Book Review

The ‘Who’ and ‘How’ in Learning From Sovereign Debt Crises

Juan Pablo Bohoslavsky and Kunibert Raffer, eds., *Sovereign Debt Crises: What Have We Learned?* December 2018, Paperback, 308 pages, £ 23.99, ISBN: 9781316649947

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<https://doi.org/10.1515/acl-2019-0044>

1 Introduction

Juan Pablo Bohoslavsky and Kunibert Raffer’s edited volume offers an invaluable country-based overview of modern sovereign debt crises, how governments have addressed them, and what lessons can be gleaned from these experiences. It is hard to think of a more timely and relevant contribution, in light of both recent problems and the crises we will deal with in the future – and, indeed, already face today. *Sovereign Debt Crises: What Have We Learned?* is especially unique among sovereign debt literature in the range of country cases that it considers. A number of books focus heavily on sub-issues or policy approaches, but without the case study breadth.¹ Earlier volumes with a greater focus on country cases still offer helpful insights but do not touch upon the shifted post-financial crisis landscape. Furthermore, as the editors point out, the recent wave of sovereign debt crises is relatively unique in including both developing and developed countries. As such, the contribution is especially welcome at this particular juncture; although certain of these examples have been covered elsewhere, others have not, and the volume puts into conversation cases that have not yet been fully and properly considered in

¹ One example is the book *Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises*, published in early 2016 by Columbia University Press (eds. Martin Guzman, José Antonio Ocampo, & Joseph Stiglitz). This excellent volume focuses more on general issues, improvements to the current contractual approach, and multilateral proposals. It includes only two case studies, Argentina and Greece, which are very useful but are highly unique and may not necessarily translate to sovereign debt crises more generally. Rosa Lastra & Lee Buchheit, eds., *Sovereign Debt Management* (Oxford University Press, 2014) and Robert Kolb, ed., *Sovereign Debt: From Safety to Default* (John Wiley & Sons, Inc., 2011), also excellent volumes, have similar structures.

a collective light. Thinking more carefully about continuities and differences across these cases is especially useful at this global moment, as is an attempt to understand “why some countries succeed and others fail.” Unsurprisingly, this book should speak to a broad audience, including policymakers and scholars from disciplines such as political science, economics, and law, along with area studies specialists engaged with the country cases.

I have little quibble with the key lessons that the volume editors draw – including, among others, the risk involved in aggressive financial liberalization and banking deregulation, the moral hazard-inducing incentive structure that drives lending to sovereigns, the morally problematic and economically counter-productive perils of austerity measures and overzealous efforts to limit creditor losses, the tendency to be over-optimistic in debt sustainability assessments, and the failure of legal architecture and interpretation at both the international and national level. Seeing each of these lessons come repeatedly to life in the country case studies is convincing and sobering, to say the least, though the instances of countries taking alternative paths also prove highly informative and cautiously encouraging.² But another value in such a volume is to invite further questions. For me, reading through the cases raised questions related to the themes captured in the volume’s subtitle – “what have we learned.” In particular, who is the “we” that might be learning? By what processes might this learning proceed? And, even, is the relatively neutral-sounding “learning of lessons” the right framework? The remainder of this essay briefly teases out this line of questioning prompted by an engaging and important volume.

2 Who learns and how effective are countries as learners?

One inadvertent, implicit suggestion that *can* arise from an edited volume that focuses on country cases is that the countries themselves are the key potential lesson-learners and generators of change in sovereign debt crises. Indeed, the editors suggest that at least one reason for the inadequacy of many outcomes is

² The chapters on Iceland, Malaysia, and South Korea are particularly helpful on this front. Of course, many factors impacted the outcomes in these three cases, none of which is held up as an ideal model. However, positive attention is paid to the commitment to socio-economic rights and citizen participation in Iceland, to the (heterodox, at the time) use of short-term capital controls in Malaysia, and to the importance of tailoring policies on financial integration for longer-term developmental strategies in South Korea.

the “fear of trying alternative responses.”³ No doubt this is true, and sovereign debtor officials have much to learn from past cases and should perhaps be required to read this volume. But it is worth asking more pointedly and directly about the degree to which success actually can be cemented by particular actions taken by governments themselves. Even if a given government actor did learn the appropriate lessons and feel emboldened to take alternative pathways, would that go very far? Or, in other words, to what degree is success likely to be shaped by actors or institutional and economic structures external to sovereign states?

One background concern in international economic relations more generally is the degree to which success or failure is in fact within the control of a country standing alone. Instead – as the volume also acknowledges – these outcomes may well result from exogenous factors, which are beyond the ambit of state policymakers. Some of these factors are natural or climatic events that directly impact the debtor country, such as a hurricane that destroys key infrastructure or perhaps a drought that decimates export crops and the capacity to earn foreign currency. Or they may be less direct – a political crisis that impacts the cost of oil or other inputs essential to productivity and growth, or a precipitous drop in demand for domestic products. Yet other elements, of course, involve the assessments and policy prescriptions of powerful external actors, be they multilateral or bilateral actors or market participants with strong views on a given outcome. In other words, the classic problem of how much agency a country has when faced with the broader structure of global economic, political, and natural forces is startlingly present in this field.

From a country debt management perspective, one central question then is which of the lessons suggested by the volume can be learned and acted upon *solo* – in the absence of support or solidarity from others. Are there any? And, relatedly, to what degree does the capacity to act alone, or at least more independently, depend upon *which country* is considering the alternative path? Perhaps one of the central lessons in the volume is precisely the difficulty of drawing uniform, one-size-fits-all lessons. The chapter authors often highlight the *sui generis* nature of their cases and the degree to which the peculiarities of a state’s political and economic context shaped the ultimate outcome.⁴ As the

³ Juan Pablo Bohoslavsky & Kunibert Raffer, “Introduction: We Need to Learn from Experience,” in *Sovereign Debt Crises: What Have We Learned?* (eds. Bohoslavsky & Raffer, 2017), p. 1.

⁴ For example, Elizabeth Thurbon writing on South Korea notes that “it is arguably unhelpful to draw specific policy lessons from Korea for other countries. Korean policies often worked because they were designed to address the particular challenges facing the nation at different

chapters as a whole lay out in detail, countries are differently situated in the global arena, in terms of their economic strengths and developmental capacity and their political alliances and history. And certain countries may have greater (or lesser) leeway because they are systemically relevant – or at least are *perceived* to be systemically relevant. Such an external interpretation or assessment may change a country's policy space, regardless of supposedly objective facts on the ground. Furthermore, certain countries could receive greater leeway than they might otherwise by virtue of a perception or understanding of a shared culture or politics – a factor that could vary even across 'developing' and 'developed' countries. As such, it is worth asking whether a more 'heterodox' approach plausibly open to some states may not realistically be accessible to others. In short, assuming that countries themselves must be a key locus of learning, we might want to think more fully about whether such learning would make much of a difference on its own, even were the proper lessons learned. We might also want to make explicit the possibility that different countries may need to draw different lessons from past cases, eschewing the idea of uniform lessons altogether.

3 The who and how of institutional learning

Naturally, state policy-makers are not the only potential learners here. The past actions of major international actors – including but not limited to the IMF and other economic policy institutions – leave much to be desired. Although from the perspective of debtor countries these actors can appear to be part of a rigid and sometimes impenetrable global structure, of course there is room for movement. We sometimes think of 'structure' and 'agent' in binary terms, but this is clearly an oversimplification. Institutional structures are shaped by policy-makers and individuals, though of course not all these actors have an equal say and as such the structure may be more opaque and rigid to some than to others. And the volume's case studies suggest that some learning has in fact occurred within these institutions over time, albeit often too late and at an uninspiring pace.

moments in history." Elizabeth Thurbon, "Lessons from South Korea: A Development Mindset Makes a Difference When Governing the Financial Economy," in Bohoslavsky & Raffer, eds., id., at p. 252. That said, she does emphasize that the Korean commitment to pragmatic goal orientation (in particular having the financial economy serve the productive/real economy), rather than ideologically informed policy prescriptions, may be worthy of study and emulation by others. Id. at 253.

Assuming these institutions are some of the target potential learners, one key question involves the processes by which they can be encouraged to learn more comprehensively and more rapidly. Part of the challenge in contemporary market functioning, in sovereign debt and beyond, is that few players are eager to fully claim ownership of failed policies. Even those actors that we think of as especially active – the International Financial Institutions (IFIs), investors, and major state actors – may claim that they too are limited by structures beyond their control.⁵ Investors see themselves as constrained by the need to make profits or be overtaken in a competitive market and the IFIs present themselves as merely providing sage advice on the basis of these market realities. Part of the challenge seems to lie with the seeming acceptance of inevitable market principles in the first place – the idea that markets and their implicit rules are somehow divorced from historically contingent practices and regulations and socially constructed interpretations.⁶

If this is the case, then repeatedly facing the failures and inefficiencies of longtime market practices – as one is forced to do in this volume – is a step in the right direction. It can demystify and discredit overaggressive liberalization and other market extremes and calamities, and its historical slant helps to highlight some degree of variation in practice, if admittedly not as much as one might hope. One open question involves the processes by which these lessons are learned. Is there something uniform (or at least learnable) about when and how these external, non-debtor actors do acknowledge failure and become more open to change? And who among these actors are most amenable to the pressure to learn? Should we press the IMF research department? US Treasury and Eurozone officials? The orthodox wing of the economics and finance professions as a whole? Powerful private creditor groups who undermine their long-run interests to avoid short-term losses? Politicians and citizen constituencies in major creditor states? Even the focus on ‘creditor countries’ can be confusing given that these governments themselves vary considerably. With

⁵ I raise this point elsewhere as well, in the context of thinking through the terms neo-colonialism or neo-imperialism as they apply to sovereign debt. In that framing, I note that “if there is neo-colonialism or neo-imperialism in sovereign debt, it is one without a self-acknowledged neo-colonialist.” Odette Lienau, “(Neo)colonialism, (Neo)imperialism, and Hegemony: On Choosing Concepts in Sovereign Debt,” in Juan Flores Zendejas & Pierre Pénet, eds., *Sovereign Debt Diplomacies: Rethinking Sovereign Debt from Colonial Empires to Hegemony* (forthcoming, Oxford University Press).

⁶ I have written elsewhere about how market principles that appear objective or inevitable in a given historical moment may in fact be variable over time; in this, they are more like conventional ‘law’ than is often acknowledged. Odette Lienau, “Law in Hiding: Market Principles in the Global Legal Order,” *Hastings Law Journal*, vol. 68, no. 3 (April 2017).

the rise in so-called ‘South-South’ sovereign lending, a new crop of creditors has entered the fray, with their own policy goals and lending approaches.⁷ Bohoslavsky and Raffer’s volume is incredibly valuable in suggesting which lessons have been and still need to be learned. And it would be a similarly valuable addition to know whether they think the volume’s cases suggest how best to teach these lessons – particularly to non-debtor actors that may not consider themselves the primary learning targets.

4 Conclusion: Is learning enough?

As a final comment, it is also worth asking the degree to which learning is enough. The framing of the volume centers on this concept, which at least implicitly suggests the presence of pupils willing and able to learn, if only the right teachers and lessons could be found. But at points the chapter cases and the editors’ contributions suggest otherwise. Bohoslavsky and Raffer themselves emphasize that “the need to improve the way debt crises are tackled is not only about designing and implementing efficient economic policies and realizing economic and social rights but also about enhancing democratic governance.”⁸ This puts us immediately in the difficult position of asking whether all the key parties are actually interested in enhancing democratic governance. The answer, unsurprisingly, is almost certainly ‘no.’ Indeed, Bohoslavsky and Raffer acknowledge that one reason for the current inadequacy is “fierce political resistance by stakeholders that actually benefit from this *status quo*.”⁹ They emphasize that “lenders getting multibillion-dollar profits or political benefits under the current state of affairs are hardly keen on searching for more efficient and human rights-oriented options.”¹⁰ And, of course, it is not just the lenders themselves. A range of non-lender stakeholders whose primary goals are not necessarily profit may also eschew

⁷ The World Bank identified this trend of capital flows between traditional ‘capital recipient’ countries in its 2006 Global Development Finance report and the trend has only intensified since then. See World Bank, *Global Development Finance* (2006), esp. pp. 107–138. In recent years, China has become a major creditor on the sovereign debt front and thus the particular focus of both scholarly and policy attention. See, for example, Sebastian Horn, Carmen Reinhart, and Christoph Trebesch, “China’s Overseas Lending,” Kiel Working Paper, No. 2132 (Kiel Institute for the World Economy, July 3, 2019); Delphine Strauss, “IMF Faces China Debt Dilemma as Low-Income Nations Seek Help,” *Financial Times*, November 21, 2018.

⁸ Bohoslavsky & Raffer, “Introduction,” *supra* note 3, at p. 2.

⁹ *Id.* at 1.

¹⁰ *Id.* at 2.

efficiency, human rights, and democratic governance as their principal objectives. And this is certainly the case for some debtor state officials as well, particularly when there is a disconnect between government elites and their underlying populations and, furthermore, a rejection by some elites of ‘Western-style’ commitments to democracy and human rights as universal ideals.¹¹

This insight sheds light on the background question of whether and how values can be learned or if such a project is appropriate at all in a postcolonial (and presumably anti-neocolonial) international economic architecture.¹² If not, perhaps because antithetical values or interests are too deeply entrenched, does it make more sense to eschew the language of learning or persuasion and instead adopt the language of struggle? If we assume the intractability of certain interests, then perhaps sovereign debt policy and activism should involve more drawing of battle lines and more explicit building of solidarity and alliances. But this strategy also risks being strident and alienating, particularly if sovereign debt practices cannot ultimately improve if key parties view and treat each other as enemies. Do the volume’s cases (or editors) have something to say about this tension between cooperative learning and more open struggle and challenge?

One of the luxuries of a review symposium essay is to indulge in questions rather than deliver answers – an indulgence I have partaken of liberally here. But the sure sign of an important scholarly contribution is that it provides both inspiration and a solid foundation for such questions. Bohoslavsky and Raffer, along with the chapter authors, deserve many thanks for building this foundation and for providing insights that will help to address the sovereign debt challenges we are sure to face going forward.

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¹¹ Indeed, commentators and civil society groups have noted that this rejection is hardly limited to non-Western states. See, e. g. Freedom House, *Democracy in Retreat: Freedom in the World* (2019).

¹² Indeed, the idea of teaching values can carry overtones of the problematic ‘civilizing mission’ that has so plagued the history of international relations and international law. For one now-classic take on this problematic element of international law, see for example Antony Anghie, *Sovereignty, Imperialism, and the Making of International Law* (2004).

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