Summary of PhD thesis:

Why Not Default? The Structural Power of Finance in Sovereign Debt Crises

Jerome Roos

Why do heavily indebted countries not default on their external debts more often? The question may seem simple but the answer has eluded economists for decades. We generally take it for granted that governments will honour their financial obligations under all circumstances — yet historical experience belies the notion that this is somehow a natural condition. During the Great Depression, virtually all European and Latin American borrowers unilaterally suspended payments on their foreign debts. Today, by contrast, the declaration of such outright moratoriums is exceedingly rare. Even as the European debt crisis reached a climax in 2011-2015, the total share of world public debt in a state of default fell to a historic low of 0.2 percent. How do we explain this extraordinary degree of debtor compliance in the contemporary period?

In his PhD thesis, supervised by Pepper Culpepper, Jerome Roos sets out to answer this question through a comparative-historical study of international crisis management. The main objective of his research project was to uncover the often-invisible enforcement mechanisms of debtor compliance that lie embedded deep within the global financial architecture, and to explore the reasons why debtor countries — even if they generally honour their financial obligations — still occasionally choose to defy their lenders and default on their debts anyway. Building on case studies of Mexico (1982-1989), Argentina (1999-2005) and Greece (2010-2015), his thesis develops a novel approach to account for the recent decline in unilateral defaults on sovereign debt.

In contrast to the traditional explanations of debtor compliance in the economics literature, which have tended to depoliticize the subject matter by overlooking the importance of distributional conflict and asymmetries in the balance of power, Roos' thesis proposes a *political economy* approach that foregrounds protracted political struggles over who gets to bear the burden of adjustment in times of crisis. In these struggles private and official lenders possess a unique advantage over their borrowers. Through their capacity to collectively withhold the short-term credit lines on which states, firms and households depend, they can inflict debilitating spillover costs onto a debtor's economy, triggering a host of crippling knock-on effects that would risk undermining social harmony and the political legitimacy of the borrowing government.

The central argument of the thesis is that this capacity to inflict profoundly destabilizing spillover costs simply by refusing to extend further credit endows lenders with a form of *structural power*. Roos' findings demonstrate how this structural power operates through three specific mechanisms: the market discipline enforced by an international creditors' cartel; the policy conditionality imposed by the international lender(s) of last resort; and the bridging role fulfilled by financial elites inside the borrowing country. His thesis shows how these enforcement mechanisms have been strengthened as a result of the processes of globalization and financialization, involving a dramatic increase in the size, concentration and influence of financial institutions, and leading to a situation where a suspension of payments becomes so costly as to be almost inconceivable — with far-reaching consequences for the quality of democracy inside the debtor countries.