The Default Taboo: Repayment Norms during the Great Depression[1]

Abstract France and Britain were responsible for the two largest sovereign defaults in modern history when they unilaterally suspended war debt repayments to the United States during the Great Depression. Despite facing similar economic challenges, Paris defaulted in 1932 whereas London continued payment until 1934. Conventional explanations for why states default or repay their debts—which tend to focus on future borrowing costs, the risk of sanctions, economic spillover effects, or domestic-political trade-offs—struggle to explain this variation. This article refocuses attention on the role of ideas and norms in policymakers' decision-making at critical moments on the path to default. Archival research in Britain and the United States reveals a default taboo in operation in London. The taboo functioned instrumentally, affecting cost-benefit calculations, but also substantively, making repayment legitimate and appropriate. Variation in the key mechanisms of normative influence—domestic public opinion, international reputation, and personal moral convictions—provides a stronger explanation of repayment behavior than existing theories. British policymakers were initially concerned about outraging the public, feared non-payment by Britain's own debtors, and believed repayment was morally right. Britain defaulted only after these concerns faded, and despite economic recovery. In contrast, French policymakers faced immediate and strong public resistance to repayment, held more limited concerns about international reputation, and were more divided on the morality of default. Analysis of these historical examples, which represent difficult cases due to pervasive assumptions about economic rationality, highlights the importance of ideas and norms in the study of sovereign debt and helps to explain why states can repay debts in bad times or default in good times.

Governments around the world have assumed unprecedented levels of external debt in response to the economic turmoil created by the Coronavirus pandemic. Scholars and policymakers have expressed concerns about a tsunami of sovereign debt distress over the coming decade, destabilizing national governments and imperiling the global economy.[2] Looming debt crises and uncertainty about which states will honor their obligations underscores the theoretical and practical

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[2] Bolton et al., 2020.

importance of understanding the causes of sovereign default. Economists and political scientists have argued that default is usually difficult to justify given the risk of significant economic or political consequences, but scholars disagree on the key variables in operation and recognize the limitations of any single explanation.[3] While existing scholarship focuses largely on material factors to explain why states typically repay their debts, work considering non-material explanations remains curiously overlooked. Yet IR scholars recognize that ideas and especially norms—understood as shared expectations about appropriate behavior held by a collectivity of actors—constitute state interests, identities, and practices and in so doing inform cost-benefit calculations of national interest.[4]

Norms matter in the study of international political economy in general, and sovereign debt in particular.[5] Scholars have shown that normative shifts reduced the frequency of military intervention in sovereign debt collection, strengthened the rule of sovereign debt continuity, and weakened international support for unilateral default.[6] These insights are supported by research showing that non-economic factors and symbolic attitudes can affect citizens' views on default and that ideological orientation can inform the lending and borrowing practices of states.[7] Scholars have nevertheless focused comparatively limited attention on how—and how far—normative and ideational factors deter leaders or governments from sovereign default. The powerful material risks associated with non-payment have largely crowded out non-material explanations.

We contribute to the growing body of work on norms and debt by showing that a "default taboo"—namely, a normative inhibition on non-payment of external debts—exists in democratic states. Over the last decade, many scholars have made fleeting references to such a taboo.[8] The concept remains underdeveloped, however, and prone to challenge. Critics might deny the

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[3] Panizza et al., 2009; Gill, 2021.
[4] Finnemore and Sikkink, 1998; Tannenwald, 2007. See also Bertucci, Hayes, and James, 2019. External debt payment involves 'a sense of oughtness, the government as the defined actor', and the avoid of default 'as the expected action by that actor'. As such it should be seen as a norm rather than a moral principle: Jurkovich, 2019.
[5] Abdelal, Blyth, Parsons 2010. On credit and debt as social constructs, see Dyson, 2015.
[6] Finnemore, 2003; Lienau, 2014; Roos, 2019.
[7] Nelson and Steinberg, 2018; Nelson, 2014.
[8] Gelpern, 2013: 1103; Abel, 2017: 58; Gill, 2021; Heinemann, 2021.

existence of a default taboo or even powerful repayment norms by suggesting that they are epiphenomenal to economic priorities or merely cheap talk motivated by political interests. We argue, in contrast, that repayment norms—or an outright default taboo when these norms are sufficiently powerful—can have an autonomous effect on decision making in states. None of this is to suggest that material factors are irrelevant or unimportant, rather that integrating normative factors can provide a stronger explanation for repayment.[9]

To test the default taboo against competing explanations of sovereign default we draw on extensive archival material to examine the course of the two largest defaults of the last century, both of which were made by advanced industrialized democracies during the Great Depression.[10] Following the end of a global debt moratorium on 15 December 1932, France immediately defaulted on $3.9 billion of financial obligations to the United States that it had accumulated during and immediately after World War I. In contrast, the British government continued to make multi-million-dollar payments to the United States despite holding larger debts and being in a weaker financial position.[11] Only after eighteen months of additional repayments would the British government reluctantly default on U.S. war loans, which totaled $4.7 billion, on 15 June 1934.[12] Adjusted by relative economic output, these unpaid obligations—equivalent to $1.1 trillion for France and $1.5 trillion for the United Kingdom today—dwarf recent defaults by Argentina. erroneously described as the largest on record.[13] The United States has never forgiven these war debts and continues to record their existence.[14]

British debt payments weakened sterling and required high levels of taxation, which in turn produced a prolonged period of industrial depression and increased unemployment.[15] Deepening

[9] For similar logic, see Tannenwald, 2007: 4. The concept a "default taboo" shares some similarities with a tradition of repayment. "The difference," as T. V. Paul (2010: 854) explains, "can be thought of as a matter of degree."
[10] On the importance of historical research to IPE, see Morrison, 2016, 2021; Gill, 2021, 2022.
[11] For full details, see Annual Report of the Secretary of the Treasury (1933), 28.
[12] This figure ($4.714 billion) is based on total indebtedness, June 1934. See Annual Report of the Secretary of the Treasury (1935), 391, table 42. This amount is distinct from loans via private U.S. banks in 1915 and 1916, which were subsequently repaid: Wormell, 1999.
[13] $1.51 trillion compares relative output in 1934 and 2019 via MeasuringWorth, 2021. See also Ahamed, 2009: 505.
[14] Gill, 2022.
[15] CAB, 24/249/33, 29 May 1934.

the puzzle is the timing of the British default; after suffering though the domestic economic consequences of large repayment bills, the British defaulted just as the economy had begun an upward swing—making repayment less materially onerous. In contrast, France was better placed to pay its debts and spent the installment amounts elsewhere to lower taxation.[16] Existing theories—which tend to focus on future borrowing costs, the risk of sanctions, economic spillover effects, or domestic-political trade-offs—struggle to explain why London continued to make costly repayments while Paris chose to default for four reasons.

First, both governments were unconcerned by reduced market access or higher borrowing costs as they saw little prospect in international lending for the remainder of the decade given the depressed conditions of global markets and embargos against foreign loans.[17] In the United States, for example, the flotation of long-term foreign government debt had been negligible since 1930.[18] Second, neither government expected any serious reprisals from Washington, especially as heightened tariffs and trade protections were already in operation and many other states had defaulted without challenge.[19] Third, the archival record reveals no significant concerns about broader collateral damage to the private sector or domestic economy via reduced investment or credit flows following a default. Policymakers never expected continued debt payments to improve already significantly depressed levels of investment and credit, which had much more to do with the effects of the Great Depression and trade protectionism.[20] Fourth, there is little evidence that either government prioritized key domestic interest groups in decision making and, moreover, there was no fiscal crisis to motivate British default in 1934.

Given the shortfalls in existing economic and political approaches, we refocus attention on policymakers' attention to ideas and norms at critical moments during this default episode. Archival research in Britain, France, and the United States reveals that default was inhibited by

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[16] Leith-Ross, 1968: 178-179; RG, 59 800.51w89. See also Clavin 1997.
[17] Clavin 1995: 176-177; HL, 1934a.
[18] Columbia Law Review, 1935.
[19] Self, 2006; Irwin, 2011.
[20] Eichengreen, 1992; Irwin, 2011; CAB 24/249/33, 29 May 1934.

policymakers' beliefs about repayment norms and national identity as a stalwart borrower. A "default taboo" functioned instrumentally, principally as a constraint on decisionmakers who feared the economic and political consequences of non-payment, and substantively, as a belief about the importance of honoring debts for the preservation of domestic order and international capitalism. We focus on three key mechanisms of normative influences—or pathways by which norms influenced decision making—namely, domestic-public opinion, international reputation, and personal moral convictions. Evidence of all three mechanisms pervades British cabinet discussions from 1932 to 1934. In contrast, fears about reduced market access or higher borrowing costs, reprisals, spillover costs, or domestic-political trade-offs rarely feature.

The repayment norms underpinning the default taboo were weakened over the course of eighteen months by persistent material and ideational challenges. Britain's decision was "helped by France" following the limited financial repercussions of its earlier unilateral default and by growing domestic-political support for default.[21] Policymakers also increasingly questioned the appropriateness and legitimacy of the debts, especially when the US Congress ultimately refused further debt settlement negotiations and demanded full repayment in early 1934. Default therefore became increasingly acceptable and appropriate for most of the cabinet despite improving economic conditions, which helps to account for the puzzle of why the government states suspended payments when the domestic economy was favorable and improving in 1934.[22]

Archival research reveals that repayment norms also informed decision making in France. Despite widespread public hostility to payment, beliefs about repayment norms did affect economic decision making. Prime minister Édouard Herriot, supported by many in the French government, argued for repayment, based on the sanctity of contracts, concerns about damage to international reputation, and personal moral convictions. Fear of reprisals or reputational damage or spillover effects played a far more limited role. It proved impossible to form a new government

[21] Leith-Ross, 1968: 178-179; Clavin, 1995.
[22] Tomz, 2007.

thereafter because French parliamentarians preferred an indirect or accidental default rather than accepting the odium of intentional non-payment.[23] Existing material explanations alone cannot account for these events or the variation in behavior between France and the United Kingdom during the Great Depression.

This article proceeds in seven sections. First, it outlines the puzzle of Britain's repayment of war debts and the limitations of existing explanations. Second, it advances an argument for why states honor their debts based on repayment norms. Third, it explains methods and data selection. The next three sections examine critical decision points on Britain and France's path to default between 1932 and 1934. We then conclude by reflecting on the importance of ideas and norms in the study of default and suggest avenues of future research.

The Limitations of Existing Explanations

The United Kingdom had been making debt payments to the United States since 1923, whereas France had only started to repay its First World War debts in 1929. In response to the global economic crisis of 1931, President Herbert Hoover approved a one-year moratorium on all war debts. France chose not to seek a debt settlement with the United States and did not to resume payment when the moratorium ended in December 1932. In contrast, the United Kingdom remained committed to working with the United States on a debt settlement. Following Franklin Roosevelt's dominant electoral victory, the British government held out hope that the incoming administration would reduce or cancel these war debts, but the president's position remained ambiguous.[24] The cabinet nevertheless decided to resume payments in December 1932 despite remaining in ignorance of Washington's position and acknowledging the significant costs involved. Why did the United Kingdom not default on its debts to the United States earlier, rather than making three additional payments? Economists and political scientists have offered competing

[23] On cognitive dissonance, see Ramos 2018.
[24] T, 188/58/40; FRL, PSF, 1; and T 175/79/103-4.

explanations for why states repay their debts, which tend to focus on rational assessments of economic costs—namely, reputational harm, the risk of punishments, and spillover effects—or political survival.[25] Each explanation faces theoretical and empirical challenges, as illuminated by the British and French case.

The theory of reputational risks—namely, that that default would increase the costs of future borrowing—represents a powerful explanation for why states honor their debts.[26] There are reasons, however, that such explanations on their own are insufficient. First, reactions can vary among investors and institutions, undermining assumptions about a united creditor front.[27] Second, the effect of default on the cost of borrowing also appears to be short-lived and some policymakers seem unconcerned by such risks.[28] As such, the reputation-based costs of default may fail to motivate repayment.[29] Such explanations also say little about states that lack either the will or desire to return to external borrowing. Indeed, the British government had no intention of borrowing in the 1930s, especially from the United States, which itself was unwilling to lend.[30]

Another cost-based theory argues that states repay debts when creditors can impose direct punishments, such as trade sanctions or legal action. There is limited evidence of creditors applying trade sanctions against defaulting states and none in the specific case of Britain or France in the 1930s. Transatlantic tariffs were already exceptionally high prior to default by either state and the Roosevelt administration was keen to improve them.[31] Legal risks have increasingly come to influence debtors' behavior, to be sure, but are a relatively new phenomenon in the longer history of sovereign repayment and were irrelevant to Britain and France in the 1930s.[32]

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[25] For an overview, see Reinhart and Rogoff 2009, 55-58; Panizza, Sturzenegger, and Zettelmeyer, 2009; Roos, 2019 23-39. On how political issues affect economic decision making, see Aggarwal, 1996.
[26] Kletzer and Wright, 2000; Tomz 2007, esp. 14-36
[27] Lienau, 2014: 29, 78, 222.
[28] Sturzenegger and Zettelmeyer, 2007a; Borensztein and Panizza, 2009.
[29] Panizza et al., 2009; Das et al., 2011.
[30] Clavin, 1996: 176-177.
[31] Irwin, 2011.
[32] Panizza et al., 2009, 653-655, 659, 692. See also Datz and Corcoran 2020.

The 'spillover costs' hypothesis suggests that states repay their debts to avoid or limit broader collateral damage on the private sector or domestic economy.[33] The idea that a default on war debts could exacerbate banking or economic crises and reduce investment and credit flows was not considered seriously in Paris or London.[34] Policymakers never associated continued debt payments with stability or improvement in investment and credit levels, which had already been significantly weakened by the great depression and trade protectionism.[35]

Although a focus on economic costs predominates in the study of default, scholars have also advanced explanations focused on domestic politics.[36] Recent research has shown that leaders in autocracies and democracies carefully assess the material trade-offs associated with repayment or default with respect to key domestic interest groups.[37] If political survival is imperilled by the painful austerity measures required to restore fiscal balance, default becomes more likely. Yet the evidence for political explanations largely derives from states in the developing world or peripheral borrowers dependent on external credit. The extent to which these claims can be generalized to developed democratic economies such as France or the United Kingdom therefore remains unclear.[38] Furthermore, these explanations rely on "fiscal crises" or "hard times." As such, they cannot explain why a state in stable or improving economic conditions, such as the United Kingdom in 1934, would default on external debts.[39]

Scholars are aware of the limitations of their theories. Instances of sovereign default have occurred in the past, and can occur in the future, for more than one reason.[40] Carmen Reinhart and Kenneth Rogoff concede that no one model or approach 'seems quite adequate'.[41]

[33] Cole and Kehoe, 1998; Panizza et al., 2009: 692.
[34] Sturzenegger and Zettelmeyer 2007a; Arteta and Hale, 2008.
[35] Eichengreen, 1992; Irwin, 2011; CAB 24/249/33, 29 May 1934.
[36] See, for example, Frieden, 1989, 1991.
[37] Ballard-Rosa, 2016, 2020; Roos, 2019.
[38] As Ballard-Rosa (2020: 174), notes that his theory "should be most likely to hold in the developing world."
[39] On the importance of this question, see Tomz and Wright, 2007.
[40] Existing accounts that treat government's costs assessments as fixed struggle to explain significant historical variation in sovereign default. Default was more common prior to 1945 (James, 1987). Since World War II, and especially after the 1970s, debtors have increasingly avoided default (Lienau, 2014: 227-229, 232; Roos 2019: 299).
[41] Reinhart and Rogoff, 2009: 57.

Furthermore, as Michael Tomz and Mark Wright recognize, a notable proportion of defaults have occurred when economic circumstances should warrant payment: 'These findings demonstrate the need to revise our models of sovereign debt,' they argue, highlighting the importance of studying 'default for opportunistic or ideological reasons'.[42] Anna Gelpern has also speculated that default can become attractive when 'the national psyche,' adjusts to such an outcome.[43] These analytical asides point to the need for a robust and sustained treatment of ideas or and norms in the sovereign default literature.

A normative explanation

Existing theories for why states repay their debts focus on material drivers. Normative or ideational factors tend to play a limited role. Indeed, the operation of rational "self-interest" has seemed so self-evident that there has appeared little need to invoke the role of norms. Yet we argue that repayment norms, which can effectively become a default taboo when sufficiently powerful, play an important role in explaining why states repay their debts. Repayment norms are not always the sole explanation for the repayment of external debts, to be sure, but they are an essential part of explaining the wider phenomenon of non-default. Our argument not only helps to explain repayment in cases where rational or cost-based explanations fail, or simply do not operate, but also address some unresolved anomalies within cost-focused theories.

Although the study of strong norms or taboos in international relations has focused largely on the use of weapons and warfare, much of the core logic remains largely applicable in the study of sovereign debt.[44] As Tannenwald explains, norms work through both a "logic of consequences" and a "logic of appropriateness."[45] The logic of consequences refers to the instrumental operation of a norm. Actors comply with norms because doing so helps them get what they want. The logic

[42] Tomz and Wright, 2007: 358-359; see also Tomz, 2007.
[43] Gelpern, 2013: 1104.
[44] Price, 1995; Tannenwald, 2007, 2018; Kelle, 2014; Percy, 2007, 2019; Grech-Madin, 2021.
[45] Tannenwald, 2007: 50.

of appropriateness refers to the internalization of a norm whereby actors conform to rules because they understand the behavior to be good, desirable, and "right." The default taboo operates both as a constraint on self-interested decisionmakers—consistent with the instrumental operation of a norm as a "cost"—and in more principled fashion as reflected in decisionmakers' beliefs about the illegitimacy of non-payment of debts.

Logics of consequence and appropriateness are not necessarily mutually exclusive. Norms can become so deeply sedimented that they become habited or taken-for-granted, while alternative and available norms are simply not considered.[46] When alterative norms are introduced, the inertia of habituated norms makes change difficult and slow. Furthermore, and relatedly, norms are embedded in the social identity of states and societies.[47] Observation and enaction of norms are thus manifestations of how the national 'self' is understood and positioned against relevant international 'other's. Changes in observation or practice of norms also have the potential to undermine the ontological security of states and societies.[48]

To link these general constructivist observations regarding norms with the Default Taboo, we turn to constructivist scholarship that considers key mechanisms by which international repayment norms operate.[49] Our analysis focuses on three specific pathways by which the default taboo influenced decision making—namely, domestic opinion, international reputation, and personal moral convictions—and refocus them on the sovereign default literature.[50] No one pathway is sufficient; domestic and international conditions are both necessary to ensure strong repayment norms. Although personal convictions matter, and are often entwined with other pathways, we argue that they are of secondary importance in driving state behavior in these cases.

[46] Hopf 2010.
[47] Hayes 2014.
[48] Kinnvall and Mitzen, 2018; Steele 2008. These same arguments extend to the emergent work on the roles states take on in the international system. See Mccourt, 2014; Cantir and Kaarbo, 2012.
[49] Finnemore and Sikkink, 1998; Risse, Ropp, and Sikkink, 1999. See also Wiener 2018; Hoffman 2017.
[50] Tannenwald, 2007: 47.

Domestic public opinion

From state security to human rights, scholars have identified domestic public opinion as a key mechanism shaping the manifestation of norms in the international behavior of states.[51] Domestic public opinion acts as an important factor in constraining leaders' resort to default and in empowering the taboo itself.[52] For Tannenwald, public attitudes play an important role in shaping the policies of democratic states "because leaders and elected officials want to be reelected."[53] There is ample evidence that policymakers are keenly attuned to the electoral or implications and popular perception of sovereign default, especially among their major supporting constituencies.[54] Scholars have shown that defaults inflict costs on the politicians or government officials that make the decision to default.[55] Conversely, when the "sacrifices of repayment" are sufficiently painful and broad-based, non-default can result in loss of office.[56]

While normative explanations can overlap with domestic-political explanations in instrumental terms of re-election there remain important differences. Existing scholarship recognizes the important role of norms, to be sure, but they typically remain as contextual factors or external to theory.[57] If our theory is correct, we should expect to see policymakers talking about whether the decision is inherently "right" or "wrong" rather than only whether it effects key domestic interest groups. Norms function substantively as policymakers express concern about whether default is appropriate or acceptable to the public. These decisions therefore do not always

[51] Hayes 2014; Chu 2019; Hopf 2012; Checkel 1997. See Tannenwald, 2007: 47. On social learning and political pressure–or "bottom up" and "top down" diffusion mechanisms–see Checkel (1999: 88).
[52] On democracies enjoying better borrowing terms, see Beaulieu, Cox, and Saiegh, 2012.
[53] Tannenwald, 2007: 47. On the survival dynamics of democratic regimes, see Ballard-Rosa, 2020. On evidence that public opinion can affect policy by incentivizing incumbents and shaping who gets elected, see Tomz, Weeks, Yarhi-Milo, 2020.
[54] For key works on the domestic politics of sovereign default, see Roos, 2019; Ballard-Rosa, 2020. See also Stasavage, 2003; Frieden, 1989, 1991; Roos, 2019. On the related logic of societal interest groups affecting investment decisions, see Bunte 2019.
[55] Panizza, Sturzenegger, and Zettelmeyer, 2009: 682.
[56] Roos, 2019: 40 As Harold James (2014: 274) explains, "The problem behind a high level of external debt is that the creditors are obviously not represented in any Parliament, and the political representatives of debtor classes (or those who have to pay taxes in order to service debt) may well have a powerful incentive to default": "International capital movements and the global order." For a detailed analysis of the domestic drivers of default, see Roos, 2019.
[57] See, for example, Roos, 2019; Ballard-Rosa, 2020: 166;

reflect economic or political self-interest as per key domestic interest groups.[58] As many scholars have shown, ideology, identity, and beliefs can play an important role in economic decision-making.[59] There is evidence that the public also treats debts in the same way. As Nelson and Steinberg conclude concerning the question of sovereign default in Argentina, "Political and symbolic factors, not economic cost-benefit calculations, seem to drive whether individuals support foreign debt repayment."[60] Public opinion can therefore operate as a restraint on decisionmakers even when it contradicts economic or political self-interest. Yet this normative pathway should often function instrumentally and substantively as doing what is appropriate or acceptable to public opinion will often support the goal of re-election.

If such arguments are correct, we should expect to see evidence that British and French policymakers in the 1930s were sensitive to general public attitudes, but that opinion was different in both states. In the British case, we should find evidence that they believed the public would react negatively to default and that repayment was right and appropriate, despite the potential rewards of non-payment.[61] The archival evidence supports our claims. Despite a significant majority in the House of Commons, most cabinet ministers and members of parliament believed that refusal to pay would "profoundly shock" a large section of public opinion and harm the popularity of the government, especially given that many people were struggling in the wake of the Great Depression.[62] As the Chancellor of the Exchequer Neville Chamberlain informed the House of Commons, "a default at that time… would have administered a shock to the moral sense of our people which might have had a very profound effect upon our whole conception of the meaning of obligations, public or private, with consequences that one could only guess at."[63] Conversely,

[58] Mansfield and Mutz 2009, 426
[59] Hiscox, 2006; Hainmueller and Hiscox 2007; Mansfield and Mutz, 2009; Guisinger, 2017
[60] Nelson and Steinberg, 2018: 12. Even competing views find symbolic/sociotropic and partisan/political factors operating alongside material self-interest. See Curtis, Jupille, Leblang, 2014.
[61] Historians are correct that domestic-political concerns eventually encouraged non-payment, but many policymakers initially feared default would undermine the government. On the former argument, see Clavin 1997, 175. Some social sentients have also begun to consider such claims. See Ballard-Rosa, 2016: 313-346, 2020.
[62] CAB 23/73/3.
[63] HC, 1932a.

although French policymakers were equally concerned by public attitudes they faced strong and clear calls for default and many felt repayment inappropriate or unjust.[64] Indeed, violent demonstrations took place outside the Chamber of Deputies opposing payment.[65]

International reputation

A second pathway by which norms influence decision making comes via governments' concern about international reputation. We depart from traditional rationalist or cost-based perspectives, whereby policymakers care deeply about their government or state's reputation for repayment only because of the risks of financial punishment that would make it much harder to attract credit or investment.[66] Our normative approach stresses that governments are also concerned about what their own debtors and the wider international community think of a default. Policymakers seek to maintain a good standing in terms of the codes of conduct that regulate international society.[67] A corollary to this point would be that leaders believe their decisions may create new advantageous or pernicious norms. Reputation is consequently important beyond only being instrumentally advantageous; leaders associate it with "fairness, intelligence, legitimacy, and often with a strong global norm-setting and moral role."[68] Reputational concern can also link into the state's identity. Work on ontological security highlight the importance of assuring self-identity though time.[69] Being a repayment stalwart depends on assuring the state's identity internally and externally through observation and enactment of relevant norms.

If our explanation is correct, we should expect to see policymakers consider concerns about legitimacy and appropriateness in the British cabinet alongside instrumental costs. The archives again support this expectation. There was little concern regarding future borrowing costs

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[64] Self, 2007.
[65] Self, 2007.
[66] Tomz, 2007
[67] Watson 1992; Clark 2005. On the logic of investors using the company a state keeps as a heuristic in evaluating its willingness to honour sovereign debt obligations, see Gray 2013.
[68] Tannenwald, 2007: 49.
[69] Steele 2008.

but considerable fear in the British cabinet that states owing money to United Kingdom—namely, Argentina, Australia, and Germany—might use British default as an excuse to cease repayment on their own outstanding debts.[70] These examples were representative of the United Kingdom's position as a global creditor, drawing vast sums from overseas that exceeded payments to the United States, which empowered a commitment to the sanctity of debt contracts.[71] Furthermore, default would undermine the moral foundations of the global economy. As Chamberlain explained to the Commons: "[A] default by the British Government… would have resounded all round the world.[72] As Baldwin put it to the cabinet, repudiation might bring the world "within sight of the end of capitalism."[73]

Similar kinds of arguments also existed in Paris, especially during heated debate in the Chamber of Deputies, and the government was keen to stress the international consequences of default. Herriot explicitly warned his colleagues about the "international consequences" following from France's own debtors rather than just its creditors.[74] There was some concern about potential reprisals from the United States, to be sure, but also concerns about France's future reputation with Britain.[75] Yet these arguments were much weaker instrumentally and substantively and failed to deter default. France was not a global creditor like the United Kingdom or the United States and did not believe a default posed a risk to the functioning of the global economy.

Government attitudes about international norms can change.[76] If other democratic states default on debts to the same creditor without issue, for example, the instrumental and substantive power of this norm should be weakened and help to legitimize the use of default.[77] Frederick Leith-Ross was clear that Britain's decision to default was "helped by France" following the limited

[70] Other states also mentioned by ministers were Austria, Chile, Ireland, Greece, and Russia. See CAB 23/73/3, 29 November, attachment, 28 November 1932.
[71] Kindersley, 1934, 367, table II.
[72] HC Deb, 1932a.
[73] CAB 23/73/3, 29 November, attachment, 28 November 1932
[74] RG 59 800.51w89, Box 4601, Speech of Herriot, 14 December 1932.
[75] Self, 2007; RG 59 800.51w89.
[76] On the logic of breaking norms and related social sanctions, see Friedkin, 2001.
[77] Tannenwald 2007: 211.

financial repercussions of its earlier unilateral default to America in 1932.[78] France's position was, in turn, encouraged by Germany's largely cost-free defaults.[79] As Thomas Oatley argues, the politics of economic choices are often related across states.[80] More substantively, unpaid debts could come to be considered unfair or inappropriate by domestic audiences or the international community. As the British government asked, why should its own citizens continue to carry the burden of repayment when French citizens do not? Repayment in such circumstances would have been "a gross act of social injustice".[81]

Personal moral convictions

The third pathway by which the norms and ideas influence decision making at the level of individual policymakers. Policymakers act as a central node through which ideational factors are incorporated into state behavior. At the level of macroeconomic dynamics, Widmaier argues persuasively that patterns of stability and instability in political economy arise from socially constructed policy orders through which policymakers filter their understanding of economic patterns and practices.[82] In the case of the default taboo, there is further reason to focus on decision makers; default often "centers on a small circle of his policymakers and advisors," which means that "the beliefs of individual decisionmakers may be crucial to outcomes."[83] As Widmaier's work suggests, these norms may be interlocked within socio-political orders. Thus, strong normative-moral convictions concerning repayment may also informed by other moral

78 Leith-Ross, 1968: 178-179.
79 RG 59 800.51w89, Box 4601, Speech of Herriot, 15 December 1932. On Germany repeatedly escaping its own war debts, see Marks, 1978.
80 Oatley, 2011: 318. We therefore depart from the argument by Chwieroth, Simpson, Walter (2014) that "given networked default, voters see national default as a lost strategic opportunity to elevate a country's reputation and are more inclined to punish incumbent regimes who fail to repay" in these cases. Our findings also suggest that even stalwarts such as the United Kingdom can be affected by the behavior of peer states (Tomz 2007, 22). This is not to suggest that financial globalization necessarily inhibits cross-national policy divergence among advanced democracies. See Mosley 2003.
81 CAB 24/249/33, 29 May 1934.
82 Widmaier 2016.
83 Tannenwald, 2007: 50.

convictions—also known as norm grafting, whereby "a norm becomes closely associated with congruent norms that are firmly established, which in turn bolsters its legitimacy."[84]

If these personal norms were in operation in London in the 1930s, we should expect to see evidence of policymakers' commitment to repayment and connections to other relevant norms. Chamberlain and former chancellor Stanley Baldwin were influential members of the British cabinet, and both would go on to become prime minister. Each stressed the morality of repayment during private cabinet discussions and in public statements.[85] As Baldwin announced to the press prior to his renegotiations of the debts in 1922, "We British have always paid and will always pay our debt."[86] The chancellor's statement appears honestly felt. As Liaquat Ahamed reveals, Baldwin "believed strongly in settling one's debts—he was so firm an advocate of this principle that in 1919 he had anonymously donated $700,000 of his own money, a fifth of his net worth, to the government as his contribution to paying off the national debt after the war."[87]

The importance of repayment was, for many in the British cabinet, also related to broader aspects of honor and morality. Baldwin remarked that, "Our word was unique in the world."[88] Chamberlain was also clear that repayment was important as it allowed the British government to avoid criticisms of "the smuggest hypocrisy" after "stern lectures to its [foreign] debtors on the sanctity of debts" and avoid suggestions of a default that "would make Englishmen blush for generations".[89] Britain was honoring its debts not just because it was right to repay them but also because default would represent a challenge to congruent norms concerning honor and hypocrisy.

Case Selection and Process Tracing

84 Grech-Madin, 2021: 93.
85 HC Deb, 1932a; CAB 23/73/3, 29 November, attachment, 28 November 1932.
86 *Washington Post* 1923; *The Times*, 1923.
87 Ahamed, 2009: 140.
88 CAB 23/73/3, 29 November, attachment, 28 November 1932.
89 Self, 2007: 86, citing T188/47/44–5, Chamberlain to Simon, 2 June 1932.

Our research focuses on three cases—one of repayment (Britain in 1932) and two of default (France in 1932 and Britain in 1934). We selected these examples from a larger universe of debt default in the Great Depression detailed in Table A1 in the Appendix.[90] We analyze the available archival material for evidence of a taboo constraining leaders' decision to default and evaluate the data against other material factors promoting or constraining resort to sovereign default.

These cases were chosen for four reasons. First, studying Britain and France's repayments or defaults on their war debts to the United States provides variation on the dependent variable within and between cases to better test our theory. Second, using western European democracies with comparable economies that held similar debts to the same foreign creditor helps to control for other factors that could otherwise affect the decision-making process. Third, the sovereign defaults of the 1930s have exclusively been explained by rational accounts. It therefore represents a difficult test for the operation of a normative prohibition on default. Fourth, there is a wealth of relevant archival material available in both cases, which complements our use of process tracing techniques to study the casual mechanisms in operation. A summary of our cases is provided in Table 1.

We utilize process tracing techniques to test our causal claims and set our confidence levels.[91] A key component of our methodology follows Tannenwald's use of competitive tests, with which to evaluate empirically the autonomous influence of the default taboo in accounting for debt repayment as compared to materialist accounts.[92] What kind of evidence would discriminate between materialist and normative explanations? We argue that a materialist explanation would expect to see decision making about repayment or default reflect cost–benefit type thinking in terms of "non-norms" factors such as fear of market exclusion, borrowing costs, or spillover effects. Decision making would not reflect any "taboo" factors. It would evaluate the default option in terms of consequences for British economic interests, not in terms of whether it

[90] Appendix forthcoming.
[91] George and Bennett, 2005: 205-232; Collier, 2011: Fairfield, 2012, Appendix 1; Nexon and Musgrave, 2018.
[92] Tannewald, 2007.

Table 1. Case summaries

State	Period	Causal mechanisms			Outcome
		Domestic public opinion	*International reputation*	*Policymakers' moral convictions*	
United Kingdom	1932	Opposed to default	Damaged by default	Majority oppose default	Full repayment
United Kingdom	1934	Neutral towards default	Unharmed by default	Minority oppose default	Suspension of payments
France	1932	Supportive of default	Unharmed by default	Minority oppose default	Suspension of payments

was inherently "right" or "wrong." In contrast, a taboo explanation would expect to see explicit reference to "taboo talk," understood as a perceived taboo or normative inhibition.[93] The taboo could enter the decision-making process instrumentally, in the form of a perceived cost or constraint on decision making, or substantively, understood as non-cost-benefit reasoning whereby upholding the norm becomes part of validating an identity. We are also interested in what Tannenwald refers to as "the burden of proof," whereby "norms shape expectations and thus shift the burden of proof in arguments about responsibilities, grievances, and legitimate courses of action."[94] If a taboo is in operation, we should expect to see evidence of policymakers treating it as an exceptional option "and in need of special justification."

We accept that it may not always be easy or possible to distinguish between material and normative factors.[95] To argue that default was avoided because alternatives were available, for example, ignores the fact that these alternatives may not even have been sought in the first place if non-payment was seen as just another less controversial economic option like tax raises or reductions in welfare spending. Furthermore, competing explanations can sometimes offer overlapping predictions. Theories based on international reputation and the default taboo, for example, both recognize that default could harm future borrowing costs and therefore constrain decision makers. Yet we argue that the taboo explanation is ultimately more powerful because it captures more of the evidence by going beyond creditors to involve concerns about debtors' defaulting and the broader risks to the international financial system. As per Tannenwald, "the material constraints explanation cannot account for all the 'taboo talk' that one sees in the historical record."[96]

[93] Tannwanld, 2007: 51.
[94] Ibid.
[95] Brooks and Wohlforth, 2000-2001: 6-7.
[96] Tannenwald, 2007.

British payment, 1932

Senior members of the British cabinet met to discuss whether to continue paying their war debts to the United States on 28 November prior to the payment deadline of 15 December 1932. Prime Minister Ramsay MacDonald stated that there was little chance of obtaining a remission of the semi-annual payment of $95.5 (£27.7) million due on 15 December and wished to know whether the gathered ministers "favour default or not?"[97] This debate concerned *willingness* rather than *ability* to pay. Chamberlain was clear that, "We could pay. The question was whether we should."[98]

After lengthy discussions, the cabinet ultimately supported full payment. This decision was costly. The British government had also decided to uphold the Lausanne Agreements reached earlier that year—in which the United Kingdom, France, and Germany agreed to reduce reparations and war debt payments amongst themselves—meaning that it would continue payments to the United States without receiving any income from its own European debtors. These new costs coincided with high levels of taxation and unemployment alongside rigorous control of expenditure and cuts in allowances. The chancellor informed the cabinet that he proposed to pay out of revenue, which would involve an increase in the Budget deficit.[99]

Why did the British government accept these significant costs during the height of the depression in the United Kingdom? Analysis of key cabinet meetings reveals that the British government's motivations for repayment differed from explanations based on future borrowing costs, the risk of punishments, or spillover effects.[100] Indeed, these concerns are entirely absent from discussions. A series of private cabinet minutes as well as subsequent public announcements reveal that British thinking was instead motivated by concerns about state identity and repayment norms.

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[97] CAB 23/73/3, 29 November, attachment 28 November 1932.
[98] Ibid.
[99] On the war debt burden in relation to the British economy, see CAB 23/79/7, 30 May 1934.
[100] Reinhart and Rogoff, 2009: 55-58; Panizza, Sturzenegger, and Zettelmeyer, 2009: 651-698; and Roos, 2019: 23-39.

There was a wealth of taboo talk in the archival record, which reflect the three major mechanisms—namely, domestic politics, reputational damage, and personal conditions—operating both instrumentally and substantively.

Domestic politics

Governor of the Bank of England Montagu Norman had previously warned Chamberlain that that refusal to pay would cause a profound shock to a large section of British public opinion. Secretary of State for Dominion Affairs James Henry Thomas emphasized that while the mass of the people would not understand the details, the result of default would be "a tremendous propaganda" to get rid of the National Government that would make political survival impossible. Minister of Health Hilton Young stressed the importance of payment not only from the point of view of the sanctity of public debts but also of private debts. Everywhere people were struggling to meet their obligations, he explained, and the effect of a conspicuous default by the government would affect the whole standard of probity in debts. Baldwin believed it would be a tremendous shock to the majority of the working classes if they realized that the government was able to pay and did not.[101] Two normative dynamics are at play here. First, ministers were concerned that default would be understood by the public as a breach of political-economic norms the British ascribed to themselves, undermining the legitimacy of the government domestically. Second, if the repayment norm was challenged via default, it would open it to reconsideration, and risked producing a contagion effect across British society.

British concerns were both instrumental and substantive. Policymakers certainly did care about re-election and political survival but were more concerned about what was understood to be fair and right. The National government enjoyed a large majority and faced a generally weakened opposition.[102]

[101] CAB 23/73/3, 29 November, attachment 28 November 1932.
[102] Stevenson and Cook, 1977: 6. On the earlier landslide election victory, see Thorpe, 1991.

Repudiation of foreign debt would have been anathema to the government and much of the public, to be sure, especially given that financial orthodoxy and economic conservatism were the dominant features of its strategy to cope with the economic slump.[103] Yet the recent decision to leave the gold standard and the bond conversion operation that had run earlier in the year, which led to a reduction in the rate of interest paid on a large proportion of public debt, had carried far greater risks and represented more significant economic changes.[104] The national and local press also reported favorably on the decision to make one last payment. *The Economist* described the decision as "entirely justified" and regional newspapers ran headlines such as "no alternative" and "we cannot default."[105] These concerns might appear exaggerated but were pertinent. It is worth noting that the number of British citizens in prison for debt or default was at an all-time high.[106]

International reputation

There is ample evidence of a default taboo driven by concerns about international reputation. Chamberlain recalled Norman's believed "that default on our part would be followed by default by three countries that owed us money—Australia, Argentina and Germany."[107] Simon similarly questioned how they were to conduct themselves in matters of default towards such countries as Chile, Greece, Austria, Russia, and the Irish Free State. Baldwin spoke to the cabinet in terms of Britain's role in international society as a norms-setter, stressing that repudiation might bring the world within sight of the end of capitalism. Breaking their word, he argued, they would set a dangerous example,

[103] Stevenson and Cook, 1977: 2-3.
[104] Morrison, 2016, 2021. The 1932 War Loan conversion was not a default because the existence of a call provision meant that it was achieved contractually. On the conversion operation, see Wormell, 1999: 430-39. On the conversion of UK and U.S. debts in the 1930s as "blows to the traditional status of public credit," see Macdonald, 2006.
[105] "War Debts—A Postscript," *The Economist*, Vol. 115, 17 December 1932, 4660, 1130. For wider analysis, see Gill 2022.
[106] HL Deb, 6 December 1932, Vol. 86, cc201-28.
[107] CAB 23/73/3, 29 November, appendix, 28 November 1932.

and the effect on public and private debts throughout the world would, he felt, be "very serious."[108] Concerns about the sanctity of debt contracts reflected the United Kingdom's position as a creditor to much of the world.[109] These anxieties had likely been exacerbated by the significant reduction in income from foreign governments over the last year.[110] Strong beliefs about the international dangers of unpaid debts also appear to have been felt by much of the cabinet and were shared by many politicians in opposition parties as well as the wider press.[111] *The Times*, for example, quoted Gustav Cassel's warning that "many of her [Britain's] debtors would be only too willing to follow her example if such a wealthy nation were to tread the path of default."[112] Crucially, while these concerns address economic-cost considerations, they are predicated on the idea that Britain might establish a new standard of behavior—or norm—that other states would then emulate with destabilizing cascade or contagion effects.

Personal moral convictions

Many cabinet ministers held strong views about repayment. The chancellor and the former chancellor Stanley Baldwin, for example certainly believed in the importance of honoring financial obligations. Chamberlain had repeatedly stressed the sanctity of debts and the dangers of default for years.[113] Baldwin had originally arranged the terms of repayment in 1923. As he assured the American press at the time, "We British have always paid and will always pay our debts."[114] On this point, recall Baldwin's donation of a substantial portion of his personal wealth to support efforts to pay down British overseas

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108 Ibid.
109 Kindersley, 1934: 367, table II.
110 On foreign defaults accounting for this decline, see Kindersley, 1934: 367, 369. See also Sayers, 1976: Appendix, 32, 33.
111 See, for instance, HC Deb 14 June 1933, vol. 279, cc289-90; and HC Deb 14 June 1933, vol. 279, c290.
112 "War Debt Payments in Gold," *The Times,* 2 December 1932, 7.
113 Self, 2007.
114 *Washington Post* and *The Times*, 5-6 January 1923.

debt.[115] Such was the power of default taboo norms embedded in the personal worldviews of British policymakers at the time.

The three specific pathways by which the taboo influenced decision making were expressed publicly when the chancellor justified the cabinet's decision to the Commons on 14 December:

> [A] default by the British Government, on a sum which they could not truthfully say they were unable to pay, would have resounded all round the world. It might have been taken as a justification for other debtors to follow their example, and, further than that, a default at that time and in those circumstances would have administered a shock to the moral sense of our people which might have had a very profound effect upon our whole conception of the meaning of obligations, public or private, with consequences that one could only guess at.[116]

In sum, the British government was normatively constrained, through the three mechanisms we outlined above, from defaulting on its debts to the United States. In contrast, concerns based on future borrowing costs, the risk of punishments, or spillover effects generated little interest or concern. The British government would continue making payments for a further eighteen months driven in large part by the same normative concerns.[117]

French default, 1932

Upon the conclusion of the Hoover moratorium, France defaulted immediately on its war debts to the United States, failing to make its next scheduled repayment in December 1932. Premier and Édouard Herriot had attempted to make the payment but ultimately failed to gather sufficient support

[115] Ahamed, 2009: 140.
[116] HC Deb 14 December 1932, vol. 273 cc363.
[117] For key cabinet discussions, see CAB 23/76/11, 9 June 1933 and CAB 23/77/9, 26 October 1933.

in the Chamber of Deputies and consequently resigned. Why did France choose not to repay its war debts to the United States? Analysis of the lengthy political debate in Paris reveals that the French government's motivations differed from explanations based on future borrowing costs, the risk of punishments, or spillover effects.[118] Scrutiny of the available archival data simultaneously reduces confidence in the power of these explanations and strengthens alternative claims about the role of a default taboo. There was clear evidence of taboo talk in the archival record, which shows our three normative mechanisms operating instrumentally and substantially, albeit less powerfully than the British case. Historians have previously considered the path to default but the specifics of the political debate in Paris remain understudied, due in part to the limitations surrounding French archival material in this period.[119] British and U.S. diplomats kept detailed accounts of the debate in the Chamber of Deputies, however, which serves as the basis for the analysis that follows.[120]

Domestic public opinion

The French Cabinet under Herriot's leadership had initially decided to adopt a policy of payment, albeit with certain conditions attached. While this policy enjoyed parliamentary support in early December, U.S. unwillingness to accept pay with any conditions undermined the government's position. Herriot's opponents took this opportunity to advance a normative claim that the debts were historically unfair, and that French people should not be burdened by these obligations.[121] Debate in the Chamber of Deputies frequently referred to the unfairness of repayment While the financial burden repayment would impose via taxation did play a role in these arguments, far more significant were normative claims about the unjust nature of the debt burden. Specifically, politicians argued it

[118] Concerning the debate in France, see National Archives II, Washington, RG 59 800.51w89.
[119] On French default, see Leffler, 1979: 310; Clavin, 1995: 54-56; and Self, 2006: 128-131. For detailed reports on the Chamber debates, see NAII, RG 59, 800.51W89, France/754, 760-3, Edge to Stimson, 10, 13, 14 December 1932.
[120] On the former, see Self, 2006. On the latter, see National Archives II, Washington, RG 59 800.51w89.
[121] On French sentiment, see RG 59 800.51w89, Box 4601, Dawson reports, 6 December 1932, 4 January 1933.

was unjust for French people to pay for a war that France helped the United States to win and from which Americans had prospered. This position gained additional political traction in light of perceptions that Germany had largely escaped most of its own debts via default.[122]

The prime minister understood that he faced strong domestic opposition to repayment: "I understand so well the reaction of the Chamber and of the whole public" and "know very well that public feeling is against me."[123] The prime minister instead focused on the fairness or morality of repayment: "I am seeking only justice."[124] British representatives approved of this approach, suggesting that the "only hope of agreement depended on Herriot playing on French national shame at having dishonoured its signature."[125] Yet the response in the Chamber was consistent and clear: "The people do not want to pay."[126] Violent demonstrations had taken place outside the Chamber of Deputies on 12 and 13 December against any further payment. The sense that public opinion was "hardening" against repayment shifted French parliamentarians' sentiment against any kind of agreement.[127] Widespread political resistance across France reflected what many considered to be unfair treatment.[128] In short, while Herriot sought to sway public sentiment with discourses of honor, a different normative frame had taken hold across French society. Increasingly, the French understood the issue as one speaking to shared sacrifice in the war and focused anger on the seemingly unjust position of the United States regarding repayment. [129] While the Americans understood the debt narrowly, as a matter of financial contract, the French framed it in broader moral terms as part of an overall war effort.

122 RG 59 800.51w89. On Germany repeatedly escaping its own war debts via default, see Marks, 1978.
123 RG 59 800.51w89, Box 4601, Speech of Herriot, 14 December 1932.
124 RG 59 800.51w89, Box 4601, Speech of Herriot, 14 December 1932.
125 Self, 2006: 128.
126 RG 59 800.51w89, Box 4601, Speech of Herriot, 14 December 1932.
127 Self, 2006.
128 Armus, 2010: 96-97, 118, citing Archives Nationales, 7-13032.
129 RG 59 800.51w89.

International reputation

For many French policymakers, concerns about international reputation functioned not only substantively, but also instrumentally, directly affecting national cost-benefit calculations. As Herriot explained: "I refuse not to pay the sum falling due because of the international consequences of this action. … France is a debtor, but she is also a creditor…. of many countries: China, Hungary, Belgium, Rumania, Germany of course, Poland, Turkey, Chile, Yugoslavia… We must therefore consider the repercussions."[130] The ideational significance of this sentiment outweighed the material drivers. France was not an international lender on the scale of the United States or the United Kingdom and had little interest in returning to foreign lending at that time. Default therefore posed far more limited financial risks to Paris than to London at that time, especially given that Germany, France's major debtor, had already defaulted—as Herriot's peers repeatedly reminded him.[131] Herriot's use of the same normative logic as the British even though materially the French were in a radically different position as a creditor suggests a common normative foundation shaping how the leadership of both their states should act in the international system.

These normative frames are also evident in policymakers' concern over honor. Herriot had worked hard to negotiate in private with the United States and Britain regarding a debt payment in December 1932.[132] During the final debates in the Chamber of Deputies in December, he defended repayment as "a question of international moralities" which considered future economic and political relations with the United States. If Britain continued to repay its debts, he warned, France would be isolated from its European allies when America differentiated between debtors and defaulters.[133]

[130] RG 59 800.51w89, Box 4601, Speech of Herriot, 14 December 1932.
[131] Ibid.
[132] Self, 2006: 128-129.
[133] Self, 2006: 130.

Furthermore, Herriot's speech stressed the dangers posed by default to Anglo-French solidarity. Having established a new cordiality with Britain since the Lausanne agreement, the French Premier asked the Chamber whether $19,261,432 was too much to pay for ongoing international cooperation.[134] As his political rivals in Paris explained, however, these concerns about the future were not widely shared. Most parliamentarians were far more interested in the past behavior other states—namely, Belgium's recent decision to default as well as Germany's repeated defaults. When Herriot was pressed by a colleague on this specific issue, he responded that "Germany is out of the question at this time." There came a swift response from a fellow parliamentarian: "So are we."[135] The actions of France's neighbors and peers had therefore helped to weaken the normative foundations of Herriot's position and legitimize default.[136] The crucial difference with the UK is not the divergence of normative logic but rather how policymakers in each state understood the role their state played in the normative order tying together international society.

Personal moral convictions

French policymakers held a diverse range of personal convictions, which sometimes led to opposite policy recommendations. Herriot was clear in his own personal views about default: "I cannot agree to it for reasons… drawn from the depths of my political and personal conscience."[137] Many in the Chamber of Deputies prioritized their belief in the importance of a fair deal rather than honoring a debt. Herriot criticized his opponents' moral defenses of default: "Where I am concerned, moral law must be absolutely clear. I do not admit those subtle or complicated explanations which cannot prevail against the simple truth which we were taught in our families or on the school bench, such as the

[134] Self, 2006: 129
[135] RG 59 800.51w89, Box 4601, Speech of Herriot, 15 December 1932. On Germany escaping war debts, see Marks, 1978.
[136] Tannenwald 2007: 211. See also Chwieroth, Simpson, Walter, 2014.
[137] RG 59 800.51w89, Box 4601, Speech of Herriot, 14 December 1932.

severe, strict, and sometimes abusing respect for one's signature…. That is France and that is what I am defending!'"[138]

Despite an "eloquent and impassioned appeal to French national pride," calls for repayment failed by 402 votes to 196, leading to Herriot's immediate resignation.[139] Herriot always understood that his view was in a minority; most people felt that repayment was unjust: "I know very well that public feeling is against me… The people of France are worried and irritated in their sentiment of justice." A default taboo clearly existed and manifested most clearly in Herriot's individual stance, but was overwhelmed by competing claims about legitimacy and appropriateness. Most voices in the Chamber of Deputies certainly accepted the "further debt payments would amount to a betrayal of the public trust by the French Parliament."[140]

After resigning, Herriot was only willing to return to office if permitted to pay the debt. Resistance in the Chamber of Deputies foreclosed that option and Herriot refused to form a new ministry.[141] However, the stigma of default meant other politicians were unwilling to step into the breach and in so doing take responsibility for default. After Herriot's defeat and resignation, the ministerial crisis was deliberately prolonged beyond 15 December to enable default to occur without any specific governmental responsibility.[142]

British default, 1934

By 1934, the United Kingdom had begun to enjoy a strong economic recovery and improved gold reserves. Yet the British government ultimately defaulted on its war debts. In June, following a cabinet decision on 30 May 1934, the cabinet unanimously approved the chancellor's recommendation to

[138] RG 59 800.51w89, Box 4601, Speech of Herriot, 14 December 1932.
[139] Self, 2006: 131.
[140] RG 59 800.51w89, Box 4601, Dawson report, 4 January 1933.
[141] Self, 2006: 130: Clavin, 1995: 56; Stimson and Bundy, 1947: 217.
[142] Self, 2006: 131.

default.[143] The cabinet's position on the payment of war debts was informed by passage of the Johnson Act by the U.S. Congress in early 1934. The Act prohibited financial transactions with any foreign government in default on any of its obligations to the United States. Most pressingly for London, the terms of default meant that only full repayment would suffice; any negotiated reduction or partial payment was now unacceptable. Most debtors chose not to resume full payments thereafter, consequently costing the U.S. government tens of millions of dollars in 1934 and subsequent decades.[144] Chamberlain believed that they had "played a mug's game in depriving themselves of $40 million [from Britain] which they would have pouched if they hadn't given themselves the pleasure of passing the Johnson Act."[145] This policy change catalyzed resistance within the British cabinet to further payment via all three normative pathways by which the taboo influenced decision making. Analysis of the archival data reveals that the British government's motivations for default were again not driven by thinking about future borrowing costs, the risk of punishments, or spillover effects but rather by the weakening of the default taboo.[146]

Domestic politics

Ministers had increasingly come to believe public opinion was more supportive of a suspension of payments. There was by now "a considerable element" in the cabinet that opposed any further payments; many ministers were convinced that public opinion in the United Kingdom had hardened so sharply after the Johnson Act that the "overwhelming majority" welcomed complete suspension.[147] If the United States was unwilling to negotiate fairly with the United Kingdom, they reasoned, why

143 CAB 23/79/7, 30 May 1934. See also Leith-Ross, 1968: 178-179.
144 Finland would go on to continue payments until completion. On the logic of Finnish repayment, as a tool to rebuilding the government's financial reputation, see Tomz, 2007: 112-113.
145 Self, 2005, 73. On debt restructuring as valuable to debtors and creditors, see Datz 2009.
146 For an overview, see Reinhart and Rogoff, 2009: 55-58; Panizza, Sturzenegger, and Zettelmeyer, 2009: 651-698; and Roos, 2019: 23-39.
147 T 188/75/96-7, Leith-Ross to Lindsay, 7 May 1934.

should the public support payment. Furthermore, much of the moral outrage appears at default to have faded over time. As Chamberlain acknowledged, "I am sure that if we had done it last year the papers would have been full of protests, but the public have been led along so gradually.. that they seem hardly to notice the final stoppage."[148]

Public supported had also suffered as many other states had defaulted without cost. Much of the public's support was driven by the unfair burden of continued payment.[149] The British government had just sought to reduce public burdens after many difficult years of sacrifice. The "sunshine budget" of 1934 reduced taxation and cuts in public allowances.[150] Such benefits would have been much more difficult to achieve had regular debt payments continued and would have generated further public resistance. Repayment would have been unpopular not only because of the costs, but also because of the challenge it posed to competing norms of social equity. The required high levels of taxation in Britain had produced a prolonged period of industrial depression and an army of unemployed. By 1934, understanding of repayment had changed from a moral obligation to what the prime minister called "a gross act of social injustice."[151]

International reputation

The wave of defaults across Europe, and in particular the French default on its U.S. debt, had diminished the normative implications of British default both instrumentally and substantively. The major European debtors that failed to honor their financial obligations to the United States had suffered few economic consequences. As Leith-Ross explained, the British decision to default was

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148 Self, 2006: 195.
149 See, for example, CAB 27/548, BDA, Seventh meeting, 31 March 1933; CAB 24/241/14, War Debts: Memorandum, 24 May 1933; and CAB 23/77/9, 26 October 1933.
150 CAB, 23/79/7, 30 May 1934.
151 CAB 24/249/33, 29 May 1934.

"helped by France who had not lost anything by it."[152] Furthermore, fears about the possible effects of the decision on British credit and on its position as a creditor country, which had so exercised the chancellor and several of his colleagues, had faded.[153] The risk of a wave of defaults or financial contagion driven by the British government's decision to suspend payments now assumed limited attention in the cabinet. This stance may have been aided by relatively stable income from many overseas investments throughout this period.[154]

Maintaining a reputation for repayment may also have appeared insufficient to avert problems with some foreign debtors, evidenced most recently by Chile and Germany.[155] Furthermore, the British government saw no issue in attempting to recover its losses from both states despite its own default to the United States. In June, Congresspeople was "astonished to see" Britain considering reprisals against Germany following its own suspension of repayments and criticized what they saw as a double standard.[156] Germany did eventually agree to a unilateral agreement with Britain and would briefly resume repaying its debt.[157]

Furthermore, in the wake of the Johnson Act, any attempt to resume full repayment would have eventually required the United Kingdom to ask for payment from its own debtors. As the chancellor explained: "they could not assume the responsibility of adopting a course which would revive the whole system of inter-Governmental War Debt payments… Such a procedure would throw a bombshell into the European arena which would have financial and economic repercussions over all the five continents and would postpone indefinitely the chances of world recovery".[158] Relatedly, payment was unpopular amongst many defaulter governments. Prime Minister Édouard Daladier's

[152] Leith-Ross, 1968: 178-179. On the feasibility of selective debt cancellation in the interwar period, see Lienau, 2014.
[153] Leith-Ross, 1968: 178-179.
[154] Kindersley, 1936: 647.
[155] HL Deb, 6 June 1934, vol 92 cc871-872; Clement, 2004: 36-37; James, 1985: 342.
[156] Congressional Record, Senate, 16 June 1934, 12067.
[157] Tooze, 2006: 70, 87; and James, 1985: 342.
[158] CAB 24/249/33, 29 May 1934.

decision not to pay the next instalment of the war debt due on 15 June was accompanied by a warning from Paris to London that British payment would harm relations between the two countries.[159] The reputational implications of default had clearly changed.

Personal moral convictions

As detailed above, senior cabinet members had come to see repayment as a social injustice.[160] These views were in part driven by domestic concerns but also by a sense of moral conviction. Norms of international debt repayment had begun to clash with norms about domestic debts. Support for a suspension of payments was aided by a broader shift away from punishing debtors in society.[161] Britain's suspension of payments coincided with significant efforts towards domestic reform that would reduce levels of imprisonment following default on payment of fines.[162] Senior members of the government were involved in these changes. Home Secretary John Gilmour appointed a departmental committee that proposed many sweeping reforms, including a reduction in prison numbers, shortly after British default took place.[163]

Furthermore, many in the cabinet honestly believed that the continuation of payments would intensify the world crisis and might provoke financial and economic chaos appeared to be honestly felt by some policymakers. As MacDonald remarked, "Payments that would upset [the] financial order (such as it is) would be treason to the whole world."[164] War debts and reparations appeared to many

[159] Self, 2006: 171.
[160] CAB 24/249/33, 29 May 1934.
[161] On the societal shift from the punishment of debtors to control of creditors, see Strange, 1979: 9.
[162] National Archives, London, Ministry of Pensions and National Insurance (hereafter PIN), 15/1010, Hansard, 29 November 1934.
[163] PIN 15/1010, cmd. 4649, Report by Departmental Committee, esp. 2, 64. On punishment for default in pre-war society, see Finn, 2008: 110, 259-261.
[164] Self, 2006: 194.

as the major obstacle to recovery and had certainly generated considerable political ill-will as well as serious tensions in the world economy.[165]

Overall, the normative logic underpinning the British government's decision to continue paying its war debts to America in 1932 and 1933 is consistent with its decision to suspend repayment in 1934. In such circumstances, default had become appropriate and thus rational course of action for London. Official accounts suggest that the government would have been prepared to make another token payment. Leith-Ross certainly recalls the final decision in his memoirs, stating that "[t]he reluctance of HMG to take this step was perfectly genuine."[166] Furthermore, it is interesting to observe that in this Note, and in official publications or speeches thereafter, the government typically shied away from references to "default," preferring instead to use the term "suspension."[167] Such wording may perhaps have represented a sincere willingness to resume payment at some point, but it certainly reflected a clear distaste for the term and a subtle effort to dissociate from the act of non-payment. In many ways, the Note served an important psychological function. Like many debtors, the British government had found ways of demonstrating that its decision was either inevitable and desirable, or that it is all someone else's fault.[168]

Conclusions

France and Britain were responsible for the two largest sovereign defaults of the twentieth century when they suspended war debt payments to the United States during the Great Depression. These unpaid debts would go on to have a profound effect on the course of international politics, slowing U.S. involvement in World War II and limiting post-war funding for the rebuilding of Europe.[169]

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[165] James, 1987: 337. See also *FRUS*, 1933, I, Lindsay to Acting Secretary of State, 13 June 1933.
[166] Leith-Ross, 1968: 178-179.
[167] CAB 23/79/7, 30 May 1934.
[168] James, 1987: 333.
[169] Gill, 2022.

Despite their remarkable size and far-reaching consequences, these sovereign defaults have been neglected by most economists and political scientists. Returning to these understudied cases provides important insights into the enduring and important debate concerning the causes of sovereign default.

While Paris defaulted immediately, London continued payment for an additional eighteen months. Conventional explanations for why states default or repay their debts struggle to explain this variation. We argue that policymakers' attention to ideas and norms at critical moments on the path to default represents a better explanation. Variation in the key mechanisms of normative influence—domestic public opinion, international reputation, and personal moral convictions—provides a stronger explanation of repayment behavior in both cases than existing theories. British policymakers were initially concerned about outraging the public, feared non-payment by Britain's own debtors, and valued a stalwart reputation. Over the course of eighteen months, these concerns faded, especially in the wake of expanded demands from the United States. In contrast, French policymakers found strong public support for default, held more limited concerns about international reputation, and were more divided on the importance of a national identity as a stalwart borrower.

Our findings have important implications for theory. We join a growing body of literature on the power of prohibitionary norms in IR. Our findings move beyond the familiar realm of security studies and into the study of international political economy. Analysis of the two largest sovereign defaults in modern history shows that the decision- making process was not purely, or even primarily, about economic utility. Normative and ideational forces instead played a central role. Our analysis of the British government in the 1930s therefore complements historical accounts of Nicargagu, Iran, Mexico, and the Philipines in the 1970s and 1980s and more detailed anlayses of Aregntina in the

2010s.[170] In sum, policymakers may sometimes act against their economic interests for normative reasons when contemplating repayment or default.

We should nevertheless be wary of sweeping generalizations. The fact that repayment norms matter in the United Kingdom and to a lesser extent France in the 1930s does not necessarily mean that it matters elsewhere or in other times. Because they are Western democracies, permeated by domestic opinion and ideas, and with a tradition of strong repayment or capitalist values, it may be an "easier" case for demonstrating the role of norms. Nevertheless, recent literature suggests that Western democracies have become even more strongly opposed to default since the great depression.[171] Thus although the taboo is probably not universal, it is widespread, as demonstrated both through domestic policies and widespread international support.[172] If our claims are valid, we should expect to see evidence of repayment norms in other international debt crises as relevant archival materials are released.

Our findings offer three broader contributions to the study of sovereign debt, each with broader relevance to past or future debt crises. First, we offer a partial answer to a core question that remains unresolved in the literature—namely, why do states default in good times?[173] The United Kingdom continued to make repayments during the height of the depression, at considerable cost, but defaulted in significantly improved economic conditions.[174] France was even better placed to pay in 1932. Economic and political context matter, to be sure, but our research underscores the importance of norms in default decisions. Our insights become especially relevant when leaders are comfortable challenging established economic norms. Donald Trump's alleged threat to default on

[170] Lienau, 2014: 175; Nelson and Steinberg, 2018.
[171] See, for example, Lienau 2014; Roos, 2019.
[172] For a similar argument, see Tannenwald, 2007: 377-378.
[173] Tomz and Wirght, 2007.
[174] CAB 24/249/33, 29 May 1934.

U.S. debt during his presidential campaign in 2016, for example, was driven less by economic necessity and more by different views about what is right and acceptable in international politics.[175]

Second, we find that the politics of default and repayment in one state can depend on the behavior of peers. Our archival research supports theoretical claims that a networked default contributes to the decay of a repayment norm and provide a justifiable 'excuse' for default.[176] France's successful default, for example, helped to weaken resistance in the United Kingdom.[177] In the same way, France's own default was encouraged by German and then Belgian defaults. This insight offers an important avenue of future research. Sovereign defaults are rarely isolated events. Waves of defaults occurred in the 1870s, 1930s, 1980s and 1990s. A new wave of default may eventually follow in the wake of the coronavirus pandemic.[178] Market or capital-related difficulties can only explain so much of this story, especially given the vastly different economic circumstances of affected states. Our findings suggest that the erosion of international repayment norms can help to explain these waves of default.

Third, even for scholars who may challenge our normative claims, we identify a novel casual mechanism of relevance to the study of default. Our research extends the popular reputational mechanism advanced by scholars to focus not only on creditors but also on debtors.[179] London was deterred from default less by fear about damaging its reputation with lenders and more by its wider reputation amongst debtors, who could in turn cease repayment on their debts. Many in Paris were also concerned by the effect of default on France's own debtors. In effect, reputation should be understood in much broader terms for highly networked states. Many scholars question whether the

175 Worstall, 2016. On Trump's divergence from established presidential norms, see Pfiffner 2021.

176 Chwieroth, Simpson, Walter, 2014.chw
177 Britain's default would in turn encourage Italy to default. See Astore and Fratianni, 2019: 208.
178 Bolton et al., 2020.
179 Tomz, 2007.

United States or China would ever selectively default on any external debts. Existing scholarship rightly points to a wide range of impediments but focuses largely on relations with foreign *creditors*. Our findings suggest that both states' foreign *debtors* would represent another significant risk. China and the United States have both lent trillions of dollars to foreign governments and would therefore be understandably wary about how these debtors might in turn react to a default decision.

Large-scale external defaults always remain a possibility in world politics. No single theory can explain why some states sometimes repay their debts as others default given such a large and varied universe of cases. As our analysis has shown, states may sometimes act against their material interests for normative reasons. Repayment norms should be seen as an essential part of explaining the wider phenomenon of non-default.

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