



# Bringing structural power back in to sovereign debt analysis



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Jerome Roos, *Why Not Default? The Political Economy of Sovereign Debt*, Princeton, Princeton University Press, 2019, 416 pp., £34 (hbk). ISBN 978-0-691-18010-6

*Why Not Default?* is nothing short of a fantastic contribution to the growing literature on sovereign debt. It provides significant insights into a long-discussed puzzle in the social sciences, namely the problem of sovereign debt repayment. The absence of a global sovereign able to legitimately enforce international contracts and the consequent ability of debtors to unilaterally stop repayment is at the core of this puzzle. While since the seminal contribution of Eaton and Gersovitz (1981) economists have devoted significant attention to the ‘paradox’ of international lending, it remains largely unsolved and furthermore, in Roos’ opinion, neoclassical economics is fundamentally ill-equipped to grapple with its complexities. In response, Roos offers a “sociologically informed critical political economy perspective” (p. 41), which brings structural power back in to debates over sovereign debt repayment and international crisis management. His book develops a “dynamic theory” of the structural power of finance to explain why in recent decades sovereign debt repayment has prevailed over default. Indeed, and in spite of the continuing lack of a global sovereign, the last decades have seen an unprecedented degree of compliance, even by highly distressed debtors. How can the social sciences make sense of this? In other words, why have distressed debtors not defaulted?

The book is structured into five parts and 20 chapters. Part I introduces the reader to the theory (or ‘theories’) of sovereign debt, presents the book’s approach of critical political economy plus structural power analysis, and advances Roos’ theory of the structural power of finance. Part II offers a brief history of the *longue durée* of sovereign default, making palpable how unprecedented recent degrees of debtor compliance are. This section will be of particular interest to readers who are not familiar with the academic literature on debt. The rest of the book is devoted to three in-depth case studies. Part III analyses the 1980s Latin American debt crisis by focusing on Mexico. Part IV deals with the case of Argentina (1999-2005), and part V engages with the recent Greek case (2010-2015) amidst the eurozone crisis.

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*Why Not Default?* boldly combines within-case and comparative methods of analysis. While being primarily based on secondary sources, Roos' implementation of process-tracing is a welcome contribution to a field that has recently seen renewed contributions from qualitative approaches. In this, the sociological influences are also apparent, as the book follows second-wave historical sociology in being able to offer fine-grained historical accounts through the analysis of evidence mostly collected and constructed by others. Process-tracing therefore allows Roos to identify the causal mechanisms linking debtor compliance to the structural power of finance. In addition, the book builds on what I would call a cumulative and evolving comparison, which allows Roos to grasp, first, "changes in the structure of the global political economy over time" (p. 312), and second, the precise conditions under which the structural power of finance does or does not lead to debtor compliance. Thus, after briefly reviewing the history of default, the 1980s Mexican case is analysed through a comparison with the 1930s Latin American debt crisis; the Argentinean crisis (1999-2005) is contrasted with the Mexican crisis (1980s); and a comparison with both the Mexican and Argentinean case studies highlights the historical specificities and theoretical commonalities of the Greek crisis (2010-2015). This cumulative comparison provides the reader with a detailed analysis of why and how the structure of the global political economy reduced debtors' room for manoeuvre. At the same time, however, one cannot help but regret the very brief treatment of methodology and case selection (pp. 311-314), which leaves the theoretical claims on somewhat unsolid terrain, particularly regarding scope and how they might complement or challenge other theories.

Roos' dynamic theory of financial power rests on three mechanisms – market discipline, conditional lending, and the bridging role of elites – "through which structural power is brought to bear on subjected actors" (p. 71). Each mechanism canalizes creditor power and thus is crucial to understanding debtor compliance under globalized and financialized capitalism. Throughout the empirical analysis, the book uncovers how the power of creditors operates in practice, focusing on the "precise conditions" (p. 11) under which these enforcement mechanisms of debtor compliance are or are not effective. Showing a great deal of historical awareness, Roos' theory, while structural, does not assume an ever-present creditor dominance. This is a welcome contribution to structural power analysis, which has too often rested on deterministic tenets. A focus on the precise conditions necessary for the mechanisms of structural power to operate implies the possibility of a breakdown in the power of finance. It allows, should the conditions for its operation not be the 'appropriate' ones, for the failure of structural power. This resembles Block's argument regarding how in certain periods – such as wartime, post-war reconstruction, and major depressions – business confidence may not work as a structural mechanism of capitalist veto on government policy (Block, 1977: 24).

Roos' mechanisms of enforcement converge in showing the extent to which the reproduction of heavily indebted states is deeply dependent on their access to short-term credit. When in desperate need of such credit, the state has to deal with (one or more) mechanisms of structural power. Each mechanism makes reference to "the capacity of a different group of lenders or intermediaries – foreign private creditors, foreign official creditors, and domestic elites, respectively – to withhold the short-term credit lines" (p. 11). The first, market discipline, relates to how private international creditors can impose costly spillovers in cases of debtor noncompliance. Despite default being always attractive for debtor countries, in 1980s Mexico it entailed, in the Finance Minister's words, "serious risks". Suspending payments could have led creditors not only to deny further loans to the government but also to the private sector, thus "causing widespread social dislocation with unpredictable political consequences" (p. 133). The structure of international credit was key to

making creditors' threats credible. Syndicated lending led to high creditor concentration and eased their coordination. This contrasted both with the 1930s Latin American crisis and with Argentina in 2001, where debt concentration was low and creditors coordination difficult, making market discipline weak.

The second mechanism, conditional lending, revolves around formal conditionalities imposed by official creditors like the International Monetary Fund. When no other source of external resources is available to distressed countries and official creditors coordinate, debtor states have little room for manoeuvre. Conditional lending keeps states solvent at the price of strict policy conditionality, thereby enforcing and monitoring diverse reforms to "free up the maximum amount of public revenue and foreign exchange for continued debt servicing" (p. 76). This mechanism also works as a 'seal of approval' to regain access to international capital markets. Again, Mexico and Greece serve as cases of effective conditional lending, whereas Argentina in 2001 provides the exception.

The third and final mechanism presents how "fiscally orthodox" domestic elites may play a "bridging role", thus "serving to internalize discipline into the debtor's state apparatus" (p. 11). The book's most tragic example of the workings of this mechanism is found in Greece. Around the 2015 referendum, all enforcement mechanisms seemed to breakdown, making a Greek default look plausible. However, Syriza's internal party politics re-enacted the third mechanism of indirect creditor control. Cabinet rejected Yanis Varoufakis' proposals for non-capitulation to the terms of the Troika. Domestic elites performed a bridging role for the structural power of finance. As this mechanism is not usually considered in Anglophone academic literature, with all likelihood readers will find it the most interesting – if not surprising – of the three. For those acquainted with Latin American social sciences, however, it will probably seem more familiar. Indeed, the bridging role of elites profoundly resonates with Cardoso and Faletto's *Dependency and Development in Latin America*, where they suggest that "external domination in situations of national dependency ... implies the possibility of the 'internalization of external interests'" (Cardoso and Faletto, 1979: xvi). "External" coercion is not necessarily imposed from the outside and does not necessarily result from active coordination. By establishing a dialogue with these authors and others, Roos could have drawn on their contributions to further discuss the mechanism and patterns of internalization of external interests, both regarding sovereign debt and beyond.

Overall, *Why Not Default?* will be a mandatory reference for scholars working on financialization, debt, and structural power. Future research could contribute to further specifying and qualifying the workings of each mechanism of enforcement, identifying other mechanisms, elaborating on the scope of the book's theory in its present form, as well as identifying other types of default that could be added to Roos' very helpful political typology of default.

## References

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