

**SOVEREIGN AND QUASI-
SOVEREIGN
STATES: THEIR DEBTS
TO FOREIGN COUNTRIES**

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Sovereign and quasi-sovereign states: their debts to foreign countries by Hyde Clarke

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HYDE CLARKE

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THEIR DEBTS TO
FOREIGN COUNTRIES.

BY
HYDE CLARKE, V.P.S.S.

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*On the DEBTS of SOVEREIGN and QUASI-SOVEREIGN STATES, OWING
by FOREIGN COUNTRIES. By HIDE CLARKE, V.P.S.S.*

[Read before the Statistical Society, 16th April, 1878.]

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I.

It is amidst the growth of many States, and the wonderful development of the world, in America, on the Pacific, in Africa, and in Australia, that a vast extension of commerce has been seen. Among other things, large loan operations have been engaged in with various Governments, in which all the saving classes of England, France, Holland and Germany, have taken part. Means have thus been found for the construction of railways and public works, in the United States, Mexico, Cuba, Peru, Chile, the Argentine States, Russia, Roumania, Turkey, Egypt, Java, China, and Japan. The permanent advancement of prosperity throughout the world has been promoted, accompanied by an enormous increase of production, and the opening of many markets for the consumption of manufactures.

At the early period after the formation of the European States, loans were made to kings and princes by the Jews, on a system of copartnership lately termed syndicate. At a later period, these loans were made by the Lombard and Italian money-dealers, and the descendant of a Florentine banker, Peruzzi, still claims a principal sum, repudiated by one of the Edwards, and the compound interest upon it.

Among other operations, the Greshams, under the title of the king's exchanger, appear to have been engaged in raising temporary loans at Antwerp, and its allied bourses. As late as 1800 United States dividends were paid at Antwerp, and there is still a small foreign bourse, but supplanted by Brussels.

The merchants of the Hanse Towns and Low Countries had already been engaged in these operations in succession to the Italians, when the independence of Holland concentrated them in that country, which likewise became a refuge for the Jews driven out of Spain.

The accession of William of Orange to the throne of England, by putting a stop to the naval rivalry, brought England again into its old and close relation with Holland, and on the establishment of the funding system here, the Hollanders took a large part in our consolidated debt, bank stock, and in India stocks.

All through the last century, Holland was the great centre for the trade in foreign loans, one means by which that country was much enriched. In 1778, Holland was reputed to hold 62,000,000*l.* in the stocks of France, England, &c., but this is doubtful. McCulloch in his "Taxation," p. 412, is wrong in his deductions from this as to the position of Holland, for the people of Holland continued to accumulate capital down to the French Revolution, but other countries grew more rapidly in population and production. The French Revolution, attended by wide repudiation, to a great degree destroyed this branch of accumulated capital, and the yoke of the Empire still further impoverished Holland. At the Great Peace, Holland was restored, but it was no longer in the same relative position, England in particular having largely grown.

One class of operations of which we have an account, is for the then new United States, for which Holland was for some time the money market, and where United States railway bonds are still placed in conjunction with Frankfort.

During the war the United States borrowed in Holland at 4 per cent., under the guarantee of the French court, 400,000*l.* This serves to show how moderate the rate of interest then was, and how the credit of France stood.

Besides this loan before 1790 the United States had borrowed in Holland:—

	£
First loan, 5 per cent.....	440,000
Second „ 4 „	200,000
Third „ 5 „	100,000
Fourth „ 4 „	100,000

It will be seen that the United States also had a good credit, and they upheld their engagements in Holland, although their

finances were much embarrassed. In 1800 the foreign debt of the United States of which the dividends were payable at Amsterdam and Antwerp, was \$10,000,000 (2,000,000*l.*)

The last United States instalment on the Dutch debt was due in 1809.

It may here be well to state that the Hollanders maintained their own integrity. While under the yoke of the French King, Louis Bonaparte, he reduced the debt of Holland to one third. On the Prince of Orange becoming king in 1814, one of the first acts was to restore the debt to its integral amount, although the Hollanders were not in a state to meet the whole interest.

Holland still took part after the peace in foreign loans, particularly under the auspices of the Hopes, and the thrift and enterprise of its men and women, have furnished large means for such investments to the present day, but it has been in subordination to England. One cause has been, that the individual loans have been beyond the compass of the market of Holland; and another, that the business of Frankfort and Hamburgh was carried on directly with London or Paris.

Paris too became a rival in this branch of enterprise to Holland. After the revolution of July, Paris became a resort for the wealthy, not only as a city of pleasure, but as a refuge from the revolutions of Europe and the Spanish-American continent. It has been at times a capital of the Spanish-American race beyond Madrid. Habits of speculation, accompanying those of work, led the French middle class to afford means for such operations, and the more so as the solid advance of France reduced the home returns on money. Thus small loans could be placed on easier terms in Paris than in London, and Paris was always available to take a portion of a large loan. Paris too became the first stage in the advance of the German-Jewish money operators, who in time competed with the old financial houses, and launched schemes of a character most disastrous to the victims. In this again they were assisted by the formation of large institutions in France, nominally for banking, but in reality engaged in gigantic speculations in association with their directors.

It may not be out of place to say some words as to the Paris market. Under the first Napoleon it supplied large funds for the Empire.

An operation recorded of that time, is that in 1811, the King of Saxony negotiated there a loan of 12,000,000 *frs.* (480,000*l.*) on account of the Grand Duchy of Warsaw, on the security of the salt mines of Wolisla. He appears to have placed about 280,000*l.*

On the restoration, the Paris market became quite prostrate, and could not find money for local purposes.

On the 18th February, 1817, a contract was concluded by the

French Government with the houses of Baring and Hope, for the sale of 400,000*l.* 5 per cent. rentes at the gross price of 55. On the 11th March a second agreement was made for 345,200*l.* on the same terms, and afterwards a third agreement with the two houses and with two French banks, for the sale of 360,000*l.* at 64 per cent.

The commission on these transactions was 534,200*l.* at 2½ per cent., which came chiefly to the Barings and Hopes (Bernard Cohen, "Compendium of Finance," 1822, p. 11, and Wellington's Supplementary Despatches).

On the 9th August, 1821, tenders were opened at Paris for 500,000*l.* rentes 5 per cent. The houses that tendered were

Defessert and Holtzinger	85'55
Sartoris and Greffulhe	84'60
Rothschild and Lafitte	84'15
Ricardo and Groves	84'02½

(Bernard Cohen, "Compendium," Appendix, p. 89).

This shows well enough the nature of such operations, and what large resources they furnish for the houses engaged in them.

By 1820 Paris had so far rallied that the house of Ardoin in conjunction with Hubbard, engaged in the series of Spanish loan operations. The Paris house of the Rothschilds placed its loans almost exclusively on the Paris market.

Brussels may be regarded as a dependency on Paris and Frankfort is closely in connection with it.

Coming to England, we find that during the great war, the Stock Exchange was largely occupied with new English loans of all denominations, omnium, scrip, lottery tickets, long annuities, short annuities. One form of aiding foreign States was by loans, commonly guaranteed by England.

On the peace, some foreign loans were issued for the adjustment of obligations, but it was the establishment of South American independence which led to the formation of numerous loans. It was the influence of Mr. Canning which largely affected the country. Great hopes were raised of the results to be obtained from enterprise in the countries of gold and silver, such as arose afterwards on the opening up of California and Australia. The results, indeed, ultimately proved great and remunerative.

The loans for Mexico, Central America, Colombia, and Buenos Ayres, as well as for Greece, were at a very early period repudiated. It was very easy to call a country a republic, but it was difficult to create citizens, and none the less so to constitute statesmen and administrators. Speedily the countries were the prey of political distractions and civil war. The money subscribed by the investors

in England and Holland seldom got into the hands of the Governments. The loans were manipulated by the secondary mercantile houses contracting them, and at the most some military stores or ships reached the nominal borrowers.

The social misery produced by these defaults was great, for many families attracted by the high interest imperilled the greater part of their fortunes. Since then, although individuals have committed the same error of putting too many eggs into one basket, the main body of investors in England, Holland, and France, appear to have adopted the practice of distributing their risks.

So far as the general English public were concerned, the foreign loans of 1822-25 were a warning and a deterrent for some years, but other circumstances tended to make London a great money market. The revolutions following that of July, 1830, in France, drove many of the nobles and traders to look more to this country as a place of shelter for their wealth, nor was this effect lessened by the energy and prosperity which followed those events. The emancipation of industry attendant on the reform administration in this country gave a greater impulse to our own operations, and strengthened the general spirit of enterprise, and forgetfulness of the old repudiatory tendencies of our American correspondents, and the manifold material progress of our kinsmen, rendered it possible again to appeal for funds for various loans and undertakings.

II.

Thus for the last half-century this country has become the chief centre for foreign loans. This is not on the vulgar faith that John Bull's enormous wealth enables him to supply money to all foreigners, but because this has become the great centre for lending the money of foreigners to foreigners, as Holland formerly was.

One chief element of this condition, is the peace and the attendant political stability of England, as compared with the countries of the continent. The great material prosperity of Europe until the late crisis does not diminish this influence, but provides further funds for its maintenance. The greater a market the greater it must under the same circumstances become.

London is consequently, notwithstanding the attractions of Paris, the chief seat of the money-dealing houses, and the greater facility of the naturalisation laws, the emancipation of the Jews, the power of purchasing lands, the non-existence of a close nobility, the absence of social obstacles, all tend to encourage the residence of those, whom a disagreeable climate and the want of Parisian attractions might deter.

The reception on the continent of the pound sterling in gold as a fixed standard has very much to do with the preference of London as a seat of financial operations. The attempts to place other countries on the same footing as England by the demonetisation of silver in Germany, France, &c., have not been attended with a feeling of assurance as compared with England. There is also no fear abroad of the displacement of the pound sterling by a paper currency, which has played so disastrous a part in many countries.

While England was still regarded with respect on the continent as a power able and willing to maintain her own rights, there was always a belief that any undertaking under the English name was safe. Although this belief is diminished so far as the English Government is concerned, there is a feeling in favour of an English status for international loans on other grounds.

In Paris the Bourse is a dependency of the ministry, attended by a commissary of police, and requiring the fiat of the minister for the resolutions of its committee. Elsewhere the bourses, except at Amsterdam, cannot rely on freedom from administrative intervention. In Paris and other places the restrictions of the police on political meetings, constitute an impediment in the holding of assemblies of aggrieved bondholders, and interfere with organisation. The newspapers not being provided with shorthand writers, give no adequate report of the proceedings. In London the powerful daily papers (the "Times" not allowing political topics to prevent the discharge of such a duty), and the financial papers give more space to such proceedings than a Parisian journal does to those of its legislature.

The Stock Exchange in London, being free from administrative intervention, is able to act with effect. When in 1868 the Austrian Government made an arbitrary conversion of the two Anglo-Austrian loans of the Messrs. Rothschild, and of a Franco-Austrian loan, the Council of Foreign Bondholders was able to obtain from the Stock Exchange the removal from the official list of all Austrian securities as a penalty in 1869. The French ambassador was pretending to make the most violent representations at Vienna, and the Syndicate of the French Bourse were allowed to proceed with the case of grievance; but when they passed the like resolution as the Stock Exchange, the whole matter came to an end. The minister did not give his signature, and the resolution was abortive. It was supposed that the Emperor Napoleon had used this affair as a part of his system of concessions to the court of Austria to engage them in the French alliance, and the interests of holders of French bonds were consequently abandoned.

England having taken the chief hand in ocean steam navigation,