Debt crises over the years have caused lenders to lose confidence in debtor countries. The causes behind these crises have ranged from mismanagement to corruption, excessive risk exposure, and so on. Given the recent financial crisis, the debt problems of many developing countries continue to plague the international community. Traditional belief holds that a debtor country must repay its debt, but many developing countries struggle to service their debt and, at the same time, spend enough to meet the needs of their citizens (GAO 2000). Therefore, how developing countries repay their debts and the costs of repayment for these countries are critical issues for international development. Odette Lienau’s *Rethinking Sovereign Debt: Politics, Reputation, and Legitimacy in Modern Finance* provides a historical analysis of how debt continuity has become the norm and presents cases that illustrate changing norms for sovereign debt. Lienau examines how various factors, such as a country’s institutions, influence the reputation of a country and how these factors affect lending characteristics.

This book addresses important questions related to the repayment of sovereign debt: How should the debt incurred by a regime be repaid after that regime changes? What should be the cost of the sovereign debt? And should the debt incurred by an authoritarian regime be repaid by a new regime? The author develops insights into these questions in eight chapters. Lienau introduces in chapter 1 sovereign debt continuity, that is, the rule that sovereign states should repay debt even after a major regime change and the related expectation that they will otherwise suffer reputational consequences. She then poses the following as the guiding questions to be addressed in the rest of the book: “How have we come to think that the norm of sovereign debt continuity is more or less unavoidable for a working international financial system? Is it possible to think of an alternative approach—or find one historically—in which odious debt ideas and selective debt cancellation might be incorporated into a functioning debt market grounded in reputational assessments? And if so, why hasn’t such a system developed, especially given the politicized discussions of sovereign legitimacy that have taken place alongside the development of modern finance?” (2).

A historical narrative starting from World War I offered in chapter 2 is followed by illustrations of how countries used various approaches to negotiate and repay their debts in chapters 3 and 4. Chapters 5 and 6 then examine the history of debt structure since World War II and the role of international organizations such as the World Bank and International Monetary Fund in debt repayment structure. Chapter 7 discusses how the flow of financial capital has changed in recent years, and the book concludes with future directions in chapter 8.

Lienau argues that there is a lack of well-established theory that can be applied to instances of sovereign debt to better understand the framework of debt structure. Agency theory has traditionally been applied to domestic contracts, but, the author argues, it is difficult to apply it to international contracts because of a lack of clear identification of agents and principals, legitimacy concerns, and information asymmetries on both sides, creditors and debtors (states/nations) (22–23). Future scholars will need to establish theories that help better understand debt and repayment structures as well as principal and agent configurations in international capital/debt networks.

Debt continuity is likely to be less of a priority for many debtors, as Lienau points out. She suggests that when creditors are consolidated and coordinated, debt continuity is likely to be a priority for the debtor. However, private and public creditors are accountable to different stakeholders, so their objectives are likely
to be different as well. Public creditors are accountable to donors rather than profit-seeking shareholders, so debtor states may perceive that public creditors are more likely to be flexible than private creditors.

The author goes on to argue that the norm of continuous repayment also depends on the extent to which sovereignty is rooted in traditional statist conceptions. Under the statist norm, debt obligation continues regardless of the internal structure of government and popular support for or opposition to the government. As Lienau indicates, “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” (45). The internal structure of a country and its debt are interconnected. Adeva and Yabiku (1995) argue that external debt imposes pressure on economic conditions, which leads to conflict. If we look at recent history, many of the African and Middle Eastern countries are experiencing ethnic tensions and civil unrest. This unrest has implications for both the internal and external political environment as well as for the economic environment. These conflicts create uncertainty and consume valuable resources without any concern for repayment. Amador (2004) furthers this argument by showing that in authoritarian regimes, the ruling party has little to no incentive to save in order to pay off debt.

The author presents case studies of nations that have been able to restructure their repayment options by repudiating the statist argument. She presents two case studies, Russia and Costa Rica, as examples of the use of flexible repayment methods. These countries repudiated their debts based on the argument that the government that originated the debt was illegitimate. Russia repudiated its pre-revolutionary war debts, claiming that the previous government had undertaken the debts against the will of the people. In addition, Russia argued that none of the debts were used for the interest of the citizens. The postautocratic government of Costa Rica questioned the legitimacy of the debt incurred under the prior government. Because the government of the autocratic leader, Federico Tinoco Granados, was never recognized by the United States as legitimate, the debt undertaken by him should not be considered legitimate, Costa Rica argued. I concur with the author that internal political structure should be an important factor in debt structuring or debt origination or both. In addition to internal political structure, as presented in the book, I think that the legal institutions of a country should be considered in the debt and repayment structure. Legal institutions of many of the developing countries are poor and may be run by cronies of the ruling political parties (Rose-Ackerman 2007; Tullock 2005). Therefore, any legal framework used to acquire debt should be considered in repayment structures.

Immediately following World War II, the strict statist position—no flexibility in repayment options—was prevalent. International organizations and public creditors such as the World Bank and International Monetary Fund started to get involved in lending activity. As these organizations’ involvement increased, they also changed their lending focus over the years. These international lending organizations began to emphasize governance, democracy, and human rights during the 1970s, 1980s, and 1990s. They also adopted flexible norms of repayment, and “odious debt”—also known as illegitimate debt—started to emerge.

Lienau presents two additional case studies, Iraq and Ecuador, to illustrate the importance of flexibility for both creditors and debtors. Iraq acquired a significant portion of its debt during the Iraq-Iran War, when the country was a U.S. ally, until recently, when the United States overthrew the dictator. Iraqi officials wanted full repudiation of the debt incurred during the Iraq-Iran War and the recent war, but the creditor was not willing to forgive the entire debt. On the other hand, Ecuador took a completely different approach to restructure its debt. In July 2007, its president established the Integral Auditing Commission for the Public Credit to assess the “legitimacy, legality, transparency, quality, capacity, and efficiency” of Ecuador’s debt from 1976 to 2006. The commission reported that the country’s external debt was not legitimate. Ecuador eventually defaulted and agreed to restructure the debt so as to pay out less. Both countries agreed to restructure their debt, but during the process, they posed additional questions that I believe are important to address in the future, such as, is it fair for future citizens in a given country to bear the cost of conflict imposed by external sources? Is it legitimate for an internal commission of a country to declare external debt illegitimate?

The book offers arguments and analysis that can be used to understand cases beyond those described, but it also has some important gaps. For example, while it lays out the groundwork for examining how the financial crisis of the Eurozone has influenced repayment norms, it does not go far enough. Eurozone countries present an interesting case because they have different internal fiscal institutions and are at a different level of economic development. These countries also have different levels of power on the global stage. Therefore, it would be interesting to determine how global power and alliances between countries influence repayment norms, as countries often create these to maintain or meet their own strategic and economic interests. For instance, during the Cold War, Western allies supported authoritarian regimes that stood against the Soviet Union. Therefore, the political and strategic interests of nations, something that Lienau does not emphasize, should be of interest to future scholars and may provide more in-depth information about the debt and restructuring plan.
Altogether, Lienau’s book builds a solid interdisciplinary bridge by combining knowledge from different disciplines, such as law, public finance, international relations, and public policy.

The author is also successful at presenting a detailed history of the past events. The book is interesting, easily readable, and presents well-established arguments regarding norms of sovereign debt. *Rethinking Sovereign Debt* carries important implications for scholars and public officials.

**References**


