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BOOK REVIEW

Debating continuity and rupture in the sovereign lending nexus

Quentin Bruneau, *States and the Masters of Capital: Sovereign Lending, Old and New*, New York, Columbia University Press, 2022, 228 pp., $35 (paperback), ISBN: 978-0-231-20469-9.
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As we witness, once again, looming debt crises in capitalism's periphery, understanding the dynamics of how governments manage debt, lending, and financing is critical for social scientists. While the rising dominance of passive investment and the change of the actors involved in sovereign lending have been concisely scrutinized from a political economy angle (Fichtner et al., 2022; Petry et al., 2021), scholarship focusing on the historical development of the actor-networks in sovereign lending processes is scarce, as Bruneau rightly points out (p. 7). It is from this point that Bruneau departs in order to unravel 'the nature of lenders and the way they think about the sovereigns to whom they lend capital' (p. 2). For Bruneau, the depiction of sovereign lenders is all-too often ahistorical, and this disregards changes in the nature of the lenders, the know-how they rely upon, and their interests (ibid.). In a lucidly written and very well-structured manner, Bruneau takes the reader by the hand, reiterating the preceding steps, and pointing out the ones to follow. This style is useful for unravelling Bruneau's central argument, namely: that the last two centuries witnessed a profound shift within the sovereign lending landscape, characterised by a change of financiers and the forms of knowledge they rely upon for the assessment of sovereign's creditworthiness (p. 3). He develops this argument across six central chapters bracketed by an introduction and a conclusion. The contents of these are briefly summarised in this book review. After reviewing the content, a critique of the book's potential omissions is formulated.

Part of the problem in scholarship on sovereign lending, Bruneau argues, is that the 'conventional view' recognises a shift from personal to impersonal relations in financial markets (p. 53) but neglects the changes underpinning these developments. Financiers are often depicted as interchangeable profit-driven actors (p. 7). Yet this focus fails to account for the rise of joint stock banks (p. 91). Bruneau instead argues that the shift from personal to impersonal relations brought about major changes within the nexus of sovereign lending. To support his point, Bruneau provides a historical analysis that locates the knowledge of financiers within the realm of international political thought (p. 11), presenting 'two worlds of sovereign lending dominated by different private actors who think about states in radically different ways [. . .]' (p. 8).

The actors dominating the banking playing field until the interwar period of the 1920s were merchant bankers, mostly large European families. For Bruneau, these bankers were not simply following a profit-logic; they were striving for status. Although the quest for status and profit were tightly interconnected, the author argues that status-seeking activities followed different logics than purely profit-oriented agency (p. 33). The form of knowledge merchant bankers invoked to assess the creditworthiness of sovereigns was courtesy, a very European form of knowledge. Essentially, courtesy is a set of behaviours that allowed high-ranking gentleman to be accepted at courts of nobility, providing the opportunity for personal interaction with sovereigns and, in turn, participation in sovereign lending business. In this historical setting, financiers knew sovereigns in terms of individual members of the high nobility, not as abstract government entities (p. 49). However, this setting was steadily replaced by the rise of joint stock banks that differed not only in terms of organisational structure, members, and shareholder composition but also in the knowledge they relied upon for assessing sovereigns. As members of joint stock banks were not primarily recruited from the old merchant bankers' families and did not have access to the same international networks nor to the gentlemanly education prevalent in nobility circles, they based their assessment on statistical knowledge about sovereign's creditworthiness instead (pp. 69–90). This new form of knowledge was only fully embraced later on, but the beginning of its rising importance indicates a wider trend: out with status and courtesy, in with profit.

It took quite a while for the joint stock banks to replace the old merchant bankers as central players in sovereign lending. While statistical measurement started to gain importance as early as the late eighteenth century, the full triumph of joint stock banking and the continuous evaluation of states' solvency by means of statistics was only achieved by the beginning of the 1980s (p. 116). In the meantime, the business of sovereign lending was primarily conducted either by merchant bankers like J.P. Morgan, important national private banks, or multilateral institutions such as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). The latter's lending was effectively guided on the basis of information provided by the League of Nations. Bruneau identifies three central causes that gave rise to this constellation. First, the onset of the first and second world wars meant that international private lending was not the primary choice of financing for sovereigns. Second, the Bretton Woods System that lasted from 1951 until 1973 strictly regulated and disincentivised international sovereign debt financing. Third, merchant bankers were able to hold onto their privileged market position because of their well-established networks (pp. 122–126).

For Bruneau, this final factor is important because it points out that, although reliable statistical information regarding the creditworthiness of sovereigns were widely disseminated and readily available, especially from the beginning of the twentieth century on, merchant bankers and sovereigns nonetheless preferred to broker their preferred terms of trade in back-room-deals. In this way, they resisted 'quantifiable facts' (p. 96) and opted for privileging personal relationships in contracting sovereign credit. The system of banking and sovereign lending was built on trust between individuals and these foundations were long-lasting and hard to replace (p. 62). By emphasising this point, the author centres the notion that the constant evaluation of sovereigns' creditworthiness on the basis of statistical assessment is only round about fifty years old and thus a contemporary phenomenon (p. 128).

The descriptive side of Bruneau's work is very detailed and convincing. However, *States and the Masters of Capital* is less conclusive in its efforts to derive the socio-political implications of its observations. Important questions remain unanswered. Is the rupture in the social composition, interests, and the knowledge system of sovereign lending financiers (p. 12) really as fundamental as Bruneau claims? Has the system of sovereign lending changed as drastically as he suggests and following the patterns identified? And if so, what are the consequences? While Bruneau does briefly touch on two important concepts – power and hierarchies – in regard to knowledge, the focus of his work, courtesy, and statistics, are not adequately analysed through the lens of knowledge hierarchies or power structures. However, research on epistemologies profits to start from an understanding of knowledge systems as fundamentally hierarchic – both within and in between different types of knowledge (Foucault, 1971; Fricker, 2007). This provides important insights, particularly regarding the class character of sovereign lending knowledge, the changing role of sovereigns vis-à-vis private lenders, and the newly established international dimensions of the sovereign lending business.

Courtesy is a peculiar form of upper-class knowledge. In this context, it facilitated direct access to material advantages and decision-making power. Admittance was heavily restricted and protected by merchant bankers who knew how to use it to generate profit. It is true that statistics marked some change in that regard (p. 96). But this turn in the accessibility of key business knowledge should not be overstated or misunderstood as an equalisation of the terms of market participation, as Bruneau partially seems to do. Bond rating agencies do not provide the market with 'quantifiable facts' (pp. 96, 112, 118) that are easily accessible for everyone or free of normative judgement. Statistics are an instrument of domination, *presenting* particular interests as technical economic necessities free of normative judgement (Foucault, 2010: 267f). Using statistics implies the exercise of normative presuppositions entrenched in the statistical-economics worldview. Research on the gatekeeping functions of rating agencies as well as index providers affirm these assumptions for the sovereign debt system within contemporary financial markets. The numerical categorisations underlying such knowledge systems are primarily shaped by the class interests of privileged economic positions in the global North (Barta and Johnston, 2018; Barta and Makszin, 2021; Fichtner et al., 2022). In this sense, both courtesy and statistics are forms of knowledge with restricted access that are shaped by the upper classes to facilitate sovereign lending business in line with their interests. There are central continuities within the power structures and class constellations of sovereign lending, even as practices around sovereign lending change. This is a point Bruneau seems to omit.

More broadly, fundamental ruptures have taken place in sovereign lending systems, for which Bruneau does not account. When merchant bankers dominated sovereign lending, sovereigns were extremely dependent on the benevolence of private financiers. They were perceived, and often rightly so, as less reliable creditors than commercial actors and charged a higher interest rate as a result (Boy, 2015: 533). While sovereigns had some leeway over their financiers, the private market assessment of creditworthiness was critical. This changed fundamentally when government bonds came to occupy a central position in the economy, particularly from the 1970s onwards. Especially in highly liquid and short-term repo markets, government bonds from central capitalist states are considered a quintessential safe asset and guarantor of liquidity access in times of market distress. Owning government bonds with small default risk has become a prerequisite for private financial actors, both for use as collateral in repo-transactions and as safe asset in investment portfolios. As a result, they heavily depend on the issuance of sovereign debt and the safety offered by it. Sovereign nation states, in turn, rely on favourable market conditions for government bonds in order to keep refinancing costs at bay (Gabor and Ban, 2016). In this mutually beneficial constellation, sovereign creditworthiness 'falls between the state and the market' (Boy, 2015: 539), creating an ever-stronger entanglement between private market and government interests while putting the former in an increasingly powerful position. Governments, in turn, come to occupy a very contradictory position. The attempt to guarantee the safety of the international financial architecture through post-crisis regulation of 'sovereign privileges' is at odds with a neoliberal market notion of safety as risk-based liquidity (Van Riet, 2023). Bruneau does not recognise this but speaks of a one-sided 'subjugation' of states to financial market preferences (p. 116).

As a result of these processes, financial actors participating in the sovereign lending business in the Global North attained an enormous degree of structural power, taking a central position within the international economy. Strikingly, this rise has been combined with an internationalisation of the global sovereign lending business and the creation of ever-more important global government bond markets. This, in turn, has given such market dynamics the power to decide on the feasibility of government policy preferences, particularly in capitalism's peripheries and the Global South (Tomás Labarca Pinto, 2019; Konings, 2007). Bruneau, however, does not include semi-sovereign and non-sovereign states in his analysis (p. 9). The matter of sovereign debt in the Global South is barely touched upon (p. 137), even when newly established power and dependency relations in the aftermath of formal decolonisation and the rise of financialised globalisation mark the most striking change in the global sovereign lending landscape over the last century (Hardie, 2011; Koddenbrock and Samba-Sylla, 2019).

In the old system dominated by merchant banks, courtesy was a tool endorsed by privileged economic class positions, albeit on a very different geographical scale, during a period when the sovereign lending business was far less internationalised. The shift to the new era of sovereign lending under financial globalisation would have merited further examination, as current debates regarding debt-denomination and relief in the global South (Engel and Park, 2022; Potts, 2023) could clearly profit from detailed and well-informed analysis like Bruneau provides elsewhere.

The strength of *States and the Masters of Capital* lies in its fine-grained analysis of the *micro*- and *meso*-levels of actors involved in sovereign lending. It tells a very interesting story in that regard. However, in other areas, it leaves something to be desired. It only briefly touches upon the class character, changing state-market relations, and internationalisation of the sovereign lending business. Such changes, however, are central to building a detailed understanding of how the contemporary sovereign lending system has taken shape. The explicit focus on the *micro*-level of knowledge and actor systems adopted by Bruneau means he is unable to link his findings to the *macro*-level and bigger changes within sovereign lending practises. Connecting a *micro*- to *meso*- with a *meso*- to *macro*-analysis is a complex task, but one worth pursuing (Braun, 2016: 258; Lagna, 2016: 170). It would offer an opportunity to further the scholarly debate around sovereign debt and the factors that have contributed to its evolution. It might also help to answer crucial questions such as the following: What do micro-level changes in the actor composition imply for the bigger picture? Can the regulatory overreliance on credit rating assessments be overcome (Stellinga, 2019)? Which developments are to be expected? Can we 'conceptualise different potential futures of sovereign lending?' (p. 140).

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