

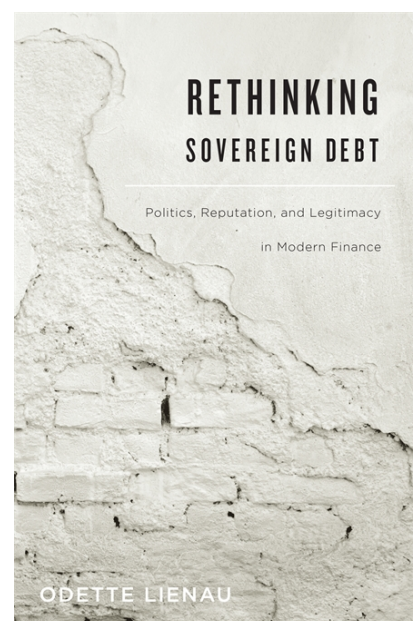
Book Review: Rethinking Sovereign Debt: Politics, Reputation and Legitimacy in Modern Finance by Odette Lienau

***Rethinking Sovereign Debt** explores how sovereign debt continuity – the rule that nations should repay loans even after a major regime change, or expect reputational consequences – became the consensus approach. **Odette Lienau** contends that the practice is not essential for functioning international capital markets and demonstrates how it relies on ideas of absolutist government that have come under fire over the last century. Despite some shortcomings this remains an interesting, highly readable, and convincingly argued book about the norms that govern sovereign debt, writes **Lauren M. Phillips**. Lienau has made an important contribution to the literature on sovereign debt, adding nuance to existing studies in international political economy and related disciplines.*

Rethinking Sovereign Debt: Politics, Reputation and Legitimacy in Modern Finance. Odette Lienau. Harvard University Press. February 2014.

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Whether, how and at what cost sovereign debt should be repaid is a major question for our times as economies in both the developed and developing world struggle under heavy debt burdens. It is also a question that is infrequently answered with reference to history and theory. **Odette Lienau's** new book, *Rethinking Sovereign Debt: Politics, Reputation and Legitimacy in Modern Finance*, instead provides an excellent window into the usually unquestioned norms that govern the sovereign debt regime. Combining knowledge of law, history, and international relations, Lienau argues that the current idea of repayment of sovereign debt under all conditions, what she calls “consistent repayment”, is historically specific, and therefore, subject to change. She argues persuasively that more nuanced views of repayment have existed in the past, and therefore could be invoked in the future, to deal with changing political conditions which affect the state’s will to repay its debt obligations.



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Lienau suggests that the extent to which the norm of continuous repayment is dominant depends on two factors (allowing her to create a simple 2 x 2 matrix): first, the extent to which creditors are consolidated; and second, the extent to which sovereignty is rooted in a traditional statist conception. The prioritization of debt continuity is likely to occur when creditors are coordinated and statist norms dominate. More flexible conceptions of repayment arise when creditors are not consolidated (they treat each other as rivals) and there are non-statist norms, e.g. a popular or democratic notion of democracy (see pages 42-43). The author goes on to argue that under less strictly statist visions of sovereignty, “sovereign obligations exist and are continuous if they have been validly authorized under the internal legal framework, even if that internal framework is distasteful according to some moral standards” (page 45).

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The historical case studies which follow the theoretical chapter help to give more specific ideas of how the various boxes in the matrix can play out. More flexible norms of repayment are present in both the case study of the post-revolutionary Soviet Union, which repudiated its pre-revolutionary and war debts by claiming that the previous government undertook the debts while acting against the will and interests of the people. Additionally, the Costa Rican government repudiated the debt of its short-lived autocratic leader, Federico Tinoco, in 1919. The democratic government did this despite concerns about its international reputation, hanging its legal argument on the fact that Tinoco’s government was never recognized by the United States government as legitimate, and

therefore the debts undertaken by Tinoco were illegitimate. In both cases, the lack of coordination and common interest amongst creditors / creditor nations is also noted.

Instead, in the immediate Post War era, when private credit for sovereigns was almost non-existent, there was high coordination among public creditors as well as familiar post-war notions of sovereignty; continuity in repayment reemerges as a strong norm. These trends were continued when bank syndication (a consolidated creditor structure) became the predominant method of private lending during the 1970s and 80s. However, Lienau suggests in Chapter 7 that more flexible norms of repayment have begun to emerge since the 1990s as creditors became more dispersed (via sovereign bond markets), and democracy and human rights have become pre-requisites for legitimate sovereignty, allowing concepts such as “odious debt” to reemerge. Mini case studies of Iraq and Ecuador are used here to illustrate her points.

The book has many strengths, and foremost among them the elegant and useful theoretical framework of considering which norm of debt is repaid. The historical examinations also provide troves of interesting detail for scholars of sovereign debt, and even the more well-known examples (e.g. the Soviet Debt repudiation) are convincingly portrayed in a new light. However, there are also shortcomings. While the historical work is strong, the more recent discussions seem unnecessarily timid. Lienau shies away from claiming that the present period is one in which more flexible norms of repayment are likely to emerge (or have already emerged), despite the large body of empirical support for this claim in her book and in ongoing cases in Europe and elsewhere. While the author notes the invocation of illegitimate or odious debt by some groups in Ireland and Greece, she does not do enough to show us how these experiences might forge new political consensus about the conditions under which continuous debt repayment no longer makes political sense.

Additionally, the book underestimates the importance of variables falling outside of the 2 x 2 matrix. For example, how does inter-state power play into the likelihood that debt will be repaid? In the ongoing case of Europe, it is clear that it was the preferences of European allies and European institutions which set the terms of the large Greek debt restructuring. It is also the support of these institutions and allies that have more recently allowed Greece, along with other distressed Eurozone borrowers such as Portugal and Ireland, to return to the private credit markets on such favorable terms. Thus, Lienau could ask under what circumstances of power and influence we are more likely to find countries carving out exceptions to repayment norms, and how alliances change the likelihood of default and repudiation.

Also, we would hope to understand how the entrenched preferences of private sector actors, and those who believe in the idea of market-based reputation, could be altered to allow a more flexible normative regime to emerge. Given that competitive conditions amongst creditors already exist, what would push creditors to adopt or accept more flexible norms of repayment (for example, a institutionalized debt restructuring mechanism)?

Nonetheless, this remains an interesting, highly readable, and convincingly argued book about the norms that govern sovereign debt. Lienau has made an important contribution to the literature on sovereign debt, adding nuance to existing studies in international political economy and related disciplines.

Lauren M. Phillips is Assistant Professor in International Political Economy in the Department of International Relations at the London School of Economics. [Read more reviews by Lauren](#).

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