

## Review - Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises

Written by Alfredo Hernandez Sanchez

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ALFREDO HERNANDEZ SANCHEZ, DEC 2 2016

*Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises*

Edited by Martin Guzman, José Antonio Ocampo, and Joseph E. Stiglitz

Columbia University Press, 2016

Since the 1970s we have witnessed a substantial increase in cross-border financial flows as well as in financial crises. In turn, we have also seen the rise of many international efforts to govern these flows, as well as of proposals to prevent and manage sovereign debt crises (Helleiner, 2009). The institutions and policies that have surfaced – and those that have not – have been the subject of much debate in the fields of Economics, International Law and International Relations. *Too Little, Too Late* gives a glimpse into the current state and possible future of the international regime on sovereign debt restructuring.

The book is divided into four parts. The first deals with general issues in sovereign debt restructuring and provides the reader with the necessary tools to make the most out of the more detailed contributions in subsequent sections. Section two consists of two case studies which illustrate just how much has changed in the world of sovereign debt restructuring since the crises in Greece and Argentina. The third part of the volume shows its interdisciplinary approach by overviewing current debates surrounding the current contract-based status quo from a legal and economic perspective. Finally, the fourth section consists of proposals on how to move forward and address the systemic deficiencies that have become recently apparent.

The contributors come from a wide variety of backgrounds, from practitioners to young scholars and established academics from several fields. Nevertheless, they all hold in common the belief that the current way of dealing with sovereign debt restructuring is broken, though they differ on why this is and how to fix it. In Chapter 1, Guzman, Ocampo & Stiglitz set the general tone of the debate: the choice between improving bond contracts and designing a treaty-based mechanism. Throughout the book, the status quo is referred to as a “non-system”, which Ocampo (Ch. 10) contents causes “debt restructurings generally (or even always) come too late after overindebtedness has had devastating effects on countries and thus on their capacity to service debts” (pg. 189). This clearly conveys the general message of the book: so far, the institutional responses have been too little and too late.

For students of International Relations, Chapters 2 and 3 will be of particular interest as they explore how the distribution of power between creditors and sovereign borrowers has shaped institutional design and favored the contractual approach. Brooks & Lombardi (Ch. 3) echo the literature on regulatory capture (i. e. Mattli & Woods, 2009; Young, 2012) and argue that “by deploying money and expertise in relatively opaque & closed institutional settings, private creditors are sometimes able to directly influence public policy outcomes” (pg. 59). The two case studies also reflect the effect of global politics in seemingly technical debates. Yanis Varoufakis (Ch. 5) argues that “the case of Greek debt is fascinating because it is one of those curious situations in which creditors extend new loans under conditions that guarantee they will not get their money back” (pg. 100), a situation which he concludes is closely linked to “a war [that] is waging between Berlin and Paris over the form of political union that must be introduced to bolster Europe’s monetary union” (pg. 103). All in all, the authors take on a skeptical stance on the emergence of a statutory system that would give emerging-market sovereign debtors more voice.

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As for the economic theory present in the volume, Haley (Ch. 8) presents perhaps the best argument against the contractual technology approach from a Coasean standpoint: “short of some internationally binding agreement that enforces the use of standard, non-varying terms, contractual approaches will be subject to innovation and evolution as market conditions and the needs of sovereign borrowers change” (pg. 167). The contractual approach is not without its defenders though, as Gelpern, Heller & Setser (Ch. 6) contend that with newly developed and standardized clauses the market is becoming ever more mature and that more substantial, statutory, reforms will likely require more “substance, process learning, and in all likelihood, trauma” (pg. 136). The proposals for reform outlined in the last section reflect a similar skepticism regarding the emergence of a full-blown treaty. Nevertheless, Howse (Ch. 14) suggests the creation of a parallel soft-law counter framework to complement the existing set of norms; one in which the principles on restructuring advanced by the United Nations General Assembly and the role of emerging creditors (namely China) has more weight.

The timing for this book could not be better, the legacy of the post-2008 sovereign debt crises is still casting shadow on global economic recovery and new one are arising across the globe from Puerto Rico to Ukraine. The existing “non-system” has come under a lot of pressure in recent years, not only from sovereign debtors and experts, but also from private creditors and international organizations (Charbonneau, 2015). We are at a time of great experimentation, with new ideas and strategies being constantly debated, from equity clauses in contracts to multi-stakeholder networks; students of global financial governance in general will also greatly benefit from this book. All in all, *Too Little, Too Late* will be of most interest to those looking for information on the politics of global debt, rather than its technical dimension. It is a source that details what we have learned from a long history of past successes and mistakes in the attempt to govern sovereign debt and is bound to be a reference for debates yet to come.

## References

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