Moral Hazard and investment banking. Qualitative and quantitative evidence from the Baring crisis (1880-1890)

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Moral hazard and investment banking

Qualitative and quantitative evidence from the Baring crisis, 1880-1890

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I. Introduction

The origins of speculative bubbles remain a sort of mystery. This is probably a side effect from the general disagreement on the precise meaning and measurement of bubbles (Blanchard and Watson, 1982; Allen and Gale, 2000; Allen, Morris and Shin, 2006). However, the literature on economic crises is full of accounts where credit booms are followed by violent crashes, with asset prices rapidly raising during the boom only to collapse in the bust. Economists and historians frequently blame investors' irrationality, whose recurrent behavior is faithfully described in works such as Kindleberger's famous "Manias, panics and crashes". This paper aims to describe the origins of one of these episodes, the years that preceded the investment boom of 1885 to 1890. Unlike most of the traditional historiography of this period, we aim to demonstrate that investors did not behave irrationally and rather responded to the actions of financial intermediaries. The underwriting banks’ continuous involvement in Argentina’s bond issues nourished the confidence in their investments. This feeling was motivated by the banks’ supposed superior information on the country and by the fact that, in case of trouble, banks would act as lenders of last resort. In fact, the period ended with the so-called Baring crisis, as investors' strong demand for Argentina's financial assets rapidly weakened before underwriting banks could get rid of the bonds they still held in their portfolio. The most active of them, Baring Brothers, could only survive after this episode thanks to a bailout organised by the Bank of England in 1890.

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The historiography on the Baring crisis—both in Britain and Argentina—is vast and rich. The interactions between banks in Europe on the one hand, and the national, provincial and municipal governments in Argentina, on the other, have been described and analyzed in a number of works since the very moment of the crisis. The year 1885 marked a turning point in the cycle of capital flows to the so-called "new countries". During that year a currency crisis erupted in Argentina, ending with the gold standard regime that had been set up only two years before. Far from deterring new capital from being invested in Argentina, the effect was precisely the opposite. The true boom of foreign investment into the country really took off during that year and peaked in 1888, before its sudden collapse in 1889—and mainly in 1890.

This chapter aims to explain this apparent paradox through an analysis of London's underwriting strategies, their business structure and their risk management. Their implication in the issuing of bonds also affected investors' risk perception. In particular, the involvement of Baring as the historical underwriter of Argentina's bonds in London was regarded as a seal of approval by financial markets. However, overindebtedness in Argentina, along with political instability and a series of external shocks, contributed to freeze the demand for new bonds thus triggering Baring's own fall in 1890. We argue that despite the general environment of competition between underwriting banks, in 1885 they colluded to impose on Argentina a set of conditions before providing additional financial support. Among them, two conditions were particularly relevant. One was related to Argentina's fiscal policy and the other to the suspension of new external borrowing. Financial markets reacted positively to the announcement of the agreement, although in the medium term none of these conditions were met. Moreover, they served to open up Europe's capital markets to Argentina's provinces and municipalities. We speculate on the possible perception in the market that Baring could act as a last resort lender for Argentina.

II. Historiography of the Baring crisis and the agreement of 1885

In July 1885, a preliminary contract was signed between seven European banks—two of them British and five French—and Argentina's government. It established the general terms on which banks agreed to issue the largest loan ever granted to a Latin American country until then. The conditions accepted by Argentina's government agent attempted to regulate the

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2 Comprehensive literature reviews can be found in Flores (2004) and (2010).
expansionary debt policy practiced by the government since 1880. However, the agreement had the opposite effect. The years between 1886 and 1889 were characterised by the acceleration of the loans contracted in Europe. Most of them were to be used for infrastructure building and the establishment of new banks, encouraged by the free banking law of 1887.

Historians have tried to explain the contradictory effects of the 1885 agreement (Ferns, 1960; Jones, 1972; Regalsky, 2002). They have identified this contract as a main factor leading to the investment process that resulted in the Baring crisis. Two clauses in that contract have been scrutinised. In the first clause, the government had agreed to provide revenues from customs duties, the most important revenue at the time, as a security for the loan. In the other one the Argentinian government had accepted to temporarily suspend any further negotiations for new loans and to request the banks’ approval if it decided to restart one. Strikingly, a few months before the final signature of the contract the Argentinian Congress had strongly opposed the inclusion of both clauses. The Treasury’s pressing needs may have been the cause for this change of stance on behalf of the Argentinian policymakers. It is considered that the final form of the agreement had a positive effect on investors’ risk perception. According to Ferns (1960), for instance, investors had the feeling that Argentina's economic situation was being closely watched, within a sort of monitoring procedure conducted by the banks. This may have restored the confidence amongst investors, thereby increasing their demand for new bonds from Argentina.

In our view, some works on the Baring crisis have underestimated the importance of this agreement. Yet, its inclusion in any analysis of the Baring crisis would adequately highlight the importance of Europe's financial markets structure on Argentina's own borrowing policy. Even though the economists have been providing all sorts of explanations for the Baring crisis since its inception, no consensus has emerged regarding the main reasons for Argentina's economic crisis or Baring's near bankruptcy. Moreover, most works on the Baring crisis have focused on the macroeconomic aspects of the crisis, and have left important microeconomic elements unexplained, such as the incentives of investors and banks and the way they responded to the events that led to the crisis. This chapter aims to fill this gap.

Most authors consider 1880 as the starting point of the capital export cycle and highlight 1885 as its turning point. The classic work by Williams (1920) separates the periods between 1881-1885 and 1886-1890, underlining the years 1884 and 1885 as the time in which

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3 For a literature review on the main theories on the Baring crisis, see Flores (2010).
there was a shift in Argentina's balance of payments. Williams (1920) argued that Argentina's transition to a permanent deficit in its current account rendered the country dependent upon external capital. This shift also obliged Argentina to abandon the gold standard in 1885, though this measure was initially conceived to be temporary. In 1887, despite a brief but considerable effort to balance both the fiscal and the current account deficit, Argentina's peso initiated a strong depreciation along with a continued increase in imports financed through foreign capital.

The year 1885 is also important for a number of reasons. Looking at Argentina's business cycles, Cerro (2000) situates an upward phase beginning at the second quarter of 1881 and ending in the second quarter of 1885, though it rapidly rebounds in the last quarter of 1886. From a political perspective, 1885 was the last year of general Roca's government. Roca had played a decisive role in the country's unification, mainly through the federalization of Buenos Aires and the extension of fertile lands to the south for colonization. His successor, Miguel Angel Juarez Celman, led a government marked by the adoption of an expansionary economic policy, along with a liberal perspective on banking and currency—all of which intended to accelerate the development of the country (Duncan, 1984).

As a main catalyzer for this development strategy, foreign loans played a prominent role. Railway construction was at the heart of this strategy, but many other investments—public works, ports and mortgage banks amongst the most popular—were equally financed through new loan issues. Admittedly, this was nothing new neither for Latin American governments nor for European investors. The novelty was the rediscovered destination. Argentina had been a frequent yet risky borrower since its independence. In the 1880s the country was already well known in the European financial market, and its repayment record was a combination between resound defaults but also unexpected and punctual repayment periods. Argentina had in fact avoided the fate of default in the world crisis of 1876, unlike many other Latin American borrowers. Moreover, in the early 1880s, its economic performance made the country particularly attractive for investors, as did its exports growth, immigration flow and perceived potential.

This lending boom was also encouraged by merchant banks of the main financial centres in Europe. The relationship between banks and South American governments was

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4 Terry (1893) described the crisis in 1885, when banks experienced massive withdrawals and convertibility had to be suspended. He argued that a main mistake in Argentina's fiscal policy was to have refused the reduction of expenditures, many of which were unnecessary.
complex, volatile and unstable. This might explain why it has been such a popular topic among historians—besides the fact that it was a key element to understand the volume of capital exports from Europe to that region. Some of the authors provided a detailed analysis of the 1880s international financial architecture. Amongst them, some works have described the particularities of the relationship between British merchant banks and Argentina. Marichal (1984) defines this cycle of capital exports as one where interactions between European banks and Argentina were complex and multinational. British banks were not the only ones to seek for new business in Argentina. French and German banks were increasingly active, with other European banks also participating in diverse activities related to trade and the syndication of new loans. Whilst competition was strong, some scope for collaboration which was strongly dependent on the specific situation of Europe's financial centres emerged. During those years, Argentina also developed a position of external financial dependency.

Jones (1972) and Regalsky (1987, 2002) have analyzed the negotiations that took place in 1885 between the government of Argentina and the banks that had acted as main underwriters for its loans. Some divergences emerge when comparing their main conclusions. Regalsky (2002) emphasised the strong financial necessities of the government of Argentina during that year. He argued that it had already exhausted all possibilities for internal funding. Under these circumstances, its bargaining power before European banks was weak. Therefore, it is hardly surprising that banks were able to impose their conditions on the 1885 loan, as we describe below. According to Regalsky's analysis, the 1885 agreement was the final result of the debt policy followed by Argentina’s government, which exploited competition between banks to obtain new loans at the best possible terms. From the beginning of 1881 this policy proved to be a complete failure.

Jones' (1972) analysis differs from Regalsky's mainly in its appreciation of Argentina's bargaining power. He nevertheless admits that the government of Argentina was obliged to accept the terms imposed by the banks, which responded to their short-term interests. Jones claims that the 1885 agreement was strongly criticised in London and Argentina especially because it allowed the banks to disburden their portfolios from the bonds they had previously been unable to place into the market. Furthermore, the conditions also implied some kind of

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5 Among the most relevant works we can mention Jenks (1927), Cairncross (1953), Ford (1956), Ferns (1960, 1992), Peters (1934), and more recently Marichal (1984, 1989), Regalsky (1987, 2002), Flores and Flandreau (2009) and Flores (2011).
control over the Argentinian government's finances through the well-known guarantee of the customs duties engaged for the repayment of the loan.

Jones (1972) stated however that this agreement had failed and proceeded to analyze the main causes for such a failure. He suggests mainly that banks did not have the means to enforce the contract. After the signing of the agreement, Argentina's government was in a more privileged position than the banks. Even if these financial institutions were the seven most active underwriting banks of Argentina’s securities, the government was able to negotiate new loans with other banks. Jones considered the syndicalization strategy of the banks as an inefficient measure of defense, first against the market—as it increased the likelihood of placement for the bonds it had already underwritten—and subsequently against Argentina's government, which saw its bargaining power increased. This did not deter the Argentinian government from ignoring the clause establishing a temporary suspension of borrowing. Not only did borrowing take off, but it did so at an accelerated pace. Jones argued that this harmed Argentinian credit in Europe, as Argentina had to accept worse terms than countries such as Brazil or Chile.

Ferns (1960) had also argued in this vein. He maintained that, if the objective was the rational control of the investment process, the agreement had exactly the opposite effect. Ferns agrees with Jones on the banks' incapability to exercise any kind of control not only on the federal, provincial or municipal Argentinian governments, but also on the activities of new competitors. Whereas the number of banks participating in the syndicate that signed the agreement of 1885 was high (seven banks), after that year nine additional banks underwrote new loans to Argentina's provincial and municipal governments.

According to Ferns (1960), a main reason for this contradictory effect was the spurious atmosphere of confidence created in the bankers' minds due to the belief that Argentina's government had given them a safe basis for the loans in the form of a guarantee from the customs duties. This belief was strengthened by the fact that these loans were payable in sterling pounds (with fixed exchange clauses with other hard currencies) and the assumption that the contracts provided an effective mean to protect their own interests. More importantly, Ferns argued that the agreement had a positive effect on investors' perception of the risk involved. This perception was based on the general impression that the investment process was under the supervision of institutions that were well informed about its features and necessities. However, Ferns explained that the agreement was not a control scheme, but rather
a medium to assure a reduced group of banks and their clients a first claim on Argentina's government revenues.

III. Government, banks and investors: Passing the buck

From our perspective, an analysis on the manner in which foreign government loans were issued in the main financial centres of Europe provides several elements to disentangle the different incentives and the behavior of each agent participating in the market. In short, the main incentive behind the actions of governments, banks and investors was to obtain the highest revenue while minimizing the risk involved. How was this achieved? The risk of a new issue was primarily assumed by the borrowing government. A bank would act as an intermediary and investors would decide whether to purchase the new bonds or not. Competition, however, encouraged banks to provide additional services to governments. Additionally, investors would also take into account the behavior of underwriting banks and their reputation in their risk assessment. We will now take a deeper look at this mechanism.

Governments seeking for financial funds in Europe's financial markets were motivated by attractive interest rates—compared to their level at home—because of increased liquidity at times of more pressing needs or simply because their own capital markets were not fully developed. On the other hand, a main feature in the underwriting business in Paris and London was the increased practice of firm commitment where banks would directly purchase the bonds from the governments and resell them to investors. French banks could successfully compete with their British counterparts thanks to this innovative offer. Governments seeking for security on the proceeds from loan issues would prefer this modality as they avoided the risk of a placement failure. This risk was then assumed by the underwriting banks. In the 1880s, most of Argentina's loans were issued under the firm taking modality. Although the commissions the government was obliged to pay were high in the beginning, they decreased considerably as competition for new loans increased in the following years.

Banks, on the other hand, were only occasionally interested in issuing foreign loans, precisely due to the high risk involved. Chapman (1984) mentioned a set of possible reasons

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6 On the different modalities on underwriting see Flores (2010).
7 Underwriting fees were as high as 9% in 1881 and decreased to a 4.5% in 1889. See Flores (2004).
for which a (merchant) bank would engage in the business of foreign loans. Firstly, merchant banks could offer to issue loans on behalf of governments of prosperous countries, as they offered a safer business with the promise of rapid gains. Secondly, trade expansion coincided with stronger economic activity and higher funds availability, and thus, the opportunities for new business in both activities were highly correlated. Thirdly, specific links with railway contractors or other merchants (and even without them) often meant that the funds raised from the loans would translate into the exports of specific goods. Chapman (1984) quoted James Rothschild, for instance, ascertaining—in 1866—that “seven-eighths or fifteen-sixteenths of any loan issued are employed in buying goods” (Chapman, 1983:104). Marichal (1984) also argued that much of the expansion of trade between France and Argentina was nourished by the loans raised in Paris by Argentina’s government by the 1880s. Finally, issuing a loan also meant the expansion of commercial business, because they were interpreted as an official recognition of foreign governments which was helpful to obtain commercial connections (Chapman, 1984: 104).

Caboue (1931) also argued that the main reason for entering that business was the high levels of benefits that banks obtained from these operations. Bouvier (1968) quoted Henri Germain, the founder of Crédit Lyonnais, who provided a classification of the different bank activities. The banker placed foreign loan business within the group of "extraordinary operations", as opposed to ordinary operations—defined as those activities related to the use of deposits that the bank channeled for commercial purposes. Extraordinary operations were those with high expected benefits but whose participation the banks would only occasionally undertake. These were difficult operations, involving tough competition, and a high level of risk. Thus, these activities had to be subjected to a strict assessment before a bank engaged in them.\footnote{Bouvier (1968:121)}

These rather idealistic features of foreign lending were however only occasionally met. For some authors, the departure from these basic principles laid behind Baring’s problems in 1890. Ferns (1960), for instance, accused Baring of "imprudent behavior" in its operations in Argentina. Baring did not respect, according to Ferns, the principle under which the decision of investment should depend on a previous estimation of the payment capacity of

\footnote{Chapman (1984) observed that issuing activities were generally regarded as risky and with low profitability. However, a precise analysis of the evolution of underwriting fees in the 19th century for “safe” governments indicate that fees were a permanent, albeit low source of profits. Fees for risky countries were high, up to 15% in some cases. To avoid the high risk that this involved, syndicalization became recurrent use by the end of the century.}
the borrower made by professional bankers. However, Flores (2011) showed that the level of information on Argentina was even lower for other underwriting banks. He mentioned a striking example of Paribas inquiring in 1890 on the value of some securities from the Mortgage bank of the Province of Cordoba, which were held at the bank’s portfolio as guarantee for a loan they had underwritten and that was about to default. Whereas imprudence may have been related to Baring’s near bankruptcy, this was not limited to Baring, nor was its level of information the lowest. And yet, it was the hardest hit from its position in Argentina.

A main feature of the 1880s was the general incentive for banks to engage in underwriting activities given investors' high demand for Argentinian securities. Obviously, some of this demand seems to have had rather speculative origins. For instance, Ferns (1960) mentioned the case of mortgage bonds (*cedulas hipotecarias*) issued in the late 1880s which were mostly payable in paper pesos. The yields of these securities were highly dependent on the behavior of the gold premium, whose fluctuation continuously increased, mainly after 1887, partly due to increased monetary issues but also to the occasional interventions of Argentina’s Treasury in the exchange market. Moreover, municipalities and provinces that issued their own loans for the first time in Europe were by definition completely unknown among investors. Still, they could all place their bonds in a relatively short time.

The fact that banks were not investing in information production and yet continuously issuing new bonds should not be surprising given the issuing mechanism, which was very similar to the "originate and distribute" system much criticised during the recent subprime crisis. Most of the participating banks were new entrants into Argentina's underwriting markets and it seemed unclear whether this participation had long-term purposes. Banks could engage in an underwriting agreement, place the bonds and then limit their relationship to the payment of interests during the duration of the loan. In other words, this meant a big, short-term gain from a short-term activity. Still, although this behavior was common among most of the participating banks, this was not a generalised practice for all banks. Some of them, those characterised as having the highest market share, developed long-term relationships with the borrowers (see Flores, 2002). In financial theory this is known as relationship banking (Boot, 2000). The intuition is straightforward. A bank would have incentives to invest in the production of information from a firm if it expects to obtain the long-term gains from its financial support at initial stages or in periods of financial distress. Competition would erode
this incentive thereby worsening the general level of information available to the firm's main bank.\textsuperscript{10}

In most of Baring’s historiography and its relationship with Argentina, Baring has been regarded as Argentina's main banker. Contrary to this common belief, however, Ferns (1992) argued that archival evidence does not show that Baring considered themselves as the "bankers of the Argentine Republic". The reason for this common belief, argued Ferns, was the long-term relationship that Baring had developed almost involuntarily. They had been the first highly regarded firm to float a loan on behalf on the new born United Provinces of Rio de la Plata in 1824. This loan defaulted as did most Latin American issues in the 1820s. In contrast to the attitude of most underwriters, Baring persisted in protecting the interests of the bondholders.\textsuperscript{11} Its persistence bore fruit in 1857 with the signing of an agreement with the Province of Buenos Aires. However, this did not mean that they were enthusiastic about lending to Argentina, as it was not until 1866 that they floated a new small loan. Other English banks became active in Argentinian affairs only in the seventies.

Nonetheless, Baring did care about obtaining accurate information on Argentina. Since 1876 the bank sent one of its own employees, Nicholas Bower, to Buenos Aires. His task was to report on the projects for which loans had been floated: a waterworks and drainage system, the state of the Provincial Bank of Buenos Aires, and the Western Railroad (\textit{Ferrocarril Oeste}). During the following years, Bower developed strong ties with the government of Argentina. This relationship cannot be underestimated, as it generated the kind of soft information that constituted a main advantage for Baring compared to other banks and to investors.\textsuperscript{12} Unfortunately for Baring, and probably for Argentina, this relationship deteriorated considerably in the early 1880s. This situation appears to be strongly related to the entry of French banks as underwriters for the first loans issued during that decade. In fact, none of the banks issuing Argentina's securities in Europe during the 1880s developed a similar relationship with that country’s government. They did not send a permanent agent either, although some of them did operate through commercial houses in Argentina that acted as their agents, particularly regarding the offers and negotiations on new loans. On the other hand, Bower's reports on their assessment on Argentina provide accurate and detailed

\textsuperscript{10} Flandreau and Flores (2012) develop this issue for the mid-19th century London capital market.
\textsuperscript{11} On the relationship between banks, governments, and loan performances of the 1820s, see Flandreau and Flores (2009).
\textsuperscript{12} Obviously, this information advantage could give place to possible conflicts of interests. This has been analyzed in Flores (2011), though he found no evidence that Baring exploited his position to his own benefit.
descriptions on a number of topics, from public finances and transportation to migration. The only bank which systematically gathered statistics on trade, public finance, debt, or currency issues was Credit Lyonnais, a bank which was not directly involved in sovereign lending with Argentina but that developed these activities as a service for its clients mainly after the crisis in 1890.\textsuperscript{13} In other words, other banks' level of information was scattered or non-existent. As competition increased during the decade, the uncertainty on future business did not provide any incentives to improve the quantity nor the quality of this information. But as long as the market demanded Argentinian securities, banks continued floating loans on behalf of the country.

This situation was by no means underestimated by investors. From Argentina’s view, competition had produced a combination of effects: while the government could improve the terms of the loans offered by the banks, investors perceived those securities as riskier. Carincross (1953) summarised this point for the London market. Investors considered that competition between issuing houses existed when the borrower was a new entrant to the market. Some authors argue that competition could increase the marketing risks of the loans, given the unsuccessful bankers’ efforts to cry them down. Foreign governments who did not have a permanent agent in London had to negotiate on worse terms. A recent study by Flandreau et al. (2010) has also shown that countries who switched underwriter frequently had to pay the highest interest rates for their loans in the late 19\textsuperscript{th} century.

IV. Before the 1885 agreement: 1881-1884

The beginnings of this lending boom to Argentina have different origins. Some authors have argued that there was a shift in the perception of risk in investments in Argentina since the beginning of the decade. Peters (1934) noticed that between 1876 and 1879 the country was “unworthy of any confidence” and that “their loans lacked any value”, which was reflected in the market’s loan prices.\textsuperscript{14} This shift can be explained by several factors: by the positive news arriving from that country (political unification, increase in exports and expansion of the

\textsuperscript{13} See Flandreau (2003).
\textsuperscript{14} This was certainly a side effect from the crisis of 1873-1876 where defaults worldwide caused several losses to European investors. In Latin America, most countries defaulted during these years (this was the case for Bolivia, Colombia, Costa Rica, Guatemala, Honduras, Paraguay Peru, Uruguay) or continued in default (such as Mexico or Ecuador), Argentina did not default, but the prices of the bonds quoted in London and Paris were strongly affected by these events. Argentina’s 1868 bond fell to a low of 36\% of its nominal value, but gradually increased up to 91.5 in December of 1879 (data from the Investors’ Monthly Manual).
territory), the country's punctual debt payments despite the wave of defaults in the 1870s; or the general recognition of the country's potential, as shown by the increased number of immigrants and merchants looking for new opportunities. It is therefore not surprising that banks competed for the issue of new loans. There was a general confidence among them that markets would open their arms to Argentina's securities.

This perception shift is also considered as one of the main reasons for the resulting increase in foreign investment received by Argentina since 1880. But it was obviously not the only one. Literature has provided a set of factors that can be separated in two groups, depending on whether they are related to the supply or the demand side of funds. Amongst the factors related to the supply side worthy of mention are the low yields offered by European bonds and the positive perception of growth in the “new countries”. With regard to the demand of funds, a series of factors can be identified. First, the expansion of lands available for agriculture and livestock resulting from the wars against the indigenous people. This encouraged primary exports and stimulated the railway and urban development. Second, the federalization of the capital, Buenos Aires, which opened a new period of political stability. Finally, the reduction of maritime freights that increased the variety of products that could be placed on the European markets.

Increased demand for capital and a sudden shift in risk perception opened up new profit opportunities for financial intermediaries participating in the business of foreign government loans. For practical purposes, both factors meant additional potential profits and manageable levels of risks. This incentive was further nourished by the increased interest by

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15 Stone's (1999) data on capital exports shows this increase in 1880. Regalsky (1987, 2002) also identifies 1880 as the departure year of French investment in Argentina.
16 These factors can be found in Regalsky (1987) or Rapoport (2000).
17 See Regalsky (1984). Marichal (1989) makes a distinction between Argentina and other Latin American countries. He argues that the situations in these countries were less attractive than that in Argentina: Chile and Peru were at war; Bolivia was negotiating its debt with its European bondholders; Costa Rica, Ecuador and Paraguay had ceased to pay amortization and interests since 1873; Mexico had repudiated its debt since 1873. In our opinion, these differences do not provide an adequate explanation. As mentioned above, in the decade previous to the 1880s Argentina seemed to be as unattractive as the other Latin American countries, and the decade began with internal war between the province of Buenos Aires and the Confederation. If there was a country that had shown political stability and a clean external default history, it would have been Brazil. If we compare the yields of the bonds of both countries, the market did perceive Brazil as less risky.

An alternative factor not very often mentioned is the cultural factor, which takes into account that Argentina was the first country in Latin America to receive European immigration. Some studies have analyzed the relation between immigration and capital flows (Nurske 1953). To further underline this point, the following citation in the Archives of Comptoir d'Escompte reflects the attitude of German bankers at the time when they entered the market of Argentinean bonds: “Les allemands...surtout attirés vers la République Argentine par le mouvement d'émigrants, qui sont pour la plupart de nationalité allemande, ont ouvert des suggestions au Cahen d’Anvers pour cette affaire.” (January 29th 1886). Entry number 102 955. Box 637.
the financial press in London and Paris, and the increased number of publications specialised in foreign investments. Michael George Mulhall, who recurrently published a set of statistics on wealth, trade and production in several countries in the press, in books and papers, had only favorable statistics to share. The country had become one of the main cereal exporters and its trade balance became positive; the construction of railways and telegraphs seemed to be one of the most profitable in the world and the public works and colonization policies attracted a growing number of European workers.18

Between 1881 and 1884, Argentina’s federal government negotiated several loans with European bankers for a nominal amount of 8 million pounds (without taking into account another 8 million pounds that ended up being issued in 1886 and 1887), along with the provinces of Buenos Aires and Santa Fe, which negotiated a total of eleven million pounds. These amounts were to be increased, between 1886 and 1889, to reach a total of 17 million pounds to the federal government and 26 million between both provinces and municipalities.

The first loan the government negotiated was the Railway Loan of 1881, for a nominal amount of 2.4 million pounds at 6%, marking the entry of the French bankers to a former English dominated market.19 The innovative feature of the loan was the acquisition of the whole amount in firm. Argentina’s government had used a system of auctioning, which forced the banks to compete amongst themselves. Competition may be the reason why, for the first time in Argentina’s foreign lending history, the banks took on the risk for the loan’s issue. Nevertheless, the purchase price agreed was relatively low, 82%, compared to the issue price of 91%, resulting thereby in a high profit for the banks – or a high cost for Argentina’s government- due to the risk involved in the loan’s issue.

The same syndicate underwrote a second loan of £800 000 at a 6% rate, issued at the end of 1882. As seen previously, it was a firm loan in its totality, although this time the agreed price was 90.5%, and for the bankers’ disappointment the issue price was only of 92.5% (the bank's benefits fell therefore to a low of 2%).20 This limited profit margin could be the result

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18 See for instance his « Handbook of the River Plate », published for the first time in 1863 and actualized several times in 1869, 1875 and 1892.
19 The French could enter the market and successfully compete with the English thanks to their modality of syndication, facilitated by the French banking system. This contrasted with the English bankers, which acted in an individual way. See Regalsky (1987). The participants in the syndicate are: Paribas, Comptoir d’Escompte and Cahen d’Anvers.
20 At the same time, the province of Buenos Aires continued to negotiate with the English bankers. It issued two loans during 1881 and 1882, for a total amount of 2.3 million pounds. The banks who issued the loans were Stern and Baring respectively. We shall keep in mind, as Jones argues, that the second half of the last loan (offered by Baring) was issued only four years later. The loans of this province were particularly important to the
of three factors: first, that the constant competition between the different syndicates had a positive impact on the purchase price, and profits almost eroded; also, bankers erroneously estimated the price at which the market would take the issue (the situation of the market had become adverse that year); and finally, the new Argentinian bonds were appearing on the market too frequently to be able to “prepare the market”. Whatever the reasons, the disappointing results of the issue was a first warning that the banks initially retained in subsequent loans.

On the 31st March 1884, Baring issued in London a loan in order to inject capital into the National Bank of Argentina. Although it was the French syndicate who underwrote the loan, the bulk of the issue took place in London. The syndicate had delegated the issuing task to Baring, though it was not part of the underwriting syndicate. The nominal amount of the loan was 1,7 million pounds at a 5% interest rate. This time, the risk taken by the banks was lower. Instead of buying the loan at firm, the banks made a nine hundred thousand pounds advance directly to the government, with 6% interests and a 4% commission for each quarter. In addition, the bankers had the option to take firm the total of the loan one month after the issue date at an 85% of its price.21

The issue of this loan was successful, so the banks took the option.22 However, this was to be the last loan to be well received by the market. Two additional loans were negotiated: the same syndicate underwrote one more loan on September 1883 for the construction of the “Sanitation Works and the Port of Riachuelo”. Almost at the same time, another syndicate headed by Morgan and Co. and Société Générale acquired in June 1884

eyes of the European investors and bankers, as we can confirm from different sources. In a report of the Paris’ branch director of the Comptoir d’Escompte about the state of the Argentinian confederation we found the following citation: “Cet état a actuellement trois emprunts en cours de remboursement, non compris les emprunts de Buenos Ayres de 1824 et 1857, qui sont cependant, sous tous les rapports de véritables emprunts nationaux”.
or in The Economist the 29th march 1884:
“Yet this government has been a very frequent borrower here lately, for although the last nominally Argentine loan was that of December 1882, Buenos Ayres, that province so predominates in the confederation, that its indebtedness cannot be ignored in considering Argentine finance. Indeed, various of the Buenos Ayres loans are really chargeable upon the national exchequer.”

21 Regalsky states that taking into account the installments for the delivery of the funds, in 12 quarters, discounted at 5% yearly at the end of the option, the real price was actually 79,6%, what seems to us quite logic, because the issue price had been of 84 ½.

22 About the skepticism of the Paris bankers about the success of the issue, we could read in the correspondence from the director of Paribas to the Comptoir d’Escompte the 4th April 1884: “The subscription for the Argentinean Loan of 5% 1884, opened in London on March 31st by Mr. Baring was a great success. The loan was covered a couple of times (…) Would you let us know before the eighth of this month if your intention is to liberate immediately all or a part of your bonds…” Historical Archives, Paribas, Entry number 102.955, Box 404
another loan for public works. Regalsky (2002) explained that Argentina’s negotiations with this new syndicate were due to the difficulties encountered by Paribas’ syndicate to place the loans.

The loan for the sanitation works amounted to a total of 2,4 million pounds, at a 5% interest rate. The syndicate underwrote a third of the total amount of the loan firm at 80%, and the rest was to be offered to the public with a commission of 2,5% and every surplus of 82,5 % would be shared between the banks and the government. Baring was included in the syndicate later, with a 30% participation and the issuance of part of the loan in London. The loan was to be floated along with the National Bank’s bonds, but it had to be postponed due to a legal dispute with the Stern Bank regarding the loan’s guarantees.\textsuperscript{23}

Later in September 1884, the Morgan syndicate issued the bonds they had acquired at firm (a third of the 6 million pounds), at a price of 84%. This appeared to be, at first glance, as a profitable business, due to the fact that the agreed price was 81,5%, although the terms for the installments and delivery of the funds further reduced this figure.\textsuperscript{24} However, the news on the increasing difficulties affecting Argentina as well as the rumors about the possible suspension of convertibility caused the bonds to be retained in the bankers’ hands.

V. The 1885 agreement

Argentina started off the year of 1885 with a currency crisis and ended it with an investment boom. While this seems paradoxical, a chronology of the events regarding the relations between Argentina’s national government and the banks highlights the importance of the agreement on the significant volume of new loans. In January, the Provincial Bank of Buenos Aires, which was then the most important bank of the country, announced the suspension of payments in kind. The financial press in Europe reacted with a combination of surprise and disappointment. For instance, as soon as the gold premium revealed its first increases, \textit{L’Economiste français} voiced concerns about its impact on Argentina’s reputation amongst...

\begin{footnotes}
\item[23]\footnotesize{Under the law of 28th October 1881, the federal government expropriated the work of Riachuelo Barracas, which were practiced under the government of the Province of Buenos Aires. This province had contracted an internal loan that was sold to a British bank in Buenos Aires, and was issued in London by Stern Brothers in 1881. As guarantee for the loan the provincial government offered the product of the port works, exactly the same guarantee as the one foreseen by the law of 28th October for the new loan with the French syndicate. See Peters (1934).}
\item[24]\footnotesize{Regalsky (2002) estimates this price at 78,3. The complete deliverance of the funds had to be done one year after the government began paying interests.}
\end{footnotes}
investors. However, financial market's perception did not seem to be very altered. The yields on Argentina's government bonds did increase (about 5% from their average value in December), though this alteration was mild and lasted a short period of time. The Economist summarised probably the market's general perception and optimism regarding the near future:

“The news that the Argentine Confederation had authorised the suspension of specie payments was a great surprise. The accounts of the increasing prosperity of the country had been of the most glowing character, and the only indicators of anything being amiss was a slight fall in the exchange (…) the rate continued to fall, causing a demand for gold to export, resulting in a run upon the banks, and the forced suspension of payment in coin and we confess to not having been prepared for a sudden collapse.”

On the reasons of such an event, it explained that:

“…yet, the cause is not, we think, far to seek. Excessive imports, following on large borrowings, both public and private, have created a foreign indebtedness, the discharge of which has broken down of currency founded on a slender basis.”

But confidence in the country remained unaltered:

“The disaster, it appears to us, is unconnected with the question of the prosperity of the country, and is likely, therefore, to be only of temporary nature.”

This confidence may explain why the price of Argentina’s national government bonds experienced only a mild and temporary fall during those years. But difficulties did exist in Argentina, and from the government’s perspective, their financial position experienced some problems regarding the need for the funds to complete the projects for which they were intended and to compensate the increased amount of debt. The government was already used to resort to short-term loans in Buenos Aires to meet its most immediate needs whilst awaiting the proceeds from the foreign loans. The long delay of the 1884 issues and the pressing needs of the Treasury motivated the government to send Dr. Carlos Pellegrini as its official agent to Europe in order to conduct negotiations with both syndicates. Regalsky (2002) explained that,

25 L’Economiste Francais, 10th January 1885. « ...l’agio croîtra encore au grand détriment des intérêts du pays et surtout de sa réputation financière a l’étranger… »
26 The Economist, January 17th, 1885.
at the same time, the banks had already agreed to adopt a common position towards Argentina’s government. Pellegrini’s arrival faced a situation that was best summarised in a report to Argentina’s Parliament published in the press:

“Once there, he found himself in an embarrassing situation; the French syndicate, who took $4,000,000 at firm from the loan of $12,000,000 for the Sanitation works and Riachuelo could not place it in the market and had it still in its hands. Mr. Morgan, who took $10,000,000 at firm of the $30,000,000 loan, launched it to the market and was only able to place 300,000 pounds, having kept the remaining sum until today. (…) Antagonisms were created between these two syndicates, preventing reciprocal actions. In these circumstances, the commissioned began his negotiations to unify both syndicates and incorporate the respectable Baring…”

What did the agreement stipulate? In fact, there were two agreements. On the 6th and 7th July 1885, Pellegrini signed with seven European bankers a first draft of the contract. The participants were: Banque de Paris et des Pays Bas, Comptoir d’Escompte, Cahen d’Anvers, Société Générale, Crédit Industriel, Baring and Morgan. This agreement was provisional, and was subject to the approval of the Argentinean Congress. The government agreed to cancel two loans, the one voted by the law of 20th June 1884, for 2.4 million pounds and the second by the law of 25th October 1883 for 6 million pounds. They were replaced by a new one, of 8.4 million pounds. The service was guaranteed “in general by the nation’s revenues and especially by the customs duties”, and the President committed himself to refrain from “authorising” or “sanctioning” the issue of any loan without a previous and formal agreement with the bankers. No loan already approved by the Congress could be negotiated during this period, and the agreement specifically mentioned the 16 million pesos loan created for the Provincial Bank of Buenos Aires.

The Banks reserved the right of decision regarding the date of issue of the total or partial amount of the loan, with the only condition that the price would not be lower than

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27 Report to the Deputies’ Chamber, published in *La Prensa*, the 21st October 1885.
28 The government committed to buy the part being acquired at firm by the bankers. This money, amounting to 2.3 million pounds on June 1885, was converted into a deposit from the bankers to the Argentinian government, bearing a 6% yearly commission and a six-monthly commission of 50%. To this amount an additional sum of 1.8 million pounds was added.
29 We could find the agreements at the Historical Archives of Paribas (Entry number 102.955, Box 404). In 1884 the proportion of the revenues from duties out of the total revenues was about 62%. About the solidity of the duties fee, the director of Comptoir d’Escompte, Denfert-Rochereau wrote to Paribas: « Les douanes ont produit, en 1884, une somme de 135 millions de francs, environ, et l’annuité nécessaire pour le service de l’Emprunt total ne dépasse pas 12 millions et demi… ». Historical Archives of Paribas. Box 603.
75%, which was an amount reserved for the government. If the price was higher, half of the gap would be for the bankers. In addition, the banks were to be paid a 2.5% commission over the nominal amount of the sold bonds.

On the 11th of August, Pellegrini informed the bankers that the Congress had refused the agreement, meaning that, as stipulated, it had to be cancelled. The main reason for this refusal was the clause on the customs duties guarantee, which Argentina’s Congress considered as “harmful for the dignity of the country”.

During August and September the negotiations were resumed. The bankers agreed to sign the agreement in “more acceptable terms” for the government, but only if the new agreement had the approval of the Congress. The financial position of the government may have worsened, because on the 16th October a new law was voted authorising the executive power to contract an additional loan for 4 million pounds, only a few days before the 21st October, when a new law was voted for the signature of the new agreement with the banks. In fact, there were no real differences with the previous agreement which had been discarded. The Congress even began its session by discussing the constitutionality of voting a law that had already been refused. The final agreement was signed on the 8th December.

On the London Stock Exchange, the juggling involved in the negotiation of the agreement was barely perceived and Argentina’s government bond prices remained stable. However, Jones (1972) mentioned that the results of the negotiations were reflected by the gold premium at the Buenos Aires Stock Exchange. We have gathered their weekly movements from the annual reports published by the Chamber of Commerce of Buenos Aires. As expected, there is a strong increase in the first weeks of 1885, when inconvertibility was declared, to be followed by fluctuations over the next months. Some events marked however the behaviour of the risk premium, such as the bank’s own previous agreement—when they decided to adopt a common position on behalf of Argentina’s unplaced bonds—or Argentina’s Congress refusal of the agreement. Still, even if a reduced influence would have been noticeable, the depreciation of the Argentinian paper peso was relatively stable in the second half of 1885, and remained that way until the first months of 1887 (see figure 1).

VI. The agreement’s effects

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30 The gold premium reflected the exchange rate between Argentina’s paper peso and the convertible gold peso.
The bonds were issued in two parts. A first half was issued in January 1886, at a price of 80, and the second half was issued one year later, at a price of 85. On January 1886, the Buenos Ayres Standard published that:

“Messrs Baring Brothers telegram to the National Government states that the loan was subscribed for in its totality the very first day offered to the public. This is a great success and we compliment the Government on the results. It is perhaps, the most brilliant financial operation ever carried through by a South American state”

The success of the first issue established the confidence in Argentina’s investments, as they were supported by seven of the most important underwriters who had assumed the risk and responsibility of the new loan. Baring could finally place on the market the second half of a loan for the province of Buenos Aires that was issued in 1881. Moreover, the agreement had allowed the banks that underwrote the loans of 1884 to avoid any losses. They had also minimised the risk of a placement failure in 1886, due mainly to the customs duties guarantee and the fact that all competitors were part of the same underwriting syndicate. But the profitability of the business had other unforeseen effects.

Argentina’s national government agreed to issue a new foreign loan in October 1886. The law was passed by the government during that month for the construction of new railroads. The total amount was 4 four million sterling pounds at a 5% interest rate. The underwriting bank was Murrieta, a bank that had not participated in the 1885 agreement. The contract was also signed under the new government, as Roca’s government had ended just some days before. Furthermore, a loan for the Provincial Bank of Buenos Aires that had been negotiated by Argentina’s national government in 1885 was finally contracted by the provincial government and a German syndicate, whose banks had not taken part in the 1885 agreement either.

The national government reduced its share in Argentina’s total borrowing after 1885. It continued financing public works at a large scale, while provinces borrowed to capitalise their new banks and municipalities did so to finance basic urban infrastructure. The national government also encouraged the formation of new public utilities or railway companies. The result of this borrowing policy can be appreciated in figure 2. It shows the sudden increase in the amounts issued, in London, and the number of underwriting banks and their average underwritten amount. Overall, the higher amounts issued were correlated with a higher number of participating banks, but not the underwritten amounts by each bank.

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31 Buenos Ayres Standard, 10th January 1886.
32 These banks were Mendehlssohn, Bethmann and Deutscher Effecter & Wechsel Bank.
The impact of this massive arrival of new bonds to Europe’s main financial centres was initially welcome, as evidenced by the general success of the new issues. This remained so until 1888, when the first failed placements began. In all cases, however, Baring’s involvement in the new issues was enough to reassure the market about the profitability of their investments. However, the press increasingly evoked this reputation effect while it worried about the lack of information for some of the new issues. In 1886, for instance, when Baring issued the second half of the loan for the province of Buenos Aires, the Statist Newspaper published the following: “we are surprised to see this week the prospectus of a loan (...) for the province of Buenos Ayres, issued by Messrs Baring Brothers and Co., without one word of explanation as to its object, or the slightest reference to the indebtedness and resources of the State.”

The main reason for the continuous success was given through articles such as the one published in 1889 by the Daily News, on a loan to be issued on behalf of Argentina’s national government: “As the matter is understood to be in the hands of Messrs Baring Brothers and Co. a successful result may be hoped for. The mere fact that an important syndicate is willing to negotiate is good for Argentine credit. Had matters been as bad as pessimists have been inclined to make out late, eminent firms would not have been disposed to trust the Argentine Republic more money.”

The participation in an underwriting syndicate (or as a mere issuer) of a loan appeared therefore as an important element on investors’ risk assessment. We have illustrated this point in figure 3. We have calculated the spreads at issue of all new loans on behalf of national, provincial and municipal government loans as well as those for the railway and public utility companies for the period between 1881 and 1889 in London, Paris and Berlin. The information on these loans can be found in the Burdett’s Official Intelligence of 1890 and the Statist newspaper, 27 March 1887. We have divided the sample between those issues underwritten by "other banks" (those banks that had not been underwriters prior to 1880), those underwritten by the "main underwriters" (those that had been underwriters before the said date), and those underwritten by Baring. We do observe a difference in the average spread for each of the groups, but this difference is mainly significant between the group of

33 Statist, 27 March 1886.
34 Daily News, October 5th 1889.
35 Flores (2011) demonstrated that, during this period, loans underwritten by Rothschild had a lower risk premium even controlling for macroeconomic fundamentals.
36 Spreads at issue are defined as the differences between the yields at issue of the new bonds and the yield of a UK consol at the same date.
the new banks and those banks that had underwritten before Argentinian securities. Figure 3 also differentiates the issues between national, provincial, and public utilities and railway companies, many of which benefited from guarantees provided by Argentina’s national government. An additional feature shown in Figure 3 is the fact that the bulk of the less risky issues were mostly underwritten by Baring, and this partly explains the differences in the levels of spreads at issue. Nevertheless, Baring’s private companies’ issues were lower than those underwritten by “other banks”, and the spreads at issue for national and provincial loans not underwritten by Baring were also higher on average than those underwritten by this bank.

There are several reasons behind the investors’ confidence generated by Baring (and to a less extent, by other main underwriters). Ferns (1992) and Flandreau and Flores (2012) have suggested that a main reason was the support that could be provided by Baring in a period of financial distress. Ferns (1992) justifies this through the history of the relationship between Argentina and Baring between 1823 and 1857, whereas Flandreau and Flores (2012) argue that Rothschild and other prestigious banks did provide this support during the long 19th century, though the costs that borrowing governments paid for this support was high—in terms of conditionality and financial costs.

In fact, as the crisis of 1890 approached, the press speculated with the possibility of a bailout loan organised by Baring. It also reported on the banks’ interest in participating in this new loan, something regarded to some extent as a repetition of the 1885 agreement—even if this time the situation was much more complicated. The South American Journal ventured even to name the banks implicated: Baring, Rothschild Paris, Disconto Gesellschaft, the North German Bank and Oppenheim.

Archival evidence does demonstrate that Baring negotiated with Argentina’s government a loan to support it through its difficulties to service its debt. However, Baring was having difficulties to convince other banks to underwrite the loan and to make the government accept the conditions attached to the support. Whilst Samuel Hale, who acted as

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37 We have also tested and confirmed the statistical significance of the mean differences for each group through a t-test. This test had a value of 2.12 for the mean differences between “other banks” and “main underwriters”. This value exceeds the critical value of 1.984 needed for a statistically significant difference at a 0.025 level. This test resulted non-significant for the mean differences between the main underwriters and Baring.

38 On the differences in the risk level for national and provincial bonds, see Della Paolera and Grandes (2006).

39 Baring average spread at issue for national government loans was 2.88, for “main underwriters” it was 3.23 and for “other banks” 3.01. We did not test for statistical significance in mean differences because the number of observations is low, but this confirms the general result obtained above.

40 South American Journal, 19th October 1889.

41 On the conditions of this planned loan, see Flores (2011).
Baring’s agent in Buenos Aires, repeatedly communicated with Baring on the continuous refusals of the government to accept Baring’s conditions, Baring also received the refusal from banks in France and Germany to participate in a new loan for Argentina. Those banks justified their refusal on the high risk of a new issue given the conditions in the South American country. At the end, Baring was obliged to pursue with the loan alone, once the government accepted the conditions. However, political instability in Argentina and Baring’s own difficulties prevented the bank from proceeding with the issue.

Concluding remarks

In broad terms, the 1880s were a distinct period in Argentina's external debt history given the competitive context of its foreign loan underwriters. This situation seems to have triggered a deterioration of the information held on Argentina's foreign investments. Admittedly, obtaining accurate and complete information was costly and therefore underwriting banks were hardly encouraged to assume these costs. As a result, Argentina ceased to retain a permanent bank to issue its loans in London, even if the country had been traditionally associated with Baring. Before the 1880s, the last loans issued on behalf of Argentina were negotiated with Baring in 1868, and with Murrieta in 1870—or eleven years before the first loan of the 1880s. The novelty of the eighties was the system the government implemented by making the banks compete and by prioritizing the firm offers. This preference seemed to continue along with the decade, although bankers, alerted by the first failed issues in 1884, reduced their risk exposure by minimizing their firm offers to such an extent that on the 1885 agreement the terms were completely different from those applied to the 1881 loan. After the success of the 1886 issue, however, this last situation reversed again and the government continued to favour the policy of competition. This time there was a new entrant to the business, the German bankers, who took the first loan after 1885.

A major issue was precisely the 1885 initial credibility. Taking into account the poor results of the issues previous to the agreement, each agent—signing banks and government—had an incentive to adhere to the contract's terms. On the one hand, Argentina's government

42 See for instance the letter by Betzold to Baring of the 1st July 1890. ING Baring Archives, HC4_1_113.
43 As the 1885 agreement was ratified by Argentina's government in 1885, a deputy declared that: “he desired to make a solemn manifestation, so that it could be recorded in the Congress's minutes, greeting with an applause vote and sympathies the reconquest of the respectable and powerful house of Baring for the national credit...whose friendship and services were abandoned by a fatal mistake of our financial policy, who gave heavy operations to occasional syndicates, without the enough respectability in the financial world, and whose results we are now painfully feeling...” citation from La Prensa, 21st October 1885.
faced seven of the biggest European banks. Any action taken against their interests would have been highly harmful for their credit. On the other hand, banks had no interest in taking additional risks through further committing to issue new bonds.

However, once the first bonds were placed on the market, the incentives of the bankers changed: the success of the bonds' placement in 1886, along with the results of the Buenos Aires second issue by Baring (the bonds had been kept in Baring’s hands since several years before), reopened new profit opportunities for the bankers. The entry of the German banks exerted more pressure on the syndicate members, so that every competitor took even greater risks issuing more bonds, also on behalf of Argentina's provinces and municipalities. Moreover, the growing demand for Argentina's securities further nourished the expansive debt policy pursued by the Argentinian government, which seized the opportunity to place new loans with the best terms offered. In sum, both parties had interests in continuing to float new loans as long as the market absorbed them.

A final question analysed concerns the reasons for the success in the 1886 issue, a result that contrasted with the previous failures. The agreement provided all the elements to guarantee a positive outcome: first, the risk from competition between banks was dismissed, because the main competitors formed a common-interests syndicate; second, the temporary cessation of new issues provided by one of the agreement’s clauses eliminated the risks of “being too fast to prepare the market” or the possible negative effects of additional issues; and third, the country's risk seemed to be more attractive due to the guarantee of the customs duties, and monitoring seemed to be assured through the common interest by the group of banks. Investors' risk perception could only improve, creating a virtuous circle nourished by a positive conjuncture in Europe's financial markets. Finally, investors were rational. They assumed that even if fiscal problems persisted, underwriting banks—and mainly Baring—would support Argentina and avoid any losses to investors, as shown by the contradiction between the pessimistic articles published by the London's financial press and the stable behaviour of that country's government bonds. This perception seemed justified by Baring's efforts to secure a bailout loan to support Argentina's fiscal situation one year before the crisis.

44 The Argentinian government understood, in general, the position with which they had to handle, as shown by the following observation from the same session on 21st October 1885:

“The syndicates dispose of great resources, and they are not affected having a small part of them in good sovereign bonds, just like the argentines’...”
References

La Prensa, 21st October 1885.
L'Economiste Français, 10th January 1885.


Figures

Figure 1. Gold premium. *Source*: Chamber of Commerce of Buenos Aires Stock annual reports.

Figure 2. Banks and loans issued, 1881-1889. *Source*: Author computations from Flores (2004) and Stone (1999).
Figure 3. Spreads of bond issues in the 1880s on behalf of Argentina’s national, provincial and municipal governments and railways and public utilities companies. Classification by underwriting banks. *Source:* see text.