This introductory chapter first sets out the book's purpose, which is to contribute to debates on the power of finance and the consequences of contemporary patterns in international crisis management for social justice and democracy. It does so by revisiting a seemingly simple question whose answer has nonetheless eluded economists for decades: why do so many heavily indebted countries continue to service their external debts even in times of acute fiscal distress? The chapter then presents a brief history of sovereign default followed by discussions of why governments repay their debts, the three enforcement mechanisms of debtor compliance, and consequences for international crisis management.

The striking puzzle at the heart of international lending has long been known as the “enforcement problem” of cross-border debt contracts: clearly there is some kind of cross-border enforcement at work, but the precise mechanism through which it operates is not immediately observable, and economists still do not understand how exactly it works. This chapter discusses the four conventional explanations of debtor compliance found in the economics literature, and assesses their validity in light of the available evidence. The four explanations center on (1)
the borrower's long-term reputation; (2) legal and trade sanctions; (3) democratic institutions; and (4) spillover costs.

A Critical Political Economy Approach
Jerome Roos

in Why Not Default?

In economics literature, competing explanations of debtor compliance have one thing in common, that is, they have so far largely sidestepped overtly social and political questions such as, who benefits from default? Who benefits from repayment? How do different groups assess whether they are likely to lose or win out? One can begin to craft a more nuanced understanding of the deeper dynamics behind the international regime of cross-border contract enforcement only by taking a closer look at the redistributive implications of default and repayment, and the resultant political struggles between different social groups over the appropriate course of action to be taken. This chapter presents the basic theoretical contours of a sociologically informed critical political economy perspective that foregrounds these underlying power differentials, and the related distributional conflicts over who gets to call the shots and who gets to bear the burden of adjustment in times of fiscal distress.

Three Enforcement Mechanisms
Jerome Roos

in Why Not Default?

The structural power of finance in sovereign debt crises is a product of the financial sector's position as the principal creator of credit-money within the capitalist economy, and it revolves around its capacity to withhold the short-term credit lines on which all states—as well as firms and households—depend for their reproduction. This chapter discusses the three enforcement mechanisms of debtor compliance through which the structural power of finance is hypothesized to operate, specifying in each case the precise conditions and countervailing forces bearing on their overall strength and effectiveness. These mechanisms are market
discipline; the conditional emergency lending by creditor states and international financial institutions; and the intermediary role fulfilled by domestic political and financial elites inside the borrowing countries.

From Great Depression to Financial Repression
Jerome Roos

in Why Not Default?

Published in print: 2019 Published Online: May 2019
Item type: chapter

This chapter considers the mass defaults of the Great Depression. The economic shock played a decisive role in depleting foreign-exchange reserves and circumscribing the debtors' ability to pay. However, the economic shock was only part of the story. In fact, the nearly universal resort to unilateral debt moratoriums in the 1930s was made possible at least in part by the relative weakness of the three enforcement mechanisms of debtor compliance, which left dispersed bondholders without the necessary leverage and coordination capacity to keep the debtors solvent while simultaneously imposing discipline on them. The chapter takes a closer look at the moratoriums themselves before turning to the conditions that caused the three enforcement mechanisms to fail. It also summarizes the consequences of the defaults.

The Exception That Proves the Rule
Jerome Roos

in Why Not Default?

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On December 23, 2001, Argentina declared a unilateral suspension of payments on $82 billion in public debt, triggering the largest sovereign default in history. This chapter demonstrates how the process leading up to the largest default in history, far from challenging the structural power hypothesis developed in this book, actually confirms it. Argentina, in short, is the exception that proves the rule. To understand why, the chapter takes a closer look at what happened to the three enforcement mechanisms of debtor compliance over the course of the crisis. Initially fully effective, each of them gradually broke down over the course
of 2001, making a disorderly Argentine default not only possible but increasingly unavoidable.

Risk-Taking and Compliance
Bridget M. Hutter

in Regulation and Risk: Occupational Health and Safety on the Railways

Chapter 9 showed that majority of respondents had a broadly accurate understanding of where, why, and how accidents happened within their working environment. This chapter further examines how risk may or may not influence lives by considering how such understanding of risk may be related to the propensity to take risk. In particular, it focuses on issues of compliance and non-compliance with state regulation, and on the resulting company risk-management systems.