



Why Not Default?

The Structural Power of Finance in Sovereign Debt Crises

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Abstract

This thesis aims to answer a simple question with far-reaching implications: why do heavily indebted peripheral states not default on their external debts more often? Building on case studies of substantively important sovereign debt crises in Mexico (1982-'89), Argentina (1999-'05) and Greece (2010-'15), the findings of this research demonstrate that the traditional explanations of debtor compliance proposed in the economics literature – centering on reputation, sanctions and democratic institutions – hold limited explanatory power.

Instead, the thesis spells out a *political economy* approach to sovereign debt that recognizes the importance of social conflicts and power struggles over the distribution of adjustment costs. In these conflicts, it is argued that finance possesses a unique advantage over indebted states: through its capacity to withhold the short-term credit lines on which the latter depend for their reproduction, lenders can inflict debilitating spillover costs that greatly limit the debtor's room for maneuver. This *structural power* of finance has increased markedly as a result of globalization and financialization, and the main objective of this project is to identify the exact mechanisms through which it operates and the conditions under which it is effective and under which it breaks down.

The findings highlight the importance of debt concentration in the lending structure (which eases the formation of creditors' cartels, strengthening market discipline); the exposure of big banks and institutional lenders in core countries (which compels creditor states and international financial institutions to intervene as lenders of last resort and provide emergency loans under strict policy conditionality); and the bridging role fulfilled by bankers and elites inside the borrowing country (which endows them with a privileged position in financial policymaking and internalizes fiscal discipline into the debtors' state apparatus). The thesis concludes by spelling out the implications of these findings for the quality of democracy and the study of political economy more generally.



Jury: László Bruszt (EUI/Scuola Normale Superiore), Robert Wade (London School of Economics and Political Science), Jerome Roos (candidate), Daniel Mügge (University of Amsterdam), Pepper Culpepper (EUI, Supervisor, by videolink)

Bio

Jerome Roos is a political economist specializing in the study of sovereign debt, international crisis management, state-finance relations, social movements and radical democracy. He holds graduate degrees from Sciences Po Paris and the London School of Economics, regularly contributes to various international media, and currently serves as the editor of the quarterly print journal ROAR.