Like Father like Sons?
The Cost of Sovereign Defaults
In Reduced Credit to the Private Sector

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Abstract

This paper investigates the impact of sovereign defaults on the ability of the corporate sector in emerging nations to finance itself abroad. The hypothesis here is that defaults have a negative spillover effect on the private sector through credit rationing. We explore a novel dataset covering the vast majority of corporates and municipals in emerging nations that received foreign capital between 1880 and 1913. The detailed nature of the data allows us to explore variation between countries and economic sectors. The results confirm that rationing existed, was very large, and persisted long beyond the solution of the original default problem. Therefore, the private sector in emerging countries paid a severe reputational cost for the debt intolerance of their governments, with possible implications for the growth prospects of these nations.

Keywords: Sovereign Default, Credit Rationing, Private Sector, Pre-1913.

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