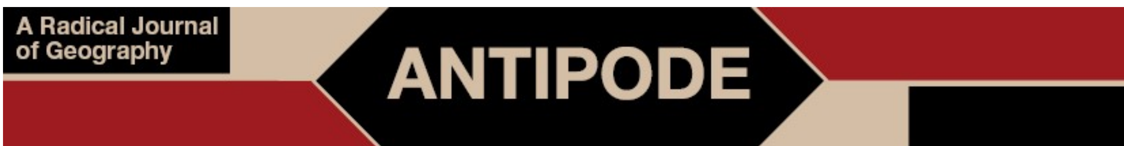


Jerome Roos, *Why Not Default? The Political Economy of Sovereign Debt*, Princeton: Princeton University Press, 2019. ISBN: 9780691180106 (cloth); ISBN: 9780691184937 (ebook)

Jerome Roos' *Why Not Default?* makes an important and timely contribution in a moment when ongoing austerity and debt burdens are producing not only economic stagnation but also virulent right-wing nationalisms around the world. The book is framed as an extended answer to a puzzle long pondered by economists and legal scholars: given that there is no international authority to force sovereign debtors to pay, why don't they default more often? More immediately, one gets the sense that the book was inspired by a desire to understand the rise and dramatic fall of the Greek Syriza party's short-lived rebellion against neoliberal politics in 2015, when the Greek people voted resoundingly against austerity in a historic referendum, only to see Prime Minister Alexis Tsipras ignore the results and capitulate to Greece's creditors days later. Many leftists around the world tracked this experience with growing excitement and then bitter disappointment. Roos' book offers a deceptively simple explanation for why Greece, like most sovereign debtors since World War II, did not default: the growing structural power of finance.

Roos addresses the problem historically, showing that there have been periods when sovereigns did default on their debts without the consent of creditors, but that this has become less and less common. He deftly critiques economists' usual technical arguments for why sovereigns no longer often default. Instead, he proposes a more complex answer rooted in political economy. He argues that macroeconomic, institutional and social changes since the 1930s have produced three powerful "anti-default" mechanisms which, together, have increased the power of creditors and made default less and less likely.

First, the growing concentration and centralization of international credit markets have enabled creditors to work together during debt crises, both to withhold loans from uncooperative debtors and to coordinate roll-over funding to keep debtors solvent until bankers decide the moment for restructuring is right. Second, the integration of official-sector institutions into the global financial system has made debtor states more dependent on conditional loans during crises. The role of the International Monetary Fund as lender of last resort has been especially

important. Third, the growing dependence of sovereign countries on rising public debts and private credit, in the context of neoliberal deregulation and capital liberalization, has strengthened financial elites and technocrats in creditor and debtor countries alike. The power of these actors, Roos shows, actually grows during crises. This third point is especially novel, adding new insights to existing analyses of neoliberal social transformation and debtor discipline.

As part of broader processes of "globalization and financialization" (p.16), Roos argues that these three mechanisms in particular have greatly increased the structural power of private and official lenders over sovereign borrowers. They have constrained the ability of debtors to access short-term credits during crises, precisely as those debtors have become more dependent on international finance. The rest of the book evaluates each of these mechanisms in the context of four distinct debt crises: across the Global South in the 1930s; in Mexico in the 1980s; in Argentina in the early 2000s; and in Greece in the 2010s. Roos concludes that countries only choose to default when all three of the anti-default mechanisms described above are missing or weakened.

Roos goes beyond merely identifying the same mechanisms in each case to offer subtle analyses of the contingencies and socio-political dynamics of the crises. While increased creditor concentration, for instance, is an important through-theme, he also points out Mexico's dependence on foreign food and industrial imports, and he shows how massive *domestic* exposure to Greek bonds drastically altered the dynamics of the Greek crisis. His analysis of the IMF, likewise, incorporates consideration of its own internal pressures, shifting fortunes within US politics, and tense relationship to the European Troika.

In sum, the book does a great service to critical social scientists in economic geography, international political economy and economic sociology by synthesizing a huge amount of detailed information about these crises in one place, and by clarifying the interlocking effects of a host of social, economic and political changes over the past century. Roos persuasively demonstrates the growing pro-creditor bias of the international economy and the devastating effects this has had on debtor populations. More generally, the book contributes to the important

project of making processes of financialized globalization and neoliberalization legible and concrete.

This thought-provoking work suggests to me several points for further investigation, including by bringing Roos' arguments into closer conversation with critical spatial analysis. I raise just three of these points here. The first has to do with financial geographies. Roos argues that in most cases ownership of sovereign debt remains heavily centralized among a small number of large investors, despite the shift from bank loans to bond finance after the 1980s. Yet at the same time, legal scholars have been concerned precisely about how that shift has made coordinating creditor interests more and more difficult, leading to what is often referred to as "collective action problems". This tension between claims about creditor concentration and creditor disarray can sometimes be seen even in the same article (e.g. Gelpern and Gulati 2006).

One way to help resolve this tension is to consider not only the spatial but the temporal geography of debt crises. While Roos focuses only on whether or not sovereign debtors declare default, the increasing number of specialized distressed debt investors holding sovereign bonds by the time a restructuring occurs may be especially important for assessing possibilities for creditor coordination, whether or not their numbers are large relative to overall bond holdings. Taking both Roos' analysis and legal scholar's concerns about collective action problems into account illuminates another interesting point as well: lawyers and investors have attempted to overcome creditor disunity precisely by trying to produce the kind of centralization Roos emphasizes. "Collective action clauses", which enable a threshold percentage of bondholders to make binding decisions on all holders of the same bond series, have become nearly ubiquitous since the early 2000s. They are designed to benefit most creditors by making it harder for a minority of creditors to interfere with restructurings. One way to understand these clauses is as a contractual tool for mimicking creditor centralization where it does not fully exist.

Another significant point for further elaboration involves the neoliberal reconfiguration of social relations. Roos gives a nuanced account of how the relative power of domestic financiers and technocrats within debtor countries grows as debt crises develop. This focus on

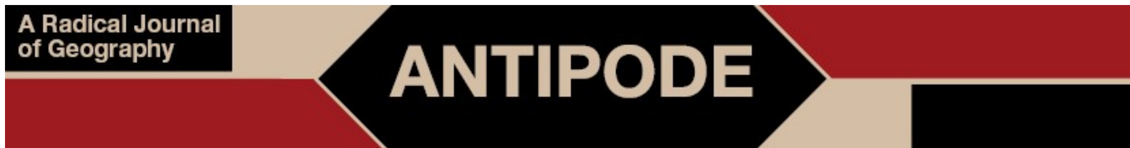
the internal social relations of debtor countries is a valuable addition to critical work on sovereign debt which has concentrated mainly on the role of foreign creditors and institutions. For the most part, Roos treats this issue separately from the question of the growing power of the IMF. Yet his analysis resonates strongly with other work on how the US Treasury and the IMF have used debt crises to re-engineer the internal relations of debtor countries to the benefit of the United States and transnational capital.

Peter Gowan's book *The Global Gamble* (1999), in which he connects using the IMF in this way to the rise of US financial power after the crises of the 1970s, is especially relevant, and would make for fascinating linkages with the evidence presented here. Where Roos emphasizes power dynamics within debtor governments and the "bridging role" of domestic technocrats with ties to international finance, Gowan focuses on the role of structural adjustment programs (both before and after debt restructurings) in altering the internal relations of debtor states. Bringing these two levels of analysis together would help flesh out the argument that both Roos and Gowan make: that debt crises and neoliberal responses to them have tended to bring political and economic elites of debtor states in line with foreign financiers, while placing the burdens of debt crises on debtor populations.

Finally, one thread not explored directly in the book is the role of racial capitalism in shaping the rising intolerance of private and official creditors for unilateral default. As Roos points out briefly (p.103-105), and Peter Hudson (2017) has explored in detail, US financial influence in the Caribbean and Latin America in the early 20th century went far beyond occasional incidents of gunboat diplomacy to situations in which US bankers exercised sustained control over foreign countries' central banks and fiscal policies. Yet even this close connection between US and debtor economies was not enough to prevent widespread default among those countries in the 1930s. In addition to the absence of the institutional enforcement mechanisms Roos examines, this surely had to do with a more basic fact about the geography of that crisis: that it included all the major Western economies as well, and that defaults had actually been common and at least pragmatically accepted throughout the Global North up to that point.

As Roos himself notes, it is only since World War II that major debt crises have been largely confined to the Global South. Alongside the institutional transformations Roos analyzes, this basic change in the geography of debt crises (itself closely related to postcolonial economic divisions) must be linked to shifting *attitudes* towards default among global elites, which have colored both representations and treatment of sovereign debtors since. The prevalence of racialized language about Southern European "cultural" traits as debt crises have returned to Europe for the first time in decades only highlights this point.

As a whole, *Why Not Default?* makes a valuable contribution to work in critical political economy across several disciplines, and I look forward to seeing how engagement with this book develops. In addition to offering a trove of data and arguments for anyone interested in finance, debt, and neoliberalization, Roos raises key questions about the fundamental relationship between debt and financial power, on the one hand, and possibilities for equality, development, and democracy on the other. He walks the difficult but crucial line between frank assessment of structural economic power and situating this power in the actions of concrete institutions and individuals. At the same time, Roos insists on taking seriously struggles from below and real possibilities for resisting debt and austerity. The point of the analysis, in the end, is to help bring the latter into sharper focus.



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