



Why Not Default?

*The Structural Power of Finance
in Sovereign Debt Crises*

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INTRODUCTION:

The Sovereign Default Puzzle

Why Do Countries Repay their Debts?

Why do heavily indebted countries not default on their external debts more often? This question, which lies at the heart of a long-standing debate in the economics literature and touches upon some of the most important controversies in political science, has gained renewed relevance in light of the ongoing European debt crisis. Recent events have revealed how international lending is governed by a fundamental paradox: in the absence of a world government capable of enforcing cross-border debt contracts between sovereign borrowers and private foreign lenders, we would expect default to be a widespread phenomenon. Since repayment effectively constitutes a wealth transfer from the borrower to its lenders, a distressed debtor that spends more of its tax revenues on foreign debt servicing than it attracts in new loans has an inherent incentive to suspend payments. In fact, this is precisely how international debt crises were generally resolved in the nineteenth and early-twentieth centuries: through the imposition of unilateral moratoriums by the debtors. And yet such payment standstills are exceedingly rare today: recent decades have witnessed a *generalized trend* away from unilateral default as a prevalent policy response; a trend that holds impor-

tant lessons about the asymmetric balance of power between debtors and creditors in the global political economy and the evolution of state-finance relations more generally.

This PhD thesis aims to contribute towards the development of a political economy approach to sovereign debt that can account for this generalized trend away from unilateral default. The main argument developed in these pages is relatively straightforward: over the past decades, the dual processes of globalization and financialization have greatly enhanced the disciplinary force of finance, providing international lenders with a form of structural power over heavily indebted peripheral states, revolving around their capacity to withhold the short-term credit lines on which these states depend for their own reproduction. While this “structural power hypothesis” is by no means original – as we will see, its roots go back to some of the foundational political science debates of the 1960s and 1970s – this research project hopes to contribute to the recent revival of scholarly interest in the structural power of finance by identifying the exact enforcement mechanisms through which this power operates and the precise conditions under which it is effective and under which it breaks down. Building on in-depth case studies of three of the most substantively important and theoretically interesting sovereign debt crises of the past decades – Mexico (1982-'89), Argentina (1999-'05) and Greece (2010-'15) – the thesis aims to shed a new light on cross-border contract enforcement in the global political economy, as well as the various ways in which contemporary forms of crisis management tend to favor the interests of private lenders over those of debtor countries, with far-reaching consequences for the distribution of the costs of adjustment and the quality of democracy. This introduction briefly presents the puzzle at the heart of the research project before outlining the main argument and providing an overview of the rest of the thesis.

A Very Brief History of Sovereign Default

The starting point of this research project is the simple observation that things were not always the way they are today. In the early days of international lending, between 1820 and the 1930s, sovereign default was widespread and often unavoidable. While there were always exceptions, the declaration of unilateral moratoriums by heavily indebted peripheral states was so common that it was considered to be “part of the rules of the game” (Ocampo 2013).¹ Indeed, all the four major lending cycles prior to World War II ended in a wave of defaults. Take the first cycle of the 1820s, in which the independence struggles of a number of Mediterranean and Latin American countries coincided with a speculative boom on the London Stock Exchange. In the space of just three years, between 1822-'25, dozens of newly emerging countries contracted multi-year loans on international capital markets to finance their costly independence wars. The experience ended in tears as virtually all the new states unilaterally suspended payments in the bust that followed. Peru was first to default, in April 1826, followed by Colombia. By 1829 all Latin American and Southern European countries except Brazil and Naples were in arrears, and there was remarkably little bondholders could do to recoup their investments (Flandreau and Flores 2009:659). As a leading historian of the episode wrote, “during a quarter of a century most of [the new borrowers] maintained an effective moratorium on their external debts, which indicated an appreciable degree of economic autonomy from the great powers of the day” (Marichal 1989:66).

In the late 1860s and early 1870s, European capital began to flow back towards Latin America and the Mediterranean, but the expansion of international lending again turned

1 One observer lamented early on that “the fiscal history of Latin America is replete with instances of governmental defaults. Borrowing and default follow each other with almost perfect regularity. When payment is resumed, the past is easily forgotten and a new borrowing orgy ensues” (Winkler 1933:1).

out to be short-lived, with most borrowers suspending payments in the depression of 1873. As in the previous wave, the defaults of the 1870s were unilateral and outright; governments generally did not resume payments until after the economy had recovered, foreign exchange reserves had been replenished and the defaulted debt had been restructured on terms favorable to the borrowers. By the 1880s, a third international lending frenzy nearly led to the collapse of the Barings Bank when a financial panic surrounding bad investments along the River Plate ended in the Argentine default of 1890. It was in this period, the classical gold standard era of 1870-1913, that the creditor states began to assert themselves more aggressively to defend bondholder interests and enforce debt repayment. With interstate competition feeding the imperialist ambitions of the European powers and to a lesser extent the United States, the use of force became increasingly frequent in the settlement of international debt disputes. While there is still scholarly disagreement over how widespread military action really was in this period, Mitchener and Weidenmier (2011:156) find that non-compliant debtor countries risked a 30 percent chance of being subjected to military invasion, gunboat diplomacy or the establishment of international financial control. Often-cited examples include the imposition of foreign control over public finances in Egypt, the Ottoman Empire and Greece, the naval blockade of Venezuela, and the occupation of the customs houses of numerous Caribbean and Central American states by US Marines.

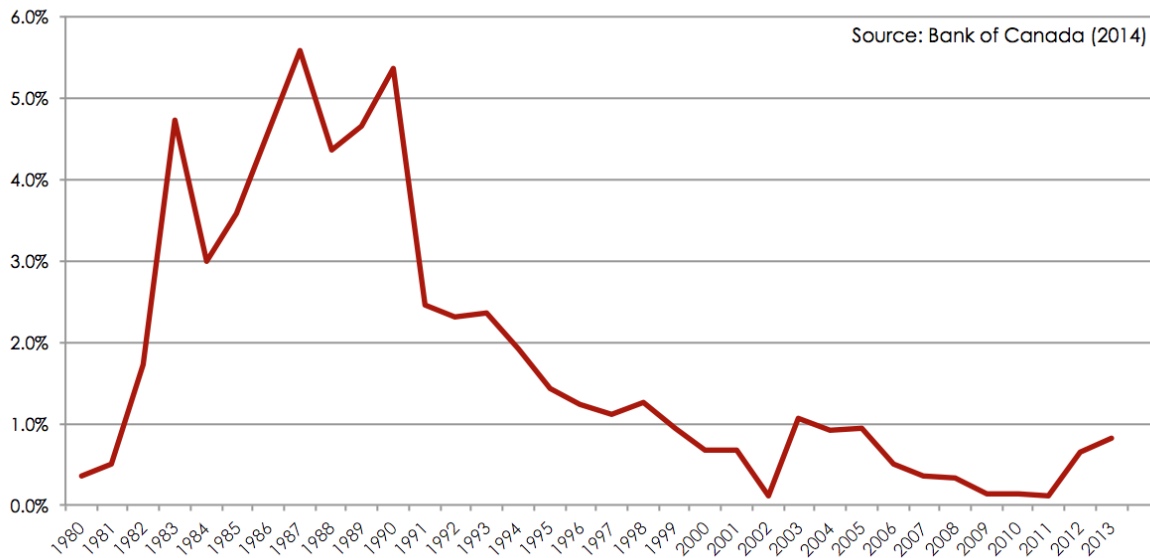
While the First World War brought the age of high imperialism to a violent end, the roaring 1920s that followed gave rise to yet another major bout of speculative investment. Like the previous ones, this fourth lending cycle quickly turned to widespread default in the Great Depression of the 1930s – with the major difference that this time around the use of military might to enforce debt contracts had been ruled out, leaving bondholders once

again powerless in the face of a wave of defaults. With the exception of Argentina and some of the smaller debtors, all Latin American countries suspended payments, as did the vast majority of European states. Jorgensen and Sachs (1989:78) stress that “the defaults of the 1930s present lessons for contemporary experience because these countries actually ceased payment on their foreign debts and these defaults were acknowledged, accepted, and eventually negotiated on terms favorable to the debtors.” The leading sovereign debt scholar of the time even concluded that “defaults are inevitable when attempts are made by lenders to take advantage of temporarily embarrassed borrowers by exacting all sorts of concessions and imposing all sorts of impossibly harsh terms” (Winkler 1933:xvi). The lessons from history are therefore unambiguous: in suspending payments, the heavily indebted states of the periphery displayed a remarkable degree of autonomy, as a result of which the burden of adjustment tended to be shared relatively equitably with foreign bondholders; countries that defaulted experienced faster recoveries than those that repaid in full; and most debts were eventually restructured on terms favorable to the debtors.

The Puzzling Absence of Default Today

This experience contrasts sharply to the management of sovereign debt crises in recent decades. Even in the absence of a military enforcement regime, the repayment record of distressed borrowers appears to be better today than it has been at any other point in history. Unilateral defaults are anathema and increasingly rare. By the early 1980s, a new rule seemed to have emerged: governments should repay their debts and avoid a unilateral suspension of payments at all costs. In his review of five centuries of sovereign lending, Dyson (2014:323) confirms that “the absence of sovereign default became the new norm.” Insofar

Share of Total World Public Debt in Default (1980-2013)



as sovereign defaults still occur today, they tend to take the form of voluntary reschedulings or negotiated settlements rather than the unilateral moratoriums that characterized the first four waves of sovereign default. This is a puzzling observation, as the four decades since the collapse of the Bretton Woods regime in the 1970s have been by far the most tumultuous in economic history, with financial crises twice as frequent between 1971-'97 as they were during the first era of globalization before 1914 (Eichengreen and Bordo 2003). Still, the incidence of default today is remarkably low compared to previous periods. A new database compiled by the Bank of Canada (2014) shows that between 2009-'11, including the worst of the European debt crisis, only 0.1 percent of world public debt was in a formal state of default (see figure). The fact that international capital markets are thriving in spite of the frequency and intensity of crises is a clear indication that international investors generally expect governments to honor their external debts – even if they can not.² But how can these

2 Of course none of this is to say that the specter of default has been banished altogether. According to data compiled by Reinhart and Rogoff (2009), default continues to be a pervasive feature of financial markets. In fact, by the latter's metrics, the 1980s and 1990s were the decades with the highest rate of sovereign borrowers in a state of default ever. But as we will see in greater detail in the following chapters, this

investors be so sure? That is the central question this thesis seeks to address.

The question itself is by no means original. In fact, there is a venerable and rapidly expanding academic literature dealing precisely with this so-called “sovereign debt puzzle”: why do sovereign borrowers honor their external obligations in the absence of gunboats or some form of world government capable of enforcing international debt contracts? Why do heavily indebted countries not default more often? The question has eluded – and divided – professional economists ever since it was first posed by Eaton and Gersovitz (1981) at the start of a new era in financial history and at the peak of a large international lending boom. Eaton and Gersovitz proposed reputational concerns and long-term exclusion from international capital markets as a credible reason for governments to repay in the absence of an international enforcement regime. Another group of scholars, following Bulow and Rogoff (1989), has proposed sanctions like lawsuits and trade embargoes. Others still have argued that the institutions of liberal democracy compel the executive to credibly commit to its financial obligations. Yet while a large number of books and articles has been published purporting to deal with the intractable “enforcement problem” at the heart of the sovereign debt puzzle, scholars have so far failed to reach a conclusive answer on the matter. As three prominent experts in the field noted on the eve of the European sovereign debt crisis:

Almost three decades after Eaton and Gersovitz's path-breaking contribution, there is still no fully satisfactory answer to how sovereign debt can exist in the first place. None of the default punishments that the classic theory of sovereign debt has focused on appears to enjoy much empirical backing ... In sum, thirty years of literature on sovereign debt do not seem to have resolved some of the fundamental questions that motivated the field.
(Panizza, Sturzenegger and Zettelmeyer 2009:693)

statistic tells us little about the *type* of default and the *willingness* of the borrowers to repay. If we leave voluntary reschedulings and negotiated restructurings out and look purely at unilateral moratoriums and outright repudiations, default is an exceedingly rare phenomenon today.

The research project presented in this PhD thesis intends to make a contribution to the scholarly debate by situating the intractable question of sovereign debt and default in its appropriate theoretical context as a political question rather than a purely economic one. And as a matter of politics, it is argued, scholars of sovereign debt and default would be well advised to pay more attention to the fundamental importance of *asymmetric power relations* and *distributional conflict* in processes of economic policymaking. In a word, the decision to repay a foreign debt cannot be isolated from questions about who gets to call the shots and who gets to bear the burden of adjustment in the management of international debt crises. Every time a government chooses to repay rather than suspend or repudiate its outstanding obligations, it finds itself making a political as much as an economic calculation, and it does so within a context that may structurally constrain a government's room for maneuver and systematically incentivize one set of policy choices over another. Understanding the role of such external constraints and internal motivations in enforcing debt repayment is therefore fundamental to the effort of developing an adequate theory of sovereign debt and default.

A Comparative Study of Mexico, Argentina and Greece

In an effort to shine a fresh light on the sovereign debt puzzle, this study takes an in-depth look at three of the most severe and substantively important sovereign debt crises of the past decades. The focus on the “hard times” of financial crisis is deliberate. From Marx to Gourevitch, political economists of various stripes have long known that moments of crisis tend to lay bare – and shape – underlying interests, allegiances and power relations. As political flash points, these brief episodes often tell us more about the deep structures and dynamics of social reality than the decades of tranquility that preceded them.

Departing from an International Political Economy perspective and proceeding on the basis of a qualitative comparative case study approach that contrasts international debt crises in Mexico (1982-'90), Argentina (1999-'05) and Greece (2010-'15), the thesis hopes to make several contributions to the literature. First, it aims to problematize the existing economic theory on sovereign debt by revealing how the literature tends to *depoliticize* the subject matter. In its place, a number of orientating principles are defined that could inspire the development of a *political economy* approach to sovereign debt. Such an approach would recognize and emphasize the redistributive consequences of default and/or repayment; the centrality of distributional conflicts and power struggles over the burden of adjustment; the asymmetric relations and structural constraints on national autonomy that lie at the heart of the global political economy; and the different forms that default can take in practice. In relation to the last point, the theory chapter proposes a new and explicitly *political typology* of default that goes beyond the widely used technical definition of the term, distinguishing instead between unilateral action by the debtors and negotiated settlements with the creditors. Without recognizing the decline in the incidence of unilateral action, scholars will be unable to see the actual transformations in crisis management and the underlying shift in power relations at the heart of the global political economy.

A second contribution this thesis seeks to make is to the political economy debate on the power of finance. Here, the principal emphasis is on the concept of *structural power*, which has recently been staging a comeback in the political science literature after decades of scholarly neglect. One of the reasons original formulations of structural power went out of vogue after the 1980s and '90s was that they proved incapable of accounting for variation in outcomes (Culpepper 2015). If the power of business is structural in nature, how do we

explain those situations in which corporate interests actually lose out over other social concerns? Until recent years, scholars working on business power have struggled to specify the exact conditions under which structural power is operative and the conditions under which it is not. This thesis proposes a two-pronged way out of the theoretical mire: first, by focusing on the *enforcement mechanisms* through which the structural power of finance is brought to bear, and identifying the conditions under which these mechanisms are effective and the conditions under which they are not; and second, by taking social struggles and political conflicts seriously and allowing for the structural power of capital to be contested from below. In the process, it is hoped that the thesis will not only provide an answer to the question why governments by and large repay their external debts, but also why they sometimes choose to defy their foreign lenders and default on their obligations anyway. The analytical framework of the project thus aims to combine the strengths of the International Political Economy literature, with its focus on the global financial structure and its interest in explaining world-historical change at the systemic level, and the Comparative Political Economy literature, with its keen eye for detail and its emphasis on explaining variations in outcomes across specific national contexts. The selected case studies – contrasting Mexico's compliance to Argentina's defiance and applying the lessons of this comparison to Greece – are especially useful for parsing out the ways in which the hypothesized enforcement mechanisms function (or fail to function) under specific conditions.

Summary of the Argument: The Structural Power of Finance

The first premise of the thesis is that recent decades have witnessed dramatic changes in the structure of the global political economy and the nature of the capitalist state that

have in turn caused the international balance of power to shift decisively in favor of finance and the main creditor states, and the domestic balance of power decisively in favor of local elites whose interests and ideas are broadly aligned with those of foreign creditors. Three structural changes are identified in particular. First, the processes of globalization and financialization have massively increased the mobility and concentration of capital among a decreasing number of systemically important (“too big to fail”) financial institutions in the core countries. In terms of international lending, this has meant that the liabilities of peripheral borrowers like Mexico, Argentina and Greece have increasingly been held by an ever-smaller group of big banks and institutional investors in the United States and Europe. This highly concentrated lending structure contrasts sharply to the dispersed bondholdings of the aforementioned pre-war lending cycles, in which small and atomized retail investors found it exceedingly difficult to coordinate collective action and exert the requisite leverage over defaulting governments. In comparison, the concentrated lending of the post-1970s period has made it much easier for investors to coordinate collective action and maintain a relatively unified “creditor cartel” capable of credibly threatening a withdrawal of further credit in the event of non-compliance. It is argued that this first development has strengthened the primary enforcement mechanism of *market discipline*.

The second structural change is related to the first and concerns the active “financial interventionism” of the dominant creditor states and official multilateral lenders from the 1980s onwards. The growing concentration of international debt among a small group of systemically important financial institutions in the advanced countries has meant that a disorderly sovereign default in the periphery now risks triggering a deep financial crisis in the core countries. As a result, a systemic need arises for state intervention and an international

lender of last resort capable of “bailing out” distressed borrowers in order to prevent contagion towards over-exposed financial institutions in the core. The US Federal Reserve and US Treasury Department actively intervened in the international debt crises of the 1980s and 1990s, while Eurozone creditor states – led by Germany – and the European Central Bank played a key role in the management of the Eurozone debt crisis of the 2010s. In all cases, bailout loans provided by official lenders were disbursed in tranches and conditional on far-reaching budget cuts, tax hikes, privatizations and market reforms aimed at freeing up public revenue for full debt servicing. From the early 1980s onwards, creditor states have increasingly relied on the intervention of the International Monetary Fund (and to a lesser extent the World Bank and the Bank for International Settlements), which has effectively assumed the function of an international lender of last resort, enforcing fiscal discipline and structural reform through its loan conditionality. Beside its own emergency lending, the IMF's most important contribution has been to monitor the performance and compliance of debtor states, providing the Fund with a gatekeeping function over market access. This transformation of the IMF has ended up institutionalizing a set of surveillance and control functions that had hitherto been only partially, irregularly and improvisationally fulfilled by private international banks and creditor states. In the process, it has served to entrench the second enforcement mechanism of *policy conditionality*.

The third change involves the thorough restructuring, over the same period, of the state apparatus itself. This transformation is probably best captured in Streeck's (2014:72) conceptualization of the *debt state* as “a state which covers a large, possibly rising part of its expenditure through borrowing rather than taxation, thereby accumulating a debt mountain that it has to finance with an ever greater share of its revenue.” The debt state's struc-

tural dependence on private credit conspired with the international mobility of capital and the deregulation of the financial sector to greatly increase competitive pressures on national governments, which consequently found themselves compelled to continuously reproduce the ideal conditions for foreign lending and private investment. This development ended up greatly strengthening the privileged position of those social groups whose material interests and ideological convictions were closely aligned with those of international investors, at the expense of those political actors whose loyalties continued to lie with working people back home. The result was a dramatic reconfiguration of domestic power relations in favor of financial and political elites who were perceived to be capable of fulfilling a “bridging role” towards global finance, thereby entrenching the third enforcement mechanism of debtor compliance: the *privileged position* of wealthy local elites with shared views and close ties to foreign creditors and the international financial establishment.

These structural changes have gone hand-in-hand with a set of normative and ideological changes that led to the firm entrenchment of neoliberal ideas about crisis management and the reaffirmation of a culturally-embedded creditor morality that places the responsibility for adjustment squarely on the shoulders of the debtor.³ This ideological realignment has in turn had far-reaching implications for prevalent norms about debt repayment, clearly expressed in the stark contrast between the pre-war concern with preventing moral hazard and the current concern with defending “creditor rights.” While the Palmerston doctrine of 1848, one of the keystones of the regime of *laissez-faire* liberalism, still held that the British

3 This creditor morality is powerfully expressed in the German and Dutch word *Schuld*, which means both debt and fault or guilt, so that a distressed debtor is always already considered to be guilty or at fault for their own predicament. For a discussion of the morality of debt, see Graeber (2011) and Lazzarato (2012). Dyson (2014) applies some of these cultural and ideational themes to sovereign debt and the crisis of the Eurozone. For a related history and critique of the “dangerous idea” of austerity, see Blyth (2013).

government reserved the right *not* to intervene on bondholders' behalf in international debt disputes, so as to discourage “hazardous loans to foreign governments who may either be unable or unwilling to pay the stipulated interest thereupon,” and while during the 1930s President Franklin D. Roosevelt personally apologized to his Bolivian counterpart for Wall Street's “supersalesmanship” in the lead-up to the crisis, acknowledging that “of course” the Latin American countries were “unable to pay either the interest or the principal” on their debts (both citations from Winker 1933), the idea that non-payment could be considered a permissible policy response or that unsustainable debts could actually be forgiven is clearly anathema today. Ever since the Mexican debt crisis of 1982, the widely shared expectation is that borrowers will bear the full burden of adjustment even as the lenders are made whole. Never before in modern economic history, it seems, have prevalent norms of sovereign debt repayment and dominant ideas about crisis management been so kind to bondholders. The main aim of this thesis is to investigate how these norms are enforced in practice.

The main argument is that, by greatly raising the costs of default and increasing uncertainty about the consequences of more confrontational courses of action, the structural transformations of the global political economy in recent decades have significantly reduced the room for maneuver available to the governments of heavily indebted peripheral states, undermining both the actual and the perceived viability of more debtor-friendly alternatives to full repayment. If a heavily indebted state were to default tomorrow, it would not only be forced to move into primary balance right away, as lenders would cut off short-term credit lines; it would also have to contend with devastating and unpredictable spillover costs into the wider economy. These spillover effects would initially operate through the transmission belt of the domestic financial sector, with a default on foreign creditors likely to

provoke capital flight, a stock market crash and a collapse of domestic banking and pension systems. But given the centrality of finance to contemporary capitalism, the consequences would quickly ripple through the national economy, risking massive social dislocation. Firms would no longer be able to obtain trade credit and would start laying off workers; depositors would no longer be able to access their savings and would likely instigate a bank run requiring far-reaching capital controls; households would no longer be able to obtain credit for consumption, as a result of which industrial and agricultural producers would see demand and private investment dry up, bringing production to a halt – in sum, the bankruptcy of the state risks provoking the bankruptcy of large parts of the domestic economy, with high social costs in the short-term and grave consequences for the state's capacity to legitimize itself in the eyes of its citizens. Given the ability of lenders to inflict such devastating but largely unpredictable short-term spillover costs simply by withholding credit and withdrawing capital, it is perhaps no surprise that many governments – including those of a leftist persuasion – are hesitant to defy their creditors. Compliance becomes the rule.

Still, since these spillover costs tend to be short-lived, a government that finds itself under immense popular pressure from below may yet decide to pursue a rupture with international creditors if it considers the alternative – continued repayment – to be even more costly politically. It should be stressed, in this respect, that a debtor country is not simply a unified actor always responding in coherent fashion to economic shocks. Different groups inside the country are affected differently by different policies, and some will stand to gain more from repayment than others. One common aspect of sovereign debt crises is therefore the proliferation of distributional conflicts between different social groups over who gets to call the shots and who gets to bear the burden of adjustment. If those opposed to austerity

and repayment manage to gain the upper hand in such struggles, the government may end up switching its policy preference from compliance to default. Given the crippling short-term consequences of a default, however, there is unlikely to be any real confrontation with foreign lenders without a deep legitimization crisis and intense social mobilization leading to the rise of a pro-default coalition, or at least forcing the existing establishment to make far-reaching concessions to the domestic population in an attempt to restore social peace and preserve the political status quo. In this sense, the push for a unilateral suspension of payments is unlikely to emanate from within the state apparatus itself; it will only emerge from the broader field of social antagonism and political contestation – unless, that is, the debtor is forcefully pushed over the edge by the creditors themselves.

Structure of the Thesis: Chapter Outline

This thesis is divided into six chapters – the first two theoretical, the third methodological and the last three empirical. Chapter I looks at the economics literature on sovereign debt and summarizes the main theoretical contributions in the field. After presenting the four main hypotheses in the existing literature – the reputation hypothesis, the sanctions hypothesis, the democratic advantage hypothesis and the spillover costs hypothesis – and weighing the relative merits and shortcomings of each, the second part of the chapter takes the existing literature to task for its depoliticization of the subject matter and outlines the basic contours of a *political economy* approach revolving around the analysis of structural constraints, the redistributive consequences of compliance and default, conflicts of interest over the burden of adjustment, disagreements and uncertainty over the perceived costs of alternative courses of action, and protracted power struggles over who gets to decide on

matters of financial policy. It concludes by proposing an alternative *political typology* of default that distinguishes crucially between unilateral action and negotiated settlements.

Chapter II is a review of the political economy literature on business power and the nature of the capitalist state. It starts with an outline of the main political science debates on the issue – between pluralists and elite theorists, and between “instrumentalists” and “structuralists” – and presents a number of key analytical concepts, most importantly the *structural dependence of the state* and business' *privileged position* in polyarchy. The second section takes the analysis to the global level and briefly discusses the globalization and financialization debates as well as Wolfgang Streeck's concept on the evolution of the “debt state” as a state that increasingly depends on private credit. Finally, the third section starts by highlighting the main shortcomings of original formulations of structural power – the fact that they cannot always account for variations in outcomes across cases – and proposes to focus explicitly on the *enforcement mechanisms* that connect the structural power of lenders to the prevalent outcome of debtor compliance, and the *conditions* under which these mechanisms are effective and the conditions under which they are not. This part presents the three proposed enforcement mechanisms and the hypothesized conditions under which they break down and default becomes possible.

Chapter III on methodology and research design is significantly shorter. It starts by presenting the project's three-pronged methodological approach, drawing on a comparative case study method combined with process tracing and structural power analysis, and then outlines the research design, main questions, variables, hypotheses and case study selection. The exact conditions shaping the enforcement mechanisms are also further spelled out here.

Chapters IV, V and VI present the case studies of the Mexican debt crisis (1982-'90), the Argentine default (1999-'05) and the ongoing Greek debt crisis (2010-'15), respectively. These longer chapters are each structured in the same way. The first section weighs the evidence in favor of the conventional hypotheses discussed in Chapter I. After deriving a set of predictions from each of these explanations, this first part aims to assess whether the observed processes and outcomes of the respective crises are in accordance with what the theories would lead us to expect. The second part then weighs the evidence for the hypothesized enforcement mechanisms outlined in Chapter II – market discipline, policy conditionality and the privileged position – tracing the processes through which the observed conditions impacted the operativeness and effectiveness of each of them. The third part looks at the outcomes of the crises and compares these observations to what we should expect if the structural power hypothesis were correct. The final part of each chapter briefly considers other possible explanations for the findings.

Finally, the conclusion sums up the main findings of this project and outlines their implications for future research on sovereign debt, structural power and political economy more generally – especially in relation to the concentration of wealth and power, the transformation of the state-finance relation and the deepening tensions between global finance and national democracy. The study concludes by proposing the existence of a “democratic disadvantage” at the heart of financialized capitalism, which systematically disincentivizes responsiveness to voters through higher borrowing costs and limited access to credit.

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