

Dealing with Global Debt

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abstract

In Europe, the fragmented and *ad hoc* ways of dealing with problem sovereign debt has continued the pattern familiar from earlier debt crises, in Latin America in the 1980s and in Africa and Asia in the 1990s. Debt crises are dealt with case-by-case and always in all-night negotiations under a state of urgency. The lack of universal rules and a commonly shared framework has led to an imbalance in the relationship of economic obligations versus the protection of national human rights or, put differently, the creditors' rights versus the rights of the debtor. Meanwhile, as the unemployment rates touch 30 per cent, southern Europeans continue the marches started by the Latin Americans and the Africans.

Even if it is apparent that we lack a systematized way for dealing with sovereign debt, the principles under which debt management operates falls within a neoliberal economic framework, where the indebted nation is demanded to carry its responsibility for having lived beyond its means. From this follows a demand for austerity measures.

This paper argues for the introduction of alternative thinking of sovereign debt, not only from other schools of economic theory but also in a combination of international political economy, global political philosophy and law. For one, with the exception of Keynesianism, economic theory sees debt mainly as a byproduct of economic activity. Consequently, concerns regarding mounting sovereign debt are met on the assumption that private, corporate and sovereign debt are alike and function in the same way. Further, current debt management policy set aside the roles that the processes of deregulation, financialisation and the rise of neoliberalism have had in creating debt. As an alternative, political philosophy and law recover traditional moral dimensions of economics, which seem to have fallen through the cracks since the 1950s or so.

As a first step on this path, the paper argues for the introduction of insolvency procedures for sovereign debt, as first introduced by Adam Smith in 1776 and most recently in 2015 in a UN General Assembly resolution for principles of debt restructuring. Yet, to fulfill the criteria of equity of all parties, debtor protection, sovereignty, universality, efficiency, fairness and justice, this article lays out a set of criteria that such a mechanism of global debt arbitration would have to adopt.