

Empire Lite

By MITU GULATI

Review of *THE EMPIRE TRAP: The Rise and Fall of U.S. Intervention to Protect American Property Overseas: 1893-2013*, by Noel Maurer

Princeton University Press, 2013

I read *Empire Trap* in bits and pieces during the first two weeks of April 2015. As I was reading, a regular topic on the front pages of the financial press was the unhappiness in Greece with the austerity that has been imposed on it by its Euro area brethren (or masters, depending on one's vantage point). The austerity was imposed on Greece as part of a deal that its prior government made with the Troika (the IMF, the EU and the ECB) in exchange for a much-needed bailout package during the period 2010-2012 when it suffered through a severe debt crisis. Credit dried up, growth slowed, and unemployment rose.

The basic elements of the rescue package were the same as they have always been in history when a sovereign cannot pay and foreign creditors have the power (through their governments) to impose conditions on the delinquent sovereign – tax your citizens more, spend less on them, and pay us (the foreign creditors) back. That deal has been tried repeatedly over history and while it sometimes works, it sometimes does not. The latter outcome seems especially likely to occur when the conditions imposed by the foreign powers are onerous and the populace rebels and puts in place a government that promises to renegotiate the prior deal.

Maurer's wonderful book is a story about this tension. It is not about Greece and the Troika; rather it is a historical treatment of how US governments from the 19th century up to the current day have dealt with foreign governments that wretched on deals with US citizens who have invested abroad. A popular narrative, particularly within the US, is that it has through history, despite its great power over the last century, been averse to being a colonial power in the fashion of the great European powers such as Britain, France, Spain, Portugal, the Netherlands and so on. The uplifting official story was that Americans, having suffered under the yoke of the colonial powers themselves, have never wanted to exploit others in the same fashion that was done to them.

Maurer's book turns that story upside down. While it is indeed the case that the US did not rule foreign populations in the fashion that say Britain did in India, the US did an awful lot of managing of foreign lands all the way across the globe, ranging from the Philippines to Haiti to Hawaii. And while it's true that the US did not end up owning (but rather managing) many of these foreign outposts, this was not due to the great American anti-imperial spirit. Instead, it was frequently the result of the following sentiment: "we don't want those foreigners gaining citizenship rights and coming over to the mainland."

Conquest By Contract

Bond contract terms play an important part in the early portions of Maurer's story. In the late 18th and early 19th centuries, Maurer documents what were probably among the first

sets of delegations of jurisdiction and formalized dispute resolution provisions in sovereign bonds. Mostly coming out of countries within the US sphere of influence in Latin America, the government bonds for these countries would often specify that the resolution of disputes would be by senior officials in the US government. Further, the remedy that resulted when there was nonpayment was a US-style receivership – where the debtor’s tax system was taken over and run by US-designated (or at least approved) receivers who ensured that taxes were collected and investors got paid out of the tax revenues.

The combination of dispute resolution by US government officials and then the takeover of the tax system by US-designated (or informally approved) officials looks an awful lot like a foreign takeover (many Greeks today share this sentiment about the much-hated Troika). But it was not the kind of takeover of a foreign country that characterized the empires that were built by the European powers in much of Africa and Asia, where they sent military forces and civilian officials to occupy the territory of whole nations. The US, by contrast, took over only *some* aspects of the other countries’ sovereignty—those aspects that were necessary to ensure that its citizens could safely invest in and trade with the other country.

Maurer’s interest is in how the US, while purporting not to be engaged in empire building, often got enmeshed in running other countries, even while not wanting to. Maurer does give us clues as to the reluctance of the US to take over these other nations. But he does not explain why the US strategy didn’t work very well (except perhaps in one or two cases, such as that of the Dominican Republic). Typically, the effort to take over the tax system ended in failure and credits were not repaid. But why did it not work? Why were the British, for example, so good at establishing a successful colonial empire with its strategy of 100% ownership (I am oversimplifying greatly), but the US, with its partial ownership model, was rather unsuccessful. This partial ownership strategy isn’t working so well today for the Troika in Greece. I could not help but wonder whether there were parallels. Taking full control of another sovereign’s territory is not an acceptable option today (unless one is Russia taking Crimea) and no one would advocate that. But maybe partial control of aspects of another nation’s sovereignty does not work well either. Maybe that is one of the key lessons from history.

Gunboats and Bailouts

The research on sovereign debt before World War II frequently talks about the era of “gunboat diplomacy.” The idea is that, when foreign investors got stiffed, they would go to a friendly sovereign (usually their home government) and ask for its assistance in persuading the delinquent debtor to pay. The “gunboat diplomacy” part of the diplomatic efforts occurred when the investors’ home nations would first threaten via diplomacy and then, if that didn’t work, send in gunboats to do their negotiating by shelling the ports of the delinquent country. In oversimplified accounts, there are the bad old days of colonial oppression where debt enforcement, particularly against weak non-western nations, was done via brute force (the gunboats) and then there is the modern era where we are civilized and creditors go to court or some arbitral tribunal to try to get the delinquent government to pay.

Maurer's story of the US misadventures overseas in the protection of investors tells a more complicated tale. First, law wasn't irrelevant in the old days. Investors could not, ever, simply show up at their home government main offices, demand gunboats to be sent and have that happen. That country (the US, in Maurer's tale), most likely, would have laws regulating when the state was allowed to use military force overseas. In particular, reports would probably have to be prepared justifying the action and legislative approval would need to be obtained. The second aspect of Maurer's tale that makes it more complex than the usual accounts of gunboat diplomacy is the connection to modern bailout. The most heated modern-day debates about sovereign debt, and particularly so with Greece, concern the costs of bailouts. The accounts that Maurer provides us from history tell us that this the use of gunboats (or the CIA or other mechanism of state power to interfere overseas) was a form of bailout as well (in the sense, that taxpayer funds were used for enforcement on behalf of private investors) – and taxpayers were usually resentful of their tax moneys being used to bail out irresponsible investors who had taken the risk of investing overseas and didn't want to pay the costs when bad things happened.

Maurer himself endorses the conventional view that US enforcement evolved from force to law, even though his evidence shows that law was an important part of the story during both periods. While he might agree that law existed from the start, he seems to think that it plays much more of a role today than in the past.

His story, unfortunately, does not have a full account of the drama unfolding between Argentina and its foreign creditors. (Argentina had a giant default in 2001; where much of the debt got restructured, but a small set of holdouts are still litigating.) That story is playing out as a courtroom drama in a variety of courts around the world, albeit primarily in New York. And one key element of the drama is how the US courts have managed, through their power to do extraterritorial enforcement, to produce the modern-day equivalent of a French gunboat shelling the port of Veracruz in the 1830 – at least, that seems to be how many in the Argentine press see it. While it's true that no one is threatening to shell Buenos Aires and seize its customs house, legal sanctions that prevent a country from borrowing money can do just as much, if not more, harm.

Equity Investors v. Debt Investors

The literature on sovereign debt focuses on the interests of bondholders. So, the stories about diplomatic pressures and military actions against sovereign defaulters tend to focus on the pressures that these bondholders place on their governments to take actions to help them get paid. Maurer teaches us that it is a mistake to try and understand the actions of foreign governments through the lens of bondholder interests alone. Foreign governments are inevitably balancing, on the one hand, the interests of (often politically influential) investors who decided to make risky investments abroad against those of taxpayers (who are being asked to fund enforcement). Indeed, governments must balance the interests of different kinds of investors – equity investors who might have bought factories or other local enterprises and who have an interest in the country regaining its economic health and bond investors whose primary concern is to get paid on their bonds regardless of the harm that results to the foreign nation.

There is much more that could be said about Maurer's book. It is not only full of the kind of detailed analysis of events that historians are so good at, but it also has the kinds of parsimonious insights that I am more used to associating with my colleagues from economics and finance. To the extent I have a criticism it is that the book is too long – it took me a couple of weeks to read. But I should also say that while it took me longer to read the book from front to end than I would have liked, I had no problem whatsoever in making it through to the end. Indeed, I wish Maurer had written more.

MITU GULATI is a professor of law at Duke University.

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