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Author(s) : Ilsup AHN

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이화여자대학교
EWHHA WOMANS UNIVERSITY

Deconstructing the Economy of Debt: Karl Marx, Jürgen Habermas, and an Ethics of Debt

Ilsup AHN (North Park University)

I. Introduction: Abuse of Debt and the Crisis of Capitalism

One of the most pervasive economic phenomena in human society is “borrowing” or “lending” money. Debt is virtually everywhere in many varied forms, from the level of interpersonal relations to the international level in today’s capitalistic society. Debt decisively defines our modern lives, which have been increasingly affected by different kinds of debt such as mortgages, loans, and advances. From cradle to grave, most of us are in some way or another linked to or affected by some types of debt, not only for our survival but also for our success. To some, debt is nothing but a necessary evil; but, for others, debt can be a lifeline. Just as there are many different kinds of debt, so are its abuse and demonization. From child slavery in South Asia to the widespread foreclosures in the US, the egregious abuse of debt has been demonstrated in numerous forms, radically destroying human happiness as well as violating human dignity.

In this paper, I present an ethics of debt by critically engaging in Karl Marx and Neo-Marxists’ critique of political economy and Jürgen Habermas’s post-Marxian critical theory as represented by his “discourse ethics.” Through the critical-comparative discourse between Marx and Habermas, I deconstruct the reductionist approach to the subject matter, which regards debt solely as a juridical-economic issue. It is my contention that the problem of debt is more than a juridical-economic issue because the widespread abuse or mistreatment of debt can only be effectively managed by a moral-political approach taken by stakeholders such as debtors, creditors, policy makers, and regulators. Through this examination of debt, the economy of debt is transformed into a *political* economy of debt, and debt is no longer exclusively confined to the debtor-creditor relationship. Ultimately, this paper offers a political solution to the liberation of debt from its abusive and reductive economy of debt. As we will see, however, the liberation of debt does not

lie in the abolishment of debt as such or in the “debtless society,” but, rather, it can be found in the “ethical management of debt” through a democratic will formation of the people who are affected by the phenomenon of debt. First, though, I describe what I mean by “abuse of debt.” How is debt “abused?”

Let me answer this question by focusing on two recent abuse cases, one in India (bonded child slavery) and the other in the US (the subprime mortgage). According to a recent estimate of the International Labor Organization (ILO), there are approximately 217 million children ages five to seventeen who are engaged in labor around the world. Among these numbers, over 122 million children between five and fourteen are from the regions of the Asia Pacific. According to a 2003 special report by the Human Rights Watch, the numbers of child workers are between 60 million and 115 million, and no less than 15 million of them are bonded laborers (Kovasevic 36-39). It is not uncommon that an Indian child becomes a bonded laborer for less than \$50, which later turns into an insurmountable debt to pay back due to a preposterously high interest rate. According to Natasa Kovasevic, when the loan incurred by destitute parents is not paid back, “the child becomes a commodity exchanged between parents and employer, much like an expendable good” (Ibid. 36). In their abuse of the economy of debt, ruthless Indian creditors often retain child laborers under their manipulation even though the real value of the labor far exceeds the initial amount of the loan incurred by the parents of the bonded child. Unfortunately, even though the Indian government enacted the Child Labor Act in 1986 and subsequently banned child domestic servitude in 2006, a large percentage of bonded child labor goes unnoticed.

The US financial crisis of 2007-08 is another case of the abuse of debt. In a much more complicated way compared to that of India’s child slavery, the US crisis is largely characterized by two financial measures: subprime mortgages and derivatives (securitization). A subprime mortgage is distinguished from a standard prime mortgage debt by its seductive but potentially disastrous lending tactics. For example, in order for mortgage companies to entice prospective low-income householders to borrow subprime mortgages, they first offered lowered interest payments or interest-only mortgages over the first several years. These low introductory “teaser” rates were later reset with much higher rates, resulting in many borrowers defaulting on their repayment schedule. In this case, the mortgage companies in fact violated their own lending standards to raise the total

amount of securitized finance by compromising their loan application procedures, such as not requiring borrowers to supply complete financial documentation. Indeed, to encourage working-class households to take on higher levels of debt, subprime borrowers were told to not worry about higher payments because they could refinance the mortgage later into a more standard fixed rate loan (Beitel 33).

We should note here that subprime mortgage lending is closely interrelated with derivatives, which are securities whose prices are derived from one or more underlying assets. Derivatives are created when banks issue loans and then sell these financial assets in the secondary loan market. Later these assets are aggregated into large pools and used to create new classes of yield-bearing financial assets, a process that is called securitization. According to Karl Beitel, the securitization process begins when a mortgage originator, such as a private mortgage company or a major bank, issues a new loan to a household while at the same time selling the loan to a government-sponsored entity (GSE)—such as Fannie Mae, Freddie Mac, or the government-insured Ginnie Mae—or to a Wall Street investment bank like Goldman Sachs, Merrill Lynch, etc. (Ibid. 28).

As we can see in the cases of Indian child labor and the US financial crisis of 2007-08, the abuse of debt is deeply connected with the creditor's manipulation of the lending or borrowing system. Owing to the abuse of debt, the debtors and the money borrowers not only lose their fundamental rights of humanity, but they also suffer from the financial default and ensuing economic debacle. For all the negative connotations attached to the phenomenon of debt due to its widespread abuse and mismanagement, however, we should not miss the fact that debt can become a necessary good for the betterment of human society, rather than a necessary evil. As I will demonstrate more specifically later, the problem of debt should be considered not so much as a structural evil of capitalism as an economic good that needs to be managed democratically by all the affected stakeholders in the society. In this regard, instead of reducing debt solely to an economic issue, the problem of debt should be considered and managed as a political-economic issue. Democratic political supervision of debt, thus, should be an indispensable element of the capitalistic economic system.

II. Marx, Neo-Marxists, and the Critique of the Capitalist Economy of Debt

Why should we turn to Karl Marx and his disciples? What do they have to do with the subject matter of this paper? Let me note here that Marx and his followers are crucial in developing the ethics of debt for two reasons: first, the problem of debt has become one of the most serious economic issues in capitalistic countries; second, Marx and Neo-Marxists arguably the most important critic of the capitalistic economic system. As is evident, today's postindustrial capitalistic system is indispensably connected with the economy of debt. Indeed, it is not too much to say that a capitalistic system of economy as such is impossible without the enormous amount of debt constantly being contracted, traded, or paid back—from the levels of the interpersonal to the international. In analyzing Marx's and Neo-Marxists' critiques of the capitalist economy of debt, we first need to differentiate between Marx and Neo-Marxists with regard to the main subject matters of their theoretic investigations and analyses. For Marx, the key subject matter of the critique of capitalist economy lies in the inevitable downfall of the Western capitalism triggered by the law-like 'falling rate of profit'; by contrast, Neo-Marxist scholars' main concern was the inevitable collapse of capitalist economy largely caused by the ever-growing 'financialization.' Marx and Neo-Marxists scholars share a crucial diagnostic consensus that capitalist economy is embedded with its inherent contradiction that cannot be resolved by its own logic. The eventual systemic breakdown of capitalism is largely agreed upon by both sides. They are, however, different in identifying the core problem. While Marx regards the falling rate of profit as the triggering key, Neo-Marxists identify 'financialization' as the source of the capitalist system's eventual collapse. Although the capitalist economy of debt is more directly linked to Neo-Marxists' critique of financialization, rather than to Marx's falling rate of profit, we will shortly engage in Marx's thought because financialization is deeply tied to Marx's falling rate of profit.

According to Neo-Marxist scholars John Bellamy Foster and Fred Magdoff, the severity of the debt problem in the US can be seen in the fact that "the ratio of outstanding consumer debt to consumer disposable income has more than doubled over the last three decades from 62 percent in 1975 to 127 percent in 2005" (Foster and Magdoff 29). As this change of ratio shows, the total consumer debt of 1975, \$736.3 billion, skyrocketed in 2005

to the amount of \$11,496.6 billion. It is obvious that people in the US have been increasingly indebted due to their excessive expenditure and consumption. It is even more alarming to see that while outstanding debt was about one-and-a-half times the size of the country's annual economic activity (GDP) in the 1970s, it grew twice as large as the GDP by 1985. By 2005, though, the total US debt became almost three-and-a-half times the country's GDP, reaching up to \$44 trillion. This amount was not far from the total GDP for the entire world (Foster and Magdoff 46). The explosion of debt is particularly problematic when we consider the financial impact for the economically marginalized people in society. As the editors of *Monthly Review* pointed out in May 2000, financial distress resulting from heavy indebtedness is largely confined to working-class families with incomes below \$50,000 per year, and it becomes very serious to families whose household income is less than \$10,000 per year (6).

Given that the US economy is steeped in debt, and as a result working-class families with low incomes are having financial difficulties, how would Marx and Neo-Marxists diagnose this situation, and what might their economic prescription be? In order to answer these questions, we need to begin by rereading Marx's *Capital*. At first glance, though, it is rather surprising to discover that Marx does not seem to directly address the problem of debt in his books, such as in *Capital*, *Grundrisse*, and *A Contribution to the Critique of Political Economy*. Instead of thematizing the problem of debt in critiquing the capitalistic system, Marx focuses on such issues as the labor theory of value and the surplus value, the law of the accumulation of capital, exploitation and alienation, the falling rate of profit, the doctrine of class struggle, and historical materialism. This, of course, does not mean that he ignored the problem of debt in his critique of political economy.

Indeed, Marx was aware of the economic quandary of the increasing debt of capitalist firms during a period of expansion and the subsequent falling rate of profit. Marx writes, "let us point out that one could also mean by the accumulation of money-capital the accumulation of wealth in the hands of bankers (money-lenders by profession), acting as middlemen between private money-capitalists on the one hand, and the state, communities, and reproducing borrowers on the other. For the entire vast extension of the credit system, and all credit in general, is exploited by them as their private capital" (3: 478). Thus, this passage from *Capital* shows that Marx was not only aware of the differences between the industrial accumulation of capital and the

financial accumulation of capital through a debt/credit system, but he was also critical of the latter. Marx, however, did not fully develop his critique of the problem of increasing debt. The full critique of increasing debt in the capitalistic system has, though, been recently enabled by Neo-Marxist economists such as Fred Moseley, John Bellamy Foster, and Fred Magdoff, to name a few. So here I turn to integrating the critical works of Marx and contemporary Marxist scholars, and I analyze the Marxian view on the capitalistic conundrum of increasing debt.

The Marxian critique of the crisis of increasing debt begins with Marx's analysis of the falling rate of profit, which he grounded on the fundamental theorems of his critique of political economy: the law of the accumulation of capital and the labor theory of value. In the first volume of *Capital*, in capturing the core driving force of capitalism, Marx states, "Accumulate, accumulate! That is Moses and the prophets! . . . save, save, i.e., reconvert the greatest possible portion of surplus-value, or surplus-product into capital!" (1: 595). For Marx, capitalistic economy is fundamentally characterized by its motivational orientation to the accumulation of capital. Coupled with the law of the accumulation of capital, Marx's labor theory of value takes another central position in his critique of capitalistic economy. According to Marx, what determines the magnitude of the value of any article is the amount of labor socially necessary, or the labor-time socially necessary for its production (Ibid. 39). The values of commodities are basically related to the labor necessitated to produce them. Against the backdrop of these economic principles, Marx's theory of the falling rate of profit was established. To put it simply, at the core of the falling rate of profit lies his fundamental economic diagnosis/prognosis, which is that in the course of capitalistic expansion and progression, the value of the constant capital (c: factories, machines, buildings, etc.) increases more rapidly than that of the variable capital (v: labor).¹ Marx also argues that the rate of surplus value is the ratio of surplus value over the value expended for wages (v). Since the rate of *profit* is measured by the formula s/C (s=surplus value; C=total capital: the total capital is comprised of the constant capital "c" plus variable capital "v"), the discrepant rate of value

1. Marx writes, "Along with the volume, however, the same laws of production and accumulation increase also the value of the constant capital in a mounting progression more rapidly than that of the variable part of capital, invested as it is in living labor. Hence, the same laws produce for the social capital a growing absolute mass of profit, and a falling rate of profit" (3: 219).

increase between constant capital and the variable capital ultimately results in the falling rate of profit.

It needs to be noted, though, that for Marx the falling rate of profit is only a “tendency” and several things can counter it, e.g. cheaper labor inputs (foodstuffs) that allow wages (“v,” a part of “C,” the denominator) to be reduced, while simultaneously increasing surplus value and therefore the numerator. Further, periodic economic depression occurs which destroys or at least devalues existing capital, again reducing the denominator and making the ratio healthier for profit. This is why the so-called Marxian “collapse” of capitalism has been long debated within Marxism and cannot be simply explained away. Unless a revolutionary agent emerges that will push toward an alternative system, stagnation is the most likely outcome, which will be discussed later when we discuss the contemporary Marxist theories. With that said, let me explain Marx’s theory of the falling rate of profit in different terms.

According to Marx, the rate of profit would *tend to* decline as a result of technological change (the change of the means of production). For Marx, however, the decline of the rate of profit is neither an accident nor an outcome caused by external sources; it is, rather, the consequence of capitalism’s inherent dynamics, which propel the labor-saving technological development that replaces workers with machines. “There are many ways of intensifying labor which imply an increase of constant, as compared to variable, capital, and hence a fall in the rate of profit, such as compelling a laborer to operate a larger number of machines” (Marx 3: 232). Marx argues that although the technological change increases the productivity of labor at the beginning stage, due to the inherent limits to the increase in the profit produced by each worker, the labor-saving technological change will ultimately cause the rate of profit to decline. This is why Marx claims that there is an internal contradiction in the economic system of capitalism, which eventually leads to the collapse of capitalism. It is evident for Marx that at the center of this inevitable projection of capitalism lies the internal paradox of capital as such. In this regard, Marx states, “The real barrier of capitalist production is capital itself. . . . The means—unconditional development of the productive forces of society—comes continually into conflict with the limited purpose, the self-expansion of the existing capital” (3: 251). It is evident for Marx that the capitalist mode of production (a historical means of developing the material forces of production) conflicts with its own corresponding relations of social production (a capitalist relationship to capital and the worker’s relation to

the capitalist).

We should note here that Marx's critique of political economy is more focused on the inherent conflict between the means of production and the relations of social production than it is on the crisis of increasing debt. Although it is true that Marx addresses the problem of debt in his *Capital* (particularly Part V), it is contemporary Marxist economists who interconnect Marx's major critique of the capitalistic economic system with the growing problem of debt in global capitalism. Contemporary Marxist argumentation can be epitomized in such a way that although the falling rate of profit in the *industrial market* is temporarily resolved through the proliferation of the *financial market*, due to the growing burden of debt inculcated by the dynamics of the financial market, the capitalistic economic system as such can do nothing but face its sudden collapse, as we have almost experienced in the 2007-08 financial crisis.

Stemming from the theoretical framework provided by Paul Baran and Paul Sweezy's *Monopoly Capital* (1966), John Bellamy Foster and Fred Magdoff, for example, focus on the process of financialization of the capital accumulation process, which first emerged in the recession of 1974-75. According to Foster and Magdoff, the solution for the owners of capital who came up against the barriers that limit their profitable investment in the *industrial market* (the falling rate of profit) was to expand their demand for *financial products* as a means of maintaining and expanding their money capital. Of course, financial institutions stepped forward with a vast array of new financial instruments (futures, options, derivatives, hedge funds, etc.), and as a result financial speculation has skyrocketed for decades (Foster and Magdoff 80). From the Neo-Marxist perspective, thus, financialization is an inevitable process which capitalism must use when propelled by the law of the accumulation of capital. The financialization process, however, cannot be an ultimate solution to the owners of capital. Why not? According to Foster, it is because the financialization of the capital accumulation process is coupled with the speculative growth of the credit-debt system (1-2).

Foster substantiates this point by showing that total private debt in the US economy rose from 110 percent of the GDP in 1970 to 293 percent of the GDP in 2007. Additionally, when compared to the 1970s, in which the increase in the US GDP was about 60 cents for every new dollar of debt, by the early twenty-first century, this had declined to about 20 cents for every new dollar of debt (4). During the period of the financialization of the capital

accumulation process, thus, the US economy has witnessed financial instability along with the growth of debt. The financialization process, which Thomas Palley calls “the cult of debt finance,” is also characterized by the growing economic bubbles that eventually burst, which induces the even more devastating effect of a deepening economic stagnation. Indeed, the US economy experienced this disastrous aspect of the cult of debt finance in the 2007-08 financial crisis. The growth of debt, as Foster metaphorically speaks, is like a “drug addiction,” because just as in the case of drug addiction, more and more of the debt is necessary to get the same stimulating effect (4).

If we use Marx’s terms, financialization is depicted as a transformation of “M(money)-C(commodity)-M'(original money plus surplus value)” to “M-M'.” The significance of this transformation is that commodities no longer play the central role of producing profits; instead, money simply begets more money with no relation to production. According to Foster and Magdoff, financialization as a response of capital to the stagnation tendency in the real economy (falling rate of profit) inevitably demonstrates a resurfacing of the underlying stagnation endemic to the advanced capitalist economy. With financialization in crisis, there is no other visible way out for monopoly-finance capital. Foster and Magdoff thus write, “The Prognosis then is that the economy, even after the immediate devaluation crisis is stabilized, will at best be characterized for some time by minimal growth and by high unemployment, underemployment, and excess capacity” (133). Given that capitalism is unable to handle its inherent problems such as the falling rate of profit, financialization, and stagflation, should we then switch our economic system from capitalism to socialism? Must capitalism be ultimately doomed? Should we agree with Foster, who argues, “In these difficult and dangerous times, there is no alternative to the development of socialist strategies of sustainable human development—on which all our hopes, at every level, must now rest” (12).

Although Marxian critique of the capitalist economy of debt and financialization is not widely accepted by the American public or by those in academia, it is injudicious for us to simply ignore a Marxian diagnosis/prognosis on capitalism. For example, it is almost surreal to reread Fred Moseley’s 2003 prognosis on the American economy. “Finally, Marx’s theory also suggests that sooner or later, and very likely within the next decade, the US economy will suffer another serious depression—and perhaps even on the scale of the Great Depression of the 1930s. The combination of a low

rate of profit and unprecedented levels of debt will eventually cause widespread bankruptcies of both business and households, which in turn would probably cause the flight of foreign capital, and even worse depression” (11). Moseley’s unnerving prognosis also reminds us of Marx’s critical comment on the sudden stoppage of capitalistic economy forecasted in *Capital*. “Thus business always appears almost excessively sound right on the eve of a crash. The best proof of this is furnished, for instance, by the Reports on Bank Acts of 1857, . . . Business is always thoroughly sound and the campaign in full swing, until suddenly the debacle takes place” (Marx 3: 484-85). The sudden financial breakdown in 2007-08 seems to be too dramatic to call it an accident. Could the crisis of 2007-08 become a sufficient reason for us to accept Foster’s argument? Is socialism, then, the only alternative to the deeply problematic capitalistic system with regard to the quest for sustainable human development? Could there be no other alternative?

Even though Marxian analysis and critique of the internal contradiction of capitalism typified by the falling rate of profit and the financialization of debt should be taken seriously into our consideration, I argue that it is too precipitous to subscribe to the Marxian prescription of replacing capitalism with socialism. Why? First, it is not clear if socialism could entirely solve the problem of debt. Even if we admit that socialistic system could be exempt from the falling rate of profit and the financialization of debt, we should not come to a haste conclusion that capitalism would not be able to resolve such problems *politically*. Granting that it is not socialism’s goal to build the debtless society, how is debt, then, conceived in a society organized by the principle of “from each according to his/her ability, to each according to his/her need”? According to this principle, if there is any debtor, it must be the society as a whole, because in a socialist system, debt would arise when the society fails to meet the needs of its constituents. As in the cases of the Union of Soviet Socialist Republics (USSR) and its satellites from the Eastern Bloc, According to Samantha Sparks, at the end of 1986, total debt owed by the Eastern European region including the Soviet Union stood about \$138 billion dollars. This shows the inability of socialistic system in according the total sum of peoples’ various needs to the overall social capacity to produce goods.

It is not my intention, however, to defend capitalism against the socialist critique of capitalism; rather, I am pointing out that the minimalistic philosophy of debt shared by both the Marxist critique of a capitalistic economy and classical capitalism is the main problem we have to address.

The minimalistic philosophy of debt is exhausted by the simple rule of “if you owe me something, you have to pay it.” Paradoxically, when it comes to debt, there seems to be no fundamental difference between the capitalist philosophy of debt and that of the socialists. They basically share the same philosophy of debt. Of course, socialism can be differentiated from capitalism in that Marxian economists condemn the abuse of debt by the capitalists. We should not, however, confound the abuse of debt and the debt as such. The critique of the abuse of debt is one thing, and the critique of debt as such is another. The Marxian approach is right in that it points to the abuse of debt by capitalists; but, this should not lead us into the critique of debt as such.

In the following section, thus, instead of precipitously replacing capitalism with socialism, by focusing on the moral-political measure to neutralize the abuse, I formulate a reconstructionist substitute with the purpose of overcoming the capitalist abuse of debt while not rushing into the socialist alternative. In doing so, I incorporate Jürgen Habermas’s reconstructive moral-political theory epitomized by his discourse ethics and deliberative democracy. Subsequently, I will also present a reconstructionist perspective on the ethics of debt. Indeed, not all debts are bad; some debts are good and even necessary for the continuous flourishing of the humankind.

III. Habermas and the Reconstruction of the *Political* Economy of Debt

Habermas is critical in developing a further discourse for deconstructing the abusive economy of debt. First, he helps us see the subject matter from a different viewpoint by overcoming Marx’s narrow approach in understanding historical materialism. In his book *Communication and the Evolution of Society*, Habermas strikes a bold position against Marx by asking if the development of productive forces would decisively determine the evolutionary advances of the human species, as Marx argues (146). Differing from Marx, Habermas comes up with the new thesis that the development of productive forces does not necessarily lead to an evolutionary challenge. According to Habermas, the evolutionary stages of Marx’s historical materialism are one-sided in that they fail to pay attention to the development of the moral-practical aspect by exclusively focusing on the linear historical

progress along the axis of the development of productive forces. For Habermas, then, such social movement as the revolutionizing of bourgeois society is primarily motivated by a moral-practical consciousness.

Differing from Marx, Habermas presents his own version of the evolution of society by focusing on a new capacity of the human species, i.e., the capacity to learn in both technical and moral arenas. Habermas states, “The species learns not only in the dimension of technically useful knowledge decisive for the development of productive forces but also in the dimension of moral-practical consciousness decisive for structures of interaction” (*Communication* 148). It becomes clear to Habermas that Marx’s delineation of the historical development of the human species grounded on a narrowly conceived learning capacity is not sufficient in validating his historical materialism. This fundamental difference in defining the anthropology of the human species also brings a significant difference in presenting their methodical solutions to the various crises of the human species (mainly the economic crisis) which arise in advanced capitalism.

Although Habermas does not specifically anticipate the recent financial crisis of increasing debt and the deepening problem of financialization, we can outline his projected argument by critically appropriating his work in *Legitimation Crisis*, particularly Part 2: “Crisis Tendencies in Advanced Capitalism.” Habermas first identifies four different types of “possible crisis tendencies” arising in advanced capitalism: economic crisis, rationality crisis, legitimation crisis, and motivation crisis² (*Legitimation* 44-50). Among these crises, in particular, the link between the economic crisis and the legitimation crisis is important because by looking at this connection, we can conjecture the Habermasian solution to the capitalist crisis of increasing debt and the deepening financialization of advanced capitalism. While Marx’s critique of political economy is exclusively focused on the relation between the “productive forces of society” and the “relation of production,” Habermas presents a new critical perspective in analyzing the crisis of advanced capitalism. As we will see, the Marxian delineation of the economic crisis is modified and conjoined to the legitimation crisis in Habermas’s social theory. Additionally, instead of focusing on systematic prediction of the crisis as

2. Although the connection between economic crisis and legitimation crisis is crucial, a “rationality crisis” is also important because it emerges if the state does not have sufficient administrative rationality to manage economic difficulties.

Marxist critique attempts, Habermas lays out the qualified conditional thesis itself. For Habermas, “to say that a crisis could occur is not to say that it *will* occur” (McCarthy 359).

According to Habermas, the financial crisis of advanced capitalism is not confined to the economic domain per se, because aspects such as the political system and the sociocultural system are deeply interrelated. From this perspective, Habermas reinterprets Marxian theory about the crisis argument. For Marx, the institutional nucleus of liberal capitalism is the market mechanism, because the economic exchange is the dominant steering medium. Habermas, however, holds that Marx’s critique of the political economy can no longer be applied to advanced capitalism. While providing multiple reasons for this, Habermas argues that the economy no longer has the degree of autonomy that justified the exclusivity of Marx’s focus. Habermas writes, “This movement [of capital] is no longer realized through a market mechanism that can be comprehended in the theory of value, but is a result of the still effective economic driving forces and a political countercontrol in which a *displacement of the relations of production* finds expression” (*Legitimation* 52-53).

For example, Habermas places the governmental countercontrol of advanced capitalism in four categories: securing civil law, regulating new forms of business activities, creating new economic states of affairs, and compensating for dysfunctional consequences of the accumulation process. In advanced capitalism, then, there arises a need to legitimate the political system because the power that government administrators wield must be legitimate power. Since an interventionist government plans the economic course rather than allowing anonymous market processes to do so and this planning must be justified, the legitimation demands increase. Habermas thus writes, “Functions that have accrued to the state apparatus in advanced capitalism and extension of administratively processed social matters increase the need for legitimation” (*Legitimation* 53-54). To summarize Habermas’s point, as an administrative system steps into functional gaps in the market, the need for legitimation increases. By critically investigating his concept of legitimation, thus, we can picture the Habermasian reconstructive approach to the subject matter: What is the appropriate political response to the recent financial crisis of increasing debt and the deepening problem of financialization?

We need to clarify first, however, what Habermas means by “legitimation.”

For Habermas, legitimacy is attained by a contestable validity claim, which is at least de facto recognized through dispute among the contestants (*Communication* 178-79). Legitimacy is then deeply connected with the people's recognition of validity regarding the contested claim brought by an interested contestant. From the Habermasian perspective, since the growing economic crisis of advanced capitalism cannot be solely resolved through the law of the market, governmental intervention is not only expected but is also required. This, however, does not mean that capitalism is converted into socialism due to governmental intervention in the market. First, Habermas does not propose closing the capitalist market; second, his reconstructive approach based on legitimation and discourse ethics defies any governmental monopolization or centralization. Instead, we can creatively draw on the reconstructive approach for the *political* economy of debt from Habermasian social philosophy.

Regarding the communicative concept of legitimacy, Habermas distinguishes three kinds of validity claims that match the three different worlds with which the contestant takes up relations: claims to truth (which match the objective world, that is the natural world); claims to rightness (which match the social world, meaning society); and claims to truthfulness (which match the subjective world, as in the private world). As we can see, Habermas's tripartite world concept is deeply connected with his division of human actions into two categories: communicative actions and strategic actions. While the strategic action purports to influence the behavior of another through the threat of sanctions or the prospect of gratification according to the first actor's desire, communicative action seeks rational means to motivate another by relying on the binding effects of the speech act, in other words, discourse.

According to Habermas, the legitimation crisis can only be overcome through communicative action, because the strategic actions of the government would not be validated by those who oppose them in the democratic system. How, then, do government administrators verify the legitimacy of their political actions in responding to the economic crisis of advanced capitalism? Habermas answers this question with his discourse theory of law, which is the theoretical outcome of the application of his "discourse ethics" to the field of legal discourse. In his *Between Facts and Norms*, Habermas epitomizes this point by saying, "Through a legal system with which it remains internally coupled, however, morality can spread to *all* spheres of action, including those systemically independent spheres of media-steered

interactions that unburden actors of all moral expectations other than that of a general obedience to law” (118). According to Habermas, although there is a commonality between moral and legal questions in that they address issues such as how action conflicts can be consensually resolved against the backdrop of intersubjectively recognized normative norms, they are not identical. Whereas moral discourse represents only a form of cultural knowledge, legal discourse is additionally conjoined with the institutional level, that is, the political and economic system (Ibid. 197). Indeed, law is more than a symbolic system because it is linked to the institutional system.

With regard to Habermas’s discourse theory of law, thus, the concept of the discourse principle, which he calls “(D),” is important because he develops his theory of law based on this concept. Habermas delineates the discourse principle as follows: “Only those norms can claim to be valid that meet (or could meet) with the approval of all affected in their capacity *as participants in a practical discourse*” (*Moral* 66). Therefore, Habermas develops the concept of the discourse principle “(D)” by critically appropriating his universalization principle “(U),” which he identifies as a rule of argumentation that is a logic embedded in all moral-practical discourse. In *Between Facts and Norms*, Habermas holds that even if moral discourse can be adopted as a model for investigating legal discourses, “the more complex validity dimension of legal norms prohibits one from assimilating the legitimacy of legal decisions to the validity of moral judgments” (233). Legal discourse, thus, is distinguished from moral discourse, because legal discourse should incorporate the legislative process which demands the network of *argumentation, bargaining, and political communications*. In the legislative process, lawmakers also should consider aspects such as the “pragmatic” and “ethical dimensions” of the sociopolitical order in addition to the moral aspect of the shared society.

According to Habermas, although the legal-political process must incorporate *pragmatic* and *ethical* dimensions, lawmakers must still consider a further aspect, i.e., justice, which is essential for an adequate justification of policies and laws. The aspect of justice does in fact originally come from the ethos of moral discourse. The crucial question to ask, then, is whether the lawmaking process and its results are to be good for all. Due to the appropriation of the justice aspect, the interests embodied in contested norms can be universalized, thereby transcending the ethnocentric perspective of a particular collectivity. We can summarize then that the judicial constitution of norms is linked to the highly complex and abstract discourse process, which

includes *pragmatic* issues, *ethical* discourse, and the *moral* aspect. Since the legal discourse in an actual situation must heed the procedurally regulated bargaining among politically contested groups, Habermas states, “the negotiation of compromises should follow procedures that provide all the interested parties with an equal opportunity for pressure, that is, an equal opportunity to influence one another during the actual bargaining, so that all the affected interests can come into play and have equal chances of prevailing” (*Between* 167).

Above we have seen how government administrators can verify the legitimacy of their political actions in coping with the economic crisis of advanced capitalism. For Habermas, if the exercise of political power is grounded on the legitimate laws of the society, constituted through the democratic legal discourse of lawmakers, it is accepted as legitimate. It is crucial, thus, to understand an internal connection between law and political power. According to Habermas, political power is neither externally juxtaposed to law nor implemented by natural or moral rights; it is not only presupposed by law but also established in the form of law (*Between* 135). Political power and law presuppose each other mutually, and the law receives its full normative sense only through a procedure of lawmaking that begets political legitimacy.

It is critical to understand that the only law counted to be legitimate is a set of legal norms that can be rationally accepted by all affected citizens through a discursive process of opinion and will formation. In this respect, politics is more than the issues of popular sovereignty or a governmental exercise of power; it is, indeed, the realization of the communicative power of the citizens that regulates governmental power through the democratic rule of law (Habermas, *Between* 149). Habermas’s discourse theory of law helps us see that democratic sovereignty is intricately interlaced with the individual liberties of citizens as well as with governmental administration. Habermas epitomizes this by saying, “Only in this anonymous form can its communicatively fluid power bind the administrative power of the state apparatus to the will of the citizens” (Ibid. 136). Politics is then understood as an apparatus through which the will of the citizens realizes itself not as a universal moral norm, but as a legitimate rule of law.

To this point we have reviewed how Marx’s critique of a capitalistic economy and its crisis are differently appropriated in Habermas’s reconstructive critical theory of ethics, law, and politics. The single most

significant insight we can draw from Habermas's approach is that an economic crisis (such as stagnation and increasing debt) of advanced capitalism is not necessarily overcome by the socialist governance of a whole economic system, but, rather, it may be surmounted by the reconstructive political approach grounded on legitimate law validated by those who are seriously affected by the crisis. The recent financial crisis of 2007-08 was of an economic nature, and the Obama administration's response to this economic crisis illustrates more likely the kind of Habermasian reconstructive approach, rather than the Marxian revolutionary alternative. Of course, it was largely controversial for the Obama administration to decide to offer bailouts to rescue the major financial firms and the investment banks even though it was an indispensable decision to keep the chance of severe recession at bay. As we can see in the case of AIG bonus payments controversy in 2009, the bailout plan was far from the fair treatment of all who were affected by the financial crisis. The typical complaint from those who participated in the Wall Street occupation in August of 2011 was, "I worked hard and played by the rules, and now I can't find a job to pay my student loans—while the financial criminals who trashed the economy got themselves bailed out" (Graeber 22). In some sense, the rise of OWS (Occupy Wall Street) is the public outcry against the structural injustice which Washington can no longer handle with based on the criteria of fairness and impartiality. Despite this controversy, the subsequent political-legal developments formulated by law makers and other regulators reflect the government's adherence to Habermasian reconstructive approach, rather than to Marxian revolutionary alternative. Let me briefly describe how it is so.

Beginning in July 2007, when the collapse of two Bear Stearns hedge funds that had speculated heavily in mortgage-backed securities rocked financial markets across the country, the Federal Reserve Board and the US Treasury Department have come up with drastic financial measures. As is well known, they have flooded the financial sector with hundreds of billions of dollars and promised to pour in trillions more if necessary, all on an unprecedented scale. Belatedly though, the Senate on May 20, 2010, approved a far-reaching financial regulatory bill, putting Congress on the brink of approving a broad expansion of government oversight of the increasingly complex banking system and financial markets. In an effort to prevent a repeat of the 2007-08 crisis, the bill seeks to curb abusive lending, especially in the mortgage industry, and to ensure that troubled companies can be liquidated regardless of their

size. It would also create a new agency, a “financial stability oversight council,” to coordinate efforts to identify risks to the financial system. Further, it would establish new regulations on the trading of derivatives by requiring hedge funds to register for regulation with the Securities and Exchange Commission (*New York Times* May 20, 2010).

Given that one of the major reasons for the financial crisis was the prior lessening of regulations on the financial system, and the subsequent financial explosion through expanding debt and gaining speculative profits to “leverage” its way out of the problem of a slow-growth economy, the current legislative development in the US Congress shows us that the problem of the increasing debt of advanced capitalism can be politically managed through the legitimate rule of law. The problem of increasing debt of advanced capitalism is no longer an economic issue per se. As Habermas’s reconstructive critical theory elucidates, it has become a critical problem of the political economy.

IV. Reconstructing an Ethics of Debt for the *Political Economy of Debt*

On account of the Habermasian analysis of the four crises (particularly the economic crisis and legitimation crisis) in advanced capitalism and his reconstruction of the discourse theory of law, we can develop a new perspective in dealing with the problem of debt. Since the problem of debt is not exclusively confined to the juridical relation between the debtor and the creditor, we can begin to see a possibility that the economy of debt as such can be politically appropriated through the legitimate establishment of law for the stakeholders of the political economy of debt. Standing in the Habermasian reconstruction of the political economy of debt, we are also able to see various debt-related issues in a new light. For example, Joseph Stiglitz’s recent article on “odious debts” is a good illustration for this. According to Stiglitz, at the international level, we have no rule of law for the restructuring of government debts. Due to the lack of international laws governing the restructuring and relief of international debt, such odious debts as those accrued by the Iraqis under Saddam’s rule are not dealt with fairly. For this reason, Stiglitz suggests, “We must now recognize the debt forgiveness and debt restructuring make as much sense for governments—benefiting debtors and creditors alike—as they do for

companies and individuals” (45).

The Habermasian reconstructive political economy of debt calls for a further investigation of the phenomenon of debt as such, because it opens up a new possibility in liquidating debt. While the abusive economy of debt reduces the debtor-creditor relation to the debtor’s exclusive liability to the creditor, the reconstructive political economy of debt renders the debt payment by the creditor not only possible but also required in certain cases. In other words, in the political economy of debt, we begin to see that there are two ways of paying debt: by the debtor’s payment and by the creditor’s forgiveness. Although the latter appears to be counterfactual because it certainly is contradictory to the original logic of debt as such, the creditor’s forgiveness does make sense in particular circumstances because it is ultimately beneficial for the creditor as well as for the debtor. This leads us to an important ethical question: In what kinds of situations is the creditor called to forgive the debtor’s debt? To put it differently, we can formulate the embedded ethical question as follows: What conditions justify the call for the forgiveness of debt on the part of the creditor? The Habermasian reconstructive *political* economy of debt entails the reconstruction of an ethics of debt. Before illustrating two specific conditions and their corresponding two principles, let me briefly explicate how Habermas’s discourse ethical approach has to do with the reconstruction of an ethics of debt.

I have argued above that the financial crisis of advanced capitalism as well as India’s bonded child slavery provides us with a crucial reason why the problem of debt should no longer be regarded as an exclusively economic matter between the creditor and the debtor. The serious human rights violations and the destructive manipulations of debtors by creditors through the unscrupulous abuse of debt make it indispensable for us to engage in the political process to regulate various practices of abusive debt. In other words, the problem of debt is reconceived as a socio-political issue rather than as a solely economic matter. Since many stakeholders are affected by the abusive manipulations of debt including not only borrowers and debtors, but also innocent children and other citizens, the enactment of these public policies should be enabled by the agreement of those who are affected by the policies. For this reason, I introduced Habermas’ discursive theory of law and his discourse ethics, which justify social norms and public policies by the standard of the ‘universalizability’ principle.³ Since Habermas’ discursive theory of law

3. I am aware of the criticism that Habermas’ discourse ethics is too “idealistic,”

appropriates the moral procedure as one of its key components (in relation to the impartial justification of contested idea) along with pragmatic and ethical aspects, what I am suggesting below is to present two specific moral norms which, I believe, would be justified as universalizable rules for further establishment of public policies on debt. One should note, though, that I formulate these moral guidelines only as the initial step toward a full-fledged study of the ethics of debt.

Let me outline the first fundamental ethical principle, which I call the “principle of nonviolation.” According to this principle, it becomes an unethical appropriation of the economy of debt when debt plays the abusive role of violating the fundamental human rights of the debtor by the creditor.⁴ As noted above, child slavery is one of the worst forms of the abusive use of the economy of debt. As Kevin Bales claims in his *Disposable People*, debt bondage is the most common form of slavery in the world (19). According to the 1956 Supplementary Convention (Section I, Article I), debt bondage is defined as “the status or condition arising from a pledge by a debtor of his personal services or of those of a person under his control as security for a debt, if the value of those services as reasonably assessed is not applied towards the liquidation of the debt or the length and nature of those services are not respectively limited and defined.” Debt bondage is deeply problematic because the debt can also be passed down to subsequent generations, thereby enslaving the debtor’s children. Indeed, “defaulting” can be deadly, because the debtor is then punished by the seizing or selling of the children into further debt bonds (Bales, *Disposable People* 19). Being most common on the Indian subcontinent, debt bondage is closely connected with the horrendous

because his “universalizability principle” is unrealistic in the real world, in which people are pitted against each other based on their different political stakes or economic interests. I do not deny this reality, but this given reality does not do away with the Kantian moral principle that any justification of moral norms is grounded on their impartiality. The seeming political impossibility of achieving universal consensus does not necessarily entail that (Neo-)Kantian approach as such is groundless. The political reality should not be (mis)used to justify a moral defeatism.

4. According to Christian Barry, sovereign debt raises serious human rights concerns especially when very high levels of debt significantly limit the ability of countries to manage their affairs effectively. For instance, Tanzania spent nine times more on debt service than on health in 2000 although 1.6 million of its citizens lived with AIDS (Barry 284).

violation of human rights, particularly those of young children.

In *Understanding Global Slavery*, Bales also points out that debt bondage is not confined to child slavery (61). Unfortunately, increasing numbers of migrant workers are victimized by the vicious abuse of the economy of debt. He writes, “This more recent manifestation of debt bondage experienced by migrant workers is similar to that experienced by bonded laborers who work on their creditors’ land” (61). Just as in the case of child slavery, bonded laborers and migrant workers cannot terminate the contract until the debt is repaid, and so they are vulnerable to physical and mental abuse or coercion by their creditors. One of the most common abusive tactics which the creditors incorporate is to adjust interest rates upward, or simply add interest without informing the bonded laborers (Ibid. 60). Because of the exorbitant interest rates and the debtors’ powerlessness to the creditors’ abusive tactics, the basic human rights of millions of adults and children are rampantly violated.

It now becomes clear why it is *morally* required for local governments and international communities to come up with a political economic measure to regulate the debt bondage that radically violates basic human rights. From Habermas’s discourse theoretic perspective, given that debt bondage is now an international phenomenon affecting not only local bonded laborers but also migrant workers, I argue that we need more stringent political measures at the levels of international communities as well as of local governing authorities. In fact, in an effort to abolish debt bondage and its abusive approbation of the economy of debt the UN’s Food and Agricultural Organization (FAO), for example, has for many years assisted the abolition of debt bondage through the development of credit institutions (Bales, *Understanding* 62). In my view, in addition to FAO’s efforts to abolish debt bondage across the globe, international communities should come up with punitive measures such as international laws that address all types of exploitation grounded on debt bondage. Furthermore, such international organizations as the Office of the High Commissioner of Human Rights (OHCHR) should be able to practically assist the victims of debt bondage by legally annulling the exorbitant and arbitrary interest rates on borrowed money. The tougher measure on “usury limit” should also be implemented on the level of the international community.

While debt bondage and the ensuing violation of human rights address the abuse of debt occurring on an *interpersonal* level, such issues as Southern debt crises refer to the possible abuse of debt on the *international* horizon.

In regard to the latter, I formulate the second ethical principle, which I call “the principle of remuneration,” which stipulates that it is imperative for the North to forgive the external debt (particularly odious debts) of the South, because Southern debt crises largely originate in the political economy of the North. According to Rafael Reuveny and William Thompson, although the North does not necessarily create the debt crises in the South “by design,” the economic processes of the North are responsible for creating situations in which Southern debt problems become widespread. They thus write, “In this respect, Southern debt crises are mislabeled. They are registered most painfully in the South, but they are crises in which both North and South share culpability” (Reuveny and Thompson 20). The mechanism of Southern debt crises is truly structural and systematic on a global level. When Northern prosperity increases the demand for Southern exports, the South borrows money from the North to meet the increased demand. But when Northern economic growth and Northern demand for Southern commodities dwindle, the South is unable to meet interest payments to the North. Given that the debt crises of the South are deeply interconnected with the political economy of the North, it is ethically untenable for the North to completely ignore Southern debt crises, especially when the North is capable of discharging the debt burdens of the South.

We should note here that international debt relief can also be beneficial not merely for the South but also for the North. Serkan Arslanalp and Peter Blair Henry, for example, argue based on a stock price indexing that both the debtor and the creditor can benefit from debt relief when the debtor suffers from debt overhang (1017). Indeed, as opponents of debt relief argue, debt relief alone may not solve the problem of developing country debt. As we can see in the case of the Brady Plan of 1989, however, debt relief can become a beneficial measure for both a group of developing countries with certain qualifications (such as the implementation of an economic reform program) and the developed countries.⁵ From an ethical perspective, thus, it is morally accountable for the developed countries to employ a debt cancellation or relief

5. The Brady Plan of 1989, coined after Treasury Secretary Nicholas F. Brady, was a new strategy for dealing with developing country debt. The plan focused on debt and debt service reduction by commercial bank creditors for those debtors who agreed to implement a substantial economic reform program. Brady restructuring has been implemented in more than sixteen countries around the globe.

program for the underdeveloped countries by reconstructing an international political economy of debt. One, however, may raise a question if the principle of remuneration is ultimately utilitarian given that the aspect of mutual benefit seems to play an important role in reconstructing the principle. It is true that a utilitarian consideration is appropriated here, but one should note that it is primarily Habermasian, rather than utilitarian in that the principle has more to do with “doing things right” than with “calculating outcomes.” One needs to remember, though, that the “pragmatic” and “ethical” dimensions of the sociopolitical orders are legitimately included in the Habermasian legislative process in addition to the “moral” aspect. In short, utilitarian arguments can be employed within a Habermasian legal-political discourse of legitimization without necessarily contradicting Habermasian approach. Doing things right is in many cases also beneficial.

I am not arguing, though, that a blanket cancellation of all debts of the South is a panacea for the economic problems of the South. It will be wise for us to adhere to Alan Carter’s warning regarding international policy making for debt crises of the South. “What is more, if debt cancellation were mistakenly regarded as if it were a sufficient condition, and if *debt cancellation were effected without other accompanying changes, then the situation could, in certain cases, actually be made worse*” (310, italics given). In other words, although it is primarily a moral responsibility for the countries of advanced capitalism to forgive the odious debts of the underdeveloped countries, the actual implementation of this moral responsibility should be carried out through a careful political process among the developed as well as the underdeveloped countries. The restructuring of the political economy of the underdeveloped countries thus should be an integral part of the international reconstruction of the political economy.

V. Conclusion

In every economic system, lending and borrowing are indispensable elements. In the economy of debt, lending is only possible when debts are paid back; but a problem arises when the debtor cannot pay back the debt. The purpose of this paper is to argue that this problem should be resolved through the *political* economy of debt, which is then ethically justified and morally called for. Through the political economy of debt, thus, we ultimately

strive to save debt from its abuse and demonization. Since abuse of debt is in many cases intrinsically interrelated with the violation of human rights, through the political process of managing debt, we should be able to keep abusers from manipulating debt and turning into a destructive force. We can also avoid reducing debt per se to an economic evil, because debt in many cases serves a purpose by promoting mutual good between the debtor and the creditor. The central role of the political economy of debt is therefore to protect debt from its abusers, while promoting its mutual good in society. The political economy of debt, however, does not envision the debtless society as its goal, nor does it denounce the economy of debt as such. Although Karl Marx is right in analyzing and diagnosing the peril of the economy of debt, the abolition of capitalism as such is not a correct prescription. What is needed is not the abolition of capitalism, but, rather, its ongoing reconstruction through a moral-political engagement. In this respect, Jürgen Habermas makes more sense than Marx.

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Abstract

The great financial crisis of 2007-08 is a global showcase of how profoundly erroneous modern neoliberal capitalism can be. Given that at the core of this crisis lies the abusive economy of debt, which includes not only household debt but also corporate financial debt, this paper thematizes specifically the abuse of debt from a moral-political perspective. More specifically, by critically engaging in comparative discourse between Karl Marx and Jürgen Habermas, I develop an argument that the abusive economy of debt should be deconstructed through the reconstructive *political* economy of debt. To be more specific, I present two fundamental ethical principles in reconstructing the political economy of debt: the “principle of nonviolence” and the “principle of remuneration.” The “principle of nonviolation” stipulates that it becomes an unethical appropriation of the economy of debt when debt plays the abusive role of violating the fundamental human rights of the debtor by the creditor. While the “principle of nonviolation” primarily addresses the abuse of debt occurring on an *interpersonal* level, the “principle of remuneration” mainly focuses on the abuse of the economy of debt on an international horizon such as Southern debt crises. The second ethical principle, the “principle remuneration” stipulates that it is imperative for the North to forgive the external debt (particularly odious debts) of the South, because Southern debt crises largely originate in the political economy of the North. Through political economy of debt, we not only protect debt from its abusers but also promote the mutual good between debtors and creditors in society. Ultimately, this paper presents a moral-political solution to liberate debt from the abusive and reductive economy of debt.

Keywords: Karl Marx, Jürgen Habermas, *Capital*, crisis of global capitalism, political economy of debt, discourse ethics, abuse of debt, debt economy

Il-sup AHN is Carl I. Lindberg Associate Professor of Philosophy at North Park University, where he teaches ethics and philosophy since 2004. He received his Ph.D. from University of Chicago in 2005 in the area of religious and philosophical ethics. His publication includes a book entitled *Position and Responsibility: Jürgen Habermas, Reinhold Niebuhr, and the Co-Reconstruction of the Positional Imperative* (WipfandStock and Pickwick Publications, 2009). His recent articles on forgiveness, immigration, hospitality, and international politics appear in the *Journal of Religious Ethics*, *Studies in Christian Ethics*, *The Heythrop Journal*, *Journal of Church and State*, *International Journal of Public Theology*, *Cooperation and Conflict: Journal of the Nordic International Studies Association* and elsewhere.

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