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

Jeffrey M. Chwieroth (LSE)
Andrew Walter (Melbourne)
Cohen R. Simpson (LSE)
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

\[ E_{c(t)} = \frac{\sum_{j=1}^{j-1} w_{t_{cj(t)}} y_{j(t)}}{\sum w_{t_{c(t)}}} \]

where \( c \) is the focal country, \( w \) is the weighted \( n \times n \) 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

Polity Democracies

Boix Democracies

Winning Coalition > 0.74 — Polity Democracy

Winning Coalition > 0.74 — Boix Democracy
Non-Default and Exposure

Risk of Partisan Spell Termination (Hazard Ratio)

Share of Exports With Countries in Default t-2 (Mean = 0.73; s.d = 4.07)
Robustness Checks

• Alternative measures of regime governance
  – Democracy - Boix, Miller, Rosato (2013)

• 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