Networked Default: Public Debt, Trade Embeddedness, and Partisan Survival in Democracies since 1870

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Network defaults

- Most literature assumes political effects of default in a given country are independent of decisions elsewhere
- International networks can act as conduits of material **& informational** resources (Burt 1992; Borgatti & Lopez-Kidwell 2011)
- Defaults elsewhere in a local (international) network may shape voter attitudes by providing new information:
  - Voters might be *more forgiving of default at home* if they believe creditors will be more forgiving (Tomz 2007), or because networked defaults erode a repayment norm (cf. Friedkin 2001)
  - Voters might be *less forgiving of default at home* if they perceive a strategic opportunity to restore reputation (e.g. Argentina 1930s), or if network defaults reinforce concerns about negative consequences

Hypotheses

- **H1:** sovereign default in the presence of increasing networked default will ***lower*** the risk of incumbent termination

- **H2:** sovereign default in the presence of increasing networked default will ***increase*** the risk of incumbent termination

- Alternatively, network defaults might have no additional effect on the risk of incumbent termination

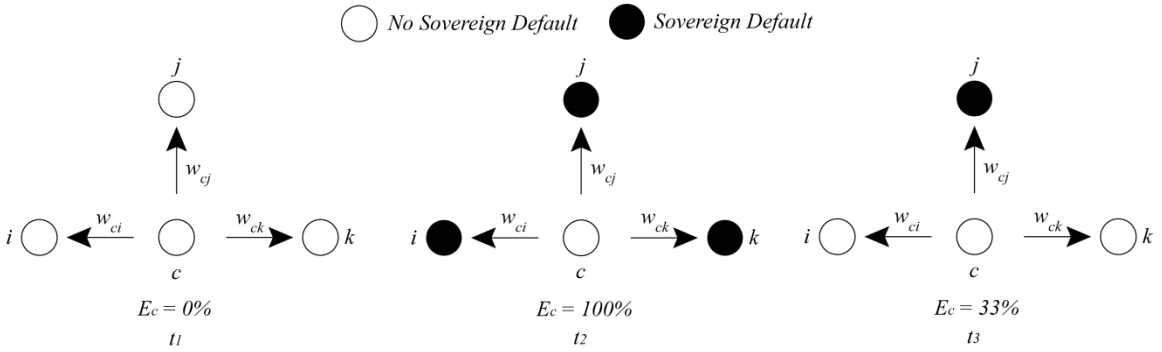
Data and Method

- 56 democratic countries from 1870-2009 (N = 2654)
- Conditional elapsed time event history model
- Dependent variable: "*Partisan spell" of chief of government* [562 spells]
- Interaction term:
  - Sovereign Default (Reinhart & Rogoff) – 34 defaults [6% of spells]
  - Default **Export Market Exposure** (our network variable)
- Control Variables:
  - Democracy (Polity IV)
  - Age of Democracy (Polity IV)
  - GDP growth (Maddison Project)
  - GDP per capita (Maddison Project)
  - Exports Per Capita (COW Trade Dataset 3.0 - Barbieri and Keshk 2012)
  - Cumulative Number of Previous Defaults

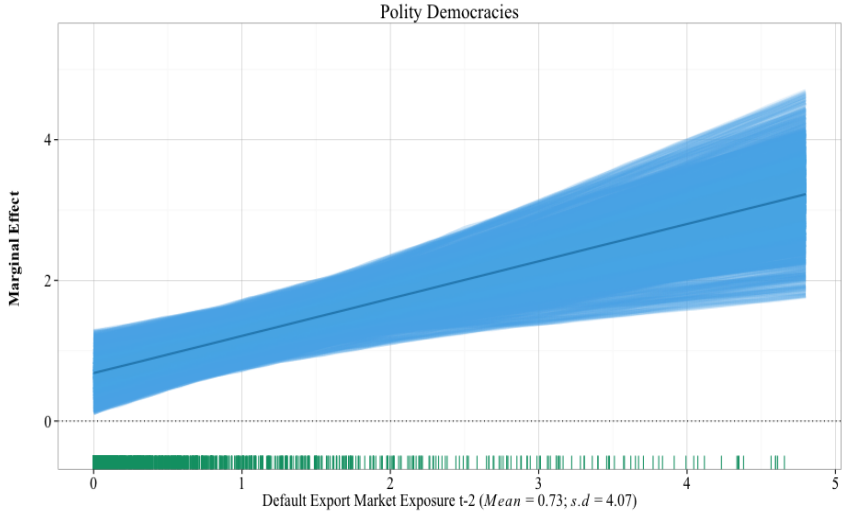
Default Export Market Exposure

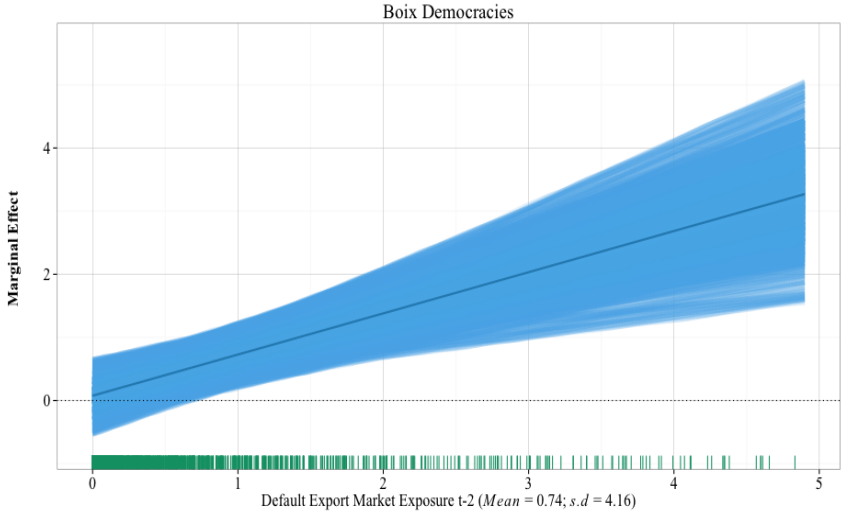
$$E_{c(t)} = \frac{\sum_{j}^{j-1} wt_{cj(t)} y_{j(t)}}{\sum wt_{c(t)}}$$

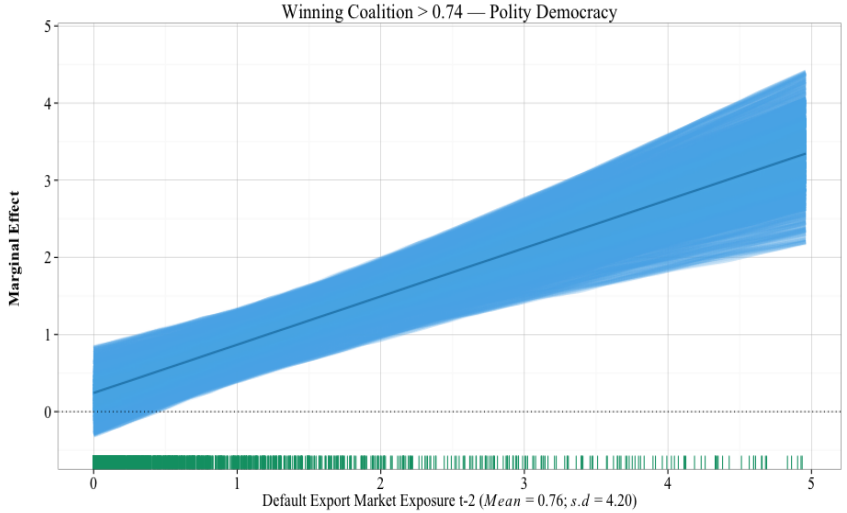
where *c* is the focal country, *w* is the weighted *n***n* adjacency matrix representing exports in year *t*, *y* is a vector of binary values indicative of which countries default, *j* is one of the *n*-1 other countries in the network and w_{cj} is the scalar representing exports from *c* to *j*

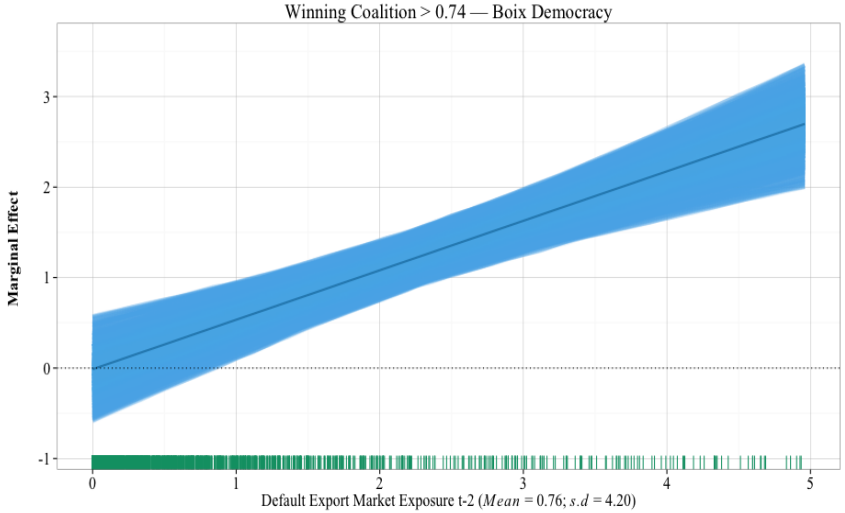


Default and Exposure

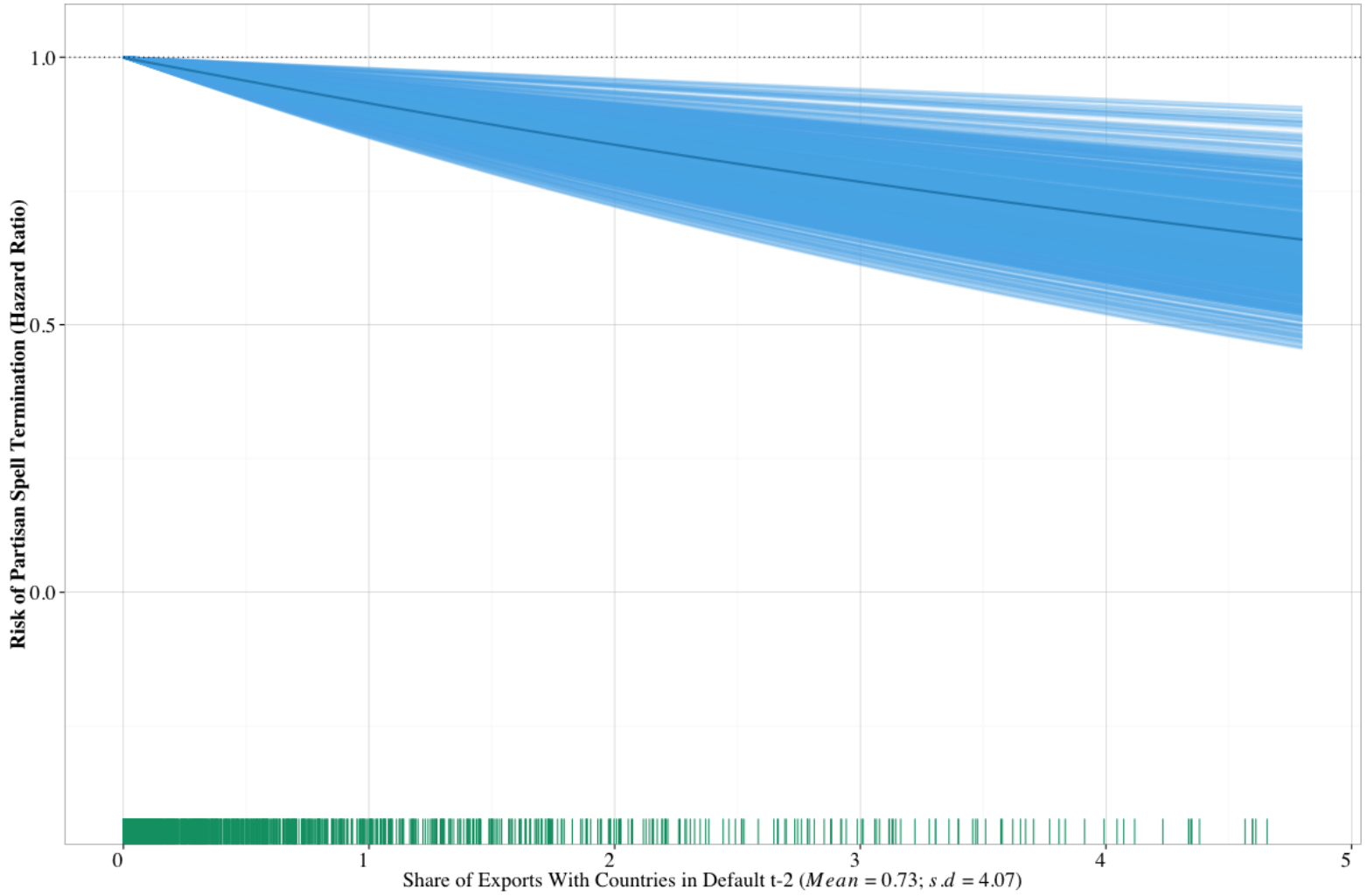








Non-Default and Exposure



Robustness Checks

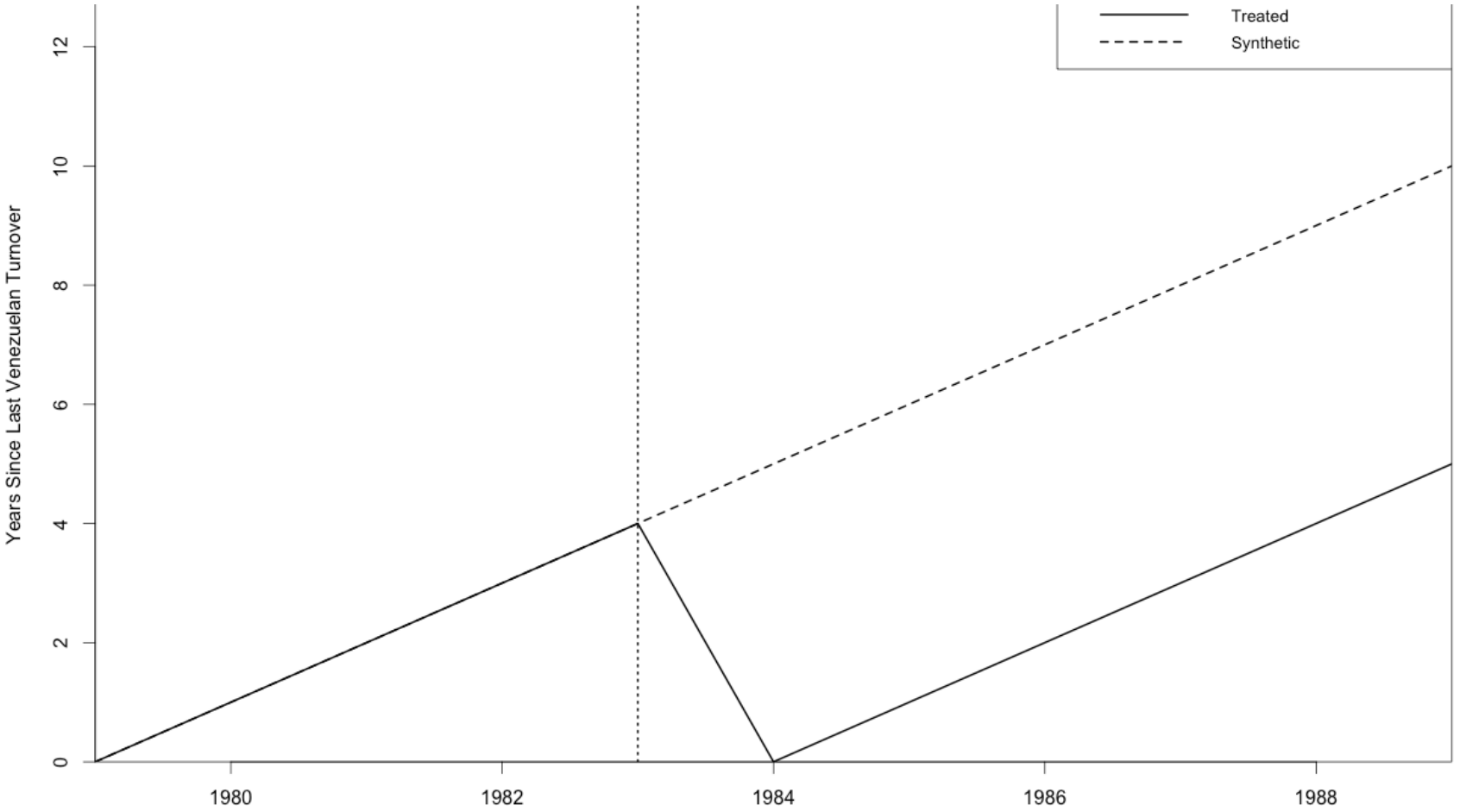
- Alternative measures of regime governance
  - Democracy - Boix, Miller, Rosato (2013)
  - Winning Coalition - Bueno de Mesquita, Smith, Siverson, and Morrow (2003)

- Entropy Balancing

Results – summary

- The effect of default on incumbent termination risk is conditional on defaults in a country's export network
- Defaulters with high exposure to network defaults have more than 5 times higher risk of termination compared to defaulters with low exposure
- Non-defaulters with high exposure to network defaults experience lower termination risk (≈ 19% lower, compared to non-defaulters with low exposure)
- Defaulters are nearly 7 times more likely to suffer termination than non-defaulters when both are highly exposed to network defaults

How long would have *COPEI* survived in office had Venezuela not defaulted in 1983?



Conclusion

- Results favour **H2:** voters are less forgiving of national default given networked defaults
- Informational effects of networked defaults are powerful, framing voters' perception that costs of default exceed benefits
  - Case studies will tease out alternative possibilities of strategic opportunity vs. negative reinforcement
- Supports general claim that democracy is a constraint on default
  - But "bad" behavior in a country's international network appears to reinforce this constraint