist regarding what state officials ought to do. No latitude exists, however, with regard to when the

⁵⁰⁷ Hay, 2011.

responsibility to resist domination and exploitation applies. While state officials may not have to engage in acts of state civil disobedience on every occasion to resist domination and exploitation, the duty to resist domination internally by adopting the right attitude and conceiving of themselves as outcome responsible agents always holds. The possibility of internal resistance therefore means there is the potential for disadvantaged governments to resist domination even in instances in which state officials ought not to engage in acts of state civil disobedience.

Conclusion And Road Ahead

By using Argentina's most recent debt history as an example, I sought to analyse the multifarious forms in which states are dominated and exploited. I attempted, however, to move beyond the unilateral attribution of responsibility in which the dominating and exploiting parties are demonised and the victims of injustice portrayed as mere bystanders, raising questions about the responsibilities and duties of disadvantaged governments.⁵⁰⁸ I argued that state officials in states occupying a disadvantaged position within the SD&CR system have the responsibility to resist domination and exploitation. As a general maxim, this responsibility allows for latitude with regard to what actions are to be taken in order for this responsibility to be fulfilled. I argued that under particular circumstances, the responsibility to resist domination and exploitation may give rise to a duty for state officials to engage in acts of state civil disobedience. When these conditions are not fulfilled, however, state officials still have the duty to recognise themselves as outcome responsible agents. Thus, albeit allowing latitude with regards to what actions it calls for, the responsibility to resist domination and exploitation does not allow for latitude regarding when it holds.

⁵⁰⁸ See Caney (2015) for a similar attempt on the individual level.

It may be countered, however, that assigning responsibility to disadvantaged governments is wrong, since it seems tantamount to blaming the victim. “If there is an obligation to resist oppression, after all, then it seems that those who fail to resist their oppression will be the appropriate subjects of blame.”⁵⁰⁹ However, the attribution of responsibility does not necessarily need to be isolating, and “finding that some people are guilty of perpetrating specific wrongful action does not absolve others whose actions contribute to the outcomes from bearing responsibility.”⁵¹⁰ The fact that I claim disadvantaged governments to be responsible in the ways proposed here does not absolve the dominators and exploiters from their responsibility for wrongdoing.

Instead, I sought to deconstruct the ‘we versus them’ dichotomy that underlies much of the contemporary global justice debate. The reproduction of such a dichotomy in an academic debate which seeks to be global in scope, yet only theorises upon the ‘we’ as the acting subject, is deeply disrespectful to all those who occupy the position of the ‘other.’ Most importantly, though, a discourse of unilateral responsibility fails to mobilise the type of action needed to put an end to the injustice in the global order. “The reproduction of the distinction between ‘us’ and ‘them’ might well subvert the very project of radical cosmopolitanism.”⁵¹¹ By theorising upon the responsibilities and duties of disadvantaged governments, I wish to emphasise that all actors – perpetrators, bystanders and also victims of structural injustice – have an important contribution to make in the construction of a less unjust world.

In this same spirit, in the next and final chapter of this thesis, I turn to the question of what responsibilities citizens of debtor states may have. In doing so, I wrestle with the central issue that most (if not all) political theorists that work on

⁵⁰⁹ Hay, 2011, p.29.

⁵¹⁰ Young, 2011, p.106.

⁵¹¹ Chandhoke, 2010, p.80.

issues surrounding sovereign debt concern themselves with – that is, the question of the conditions under which a sovereign debt contract is binding and ought to be serviced by its citizenry.

CHAPTER 8

WHAT CITIZENS OWE

Amidst the many uncertainties that govern debt repayment in our highly-financialised economy, one background norm remains largely unchallenged: the idea that sovereign debt must be repaid by the citizenry of the debtor country. Embodied in the legal norm of *Pacta Sunt Servanda*, this repayment norm extends to present and future citizens alike, making the citizenry of the debt issuing state liable to honour the contract and service the debt the state accrued in their name.

In this chapter, I defend two sufficient conditions under which this norm can be challenged. First, I argue that citizens cease to have debt servicing obligations if the state budget as a whole – regardless of its source – is systematically used in the interest of only a fraction of the citizenry, unless they are the most disadvantaged in society. Second, I defend that whenever the acquisition of further debt threatens the state's ability to act in the public interest, this offers another normative ground on which to challenge the repayment norm.

I proceed as follows: In Section I, I ask what makes the repayment norm intuitively forceful. While I grant that the repayment norm is normatively weighty in cases in which the contracting party is a natural person, the collective agency of the state complicates this picture. In Section II, I turn to the odious debt doctrine as a starting point to defend the first sufficient condition for challenging the repayment norm. Finally, Section III presents and defends the second sufficient condition on the basis of which the citizens' obligations to service debt can be challenged.

Repaying Debt That is Not One's Own

Why should sovereign debt be repaid? The most intuitively plausible and powerful answer arises from a comparison often implicitly made between debt contracts accrued by natural persons and those accrued by a sovereign state. We tend to think that individuals who enter a contract must fulfil their contractual obligations, except in very exceptional circumstances. There are both deontological and consequentialist reasons that support this intuition of the sanctity of contracts.⁵¹² We might think that it is integral to the autonomy and moral personhood of individuals to take responsibility for their own actions, and that keeping one's promises shows respect for other persons. Additionally, we might believe that failing to uphold our contractual obligations violates a duty of fair play. These deontological considerations seem to give a *prima facie* obligation to fulfil past promises. Consequentialist reasons further strengthen this *prima facie* obligation. Keeping one's promises allows agents to enter mutually beneficial agreements and provides agent incentives to make prudent decisions, since they know that they will be held responsible for them.⁵¹³

Many of these considerations thus rely on basic considerations of personal integrity. The purely deontological considerations, in particular, seem to rely on the conception of a natural person who has an integral, temporally bounded existence. But the state is no such agent – the state is a moral and legal person in its own right, an incorporated group.⁵¹⁴ An incorporated group does not merely act together but has standing decision-making procedures by which it is able to grasp reasons, form and revise its intentions. It has the capacity to make intentional choices; the ability to grasp the obligations that apply to it; sufficient authority over its members to carry out its intentions; and it can, at least in principle, act voluntary, without coercion by

⁵¹² For a more elaborate account of these arguments, see Barry and Tomitova (2006) and Reddy (2007).

⁵¹³ For a more extensive justification of this point, see Reddy (2007).

⁵¹⁴ Stilz, 2011.

an outside force.⁵¹⁵ Although the government – a person or group of persons who rule and administer a political community – personifies the state, the state as a legal and moral person outlives particular governments.

If one understands the state as a political association characterised by its durability – by its independence from a particular set of persons, and as a moral and legal person in its own right – the resistance of some to revoke the repayment norm becomes easy to understand. A challenge to the repayment norm would not only threaten the practical viability of any form of sovereign borrowing and lending, but the very existence of what we have come to understand states to be.

The complex, collective agency of the state complicates the picture painted by the analogy of individual debt acquisition cases. When stating that a state accrued debt, what we are actually saying is that finance ministers or other public officials within the executive branch of government decided to either knock on the door of private banks (private sovereign debt), governments (bilateral sovereign debt) and other multilateral institutions (public sovereign debt), or decided to sell bonds on private financial markets (again to either public or private creditors). It is by virtue of their role as legitimate public officials that the acts of these individuals then become the state's responsibility. Debt incurred by legitimate state officials are then treated as an obligation of the state.⁵¹⁶ When a new government comes to power, in turn, all the debts that were the obligations of the previous regime are treated as the new government's obligations. Present and future citizens are then saddled with debt servicing obligations.⁵¹⁷

⁵¹⁵ Stilz, 2011.

⁵¹⁶ This formulation assumes the 'fictional conception of the state', according to which the state is distinct, both from the rulers and the ruled (Skinner, 2009, p. 347). A representative of the state is a person who takes upon him/herself the artificial role of speaking or acting in the name of the state.

⁵¹⁷ In this chapter, I bracket out questions relating to inter-generational justice in debt-repayment. For excellent discussions on this, see Gosseries (2007) and Reddy (2007).

What makes individual and sovereign debt contracts dis-analogous, then, is the fact that it is not one and the same agent who accrues and services the debt. The morally relevant difference between individual debt contracts and sovereign debt contracts is that, whereas in the former case the same agent borrows and services the debt, in the latter case state officials at point T_x accrue debt that the citizenry in T_{x+1} will service.⁵¹⁸ Put differently, the morally relevant dis-analogy is that, while in the case of individual debt, the same agent borrows and services the debt, in the case of sovereign debt state officials at one point in time accrue debt that the citizenry, which is distinct from both state officials and the state, has to service at a later point. The question that results from this dis-analogy is thus the following: What normative link justifies burdening the citizenry with debt servicing obligations for a debt they themselves did not accrue?⁵¹⁹

Before starting to answer this question in the next section, let me respond to a possible objection raised against formulating the question in this way. A possible objection to focusing on the question of legitimate debt servicing is that this question is only a sub-set of the more general interrogation of legitimate taxation. Since one mechanism through which states pass on debt servicing obligations to citizens is via taxation, it can be argued that one should focus on the more general question instead, for taxing-to-repay-sovereign-debt is only a special application of the general principle of legitimate taxation. Conversely, if one still chooses to begin with the

⁵¹⁸ For a detailed discussion of this, see Wollner (2017).

⁵¹⁹ If one adopts the fictional conception of the state, what makes the case of sovereign debt dis-analogous is that the agent who accrues the debt and those who service it is not one and the same. Were one to adopt the 'modern' or 'reductionist conception' of the state, by contrast, the argument runs slightly differently. According to the modern conception, the state simply denotes "the individual person, or the body of individual persons, which bears the supreme powers in an independent political society" (Skinner, 2009, p.356). The representatives of the state simply *are* the state. According to this conception, individual and sovereign debt are thus analogous in that it is one and the same agent (the state) who accrues and services the debt. Note, however, that the same question arises, for even if the state is the primary bearer of the obligation to repay debt, the state can only service its debts by taxing its citizens. The question thus becomes: when can the state legitimately burden its citizenry with debt servicing obligations via the collection of taxes?

question of legitimate debt servicing, then whatever answer is given to the narrower question of debt servicing also needs to be plausible as an answer to the broader question of legitimate taxation.

Although I agree that one mechanism through which the state burdens its citizens with debt servicing obligations is taxation, I want to resist the conclusion that the question of legitimate debt servicing is simply a sub-set of the legitimate taxation issue. First, other ways of passing on debt servicing exist. A state “raises revenues to service its debt (*at least in part*) from taxes imposed on citizens and other subjects taxable by the government.”⁵²⁰ “States have other ways of raising revenue or lowering their debt burden, e.g., by selling off public assets or by inflating their currency”.⁵²¹ Second, just because normative questions that are ultimately connected to taxation arise in various domains – relating, for instance, to *jus ad bellum* or migration management, to name but a few - this does not make the narrow questions that emerge out of these domains merely sub-sets of the broader question of legitimate taxation. Particular characteristics of the different domains affect the answers given to the specific normative questions that result therefrom.⁵²² Nonetheless, as will become clear as I proceed, the answer I provide to the narrow question of legitimate debt servicing is similar to reasonable answers given to the question of legitimate taxation.⁵²³ Thus, whether one sees the question of debt servicing as connected, yet independent, from the question of legitimate taxation, or whether one sees the former as merely a sub-set of the latter, one can still agree with the argument put forward here.

⁵²⁰ Barry and Tomitova, 2007, p.52, my emphasis. This is acknowledged even by those who see the question of debt servicing as a sub-question of the one of legitimate taxation.

⁵²¹ Wollner, 2017, p.8.

⁵²² In the third section, I argue that one of the features of sovereign debt that makes the question of legitimate debt servicing specific is that high indebtedness of states may undermine their ability to act in the public interest.

⁵²³ Wollner, 2017.

The Use of Debt in the Public Interest

We saw how the complex, collective agency of the state questions the intuitive appeal of the repayment norm in cases in which the debtor is a natural person. In this section I outline and defend one sufficient condition that justifies challenging the repayment norm. I argue that citizens cease to have debt servicing obligations when the state uses its available budget to systematically act in the particular interest of only a sub-group of its citizenry. To make this argument, I first introduce the odious debt doctrine, since it succinctly formulates a sufficient condition to challenge the repayment norm. Then I propose and defend two distinct changes to the sufficient condition, as formulated by this odious debt doctrine, and consider objections.

The odious debt doctrine offers a promising start to answer the question of when citizens can, and when they cannot, be legitimately burdened with servicing a debt accrued in their name. First developed after the Spanish American War of 1898 and later formalised by Alexander Sack in 1927, the classical legal doctrine of odious debt has proven hugely successful in challenging the repayment of debt accrued by autocratic regimes.⁵²⁴ The doctrine consists of two provisos, the first of which focuses on the nature of the regime that contracted the debt (the regular government proviso), and the second of which concentrates on the purpose and use given to the debt accrued (the public interest proviso). While disagreements prevail regarding the definitive interpretation of Sack's classical doctrine, agreement exists regarding the normative relevance of the second proviso.⁵²⁵

⁵²⁴ For an excellent analysis of how the enforcement of the repayment norm changed throughout time, see Lienau, 2014. Lienau discusses how before WWII, the repayment norm was challenged in a broader set of cases by debtors and creditors alike. Since WWII, however, the norm has only been challenged in cases of a regime change (from autocratic to democratic governments).

⁵²⁵ According to Sack, both provisos are sufficient conditions. That implies that "if a debt was in fact incurred to benefit the people, then it should not be considered odious even if it lacked

According to the public interest proviso, debts “must have been contracted, and the money raised through it, used to care for the needs and in the interests of the State.”⁵²⁶ Thus, the answer that the second proviso of the odious debt doctrine would provide to the question that concerns us here is the following: Whenever the state fails to contract the debt and use the money raised through it in the public interest, citizens cease to have debt servicing obligations.

So far, the doctrine’s second proviso has been interpreted as saying something about the scope of authority of the public officials accruing the debt. *If* the public official acted within the scope of his or her authority when accruing and spending the money, then the debt is legitimate and citizens have debt servicing obligations.⁵²⁷ By contrast, if the public official exceeded the scope of his or her authority, the debt is odious and citizens cannot be legitimately burdened with debt servicing obligations.

One of the strengths of this interpretation is that it remains fairly restrictive in its assessment of what constitutes odious debt, keeping the number of cases in which the repayment norm is challenged limited. This is important, since many proponents of the doctrine take its main strength to be that it can serve as a public standard; they want the doctrine to be immediately applicable, allowing us to discern in practice what debts ought to be repaid and which ones are not. At the same time, this narrow interpretation of the doctrine comes at the price of excluding cases from normative challenge where the enforcement of the repayment norm seems intuitively doubtful. Cases currently triggering the most debate, such as those in the latest

popular consent.” In contrast, Gosseries shows that while the second proviso alone may be sufficient, the first proviso alone is not. According to Gosseries, it is the second proviso that does the normative heavy lifting (Gosseries, 2007). Despite this disagreement on whether or not the first proviso is a sufficient condition, scholars working with the odious debt doctrine agree that from a normative standpoint, the second proviso is the most significant one (Toussaint, 2016). It is this second proviso that I focus on in the proceeding discussion.

⁵²⁶ Sack translated by Gosseries, 2007, p.101.

⁵²⁷ Dimitriu has defended this argument by extending the principles of agency law in the domestic arena to the international domain of sovereign lending (2011; 2017).

sovereign debt crises in Europe, for instance, are excluded from scrutiny. These are cases in which, through austerity measures in the debtor countries and through international ‘solidarity packages’ from other countries, the lower and middle classes bailed out private creditors for their excesses in times of booms.

In what follows, I propose a broader, alternative interpretation of the second proviso to the one focusing on the scope of the authority of public officials. The aim of this broader interpretation is to make sense of our intuition that there is something wrong with the way in which the most vulnerable groups of society have been burdened with debt servicing obligations in cases such as the most recent European crisis. While this makes the odious debt doctrine less readily applicable, I think that much value can be derived from understanding why we intuitively hesitate to hold citizens responsible for servicing debt that was not spent in their interest. Rather than providing a public standard that is readily applicable, I intend to give a principled answer to the question of when the repayment norm ought to be challenged and when citizens can no longer be legitimately burdened with debt servicing obligations.⁵²⁸

To begin offering this alternative, broader interpretation of the second proviso, let us briefly examine why states accrue debt. When the ‘public interest’ is invoked in the context of the acquisition and investment of sovereign debt, examples

⁵²⁸ This is not to say that the philosophical argument made here may not, in the end, inform a public standard. To do so, however, other relevant considerations would have to be evaluated. One of the most crucial considerations which I bracket out by focusing exclusively on the debt servicing obligations of the citizenry, for instance, is the question of the legitimate claims of creditors. Something that the odious debt doctrine successfully captures is that, it matters, normatively, whether creditors borrowed money in good or in bad faith. The argument runs as follows: to the extent that creditors did not know, and could not possibly have known, about the illegitimate purposes to which a debt contract was put, lenders still plausibly hold a claim of restitution against the debtor state (Dimitriu, 2017, p.91). This is a reasonable argument to make and I do consider its implications in the last section of this paper. Were I to have the ambition of turning the philosophical answer provided in this paper into a public standard, however, I would have to address the question of how the legitimate claims of the creditors are to be weighed against the legitimate claims of the debtor in a much more extensive manner. I hope to provide a reasonable answer to this question in a future paper.

such as the waging of a just war or the building of dams come to mind. The state can be said to accrue and use debt in the public interest when it invests the attained resources in common goods. But how representative are these prototypical examples, such as the building of a dam or the fighting of a just war, in the real world? For what purposes do states accrue debt?

Debt can be accrued to meet any government expenses. Most commonly, it is accrued with the aim of repaying old debt, covering a deficit, stimulating the economy, or developing new sectors.⁵²⁹ In principle, states could use other policy levers to pursue these goals, namely fiscal or monetary policy. In terms of fiscal policy, they could increase their revenue by increasing taxes or they could lower their expenditure via adjustment and austerity policies. In terms of monetary policy, the government can (via the central bank, whose real and formal independence varies across countries) make use of the printing press to stimulate the economy or pay their deficit, or it can lower interest rates (thereby giving agents incentives to spend, rather than save, and stimulating the economy via private credit).

Using each of these levers carries a certain cost for different groups of the population, however. We can think about domestic groups along two axes: classes or sectors. Whereas sectors demarcate particular branches of a national economy (the telecommunications sectors, the banking sector, the industrial or agricultural sector, to name but a few), classes are social divisions based on social and/or economic status.⁵³⁰ Who is affected by tax hikes, for instance, depends on the concrete tax reforms made, by how progressive or regressive the tax system is in relation to class,

⁵²⁹ Bucheit et al., 2013.

⁵³⁰ In this chapter, I intentionally adopt a non-technical definition of class that resembles its common usage. For an excellent discussion of different ways of understanding class, see Wright (2015). Wright establishes a typology of three different forms of understanding class, namely one which defines class in terms of individual attributes and definitions (the stratification approach), a second which thinks about class in terms of a variety of opportunity hoarding (the Weberian approach), and a third which defines class in terms of a mechanism of domination and exploitation (the Marxist approach).

or whether particular sectors are taxed more than others (i.e., the export sector being taxed more or less heavily). Adjustment will largely affect the lower and middle classes, those who rely more heavily on the public services offered by the state.⁵³¹ In terms of monetary policy, a devaluation of the currency might strengthen the export sector, although a very unstable exchange rate is harmful for all sectors across the board. Devaluation also harms those sectors relying on imports, as they become more expensive. Finally, lower interest rates can help stimulate the economy, replacing public spending with private credit, but the consequences can be very risky too, as all the easy money flowing into the housing market in the world's capitals today shows.

We gain two main insights from looking at the actual reasons governments have to accrue debt, which translate into two central modifications I propose to make to the public interest proviso. First, we learn that it would be both difficult and misleading to separate the discussion of the use of sovereign debt from a broader discussion about the use of the state's budget. Money is fungible and the debt accrued by the state is only a portion of the budget that the state has at its disposal (the fiscal and the monetary policy lever being the other two). The fungibility of money makes it extremely cumbersome (and maybe practically impossible) to trace the use of the money raised with each individual debt contract. More importantly, from a normative stand point, the source of the money seems irrelevant. What is normatively relevant is not with what purpose each (individual) debt contract is accrued and ultimately invested, but whether the state allocates funding in the public interest.

Taking the fungibility of money seriously thus requires reformulating the public interest proviso in the following manner: If the state, with all its available budget, strives to serve the public interest, then the citizenry has debt servicing

⁵³¹ For an excellent account of the classist character of adjustment policies, see Blyth (2015).

obligations, regardless of the use to which the (individual) debt contracts have been put. Conversely, if a state is sufficiently unjust, the state citizens are not obliged to repay debts regardless of the use of the borrowed money.

A second insight we gain from looking at the actual reasons governments accrue debt is that invoking a general notion of the 'public interest' is more complicated than the idealised examples (such as the waging of a just war or the building of dams) would initially suggest. Most decisions made by the state (besides decisions such as the enforcement of the law) are not equally in the interest of all citizens. Behind the hidden abode of a very vague and generic invocation of the 'public interest,' we actually have a spectrum with roughly three categories. On one side of the spectrum, we have cases such as those to which the dam example alludes, in which the government accrues and uses the debt for things that are truly in the public interest, cases where public interest is understood as the 'general interest' that stands above the particular interests of different sectors and classes. On the other side of the spectrum, there are those cases in which the government accrues and uses the debt for particular interests, rather than the public-interest-as-general-interest. Sitting in the middle are those cases in which the government accrues and uses the debt for things that are in the interest of all on a minimal level, but track the interests of some more than others, creating clear winners and losers.⁵³²

It is my contention that most of the things that the state does fall into this third category. Nearly everything that the state does in its actions and its omissions

⁵³² Critics who are particularly sceptical of the existence of truly general interest may think that even idealised examples of common goods are actually cases that track the interests of some more than those of others. It can be argued, for instance, that even in the dam case there are clear winners, namely those sectors of society that are more dependent on water and electricity. My overall argument should still be convincing for those who reject the existence of a general interest as such, for I argue that states must act in the interest of different sectors and classes in a minimally just way.

inevitably creates winners and losers.⁵³³ Beyond a very minimal provision of a general interest (in public safety, for instance), the state always positions itself to promote the particular interests of different sectors and classes.⁵³⁴ This is true for decisions made regarding debt, and it is equally true for decisions concerning the other policy levers. The stabilisation of the currency is a good example for this. On the face of it, a stable exchange rate is something that all sectors benefit from across the board. But if one looks behind this thin façade, there are clear winners and losers. If the currency is kept at a competitive rate, say, this will benefit the export sector while harming those industries heavily relying on imports. Thus, keeping the currency competitive may benefit all, but will benefit some more than others, and also create clear losers.

The suggestion that most of what the government does when accruing debt, as well as when using any of the other policy levers, leads to the creation of relative winners and losers is not a particularly contentious claim. So far, however, this basic insight has not been accounted for when specifying the second proviso. Recall that, according to the narrow interpretation of the second proviso of the odious debt doctrine, citizens cease to have debt servicing obligations if the money accrued was not used in the public interest. What I suggest by opening the black box of ‘public interest’ is that it is not enough to implicitly rely on a notion of public-interest-as-general interest – a public interest that stands above the particular interests of different classes and sectors of society. Instead, to determine whether citizens can be

⁵³³ For a mathematical defence of the argument that sovereign debt will inevitably benefit some citizenry more than others, see Reddy (2007). Reddy shows how the extent to which each individual citizen benefits from the resources gained by accruing the debt, as well as the extent to which they will have to carry the costs of debt repayment, differ depending on the timing of individual lives and variation in the extent to which individual persons experience increased advantage as a result of the resources gained through the acquisition of debt.

⁵³⁴ Let me clarify how I use the different understandings of ‘interests’. I use ‘particular interests’ as the interests of different groups of the citizenry, such as different classes or sectors. I use the term ‘general interest’ as those that stand above the particular interests of different sectors and classes and are truly shared by all groups of the citizenry. Finally, as will become clearer, the notion of public interest I adopt is not to be conflated with general interest, but as a minimally, relationally-just balance between the particular interests of different groups of the citizenry.

legitimately burdened with debt servicing obligations, one also needs to look at the extent to which the state serves the interests of particular sectors and classes.

Recognising that it is a simplification to assume that the state can always act in the public-interest-as-general-interest, leads me to propose the following standard to question the repayment norm: If the state systematically acts according to the interests of only a fraction of its citizenry, and unless this class are those who are disadvantaged in the society, the repayment norm can be challenged and citizens cease to have debt servicing obligations by virtue of their membership of the state.

The addition 'unless this class are those who are disadvantaged in society' is important here. Without this clarification, following the logic of the revised proviso would force us to conclude that states that meet a more demanding standard of social justice – like the difference principle – actually fail to meet the standard of the proviso and are thus unable to legitimately burden their citizenry with debt servicing obligations. Adding the clause 'unless this class are those who are disadvantaged in society' avoids us having to reach this implausible conclusion.

In addition, it also emphasises the importance of keeping separate that which is required to meet the minimal standards of the proviso and meeting more demanding social justice principles. Keeping these two standards separate is crucial, since adopting a very demanding standard of social justice (such as 'everybody winning equally with every state action') and making debt repayment dependent on it would disregard the insight just won. It would simply be impossible to meet, for (nearly) all cases of state action or omissions create winners and losers. Of course, this is not to say that it is undesirable for the state to meet more demanding

principles of social justice, only to say that obligation to service debts should not be dependent on the state meeting these more demanding principles.⁵³⁵

In sum, I therefore propose to specify the second proviso of the odious debt doctrine in the following way: citizens cease to have debt servicing obligations when the state uses its available budget to systematically act in the interest of only a particular sub-group of its citizenry, unless this sub-group are those who are most disadvantaged in the society.

Normatively trained scholars may rightly argue that more needs to be said to establish where exactly the boundary lays to distinguish between cases where the promotion of particular interests is sufficiently balanced to ground debt servicing obligations from those where it is so unequal as to make debt non-binding. This is a difficult, yet valuable exercise, and there are potentially two (compatible) routes to do so. First, one could specify where the boundary lays by introducing a substantive standard. Using Walzer's distinction between monopoly and dominance could be one strategy. It could be argued, for instance, that the actual pattern of relative wins and losses of the different policies adopted by the state need to vary over time in such a manner that there are no dominant classes or sectors. By his definition, a dominant class or sector would be one which not only commands control within one sphere (monopoly) but can also do so across different spheres of distribution (dominance).⁵³⁶

⁵³⁵ Those who maintain that the question of debt servicing is only a subset of the question of legitimate taxation would have reasons to agree with this conclusion, for if one sustains that the question of legitimate debt servicing is a subset of the question of legitimate taxation, whatever standard one adopts for the narrower question of debt servicing, also needs to be adopted as a standard for the broader question of legitimate taxing. Adopting a very demanding social justice standard for legitimate debt servicing would thus force us to reach the implausible conclusion that a state can only tax if it meets a very demanding standard of social justice. To avoid this implausible conclusion, those who see the question of debt servicing as a subset of the question of legitimate taxation adopt a minimal standard to determine debt servicing obligations, in line with what is argued here. In the defence of his own theory of 'legitimate taxation,' Wollner argues that the state only has a right to tax its citizens to repay debt if "it effectively delivers at least minimal standards of social justice" (Wollner, 2017).

⁵³⁶ Walzer, 1983, p.10.

What this substantive standard rightly emphasises is that what is at stake here is not that the state meets some sufficientarian standard of distributive justice, but that it considers the particular interests of all classes and sectors of society. Second, one could specify where the boundary lays by introducing a procedural standard. According to such a procedural standard, a state could legitimately tax its citizens to service debt to the extent that the different classes and sectors have a fair opportunity to contest the use to which resources are put.⁵³⁷

What these two potential routes suggest, is that the philosophical debate regarding how to distinguish between (a) cases where the state is sufficiently receptive to the interests of different sectors and classes of society to legitimately burden its citizens with debt servicing obligations, from (b) those cases where the state is not receptive to said interests and thus cannot legitimately do so, is far from settled. This does not, however, deprive us from the ability to recognise cases in the real world where the reformulated second proviso is being violated. There will be convergence of different standards in at least some negative sense: Enough empirical evidence exists to suspect that any plausible standard – whether substantive or procedural – would converge upon ruling out the same set of (empirically significant) cases.

In recent years, political economists have gathered disheartening evidence that suggests that several states today are directly implicated in defending the interests of a financial elite over those of the more vulnerable sectors and classes of society. According to Hacker and Pierson, the ‘escape of the one percent’ is explained by an ‘organised combat’ fought by the wealthiest.⁵³⁸ Their main thesis is that there is a feedback loop in which the super-rich can use their capital to buy themselves

⁵³⁷ This could be modelled in line with Michelman’s proposal (1967). I am thankful to Steven Winter for this suggestion.

⁵³⁸ Hacker and Pierson, 2010.

political influence, which in turn generates additional top income gains for them. Much of this ‘organised combat’ takes place outside the public gaze, where paid lobbyists use the money of the wealthiest to influence political decision-making. Since backroom deals, rather than elections, secure policy agendas, voting today is devoid of meaning and becomes, at best, an “electoral spectacle.”⁵³⁹

The ‘Winner Takes All’ political landscape suggests that, in the radical unequal world in which we live today, there are cases in which the profile of state expenditures is such that it systematically tracks the interests of a particular class – the financial elite – failing to consider the interests of different sectors and classes of society. Proving this to be the case in concrete cases requires a level of empirical detail that would hijack the discussion that concerns us here.⁵⁴⁰ The crucial take away point is that whenever this can be proven to be the case empirically, there is a normatively important reason to question the state’s ability to legitimately pass on debt servicing obligations to the citizenry via the collection of taxes.

The two key claims defended in this section are thus the following: First, due to the fungibility of money, the relevant question to determine the citizens’ obligation to service debt is not how the money raised via a concrete debt contract was used, but about the use of the state budget overall. Second, since the citizenry is composed of different sectors and classes with distinct interests, to determine the

⁵³⁹For Piketty, inequality is not the result of an organised combat, but the mechanical result of forces for divergence inherent to capitalism, which can be expressed by a series of ‘fundamental laws’ (most famously, $r > g$) that lead the share of capital to tend to rise, all else equal. This structural explanation is often combined with a more ideational explanation, where a particular set of ideas are set to drive the creation and instantiation of a particular set of structures, which benefit some more than others. Political ideas are deployed that favour unfettered markets. Over time, these ideas produce self-perpetuating structural advantages for the richest and these advantages are then justified by invoking the very same ideas that helped bringing them about. The financialization of the British economy is explained in this manner. See Hopkin and Lynch (2016). Despite of the differences in their explanatory theories, contemporary political economists agree in their interpretation of the descriptive evidence regarding the escape of the one percent and the implication of the state therein.

⁵⁴⁰For a discussion of the variations to which the Winner Takes All logic applies empirically in different advanced economies, see Matthijs (2016).

citizenry's debt servicing obligation, one needs to know in whose interest the state acted. Taking these claims into account results in the following reformulation of the second proviso: Citizens cease to have debt servicing obligations if the state budget as a whole, regardless of its source, is systematically used in the particular interests of any sub-group of the citizenry who are not the worst off.

High Sovereign Indebtedness as a Threat to the State's Ability to Act in the Public Interest

Having argued for the broadening of the odious debt doctrine's second proviso in line with the two modifications defended above, I now argue that an additional normative reason exists to question the state's ability to legitimately burden its citizenry with debt servicing obligations. My starting point is the insight that high sovereign indebtedness may inhibit the state's ability to act in the public interest. Against this backdrop, I argue that whenever the acquisition of further debt threatens the state's ability to act in the public interest, this becomes grounds to question the citizens' obligation to service that debt.

Over the course of the post-war period, the state in advanced economies had assumed the responsibility of providing direction to the economy and for managing the social consequences of growth.⁵⁴¹ But – as we saw in Chapter 2 – as growth slumped and unemployment grew, fulfilling these obligations became more challenging, and the state was threatened by the eruption of a 'triple crisis.'⁵⁴² First, a social crisis loomed large on the horizon, as the distributional conflicts heightened over a pie that was no longer expanding at the same pace. Second, the state faced a fiscal crisis, as the state's tax revenues ceased to be sufficient to cover its expenditures. Third, a legitimization crisis became ever more likely, as the state feared

⁵⁴¹ For an analysis of this argument for the U.S., see Krippner. For a defence of this argument for Western Europe, see Streeck.

⁵⁴² Krippner, 2011.

having to adopt politically-costly austerity measures to bring expenditures in line with its revenues.⁵⁴³

Turning to finance offered a temporary way out of this triple crisis for advanced economies after the breakdown of the Bretton Woods in August of 1971. Neither wanting to put in place a more progressive tax system, nor wanting to lower expenditure, the adoption of policies that allowed both the state and consumers to borrow on private financial markets was an attractive solution for the state to postpone the materialisation of any one of these three crises.⁵⁴⁴ The choice to turn to finance to avoid the triple crisis instead of increasing taxes for the higher income brackets can already be interpreted as a political positioning in defence of the interests of the financial elite. Once the financial elites started extending credit to their own, as well as to other, governments, however, the grip they had on states' policy agenda was reinforced, for they attained a new form of claim on the states, one based on commercial contractual agreements.

As argued for in Chapter 2, the turn to finance came hand-in-hand with the rise of what Streeck calls a 'second constituency' of the modern state. This second constituency is the untaxed financial elite that became the state's creditors.⁵⁴⁵ As a second constituency, the financial elite attains contractual claims that the debtor

⁵⁴³ While for Marxist scholars the legitimisation crisis exposed the real nature of the state as a servant to the interests of the capitalist class – a capitalist state that had to shield its role in supporting capitalist accumulation by engaging in various forms of social spending (Habermas, 1973; Offe, 1974), non-Marxists scholars sustained that the origins of the legitimisation crisis lay in the democratic polity (Bell, 1976).

⁵⁴⁴ Interestingly, the turn to finance and the choice away from a 'tax' to a 'debt state' was a choice made across partisan divisions and by political leaders across the political spectrum. Hopkin and Lynch (2016) show, for instance, how financialisation in Britain was not only the outcome of policies adopted under the Thatcher government, but continued under New Labour. For an analysis of the variation in the extent and manner in which advanced economies turned to finance, see Matthijs (2016) and Solt (2014). For a traditional account explaining the distribution of income and political influence in Europe from a traditional 'varieties of capitalism' perspective, see Hall and Soskice (2001). For different accounts explaining the variation within Europe in today's Winner Takes All political scenario, see the special issue of *Politics & Society* titled "The New Politics of Inequality in Europe" (2016).

⁵⁴⁵ Streeck (2013).

state must consider and whose interests may stand in conflict with the state's citizenry, whose claims on public policy are predicated not on a commercial contract, but on their membership to the state as a political community. The dilemma that the debtor state may face, then, is trying to satisfy these two different constituencies at the same time, both of which operate on the basis of incompatible logics.

What the most recent crises in advanced economies revealed is that, in moments in which the state is no longer able to satisfy both constituencies, the state chooses to prioritise the interests of the financial elite as the state's domestic and international creditors over those of its citizenry.⁵⁴⁶ This prioritisation is manifested in policy, through the implementation of austerity measures in the debtor state, the full repayment to creditors, and the acquisition of further debt to pay off old, maturing loans and bonds.

One important insight that this analysis reveals, then, is that, in order to defend the repayment norm - in order to insist, that is, that sovereign debts must always be serviced by the citizenry of the debtor state - it is not enough to simply point at the sanctity of contracts. Rather, the contractual claim that the creditors hold must be seen in relation to, and weighted against, the claim that citizens have, by virtue of being part of the state as a political community. The conflict of interests between the first and the second constituency of the state highlights the importance of not seeing the contractual claim of creditors in a vacuum, but in considering the weight of such claims in today's real political landscape, namely one in which the interests of the citizenry may be opposed to those of an international financial elite.

The concern that heavy indebtedness by a sovereign state may be inimical to the state's responsiveness to the interests of its citizenry is not a distinctly contemporary

⁵⁴⁶ Streeck refers to this prioritisation of the second over the first constituency as the transition from the 'debt state' to the 'consolidation state'; the main objective of the consolidation state being to reassure creditors that they will be repaid (Streeck, 2013, p.154).

contention. Several thinkers of the early to mid-modern period voiced these concerns very explicitly. Sieyès was hostile to the entire idea of sovereign debt and favoured a stronger system of taxation to finance public expenditure.⁵⁴⁷ He considered the rejection of public credit fundamental to a truly responsive constitutional government. Hume, in turn, famously stated that “either the nation must destroy public credit, or public credit will destroy the nation.”⁵⁴⁸ The concern that Sieyès and Hume shared was that sovereign debt “could make government officials over-attentive to the needs and desires of creditors. (...) This dependence would render the state less responsive to true public need and neglectful of the greater national interest.”⁵⁴⁹

The arguments of such diverse scholars as Hume, Sieyès and Streeck highlight that there are no coincidental reasons why highly indebted states may be unable to act with the public interest at heart, for the acquisition of sovereign debt may progressively undermine its ability to do so. This is partly a matter of distribution. It concerns the question of how much of the state’s budget is devoted to honour contractual obligations to its creditors, and how much is devoted to meet the legitimate claims of its citizenry. The more indebted the state is, the larger will be the portion of the budget devoted to repaying its creditors, and the more difficult it may become for the state to meet the legitimate claims of its citizenry. The central worry is not a distributive one, however, but speaks to the state’s responsiveness to the interests of its citizenry. The main concern seems to be that the highly indebted state will lose its ability to act in the name of the citizenry it allegedly represents; the dependence on its ‘second constituency’ thus threatening the state’s very *raison d’être*.

⁵⁴⁷ Sieyès, 2003.

⁵⁴⁸ Hume in Hont, 2005, p.325.

⁵⁴⁹ Lienau, 2014, p.47.

The insight that high sovereign indebtedness may inhibit the state's ability to act in the public interest points to yet another normative reason to challenge the legitimacy of the state to pass on debt servicing obligations to its citizenry. The idea is that whenever the acquisition of further debt threatens the state's ability to act in the public interest – as understood here – this is a ground to question the citizens' obligation to service that debt.⁵⁵⁰

Let me make three additional clarifications to avoid possible objections. First, arguing that the acquisition of sovereign debt may progressively undermine the ability of the state to act in the interest of its citizenry does not suggest that the acquisition of sovereign debt is problematic as such. This is where my argument diverges from that of Hume and Sieyès. As argued in the introduction, borrowing might be justified from a distributive justice perspective and from the perspective of economic productivity. The problem, recall, resides in the quantity and the allocation of debt.

Second, one important aspect that needs to be emphasised from Streeck's account is the class-specific nature of his analysis. Although Streeck talks about 'constituencies,' it would be an oversimplification to think about the first constituency as a homogenous citizenry. If the discussion surrounding 'public interest' revealed anything at all, then it is that it is misleading to assume that a robust general interest of the state's 'first constituency' exists that can be sacrificed in the name of the state's 'second constituency'. What we witness in the cases that Streeck describes is a prioritisation of the interests of that portion of the financial

⁵⁵⁰ To be sure, this is not a question of debt sustainability - of how much debt a state can accrue before it will be unable to service the debt – but a question of how much debt the state can accrue without losing its ability to act in the public interest of its citizenry.

elite that became the creditors of that particular state, over the interests of that portion of the state's citizenry that is most reliant on public services.⁵⁵¹

Third, the alleged rivalry between the particular interests of the financial elite *qua* creditors and the middle and lower income classes of the debtor state needs to be qualified. In the same way in which I did not intend to suggest that there is no such thing as a general interest, but simply argued that in most cases, whatever the state does creates relative winners and losers, it would be an oversimplification to maintain that the interests of the financial elite and the debtor state's middle and lower income classes are always opposed to one another in a zero-sum logic. Austerity policies, for instance, are not only adopted to meet the conditions of the multilateral creditors, but also because of the deeply ingrained belief that reducing the deficit by the cutting of expenses is necessary to boost growth in the long term. Similarly, the prioritisation of creditor repayment in moments of crisis could be interpreted as an attempt to maintain creditworthiness and ensure future access to credit, something which may well be in the interest of the citizenry more generally.

What I am suggesting, then, is not that no policies exist that can serve the general interest, but that this in itself may not be enough to justify burdening citizens with debt servicing obligations. What is needed is that the state considers the relative impact its policies may have on its citizenry. If the state acts in a way that systematically benefits the financial elite, relatively speaking, then arguing that certain policies are in the general interest of the citizenry as a whole may not be enough to ground the citizenry's debt servicing obligations.

In short, in this and in the preceding section, I proposed and defended two sufficient conditions that allow us to challenge the repayment norm, one which relates to the use of the state budget, the second to the state's ability to act in its

⁵⁵¹ For an excellent account of how and why adjustment policies are class specific policies, see Blyth (2015).

citizenry's interest. In principle, both of these conditions can be interpreted from an ex ante and from an ex post perspective.

The great advantage of adopting an ex ante perspective when interpreting these two sufficient conditions is that the legitimate claims of repayment of creditors are also considered. The relevant questions here would be whether, at the time of extending the debt contract, it was clear or should have been clear to the creditor, first, that the debtor state does not act in the public interest, and, second, that extending that debt contract would undermine the state's ability to act in its citizenry's name. If the answer to these questions is negative, creditors have a legitimate claim for repayment and citizens have debt servicing obligations. If it is affirmative, creditors do not have a legitimate claim on repayment and citizens do not have debt servicing obligations. Adopting an ex ante perspective to interpret these two sufficient conditions to challenge the repayment norm does makes it easier to translate the purely philosophical answer provided so far to a public standard.

There are undoubtedly cases in which creditors will be able to establish this in an ex ante manner. Especially after having revised the first sufficient condition in a way that makes the use of the state budget, and not of the money raised via the acquisition of a particular debt contract, the relevant question to ask, answering it becomes easier from an ex ante perspective. In addition, as we saw in the preceding section, there are cases in which the empirical evidence is robust enough to be able to know, in an ex ante manner, that the state's ability to act in the interest of its citizenry is being undermined by the extension of further debt. Whenever the empirical evidence suffices to establish that creditors knew or should have known that the two sufficient conditions for the legitimate extension of debt were not met, then these two conditions can be interpreted in an ex ante perspective.

Nevertheless, a lot of sources of uncertainty remain and contingent factors

that one may not have been able to reasonably predict from an ex ante perspective may impact the state's ability to act in the public interest.⁵⁵² Specifying when the point has been reached where the extension of another debt contract results in the state's inability to pursue the public interest in an ex ante manner will likely be a challenging matter. Just how difficult it can be to identify where this threshold lies is illustrated with the analogous debate surrounding debt sustainability. To this day, establishing when the point has been reached, where the acquisition of further debt will make the sovereign unable to service its maturing contracts, continues to be a topic of heated discussion among economists. If it is difficult to find a sustainability threshold for this fairly technical question, it will prove even more difficult to find an analogous threshold to establish, ex ante, when the state will be so indebted as to become unable to respond to its citizenry's interests.

In the light of these difficulties, I propose to interpret them here from an ex post perspective. From an ex post perspective, all we need to know in order to be able to challenge the debt servicing obligations of the citizenry is that the state did not act according to the public interest, as understood here, and/or that it does not have the ability to do so due to its high indebtedness.

Adopting this ex post perspective does not track the claims of creditors in the same way than the ex-ante perspective would, since it may be due to contingent factors that the state does not sufficiently meet these conditions. In light of this, it is unsurprising that scholars with the ambition of defending a public standard that is readily applicable have resisted a broader interpretation of the odious debt doctrine's second proviso and have failed to consider the second sufficient condition I propose here, for it would prove extremely difficult to formalise these conditions into a doctrine that seeks to serve as a public standard.

⁵⁵² Some such contingent and difficult-to-predict factors may be economic policy of other countries, or extreme market developments.

That it cannot be formalised into a legal doctrine does not mean, however, that it is normatively insignificant. Recall that the ambition of this chapter is to answer the philosophical question of when the repayment norm ought to be challenged from the perspective of the citizenry's obligations. Given this limited aim, the failure of finding definitive answers to questions, such as the threshold question, does not undermine the force of the argument made that the undermining of the state's ability to act in the citizenry's interest is a relevant normative consideration to do so. Whenever it can be established in an ex post manner, first, that the state does not use its budget to serve the public interest and, second, that its high indebtedness erodes its ability to act in the public interest, these two are sufficient normative reasons to challenge the repayment norm and the citizen's obligation to service debt accrued in their name.

Conclusion

One background rule governs the practice of sovereign borrowing and lending – the norm, that is, that “sovereign borrowers must repay regardless of the circumstances of the initial debt contract, the actual use of the loan proceeds, or the exigencies of any potential default.”⁵⁵³ It is so entrenched in the SD&CR that any reduction in the claims of creditors is described in terms of ‘relief,’ ‘assistance,’ and ‘forgiveness.’⁵⁵⁴

In this chapter, I defended two sufficient conditions that justify challenging this repayment norm. Taking the second proviso of the odious debt doctrine as my starting point, I argued, first, that whenever the state uses its available budget (regardless of its source) to systematically act in the interests of any sub-group who are not the worst off, the state can no longer legitimately pass on debt servicing

⁵⁵³Lienau, 2014, p.1.

⁵⁵⁴ Barry and Tomitova, 2006, p.53.

obligations to its citizenry. Second, I argued that whenever the acquisition of further debt threatens the state's ability to act in the public interest, this becomes grounds to question the citizens' obligation to service that debt.

CLOSING REMARKS

Hugo: What right have you to condemn the Regent's policy?

Hoederer: Do you imagine I condemn him? I've no time to waste. He did what any poor fool of his caste would have done in his place. We're not fighting men or a policy, but against the class which produced that policy and those men.

Hugo: And the best method you can find to carry on this fight is to offer to share the power with them?

Hoederer: Exactly. Today, it is the best method.⁵⁵⁵

In this thesis, I have tried to answer two central questions: First, what is wrong with the way in which the SD&CR currently operates? Second, who is responsible for these injustices? Rather than summarising the main conclusions, I would like to use these brief concluding remarks to address two lingering worries that my readers may have, both of which are contained in Sartre's powerful dialogue between his 'young comrade,' Hugo, and the party secretary, Hoederer.⁵⁵⁶

First, with my structural diagnosis of the wrongs of the regime in the first part of the thesis and the individual responsibility attribution of the second part, I may have made many enemies and no friends. Liberal sceptics may not see the value in adopting this structural viewpoint. At the same time, Marxists may argue that it is wrong to focus on the responsibility of individual agents, for they may simply be doing "what any poor fool of his caste would have done in his place." Perhaps we ought not be in the business of attributing individual responsibility, for "we're not fighting men or a policy, but against the class which produced that policy and those men." Why put so much effort in the first part of this thesis in providing a structural diagnosis, only to defend an integrated responsibility model that focuses on individual agents?

The answer that I have tried to defend is that we simply need both. We need a structural analysis, but we also need to have the necessary conceptual apparatus to

⁵⁵⁵ Sartre, 2000.

⁵⁵⁶ This excerpt is also discussed by Lukes, 1986.

distribute responsibility to individual agents in cases of structural injustice. This cannot only be a shared, forward-looking type of responsibility that we discharge collectively – accountability for individual contributions to structural injustice is equally important. Otherwise, behind the vague invocation of ‘structural processes,’ we occlude the real, often political, choices made by the most powerful private and public actors. Contributions to structural injustice, with their immense consequences for the lives of thousands and even millions of people, would otherwise be rendered invisible.

Throughout the different chapters of Part II, I also progressively moved away from a moral discussion on the grounds of which responsibility can be attributed, towards a political understanding of responsibility. I hinted at three ways in which we can think about discussions surrounding responsibility becoming explicitly political. The first is reserved to the way in which social connection theorists talk about shared, forward-looking responsibilities as political responsibilities that can only be collectively discharged. The second relates to the political responsibilities that role responsible agents have by virtue of the authority vested in them. The third is a political way of theorising about responsibility, because it shifts the emphasis from the question of the moral grounds on which responsibility can be attributed, to the question of where the pressure points in the structure are, that would allow for meaningful change to occur. The relevant question then becomes: Which actors face a set of options that enable them not simply to instantiate or transmit the dictates of the structure, but to change it? The answer surely must be that all actors have options at their disposal that can contribute to meaningful change in the structure. To that extent, they should act accordingly.

This leads me to the second lingering thought with which my readers may be grappling, and that is Lenin's 'burning question': "What is to be done?"⁵⁵⁷ The objective of critique may have seemed a moving target. Is this thesis a critique to the acquisition of sovereign debt as such? Is it criticising the absence of a sovereign debt restructuring facility as the 'gaping hole' in the international financial architecture? Is it objecting to a highly-financialised form of capitalism? Or is it a critique of capitalism as such? I believe there to be some truth in each one of these questions.

I hope to have been clear about the fact that my critique is not a Sieyesian one, which denounces all debt acquisition by sovereigns and proposes, instead, to uniquely rely on the fiscal policy leaver. Rather, I defended two claims: First, I argued that sovereign debt is problematic when too much debt is accrued (quantitative aspects) and invested in a way that is neither equitable nor sustainable (qualitative aspect). Crucially, the quantitative question does not only relate to debt sustainability as a technical-economic threshold, but to a political threshold. Sovereign debt is problematic when too much debt is accrued, rendering the state unable to act in the name of those it is supposed to represent. Second, I argued that the problem resides in a highly asymmetrical and unjust SD&CR, which makes occupiers of positions of disadvantage vulnerable to domination and exploitation when debt is accrued in their name. The response to the first claim is that more attention needs to be paid to both the qualitative and the quantitative aspects of sovereign borrowing and lending by debtor governments. The response to the second claim requires more radical changes.

A moderate reform is the establishment of a sovereign debt restructuring facility. Though comparatively moderate, it is an extremely important step that would alleviate some of the injustices of the current SD&CR. It is deeply worrying that, after

⁵⁵⁷ Lenin, 1931.

the adoption by the United Nations General Assembly of basic principles on sovereign debt restructuring in September 2015, no substantive policy proposal has been made to date. A statutory mechanism to restructure debt would break the ‘creditor cartel’ and give debtor states who are unable to pay a more equal voice at the negotiating table. As discussed in Chapter 2, moreover, it is a proposal that, at least in principle, should be able to garner political support from across the political spectrum.

A more radical response to the second claim is to make financial capitalism the object of critique. The historical juncture from which the analysis in this thesis departs may also suggest a certain degree of nostalgia for the Bretton Woods system. To be sure, I take it to be both undesirable in principle and politically impossible at this point in time to simply call for a return to the Bretton Woods era. Nonetheless, the Bretton Woods regime did have important achievements that ought not to be underestimated. It was a period of remarkable financial stability and capital controls were extremely effective in throwing sand in the wheels of finance. I take it to be a crucial exercise for academics and policy makers to think, first, about which of the desirable features of the Bretton Woods regime can be adapted to the global economy of the 21st century and, second, about how to create the political conditions that could make their implementation desirable.

The analysis of financialisation presented in Chapter 2 may suggest, however, that none of this is enough. If financialisation is a bad solution to the stagnating economy of the 1970s or, to use more Marxist language, to the inherent crisis tendencies of capitalism, then another solution is needed. What conclusion to draw from this, however, is still an open question. One might think that the only solution is the abolition of capitalism in all its historic, specific forms. Or one might think, in line with radical liberal thinkers such as Hobson or Schumpeter, that the response lies in

the overhaul of the anachronistic socio-political structure that capitalism takes today. A radical redistribution may be an alternative solution to the problems posed by financialisation.

This resonates closely with the argument made towards the end of Chapter 4, when discussing the emancipatory prospects of a return to the nation-state, for the most interesting answer to Lenin's question may be one that brings us back to my defence of individual political responsibility against the backdrop of a structural diagnosis: As citizens, we need to think about the amalgam of options that are available to the state that we inhabit, cast our vote, and mobilise in our communities to defend and promote social-democracy over neoliberal orthodoxy in every single policy area. While this may not be as radical a solution as needed, and may imply "offer(ing) to share the power with them," it most definitely is the best method we have today.

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