



Why Not Default?

An Interview with Jerome Roos

Jerome Roos

London School of Economics

J.E.Roos@lse.ac.uk

Andrej Grubačić

California Institute of Integral Studies

agrubacic@ciis.edu

Jerome Roos is an LSE Fellow in International Political Economy (IPE) at the Department of International Development of the London School of Economics. His research focuses on the political economy of global finance, sovereign debt and international crisis management. He holds a dual degree in International Political Economy from Sciences Po Paris and the London School of Economics, and a PhD in Political and Social Sciences from the European University Institute in Florence. Jerome's first book, Why Not Default? has won the first Immanuel Wallerstein Memorial Book Award from the American Sociological Association. The book, published by Princeton University Press in 2019, seeks to unravel a striking puzzle at the heart of the global debt regime: why, despite frequent crises and the immense costs of repayment, do so many heavily indebted countries continue to service their international debts?

Andrej Grubačić: *Why Not Default?* builds on a historical analysis of past sovereign default cycles and comparative case studies of contemporary debt crises in Mexico (1982-1989), Argentina (1999-2002) and Greece (2010-2015). However, if I am not mistaken, the book is also inspired by your activism in the anti-austerity movement?



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Jerome Roos: The book emerged out of my PhD research at the European University Institute in Florence, which was really an attempt to marry my academic interests in political economy with my role as an activist in the European anti-austerity movement. I started my PhD program during the summer of 2011, when the Greek debt crisis was at its height and it looked like the Eurozone might fall apart. Earlier that year I had spent some time in Athens, embedded within the occupation of Syntagma Square (an early precursor of Occupy Wall Street). There, I kept hearing the same demands from the people I met: they wanted the Greek government to turn back the austerity measures, cancel the debt, and let French, German and Dutch bankers pay for the costs of the crisis they created. For people with some of the longest working hours and lowest pay in Europe—people who had played no role whatsoever in causing the global financial crisis and bringing the banking system to the brink of collapse—this seemed like an entirely reasonable demand to me. Yet the Greek government remained dead-set on repaying its foreign debt by imposing ever more extreme austerity on its own people, even if this clearly went against the wishes of the majority of Greeks.

Observing this elementary conflict between the democratic demands emerging from the square and the financial commitments of the Greek government led me directly to my research question: why do so many heavily indebted countries like Greece continue to pay their foreign debts even in times of acute fiscal distress? The question may seem banal, but I soon realised that continued repayment could by no means be taken for granted. History shows that sovereign default was once a very common occurrence. During the Great Depression, for instance, most Latin American and European borrowers responded to international financial pressures simply by suspending payments on their foreign debts. In fact, sovereign default was so widespread prior to World War II that it was simply considered normal and part of the rules of the game. Somehow all of this radically changed over the course of the past four decades or so, with the globalization and financialization of the world economy under neoliberalism. Today, there is a widespread insistence that foreign debts must and will be repaid under all circumstances. As a result, the incidence of sovereign default fell to a historic low—even as the world was shaken by some of the worst debt crises on record. Once I discovered this striking evolution in the prevailing approach to international crisis management, my project quickly developed into a more comparative and historical direction, as I became interested in contrasting the contemporary Greek experience to previous debt crises elsewhere. After coming onto the work of Giovanni Arrighi and Fernand Braudel, I decided to take a *longue durée* approach going back to the origins of the public debt in the Italian city-states of the Late Middle Ages, tracing its evolution throughout the centuries—from the widespread sovereign defaults of the nineteenth century and the Great Depression of the 1930s, right up to the neoliberal era and the dramatic climax of the Greek crisis in 2015.

Ultimately, the book that emerged out of this research was an attempt to come to terms with the underlying power dynamics that the anti-austerity activists in Syntagma Square had been up against from the start. Simply put, I wanted to go beyond the slogans and understand exactly how global finance constrains democratic autonomy and extracts wealth from the periphery. Not just

for the sake of making a contribution to the academic literature, but for the sake of exposing a major threat to democracy.

AG: One of the main accomplishments of this exquisite book is the way you describe complex transformations of the global political economy over the past four decades. I am interested here in your methodology, and in the influence of world-systems analysis on your argument about the nature of international debt and the organization of wealth redistribution. I believe that we would agree that there are important political implications to this kind of research.

JR: Methodologically, the book combines three different approaches: comparative-historical methods, process tracing, and world-systems analysis (or what I call structural power analysis). The first two came by default, as I was always interested in studying the contrasting outcomes of the debt crises in Argentina and Greece. I wanted to understand why these two countries responded to similar pressures in such radically different ways, so I had to trace the social, political and economic processes that ultimately led to default in Argentina and to compliance in Greece. At the same time, it was always very clear to me that I could not simply treat these cases in isolation. Heavily indebted countries are part of a dynamic capitalist world economy. To be able to account for the growing power of finance over the past four decades, I knew I needed to provide a convincing portrayal of structural change at the level of the global political economy. This then led me to combine my contemporary case studies with a more Braudelian perspective on the rise of international finance over the *longue durée*. Here, Giovanni Arrighi's work on historical cycles of financialization and Christian Suter's work on debt cycles in the world-economy proved to be especially informative.

Conceptually, the notions of core and periphery also ended up being central to my entire mode of analysis. After all, leaving aside the relatively recent rise of China, the most powerful creditors are almost all concentrated in the global capitalist heartland, while the heavily indebted countries mostly tend to be on the periphery or semi-periphery. In this sense, there was no way around the basic concepts of world-systems analysis. International debt has become a powerful engine of wealth redistribution from the Global South to the Global North, and it seemed to me that we needed a better understanding of the exact mechanisms through which this systematic extraction of value occurs. I do like to believe that there are political uses to this kind of research. In the conclusion, I argue that the problem of international debt requires more than ad hoc solutions: it requires structural change at the level of the global political economy. Individual calls for debt relief are unlikely to be very effective if the international balance of power remains stacked against the debtors. One person who understood this very well was the Burkinabé revolutionary Thomas Sankara. This is why he called for a “united front against debt”: an international alliance bringing together not only the debtor countries of the Global South, but also social movements in the creditor countries of the Global North. World-systems thinking provides an intellectual framework for such calls for international solidarity across the North/South divide.

AG: Could you tell me a bit more about the three enforcement mechanisms securing creditors' structural power that you describe in the book?

JR: The core claim of the book is that the power of international creditors has greatly increased during the neoliberal era. This in itself is not an original observation, of course, but what I wanted to do was to try to uncover the precise mechanisms through which this power is brought to bear on peripheral borrowers, and the specific conditions under which these mechanisms are effective as well as the precise conditions under which they may break down. In short, I wanted to figure out exactly *how* the structural power of creditors has increased in the last four decades, while at the same time being able to identify specific situations in which this power could potentially break down, creating an opening for debtor countries to resist the imposition of further repayment. I finally settled on three key enforcement mechanisms. I refer to these as: (1) the market discipline imposed by the international creditors' cartel; (2) the policy conditionality enforced by the international lenders of last resort; and (3) the bridging role fulfilled by domestic elites inside the debtor countries.

The first mechanism emerges from international financial markets themselves, or more specifically from the most important private creditors at the apex of the global credit structure: mainly private investment banks and/or large institutional investors. Market discipline rests on the credible threat of these private creditors to withhold further loans to a distressed sovereign borrower, and thereby to inflict debilitating spillover costs on its domestic economy. I argue that this mechanism becomes more powerful as the credit structure become more concentrated: a handful of large and powerful private creditors will find it much easier to present a unified front and threaten to withhold further credit than a dispersed panoply of millions of small bondholders. You can see this very clearly in the contrast between the Great Depression and the global financial crisis of our own times. During the 1930s, the debts of Latin America were held by millions of small U.S. bondholders, many of them just ordinary working-class and middle-class households that unwittingly invested their life savings in foreign government bonds. These dispersed bondholders had no market power and no way to present a unified front against the Latin American governments when they suddenly defaulted during the Great Depression. This is a clear case in which foreign bondholders were unable to discipline the debtors through market mechanisms. It is also a situation that contrasts sharply to the one we have now. Today's credit structure is much more centralized. In the European sovereign debt crisis, for instance, bondholdings were highly concentrated among a small circle of systemically important Eurozone banks. These big players—think of names like Deutsche Bank, BNP Paribas, Crédit Agricole, ING—were able to band together and organize collective action in a way the dispersed bondholders of the 1930s were not. They were therefore able to exert a much more credible threat of withholding further private credit.

The second mechanism is connected to the first, but emerges from the official sector—that is to say, from the main creditor states in North America and Western Europe, and the most important financial institutions, above all the International Monetary Fund. This second mechanism tends to kick in once the first mechanism is about to break down, in other words, once a heavily indebted

country is about to lose access to private credit. Official lenders will then disburse emergency loans to keep the distressed debtor afloat, ensuring continued repayment to private creditors. But at the same time they also make these so-called “bailout” loans conditional on far-reaching neoliberal reforms (like spending cuts, a lowering of wages and pensions, firesale privatizations, etc.), with the narrow goal of “improving economic competitiveness” and freeing up domestic resources for continued foreign debt servicing. This type of direct intervention into the domestic affairs of the debtor countries is something private creditors are unable to do on their own: they need their own governments and international financial institutions to intervene on their behalf. The second enforcement mechanism of conditional lending is therefore a crucial backstop to the first mechanism of market discipline. Together, they form the international structure of lending with which all peripheral borrowers have to contend. The less they are able to borrow domestically, the more they will be subject to these international enforcement mechanisms.

Finally, the third mechanism emerges from the role played by domestic elites inside the debtor country. This mechanism is crucial because it serves to internalize debtor discipline within the state apparatus of the borrowing country. It functions by systematically favoring domestic elites with fiscally orthodox and “investor-friendly” views. The political position of these comprador elites tends to be strengthened during times of crisis because they are seen to be capable of attracting credit and investment at better terms than their more fiscally heterodox counterparts. Concretely, what this means is that left-leaning policymakers who propose defaulting on the debt or engaging in fiscal expansion will be confronted with higher borrowing costs, while centrist and fiscally conservative technocrats will be rewarded with lower interest rates, creating an incentive structure for the governments of heavily indebted peripheral countries to leave conservative technocrats in charge of fiscal policy. These technocrats usually have extensive ties with the international financial establishment: they have similar class interests and share a similar worldview, ensuring that the views and interests of foreign financiers are represented within the state apparatus of the debtor country. This third enforcement mechanism—the internalization of debtor discipline through the bridging role of domestic elites—is the final piece in the puzzle. When all three are fully operational, repayment is virtually assured.

Yet there are situations in which these enforcement mechanisms can break down. Crucially, I argue that the structural power of finance is never written in stone: it tends to vary over time, and depending on the specific conditions prevailing with a particular context, it can also vary from one crisis to the next. The structural power of finance, in other words, is a dynamic force, not a deterministic one. So in the book I try to trace the structural changes in the world-system that led to the strengthening of the three enforcement mechanisms over time, while at the same time remaining sensitive to their variation in specific local contexts today. This is why I included the case study of Argentina, which allows me to study in detail how the three enforcement mechanisms actually broke down in a major crisis and opened the way to what was then the largest sovereign default in world history. At the same time, by identifying the conditions under which the enforcement mechanisms break down, we can also begin to envision the type of structural

transformations that will be required to roll back the rule of finance and empower the peripheral countries in their struggle against sovereign debt bondage.

AG: But how can we roll back the structural power of finance and global financial elite? Some of these questions are very pertinent to the situation in the so-called post socialist countries where there are no real signs of debt abolitionism or popular mobilization regarding debt restructuring mechanisms.

JR: Unfortunately I do not know enough about the post-socialist states to give a proper answer to the second part of your question, but I do briefly address the first part of your question in the conclusion. Without giving it all away, I would say that the changes need to be much more far-reaching than most of us imagine. It's not enough simply to call on heavily indebted countries to default on their foreign debts: the entire global power structure mitigates against it, so we need to think much more ambitiously in terms of undermining and transforming those global power structures. What we really need is a concerted international campaign to roll back the structural power of finance. As I see it, that will require action along the lines of each of the three enforcement mechanisms. First, we need to ensure that there are alternative sources of credit available to peripheral borrowers, to reduce their exposure to market discipline and their dependence on the international creditors' cartel. Second, in the spirit of abolitionism, we need to abolish the international financial policeman role of the International Monetary Fund. Instead of disciplining heavily indebted countries and forcing them to repay their foreign debts through the disbursement of conditional emergency loans, what we really need is a reliable debt restructuring mechanism that allows unsustainable debts to be written off in an orderly fashion, so that international creditors will begin to share in the cost of future crises. This will likely also make them more hesitant to extend excessive credit, reducing the risk of future crises. And finally, we need to reclaim democracy from the technocratic takeover of neoliberal elites. Clearly, the global financial elite will not give up its power and privilege voluntarily, so even such moderate and reasonable demands as these will require powerful popular mobilization in both the debtor countries and the creditor countries. Here we come back to the revolutionary vision of Sankara's "united front against debt." Nothing less will do.