Review essay: Rethinking sovereign default

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Abstract

Scholars continue to debate why states repay their debts to foreign creditors. The existing literature stresses the short-term economic and political costs that deter default, focusing on reputational damage, creditor reprisals, spillover costs, and loss of office. International Relations scholars and economists have largely tested these explanations using quantitative methods, framing their analyses as a choice between default and non-default driven by the rational interests of states or actors within them. The three books considered here draw on qualitative methods to refine and sometimes challenge the prevailing wisdom, offering valuable insights concerning the many types and wider-ranging causes of sovereign default. These books reveal that default is not a binary outcome but instead a spectrum ranging from unilateral repudiation through to cooperative restructuring. Furthermore, governments sometimes default for economically irrational reasons, reflecting shifts in domestic-political interests or changes in state identity. This new literature also raises important questions for future researchers, especially about when default can be beneficial and how it can affect long-term relations between states.

Edwards, S. (2018). *American Default: The Untold Story of FDR, the Supreme Court, and the Battle over Gold*. Princeton University Press.

Lienau, O. (2014). *Rethinking Sovereign Debt: Politics, Reputation, and Legitimacy in Modern Finance*. Harvard University Press.

Roos, J. (2019). *Why Not Default? The Political Economy of Sovereign Debt*. Princeton University Press.

The last century has provided many examples of states that have failed to repay their debts. Yet only a minority of governments do not meet their contractual obligations to creditors every year. In the absence of a world government to enforce commitments, it is curious that political leaders have generally resisted the temptation to reduce interest payments, slow the rate of amortization, or even repudiate their debts. For international relations (IR) scholars, the central and enduring puzzle of sovereign default is therefore why most states repay their debts (Tomz, 2007, pp. 3-4).

The existing literature is varied in its attempts to explain the puzzle of repayment but there are some points of consensus. Scholars have generally tested their explanations using quantitative methods, framing their analyses as a binary choice between default and non-default driven by the rational interests of states or actors within them (Trebesch and Zabel, 2017). In most cases, scholars agree that default is difficult to justify given the risk of significant economic and political consequences, albeit usually only over the short-term, including reduced market access, higher borrowing costs, damage to international trade and the domestic economy, and loss of office (Panizza et al., 2009; Tomz and Wright, 2013).

The three insightful and important books considered here draw on qualitative methods to complement and sometimes challenge the existing literature. They show that sovereign default exists in many forms, ranging from unilateral repudiation through to cooperative restructuring. Appreciating these variations helps scholars to understand differences in government debt strategies and creditor responses to sovereign default. These books also encourage greater reflection on why states repay their debts. Existing explanations based on economic costs provide a useful baseline, to be sure, but they can be incomplete or inappropriate in some cases. States have repudiated debts despite acknowledging the costs involved, for instance, just as they have continued to bear the burden of repayment despite opportunities for negotiated restructurings. These books encourage a shift within the literature away from quantified economic variables, either building on existing work concerning domestic-political interests or advancing fresh ideas based on shifts in national identity to explain seemingly irrational economic behavior.

These books also raise important questions about the potential rewards and time horizons of default episodes. Scholars stress the significant short-term economic and political risks that motivate repayment, focusing on reputational damage, creditor reprisals, spillover costs, and loss of office. Yet the outcomes can be more variable and longer lasting than commonly assumed. Sovereign default, even in more extreme forms such as unilateral repudiation, can sometimes have a limited impact or generate political or economic rewards for states, although such positive outcomes are rare. The books under review also begin to question some of the short-termism within the literature, revealing that creditors can bear lengthy grudges that affect relations with debtor states for decades.

This essay proceeds in six parts. Part one explains why many existing definitions of default are problematically narrow and considers the advantages of a more nuanced typology. Parts two to four assess three competing models of repayment—namely, explanations based on economic costs, domestic-politics, and state identity. Part five considers future avenues of research, focusing on the potential rewards and longer time horizons of sovereign default. Part six offers a brief conclusion stressing the importance of qualitative methods in the study of sovereign default.

Defining Default

The study of sovereign default has been dominated by quantitative methods. Existing approaches have achieved significant empirical advances (Tomz and Wright, 2013). Over the last decade and a half, however, more research using mixed methods has emerged to complement and refine the extant literature. These works as well as the books under review reflect in part the important precedent established by Michael Tomz in his pathbreaking work *Reputation and International Cooperation* (2007), which represents a valuable example of mixed method work in the study of sovereign default.[1]

Work largely or exclusively using qualitative methods remains rare. These three books under review represent an important shift toward the greater use of historical research and case study methods to test, refine, and generalize explanations of sovereign default.[2] Edwards (2018, p. xvii) uses detailed historical research to explain why and how the U.S. depreciated the dollar in relation to gold, effectively annulling all existing debt contracts in 1934. Lienau (2014, pp. 19, 52-53) challenges the conventional wisdom that all states must repay their debts after a major regime change or suffer reputational damage by leveraging case study analysis of Soviet repudiation of Tsarist debt in 1918 and Great Britain's arbitration with Costa Rica in 1923. Roos (2019, p. 311) utilizes in-depth case studies to explain why so many heavily indebted countries continue to service their international debts, focusing on contemporary debt crises in Mexico, Argentina, and Greece. These valuable qualitative approaches introduce new cases or shed light on existing examples but also go much further, making crucial insights concerning the intricate, contingent, and complex nature of sovereign default.[3] As Edwards (2019, p. xvii) explains persuasively, there is value in 'delving into the historical details', to help understand the underappreciated complexities of America's default: 'many people—including many academic economists—believe that the decision was clean and straightforward. Nothing was further from the truth.'

The analytical value of this new collection of qualitative research stems in part from its attention to detail and nuance. As a case in point, much of the existing literature tends to define sovereign default in terms of whether a state has repaid its debts in full and on time. Economists and IR scholars often recognize a variety of default types, to be sure, but tend not to dwell on such differences. Many typically assume a binary outcome in their analysis; a state has either honored it obligations or failed to do so.[4] Existing work can sometimes aggerate different types of default when recording or listing cases (Reinhart and Rogoff, 2009, pp. 95-96). Such an approach is helpful for operationalization and quantification but can limit any analysis of debtor behavior preceding, or creditor reaction following, default.[5]

Scholars have previously considered different types of default, distinguishing between 'excusable' and 'inexcusable' default or 'hard' and 'soft' defaults (Grossman and Van Huyck, 1988; Trebesch and Zabel, 2017. See also Tomz, 2007; Ams et al., 2019).[6] The books here complement such efforts, adding insightful historical detail when distinguishing between partial and full forms (Edwards, 2018, p. xviii) or repudiations and defaults (Lienau, 2014, p. 72). Roos (2019, pp. 45-48) goes further in rejecting what he calls the 'homogeneous catch-all term', which ignores important qualitative differences between sovereign defaults. He instead offers a valuable typology of default that differentiates between debtor cooperation and non-cooperation with creditors on the one hand and the goal of postponement or reduction on the other. This approach necessarily simplifies many possible gradations into four ideal types of default—namely, delay (rescheduling), partial cancelation or reduction (restructuring), temporary suspension (moratorium), and outright non-payment (repudiation). Sacrificing a degree of parsimony and generality for greater descriptive accuracy and policy relevance seems sensible; few policymakers or investors would equate Soviet Russia's unilateral debt repudiation in 1918 to Greece's multilateral attempts at debt restructuring in 2012. Recognition of different types of default can also help scholars to identify and interpret novel trends or patterns in otherwise aggregated data. Roos (2019, pp. 4, 48) recognizes and goes on to explain a 'generalized trend away from unilateral default', for example, which had been 'prevalent in the pre-and interwar period.'

Roos' typology focuses on the unambiguous and intentional payment or non-payment of large external debts. It necessarily overlooks other, more subtle types of default that do not fit neatly into any box. Recognition of two more, often neglected types not only helps to refine the typology but reveals additional cases of default over the last century.[7] The first additional type concerns instances in which debtors fail to meet minor contractual obligations or pay slightly less than required. They do so in the expectation that creditors will accept these infractions or shortfalls rather than begin the costly process of contract revision or arbitration. Germany's reparations payments to France in the 1920s clearly fit this bill. As the historian Sally Marks (1978, p. 249) explained, each year there was a slight default, 'probably as a point of honor, but never enough to cause a stir'. The second additional type concerns unintentional non-payment or contractual breaches, which presents a rare but important challenge to assumptions of rational and strategic behavior by states. The U.S. Treasury, for instance, failed to make its payments on maturing securities to individual investors and was also late redeeming T-bills in April and May 1979. Congressional delays on debt ceiling legislation, significant growth in small investor participation, and operational problems meant that the U.S. Treasury was unable to make a timely repayment (Zivney and Marcus, 1989).

An expanded typology of default serves as a useful focus for this review essay. It is worth noting, however, that qualitative research can help to explain not only variations in the behavior of defaulting states but also of their creditors. As Lienau's (2014, p. 29) historical research reveals, 'investors and institutions can differ significantly' in their responses to default, which challenges 'the idea of a monolithic creditor interest' or uniform market reactions, as assumed elsewhere (Tomz, 2007, pp. 26, 226). Roos (2019, pp. 212, 13) also notes the possibility of 'atomized' bondholders, whereby self-interest can make it 'more difficult to maintain a unified creditor front'. Creditor reactions can vary even in the most extreme types of default. Outright repudiations by the Soviet and Ecuadorian governments in 1918 and 2008, for example, each elicited significantly different reactions, highlighting 'creditor disunity' and a 'far from uniform' response (Lienau, 2014, p. 78, 222). Recent research has also highlighted creditors' varied lending practices towards recipients of debt relief (Bunte, 2018). Scholars should therefore be wary not only of aggregating default types but also of generalizing market or state reactions to them.[8]

In addition, scholars should also be cautious concerning simple divisions between domestic and foreign defaults. Internal and external debts exist in different legal and economic contexts, but such divisions have become blurred by the complexity of borrowing and the increasing international participation in domestic markets (Guzman et al., 2016, pp. 134, 199; Gelpern and Setser, 2004). As a case in point, Roosevelt's default on debt contracts in 1934 affected domestic and foreign creditors (Edwards, 2018, pp. 160-161). Almost a century later, even larger numbers of foreign creditors now participate in local markets. As governments struggle to discriminate between foreign and domestic debt holders, whether technically or legally, such distinctions therefore become increasingly problematic (Panizza et al., 2009, p. 664).

These insights complicate the study of sovereign default and feed into the broader debates about why states repay their debts. No one theory can fully explain the puzzle of international cooperation in the context of sovereign debt. Anomalies will always exist given the large number of examples—and many types—of default that exist across time and space. Instances of sovereign default have occurred in the past, and can occur in the future, for more than one reason. Some cases, or even classes of cases, may be better explained by different causal models. Carmen Reinhart and Kenneth Rogoff (2009, p. 57) concede that no one model or approach 'seems quite adequate'. Furthermore, as Michael Tomz and Mark Wright (2007, pp. 358-359; see also Tomz

2007) recognize, a notable proportion of defaults have occurred when economic circumstances should warrant payment: 'These findings demonstrate the need to revise our models of sovereign debt,' they argue, highlighting the importance of studying 'political upheavals' and considering the possibility of 'default for opportunistic or ideological reasons'. Elements from these three books help to answer the call for revised models of default by offering explanations beyond rational assessments of economic costs—namely, domestic-political conflict and changes in state identity. The following sections consider the success and limitations of these new approaches after reviewing existing explanations focused on economic costs.

Economic Costs

Much of the existing literature explains why states repay their debts by focusing on economic outcomes, which can be summarized as reputational harm, the risk of punishments, and spillover costs.[9] Over recent decades, scholars have refined and advanced these explanations, but all have encountered significant empirical and theoretical challenges (Roos 2019, pp. 23-39; Panizza et al., 2009). I introduce these three explanations below before relating them to the typologies outlined above.

Economists initially focused on the risk of permanent exclusion (Eaton and Gersovitz, 1981). Subsequent research found that states typically regained access to international capital markets quickly and, recognizing the possibility of renegotiation and insurance against adverse shocks, concentrated instead on reputational risks—namely, that that a reputation for default would increase the costs of future borrowing (Kletzer and Wright 2000). Tomz (2007, pp. 14-36) supplemented and advanced existing reputational theories, incorporating additional variables, including state type and economic conditions, to explain how reputations can change. Reputation-based theories have come to represent a powerful explanation for why states honor their debts, but they face some challenges. The effect of default on the cost of borrowing appears to be short-lived, albeit with some brief and debatable exceptions, and some policymakers seem unconcerned by such risks (Sturzenegger and Zettelmeyer, 2007a; Borensztein and Panizza, 2009). As such, the reputation-based costs of default may not always produce a strong deterrent effect (Panizza et al., 2009; Das et al., 2011).

Other economists have argued that countries repay debts when foreign creditors can impose direct punishments, such as trade sanctions, military interventions, or legal action. There is limited evidence of creditors applying trade sanctions against defaulting states. Sovereign default is linked to declines in bilateral trade between debtor and creditor countries, but it remains unclear whether this is instead a form of 'natural shrinkage' (Rose, 2005, p. 205). Default had resulted in military interventions in the past, although the number of cases is contested, but such arguments lack contemporary examples (Tomz, 2007; Panizza et al, 2009, p. 678). Furthermore, economic or military sanctions are only likely to be effective against small or medium-sized counties (Lienau, 2014, pp. 57-99). Legal risks have increasingly come to influence debtors' behavior, reflecting relatively recent changes in the legal environment that have allowed creditors to credibly threaten to attach sovereign assets, interfere with international transactions, or harm national reputations (Panizza et al., 2009, pp. 653-655, 659). Nevertheless, legal risks are a relatively new phenomenon in the longer history of sovereign repayment. They also remain limited by the central problem of enforcement as most assets exist within the debtor's jurisdiction and debtors can structure international financial transactions in their own interests (Panizza et al., 2009, pp. 653, 692).

More recently, interest has grown in the 'spillover costs' hypothesis, whereby states repay their debts to avoid or limit broader collateral damage on the private sector or domestic economy (Cole and Kehoe 1998; Panizza et al., 2009, p. 692). Defaults can exacerbate banking or economic crises and reduce investment and credit flows (Sturzenegger and Zettelmeyer 2007a; Arteta and Hale 2008). Relatedly, default may also expose the underlying flaws of the economy or the ineffectiveness of the government, thereby risking capital outflows, reductions in investments, and potentially financial or political crises (Andrade and Chhaochharia, 2018; Panizza et al., 2009, p. 663). These explanations nevertheless face their own challenges. The costs of default for the wider economy tend to be short-lived (Borensztein and Panizza, 2010; Fuentes and Saravia, 2010, p. 337). The potential range of relevant spillover costs is also problematically wide and difficult to relate to default alone. Understanding which spillover costs matter most and when requires more research (Panizza et al., 2009, p. 692).

These existing explanations typically assume a binary distinction between default and non-default, but they could conceivably operate within the expanded typology outlined above. Tomz (2007, p. 225) has argued that states may 'prefer to default' when 'the political and economic costs of debt service outweigh the benefits of future credit.' It seems reasonable to argue that these cost-benefit calculations may also affect not only *whether* but also *how* governments chose to default. If an indebted state's concerns regarding reputational, punishment, or spillover-based risks reduced significantly relative to the rewards of non-payment, outcomes such as moratoriums or repudiations could become more likely as states or key actors within them have less to gain from cooperation with creditors.

Archival research has shown that the British government's shift from restructuring to repudiating its war debts to the United States in the 1930s, for example, reflected growing doubts about the economic and political rewards of a settlement (Self, 2006). Perceptions of international and market reactions may also help to explain variation in default type. Britain's decision was 'helped by France' following the limited financial repercussions of its earlier unilateral default to America in 1932 (Leith-Ross, 1968, pp. 178-179). Explanations based on economic costs may nevertheless still struggle to explain other outcomes, such as debtors intentionally paying slightly less than required or unintentional non-payment, which may more greatly reflect the domestic-political rather than economic context of the decision-making process.

Domestic Politics

Scholars in the fields of political science, law, and economics have long recognized the connection between foreign debt and domestic politics. In the late 1980s, Jeffry Frieden (1989, p. 24. See also

Frieden 1991) noted that, 'foreign debt is often a source of domestic political conflict, for it can raise important redistributive issues.' Anna Gelpern (2008, p. 163) suggested over a decade ago that, 'Governments' decisions to default or restructure are influenced by the politics of who wins and who loses.' Ugo Panizza, Federico Sturzenegger, and Jeromin Zettelmeyer (2009, p. 682) have also noted that 'a potential reason for why countries repay their debts is that defaults inflict costs on the politicians or government officials that make the decision to default.'

Roos (2019, p. 320, n. 2. See also Streeck, 2014; Curtis et al., 2014) builds effectively on the domestic-political literature by placing 'distributional conflict at the heart of the analysis of sovereign debt repayment', but also by highlighting how it can generate different types of default. In contrast to existing research, he (2019, pp. 69-70) focuses on peripheral borrowers dependent on external credit and introduces a novel explanation for why these states honor their debts based on three 'enforcement mechanisms': 'market discipline,' or a state's dependence on a creditors' cartel; 'conditional lending' that reflects official lenders willingness to offer further financing; and 'the bridging role,' which depends on the ability of elites to attract foreign credit and their ability to retain control over financial policymaking. Roos ably combines these variables—supported by assumptions about debilitating spillover costs and normative shifts concerning repayment—to explain why distressed borrowers continue to service their debts and, even in times of crisis, why governments typically pursue orderly multilateral solutions rather than unilateral debtor action.

Core to Roos' (2019, p. 42) argument are the redistributive implications of repayment and the political alignments within a state in times of fiscal distress:

> [A] government's decision to honor a specific obligation at a time of crisis is not just the outcome of a disinterested rational calculation taking place on an Excel spreadsheet somewhere in the country's debt management office, but is rather a product of a complex tug-of-war within the debtor country itself—and between the debtor country and its international creditors—over who will be made to pay for the crisis. As long as this struggle persists, domestic elites are likely to mobilize as much of their economic and political clout as possible in order to prevent nonpayment.

A focus on political economy therefore complements rather than corrects existing theories that treat states as rational cost-benefit calculators. Governments still recognize the costs of default, but these pressures are interpreted in a domestic-political context.

Looking at actors within the state helps us to understand and explain shifts in repayment practices.[10] Roos (2019, pp. 10-12, 37-40) embraces the spillover approach explicitly in his analysis, which undergirds his explanation, highlighting the fundamental tension between those who stand to gain and those who stand to lose from the wider costs of default. In sum, when the sacrifices of repayment are sufficiently painful and broad-based, they will eventually push a growing segment of society to oppose further austerity and favor a suspension of payments to deflect part of the adjustment costs onto foreign lenders (Roos, 2019, p. 40). Scholars have long been aware that hardships in debtor states—typically via austerity policies designed to restore economic viability and ensure debt repayment—are rarely spread evenly and can provoke resistance. As Guzman and Stiglitz (2016, p. 13) explain, 'the cost of restructuring is usually borne by different political actors than those who created the problem'. Economic divisions driving different political responses to default have been evidenced by public opinion survey data (Tomz and Wright, 2013) and in analyses of direct democratic votes on sovereign debt resettlement (Curtis et al., 2014).

Roos (2019, pp. 40-41, 72, 82) recognizes differences between social groups and classes within the state, broadly separating between elites and workers or those that do and do not expect to be harmed by the costs of default, and evidences these distinctions with rich and detailed case studies. More detail regarding the most relevant social groups and under what conditions their varied interests align would help to generate a more systematic and generalizable explanation.[11] Recent and important mixed-method research by Bunte (2019, p. 18), which considers the alignment of societal interest groups to explain governments' borrowing decisions, provides a useful way forward in understanding the distributional context of default or 'the way in which economic decisions create winners and losers.' Bunte examines the characteristics of three domestic interest groups—namely, the financial sector, the industrial sector, and Labor—which have distinct interests based on different types of assets. He argues persuasively that the relative power of these groups explains significant variation in borrowing practices between Ecuador, Colombia, and Peru. Similarly detailed approaches could yield further valuable insights into the domestic-political determinants of sovereign default for future researchers.

Roos' approach to the study of domestic-political conflict nevertheless provides many significant insights, especially concerning the varied timings and types of default neglected in much of the existing literature. For example, he highlights different casual pathways to non-payment. Domestic elites may be unwilling or unable to attract affordable foreign credit and therefore lose their privileged position to fend off popular opposition to the status quo. Alternatively, governments may be ousted or driven by political realities to make concessions to relieve social tensions and restore political stability (Roos, 2019, pp. 17-18, 81). His work helps us to think about why, as pressure mounts, some governments might adopt seemingly irrational economic behavior, playing for time to limit political fallout or as a gamble for recovery, rather than accepting the need for default (2019, pp. 188, 257; Borensztein and Panizza, 2009; Malone, 2011). In politically challenging conditions, governments could also conceivably underpay creditors to appease domestic audiences but avoid open default. In addition, growing political instability—namely, government crises, resignations, and protests—could potentially disrupt or delay the resolution of a debt crisis (Trebesch, 2019) or result in some form of unintentional default.

Roos' key arguments are well evidenced by his case studies. Taking as an example the Argentina debt crisis between 1999 and 2005, he explains persuasively both the eventual occurrence of a moratorium and earlier refusals to cease repayment to foreign creditors. This shift from compliance to noncompliance required the breakdown of all three enforcement mechanisms. By 2001, Argentina could no longer justify ongoing repayment: 'As the crisis began to bite… the social costs of austerity and structural adjustment gradually eroded the legitimacy of the political establishment and the country's democratic institutions more generally, leading to mass demonstrations and a demonstrable shift in popular preferences from repayment to default' (Roos, 2019, p. 194). In contrast, Mexico's surprising and enduring resistance to default throughout the 1980s reflected the fact that 'popular opposition to continued debt servicing remained relatively muted,' which ensured the 'eventual triumph of technocratic orthodoxy' (Roos, 2019, pp. 148, 147). This is a particularly informative case study given Mexico's previously successful resistance to creditor demands in the nineteenth century and first half of the twentieth century, largely owing to the pressure of a popular revolution (Toussaint, 2018, pp. 153-164).

In 2001, Argentina suspended payments rather than negotiating a multilateral settlement, which reflected political and economic concerns within the government (Roos, 2019, pp. 194, 201). Explaining the emergence of this type of default as well as the dramatic shift from 'striking *over*-compliance' to 'noncompliance,' underlines the value of case study research in tracing complex causation (Roos, 2019, p. 173). These findings also have significance for understanding potential debt crises in many other states. If enforcement mechanisms break down and political pressures grow sufficiently, any government—even one with a long and proud history of repayment—may break with political and legal tradition. Looking to the United States in 1932, Edwards (2018, p. 168) reveals that Roosevelt urged the government to 'look beyond the narrow letter of contractual obligations' and support his decision to unilaterally default, based on the primacy of 'economic and political security'.

Roos' qualitatively driven insights raise important questions about the notion of a 'democratic advantage', whereby institutions—such as an empowered parliament, independent judiciary, strong rule of law, and central bank—act as a constraint on governments seeking to default that allows them to borrow on better terms (Stasavage, 2003; Saiegh, 2009; Beaulieu et al., 2012).[12] Roos joins a growing body of literature challenging elements of these claims (Archer et al., 2007; Dhillon et al., 2019), and complements arguments that democratically accountable politicians can still choose to default when necessary for political survival (Ballard-Rosa, 2020). 'Paradoxically', Roos (2019, p. 37) argues, 'democratic advantage may consist of a mechanism whereby democratic governments are systematically conditioned by multilateral lenders to behave more like nondemocracies'.

Roos has shown how domestic-political considerations, understood alongside market and lending conditions, can drive or deter the decision to default by elites and, in turn, help to explain what type of default will occur. Unilateral defaults have historically been driven in part by 'powerful social mobilizations for a more equitable distribution of wealth and power in society' and are still possible, as evidenced by Argentina in 2001, when there is 'a redistribution of [political] power' (Roos, 2019, pp. 117, 169). Roos argues that the risk of debilitating spillover costs has increased the dangers of non-payment, however, disempowering political resistance and encouraging 'a gradual internalization of debtor discipline' that has led towards more multilateral forms of default over the last century (Roos, 2019, p. 299).

These arguments are compelling but the assumptions on which they rest remain contested. Roos (2019, p. 16) suggests that a state choosing to default would have to 'contend with devastating and largely unpredictable collateral damage to its domestic economy,' but delaying default can also generate significant and sometimes comparable costs. By the time states like Argentina and Greece had defaulted or restructured their debts, for example, economic output had already suffered significantly. In sum, it is often hard to disaggregate the costs of the fiscal, banking and currency crises from the costs of the default decision itself (Yeyati and Panizza, 2011).

The extent to which creditors have undermined debtor governments' policy autonomy, empowered by the spillover costs of default (Roos, 2019, pp. 51, 16), is also debatable. Roos' pessimism is logical in moderation but differs from many scholars' optimism for states' room to move, a point he recognizes but could have addressed in more detail (2019, pp. 323-324, n.40; Mosley, 2003; Datz, 2007, 2009). Roos' claims sometimes seem to assume a degree of uniformity in market reactions. In contrast, Lienau (2014, pp. 236-237) stresses the 'political intelligence of market actors' and their potential ability to understand that some states' defaults 'may have little bearing on future debt repayments'.[13] Furthermore, Roos (2019, p. 213) does acknowledge some room for debtors to move, at least in certain cases following default, noting that 'Argentina's unilateral suspension of payments also contributed to reversing the debtor-credit power dynamic'. Recent research has also shown that governments representing constituents most likely to be hurt by higher debt repayments can credibly demonstrate more bargaining power and extract greater concessions from creditors (DiGiuseppe and Shea, 2019).

Scholars seeking to contribute to debates on elites' attitudes concerning the timing of default or the importance of debtor discipline may benefit from using archival or interview data to examine decision making across a wider range of case studies. In such instances, Roos' work would provide a useful framework for future researchers. In addition to highlighting the importance of thorough research, his work defends against charges of confirmation bias by deliberately selecting 'prominent historical cases along the dependent variable' and ensuring that there were 'contrasting outcomes under investigation' (2019, p. 352, n. 3). This approach added weight to Roos' claims and suggests that his findings may therefore be relevant to more cases, although it would have been interesting to hear more about the potential limitations or boundaries of his explanation, especially given his focus on peripheral borrowers.[14]

Roos' (2019, p. 4) work focuses deliberately on challenges driven by deteriorating economic conditions, or 'the "hard times" of fiscal distress'. The insights that he generates from this focus are clearly valuable, but they cannot explain every instance of default. Why, for example, do some elites fail to honor their obligations even when economic circumstances are favorable and therefore do not encourage such behavior (Tomz and Wright, 2007)? On this intriguing question, Roos' otherwise impressive work offers fewer explicit or detailed insights. One way to address such issues may be to look even more closely within the state itself and to focus on ideas of identity.

State Identity

The existing literature has focused considerable attention on how economic, and increasingly domestic-political, variables encourage states to honor their debts. Scholars have focused comparatively limited attention on how state identity—namely, the ideological or normative values held by state leaders or the wider populace—can drive or deter repayment or generate different types of default. Yet ideas and norms can inform cost-benefit calculations of national interest and they can also help to constitute those interests, identities, and practices in the first place (Finnemore and Sikkink, 1998; Tannenwald, 2007).

Lienau suggests pervasively that governments honor their financial obligations, at least in part, because they reflect norms and beliefs about appropriateness and legitimacy. Equally, states can dissociate from their debts to varying degrees when they become inappropriate or illegitimate. As such, Lienau (2014: 37) rejects 'the preferred metaphor of international relations theory,' which 'conceives of the state as a 'unitary black box' whose internal machinations are irrelevant to its foreign interactions'.[15] Lienau (2014, pp. 66-67) goes on to suggests that states can repudiate debts after significant political upheaval to signal their 'political emancipation' so that they were 'de-linked from their predecessor'. Scholars have previously recognized that sovereign default can occur for 'ideological reasons' (Tomz and Wright, 2007, p. 358) or can become attractive when 'the national psyche' (Gelpern, 2013, p. 1104) adjusts to such an outcome, but analysis of state identity has remained largely underdeveloped.[16]

Lienau examines two repudiations in detail—namely, the familiar case of the Soviet Union in 1918 and the lesser-known case of Costa Rica in 1920. Although both states held distinct political and economic inclinations, with one shifting to a wholly new social order and the other returning to constitutional system, neither defended their decision to repudiate their debts in terms of unfair or unmanageable obligations. Lienau (2014, p. 122) reveals that they instead focused on identity-based distinctions between the old and new regimes:

> Neither the Soviet Union nor Costa Rica framed its decision as a simple default or a request for debt forgiveness. Rather, both based their claims on principled arguments about the proper nature of valid sovereignty and sovereign action. They contended that the debts of the previous regimes had been illegitimate—due to the nature of the regimes themselves and to the particular circumstances and intended outcomes of the contracts… [These cases] point to the importance of political ideas and actors in shaping debt events.

States therefore default not just for economic reasons, though these surely matter, but sometimes for ideological or normative reasons. As such, political ideas rather than short-term benefits can sometimes drive default.[17] Lienau's (2014, pp. 52-55, 253-4 n.80-81) focus on a specific set of states—namely, regimes resulting from social revolutions and post-dictatorial democracies—yields a wide range of relevant cases, many of which she goes on to explore more briefly to support her argument.

IR scholars and economists drawing on Lienau's (2014, p. 175) valuable work should note that she does not 'undertake a comparative study of why cetain regmes in a given period repurdiate debts while others do not,' but intstead questions 'how dominant norms press very different countires in dissimilar circumstances to act simialrly'. Lienau (2014: 53) ultimately focuses on the 'how' of debt continuity norms rather than the 'why' of normatively driven default and tends not to dwell on the logic of case study analysis or selection. She nevertheless provides an initial and compelling argument in favor of ideational rather than materialist explanations for debt repudiations (on testing normative explanations, see Tannenwald, 2007).[18]

The Soviet case benefits from documentary evidence in which policymakers made explicit reference to political ideas rather than economic trade-offs and displayed non-cost-benefit-type reasoning. Critics may suggest that rhetoric about ideas simply serve as an expedient cover for more opportunistic attempts to reduce or restructure difficult debts, which some onlookers suggest may be relevant to the 'less sympaethic' case of Ecuador's default in 2008 (2014, pp. 215, 220). As the Soviet case reveals, however, ideational influences can trump economic calculations.

Since 1905, repudiation had been an intrinsically politically issue (Toussaint, 2018, p. 165). This stance, whereby the Soviets willfully repudiated rather than blaming economic difficulties, undermined cooperation from foreign creditors who were willing to reinvest in the state or restructure its debts. Lineau (2014, pp. 72-73) explains that, 'had the regime taken a different route—permanently discontinuing payment on the stated basis of economic reasons rather than claims of principle—the story of Russian debt default might now read very differently. Far from being cheap talk, the new regime's insistence on a non-statist approach [to repayment] proved to be extremely costly'.

Default was a vital component in creating political distance between current and former governments in the same state. We can see similar political distancing in comparable cases, which empowers arguments based on political ideas rather than economic calculations. Mexico in 1914, Czechoslovakia in 1952, Cuba in 1960, Rhodesia in 1965, Zaire in 1979, Ghana in 1979 and 1982, and North Korea in 1976 all repudiated their debts after regime change (Sturzenegger and Zettelmeyer 2007b, 4; Ams et al., 2019). Many of these examples occurred following Communist takeovers. State identity certainly helps to explain the decision to default by the People's Republic of China in the 1940s and 1950s, which otherwise appears irrationally costly (Lienau 2014, pp. 149-150). This insight complements Nelson and Steinberg's (2018) more recent argument that Argentina refused to settle economically costly disputes with external creditors in 2015-2016 in large part due to partisan identity rather than economic self-interest.

These examples suggest that ideational variables can cast light on the debt policies of some states, especially those that have undergone a profound political change without the transfer of territory. It is nevertheless important not to exaggerate these findings. In other cases of regime change, the evolution of state identity may be less significant than economic self-interest. The overthrow of Saddam Hussein provides a useful case in point. The new Iraqi government had the choice of defaulting by publicly repudiating most of its old obligations or negotiating debt reductions to normalize its relations with creditors. Non-payment was a serious possibility and widely supported at home and abroad. Iraqi politicians, international NGOs, and senior U.S. officials urged the government to repudiate its debt as illegitimate. Nevertheless, Iraq ultimately chose to pursue financial restructuring, via debt relief based on capacity to pay, which secured the same level of debt reduction as non-payment but crucially at a much lower cost (Gelpern, 2005, pp. 402-403, 406-407). The Soviet Union and Iraq evidently responded differently to similar opportunities.

Part of the reason why such variations exist appears to be the growing power of repayment norms. Indeed, if norms help to explain why some states have defaulted, they are even more useful in explaining why most states honor their debts today and, moreover, why multilateral rather than unilateral solutions predominate in modern debt crises. Since World War II, and especially after the 1970s, debtors have increasingly come to assume the burden of debt crises (Lienau, 2014, p. 232. See also Strange, 1967). Lienau's (2014, p. 175) informative analysis of Nicargagu, Iran, and the Philipines in the 1970s and 1980s, for example, reveals that 'no principlied repudiations materialized' as states increasingly accpeted 'a norm of debt continuity' depsite challening political and economic conditions. This repayment norm constrained state behavior, leading only to milder and multieral forms of default such as debt rescheduling.

States can challenge what could be termed a 'taboo' on default. Even politicians in advanced industrialized countries, especially those on the campaign trail, continue to propose contractual breaches or non-payment of debt as viable policies. In 2016, some media outlets reported that Donald Trump had considered restructuring existing debt agreements with creditors to improve the U.S. national debt (Worstall, 2016). In 2019, Boris Johnson threatened to 'retain' the £38bn Brexit bill, which the European Union believed would constitute a sovereign default (Foster, 2019). Beyond threats, states have defaulted on their debts over the last four decades. As Giselle Datz (2007, p. 323) explains, 'this view of a widespread lack of policy autonomy is at odds with the fact that sovereign defaults were a common practice in the 1990s and early 2000s.' Important exceptions evidently exist. Nevertheless, sovereign defaults—and unliteral declarations of moratoriums or suspensions in particular—have become less common and more costly for debtors in recent history. Part of the explanation for this shift is that norms about repayment have become increasingly entrenched in the international system.

The causes of states' changing behavior concerning sovereign default is an important area of debate for future research. Lineau and Roos both recognize a marked transition by debtors towards a repayment norm, typically moving away from unilateral action towards multilateral solutions. Roos (2019, p. 299) suggests that this shift was driven by the 'resurrection of global finance and the aggressive interventions of creditor states and international financial institutions', which increased the costs of default, disempowered political resistance and encouraged 'a gradual internalization of debtor discipline'. Lienau (2014, p. 227) refers to the 'interaction among political actors, broader ideological shifts, and changing dynamics of creditor competition and consolidation'. Lienau (2014, pp. 227-229) suggests that the basic rule that debtors must honor their obligations or suffer the consequences shapes expectations and bargaining positions across all modern sovereign debt negotiations. Global norms of repayment have spread and strengthened—initially instrumentally, as a constraint on self-interested decisionmakers, but increasingly substantively, as a belief about the growing illegitimacy of non-payment—reinforcing the idea of default as inappropriate for states. In this way, norms can reinforce but also operate independently from material consequences.

Lineau's research suggests that the evolution of the global debt system has served to reinforce repayment norms and stigmatize deviant behavior, promoting a taboo on any type of sovereign default. In the past, policies ranging from repudiation through to small underpayments may have been acceptable when debts appeared illegitimate to state leaders or the wider populace. Over the last century, non-payment or contractual breaches have increasingly become unthinkable to most governments around the world in anything but the direst of circumstances. Even then, these norms help to explain why states choose specific types of default; multilateral restructurings remain far more appropriate and legitimate than unilateral repudiations, even if debts appear illegitimate or odious. These norms exist in tension with global laws that emphasize the accountability of leaders and legitimate rule. As Lineau (2014, p. 226) eloquently explains, today is a 'strange place in world history': 'we can now imagine prosecuting the leaders of a fallen regime for crimes against a state population while simultaneously asking that population to acknowledge and repay the fallen regime's debts.'

Future research

The three books under review make many valuable contributions to the study of sovereign default and they also raise some important questions for future research. Two key questions emerge with respect to the logic of repayment: How far can domestic-political explanations account for default in good times? Can scholars of national identity determine when repayment norms override rational economic interests? Answering these questions would help to determine the extent to which domestic-political and identity-focused approaches to the study of default can be generalized and used as a guide to state behavior.

These three books also highlight as an important new avenue of research concerning the potential rewards of default. IR scholars have long recognized the existence of winners and losers from default by looking within a state (Frieden, 1989, 1991). Depending on the circumstances, some elements of society may secure a better deal from default than from repayment. Certain sectors and industries may thrive in the conditions brought about by non-payment. Political actors may gain popularity by promising not to repay foreign debts or simply benefit from the instability following default. As these books reveal, however, the state itself can also successfully default. Negotiated debt restructurings can, in some cases, be relatively advantageous to the debtor, especially when coercing creditors into sizeable reductions or better terms (Roos, 2019, p. 48; Datz, 2009).

Even more extreme instances of unilateral suspension of payments can sometimes benefit states. Edwards' (2018: 186-200) impressive research reveals that U.S. default in the 1930s was largely positive, helping Roosevelt to pursue his broader economic recovery program without major cost. There was no evidence of distress or dislocation in the period immediately following the abrogation of the gold clause, nor any distress in the bond market. Evidence on key financial variables, prices, gross national product, and investment all support this claim. Indeed, the government had no difficulty rolling over debt or launching new securities (Edwards, Longstaff, and Gacrica, 2016). Lienau (2014, p. 7) reveals that even the Soviet repudiation of 1918 failed to deter many investors in the United States. Several new banks sought to facilitate long-term bond issues in the 1920s, halted only by the US government's political hostility to the regime. These benefits are not unique to the United States or Soviet Union. France and the United Kingdom unilaterally defaulted on World War I debts to the United States in the 1930s but faced limited economic and political repercussions immediately afterward (Self, 2006). Such examples may well be rare, but they generate an important insight: states can sometimes benefit economically or politically by defaulting, even in extreme types of unilateral repudiation. Future research should focus on better understanding why and when sovereign default in all its forms can be beneficial for states.

These books also raise important questions concerning time horizons for scholars analyzing sovereign default. Roos' (2019, pp. 173, 213-218) insightful case study of Argentina's default, for example, focuses on the period 1999 to 2005, which highlights some of the medium-term success of the debt restructuring. Much of the existing literature had concentrated on the short-term costs of default. In contrast, Roos (2019, pp. 306-307) argues that by cushioning the immediate economic impact and bridging the brief period of capital market exclusion, Argentina was able to 'wield its unilateral default to extract better terms in subsequent debt negotiations' and achieve an outcome 'preferable to the long-term consequences of endless austerity.' As Roos (2019, pp. 25, 29, 212, 341, n. 55) acknowledges, however, Argentina was only able to re-enter international capital markets when it finally repaid its holdouts in 2016 after a prolonged legal standoff in which U.S. courts found in favor of the creditors. Different time horizons therefore highlight different risks and rewards involved in default episodes, especially from a legal perspective in this instance (Panizza et al. 2009; Datz and Corcoran, 2020).

More broadly, the longer-term consequences of sovereign default remain understudied. Most research has identified only short-lived economic or political costs. Work based on the adoption of longer time-series analyses suggests that scholars have underestimated the enduring cost of default in credit markets (Catão and Mano, 2017; Cruces and Trebesch, 2013). Marc Flandreau and Frederic Zumer (2004, p. 57) have argued that markets retain a long memory of default, 'which seems to contradict received wisdom'. These insights encourage more qualitative research to examine the endurance of other, political consequences that can be harder to quantify and how certain types of default effect relations between states and not just markets over the longer-term.

The books here suggest that states can bear lengthy grudges, especially if default is perceived as a unilateral repudiation. The United States imposed a decades-long virtual embargo on the Soviet Union following default in 1918 (Lienau, 2014, p. 99). Britain and France only ended litigation over these Russian bonds in 1986 and 1997, receiving a fraction of the amounts claimed (Toussaint 2018, p. 204). If the economic and legal legacy of unpaid debts can linger for decades, there may well be related political effects. Archival research provides some evidence for such assumptions. The United Kingdom's unpaid debts from World War I, for example, would inform British policymakers' attempts to secure a triple-A credit rating in the late 1970s, more than four decades after unilateral default took place (Gill, 2015; Gill and Gill, 2015). Edwards (2018, pp. xv-xvi, 198-99) recognizes the enduring legacy of default by noting that the Argentine government sought to justify its alteration of debt contracts from dollars to pesos in 2001 with reference to the behavior of the United States in the 1930s. Evidently, old debts can still affect contemporary politics.

Conclusion

These three books show that work drawing on qualitative methods can refine and sometimes challenge the prevailing wisdom, offering valuable insights concerning the many types and wider-ranging causes of sovereign default. Theories based on rational actors driven by assessments of economic cost cannot fully explain the puzzle of cooperation between debtors and creditors or the many different types of default that can occur. Scholars would benefit from engaging with seemingly irrational accounts based on domestic-politics and state identity. Existing explanations need not always be mutually exclusive; states may sometimes repay their debts for a combination of economic, political, and ideational reasons. A wider range of causal theories can help scholars to understand why states sometimes fail to repay their debts to creditors across a larger and more varied collection of cases and default types. These books show that the consequences of sovereign default are also far more complex than commonly assumed. Default can sometimes reward debtors, but there is also reason to believe that longer-term economic and political costs have been underplayed in existing analyses. Edwards, Lienau, and Roos have made valuable contributions to the study of sovereign default that should inform future research for decades to come. Qualitative methods can and should play an important role in helping scholars to understand why states repay their debts.

Notes

[1] Mosley (2003) represents another important example of mixed method work on financial markets and government policy more broadly. For other, recent examples focused on sovereign default, see Drelichman and Voth (2014) and Ballard-Rosa (2016, 2020).

[2] None of this is to ignore the existence of more narrowly focused work produced by historians and policymakers in their accounts of specific defaults, such as Self (2006) or Gilman (2010). On the importance of historical research to sovereign default, see Oosterlinck (2013).

[3] In many ways, these books—explicitly in Roos's case—engage in process tracing (George and Bennett, 2005; Bennet and Elman, 2007; Waldner, 2015). On qualitative evidence allowing scholars to trace the key causal processes in economic decision-making, see Fairfield (2013) and Bunte (2019, pp. 21-22).

[4] For quantitative work recognizing default as non-binary, see Enderlein et al. (2012) and Trebesch and Zabel (2017).

[5] There can be important similarities between default types on some metrics. Reinhart and Rogoff (2009, pp. 90, 92) make the case that, given the costs to investors, 'the distinction between debt rescheduling…and outright defaults' is 'not a sharp one.'

[6] The reason why U.S. default in the 1930s stimulated so little response, for example, was because the government acted in good faith in the context of relevant institutions (Edwards, 2018, pp. 196-99, 206-7). These findings are consistent with contemporary examples of multilateral agreements whereby variation in 'haircuts' amongst defaulting states reflected the distinction between excusable and inexcusable defaults (Edwards, 2015).

[7] Ams, Baqir, Gelpern, and Trebesch (2019) also highlight other technical and contractual types of default, ranging from data misreporting to cross default. On the rewards and limitations of typologies, see Elman (2005).

[8] In addition, debtors can and do attempt to discriminate between international creditors when defaulting, which may also help to explain variation in political and market reactions to defaults (Ams et al., 2019).

[9] Existing explanations need not be mutually exclusive. Reinhart and Rogoff (2009, pp. 54-59) combine sanction and reputation-based insights. On the value of integrating approaches, see Abbas, Pienkowski, Rogoff (2019).

[10] Tomz (2007: 17, 225) has previously highlighted differences in cost benefit calculations between 'stalwarts' and 'lemons,' the former valuing foreign capital with long time horizons and weak anti-payer coalitions.

[11] Roos (2019, p. 212) is nevertheless clearly aware of the importance of intrastate groupings in debt crises. During Argentina's debt negotiations with foreign bondholders, for example, he notes the role of 'a corporatist coalition consisting of an alliance between large-scale farmers, oil exporters, industrial capitalists, and leaders of the labor unions and the unemployed workers' movement,' in helping the 'emergence of a new balance of power that subordinated financial interests.'

[12] On the democratic advantage being contingent on conditions in global capital markets, see Ballard-Rosa, Mosley, and Wellhausen (2021).

[13] Roos (2019, p. 212) does recognise some variation in market responses, but in the case of Argentina points to the 'financially illiterate' rather than the politically intelligent.

[14] Additional cases could also inform Roos' (2019, p. 46) typological analysis, which focuses largely on the choice between unilateral and multilateral responses and less on why states choose repudiations rather than moratoriums, especially as the latter used to be 'relatively common' historically.

[15] Claims about the alleged persistence of 'black box' thinking are somewhat dated. There exists a wealth of research concerning the influence of identities, norms, and beliefs in the international political economy, which Lienau recognizes in the footnotes (2014, p. 245, n. 24. See, for instance, Abdelal, Blyth, and Parsons, 2010).

[16] Lienau's insights predate important research by Nelson and Steinberg (2018), which shows that longstanding symbolic attitudes rather than economic self-interest drove citizens' views on default in Argentina in 2015-2016. Nelson (2014) has also shown that ideological orientation can affect lending and borrowing practices. More broadly, scholars have studied how norms and ideas affect related subjects, such as the decline of militarily intervention to collect debts (Finnemore, 2003).

[17] Shea and Poast (2020) have also suggested that default is more likely when leaders come to power in irregular circumstances, but their argument is based on short-term interests rather than ideational arguments.

[18] Some scholars have generated a different universe of relevant cases. Toussaint (2018: 42-43, 132-133), for example, offers a long list of debt cancellations or repudiations that invoke the argument of illegitimacy since Mexico in the 1850s.

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