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During the nineteenth century, sovereign debt defaults led to active intervention by governments from creditor countries to defend the claims of their bondholders. In certain cases, these interventions triggered the imposition of foreign control through commissions formed by States’ and bondholders' representatives. This chapter investigates why foreign control episodes were mostly absent in Latin America despite its recurrent debt crises. We focus on two case studies from the mid-nineteen century, Mexico and Peru, and analyze how public and private control was pursued to secure debt repayment and the development of international trade. Even though the British government was reluctant to intervene, major merchant banks could heavily influence the fiscal and commercial policies of countries with European commercial relations. However, the resumption of debt service in the aftermath of a default depended upon a complex set of political and economic factors.

Keywords: sovereign defaults, debt crises, informal empire, supersanctions

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Introduction

During the last decades of the nineteenth century and into the early twentieth century, the establishment of colonial regimes in Middle Eastern and North African countries was occasionally preceded by external debt defaults by local governments. In such cases, the failure to service external debt triggered diplomatic and military interventions by British and French governments, after which political control could promptly involve a wide range of economic policies, including those related to trade, fiscal and monetary issues. Resolution of the defaults took place under new political regimes and involved the active participation of bondholders.

Well-known examples include the defaults of Tunisia in 1867, Egypt in 1876 and Morocco in 1903. But even in the absence of political takeover, defaults could also entail the creation of other forms of quasi-colonial regimes, in which governments from creditor countries limited their involvement to aspects directly related to repayment capacity, such as fiscal monitoring or fund management, but also enforced trade liberalization if deemed necessary. These cases include the defaults of the Ottoman Empire in 1875, Greece in 1893, Serbia in 1895 and Liberia in 1912. In the early twentieth century, US military interventions on behalf of its bondholders in Central America echoed to some extent its European counterparts.


The different mechanisms through which finance and imperialism interacted in the nineteenth century have been at the heart of academic debate for decades. For some historians, finance was a prominent part of what became known as informal imperialism or the imperialism of free trade. While precise categorizations differ, certain scholars claim that the British government pursued a predetermined strategy of economic expansion in which banks and investors played a key role. Another strain of historians questions this approach and argues in favor of the pragmatic stance adopted by the British government, whose actions were defined on a case-by-case basis depending on geopolitical interests. This stance evolved throughout the nineteenth century along with the transformation of the British socio-economic structure and the rivalries that flourished with other European countries.

However, this literature has barely analyzed sovereign debt on its own. As a result, we do not know the reasons why certain defaults led to military interventions, or why other coercive actions such as the control of customs receipts or the establishment of organs of foreign control were undertaken in other cases. Answering these questions may require a comparison of distinct narratives on how default could lead to different types of foreign control or to other types of “direct” or “indirect” rule. An additional complication concerns the fact that even when defaults may have been at the origin of territorial annexation or colonization, this could take place only after several years or even decades, relegating the original debt disputes to a secondary role.

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9 This categorization was laid out by Alan Knight, ‘Rethinking British Informal Empire in Latin America (Especially Argentina)’, *Bulletin of Latin American Research*, 27.s1 (2008), 23–48.
10 This assertion needs to be qualified. In their seminal article, Gallagher and Robinson, ‘The Imperialism of Free Trade’. suggest, based on Lenin’s “Imperialism, the Highest Stage of Capitalism”, that there are two sub-periods in which mid-Victorian “indifference” towards formal imperialism shifted into late-Victorian “enthusiasm” for formal imperialism as a result of the previous growth in foreign investment and international trade, the watershed taking place around 1880. However, Gallagher and Robinson (1953) further argue that British colonial expansion remained important throughout both periods. On the other hand, the prominent rise of France into a capital-exporting country was accompanied by the expansion of its colonial territories. See Catherine Coquery-Vidrovitch,
Finally, the nexus between default and military intervention was mostly absent in Latin America, a region very often considered as an essential part of the British informal empire. This historical fact is striking once we consider that Latin American governments were both frequent borrowers and most of them also “serial defaulters” (to use today’s terminology). A short and potentially incomplete explanation suggests that Latin America was not at the center of the political international scene as was, for instance, China. ¹¹ The Middle Eastern region had been a crucial arena in which imperial rivalries contended for supremacy. ¹² However, Edward Shawcross has recently asserted that imperial rivalries, particularly between European powers and the US were more important in Latin America than previously acknowledged.¹³ Moreover, the historical account of events demonstrates that during the closing years of Spanish colonialism and early years of independence, the British navy had intervened on a number of fronts, particularly in the Southern cone. Historians have often suggested that in the aftermath of independence, contemporary British policymakers considered the subcontinent as part of their empire, while rivalries with other European countries —and to a certain extent with the US— led to isolated episodes of military intervention. Yet by the late 1820s, the supremacy of Great Britain was implicitly recognized and accepted, even though this status quo remained fragile and was rapidly challenged by internal and external threats.¹⁴

In this paper I argue that a closer look at the mid-nineteenth century foreign loans to Latin American governments – the same time span in which cases of defaults leading to foreign interventions prospered — suggests that during this period, different forms of financial control were exerted through private agents. In particular, merchant banks adopted a relevant role in maintaining a certain equilibrium between the defense of British interests —not necessarily compatible — and preserving a close relationship with successive local governments to secure collaboration. Merchant banks also interacted with their home governments and with bondholders. In contrast with the literature on informal empire in Latin America, which mainly focuses on Argentina, I analyze two contrasting cases: Mexico and Peru. In the case of Mexico,

the French experience of quasi-colonial control over the country failed largely because French political aims were not aligned with British economic interests, thus preventing British merchant banks from collaborating with the new political regime established in Mexico. Most Mexican political actors questioned the new loans contracted during that period, as they served mainly to finance the permanence of French troops in Mexico, further weakening the political regime imposed by the French government. The loans were thereafter repudiated and Mexico would remain in default for almost two decades.

In Peru, British merchant banks were more effective in channeling the claims of bondholders to defaulting governments and the effect was to mitigate their pressure vis-à-vis the British government. Peru’s model succeeded in allowing trade to expand while confining the resolution of default disputes to banks and private investors, though it imposed a harsh limit on Peru’s sovereignty, mainly because the government was obliged to cede the management of its natural resources. This solution also explains why, contrary to those in other regions, governments were able to enjoy a wider margin of maneuver regarding commercial policy, despite the apparently negative consequences that this liberty could inflict upon merchants. This arrangement also served as an effective check over fiscal and monetary issues. Highlighting the role of private agents in the resolution of default disputes further permits us to contradict the literature on gunboat diplomacy and "supersanctions", which argues that the persistent permanent threat of intervention prompted governments to repay their debts thereby expanding the market for sovereign debt. I conclude that cases of foreign control in Latin America existed— albeit in different forms than in other regions— but whose consequences triggered uncertain results that rather depended upon a complex set of economic and political factors.

Missing “Supersanctions”

The literature in economic history has largely focused on the existence of an “imperial component” that exerted an overwhelming influence on the development of sovereign debt markets, particularly at the end of the nineteenth century. In this vein, borrowing governments perceived the usefulness of gunboat diplomacy and the imposition of “supersanctions” –defined as extreme sanctions of a military, economic or political nature – as an effective threat that served to avert sovereign debt defaults. The expansion of sovereign debt markets and the fall

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of risk premia of government bonds in secondary markets are two features attributed to this policy.

However, these claims have been questioned by other scholars who argue that cases of gunboat diplomacy were rare events in which geopolitical interests (the imperial component) largely explain the decision by governments from creditor countries to intervene. Law scholars have further acknowledged that, historically, these governments adopted a reluctant attitude towards military intervention based on a problem of creditor moral hazard. According to Waibel (2011), nineteenth-century British and US governments based their decision to grant diplomatic and official support on political and financial considerations. They could nevertheless have recourse to the use of force to secure payment once all other enforcement mechanisms had been exhausted. A major problem with this procedure was its opposition to the basic principle of arbitration, defined as “the peaceful settlement of international disputes”. In this regard and according to this author, the Drago doctrine of 1907 inaugurated an age in which arbitration mechanisms became the preferred option in sovereign debt disputes and the recourse to force remained the option to be used as a very last resort.

Given the high frequency of default episodes in Latin America during the whole of the nineteenth century, it is puzzling that governments in creditor countries were less active in defending their bondholders than in other regions. In the case of Great Britain, Alan Knight has proposed two main reasons why the British government refrained from taking a more proactive role in Latin America. On the one hand, he puts forward the “negative” metropolitan argument that the British government lacked geopolitical interests in the region, coupled with the rising hegemony of the US, mainly in Mexico and Central America. On the other hand, he asserts that by the 1900s, local elites were in line with British commercial interests, assuming governing functions while Britain supplied credit and goods.

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17 See Megliani (2014)


19 Alan Knight, ‘Britain and Latin America’ (Oxford University Press, 1999).
While the first argument may explain why the dominant British position did not translate into formal colonization, it does not tell us why no other form of foreign control was considered as an intermediate solution to the bondholders’ recurrent disputes with Latin American governments. As we shall see, the levels of international investment, trade and public debt were not very different from those in other regions in which foreign control was established. Moreover, after the creation of the Corporation of Foreign Bondholders in 1868 (and similar bodies in other countries such as France, Belgium or Holland), official recognition served to consolidate the bondholders’ political voice, which lobbied for interventionism in countries unwilling to settle their debt disputes in terms acceptable to investors. In previous cases in which governments from creditor countries intervened, agents were placed in the ports and at the official money-issuing agencies —such as during the second Anglo-French blockade of Buenos Aires in 1852 — or new governments were established (such as the French intervention of 1862-3 in Mexico). But such extreme solutions differ considerably from the intermediate cases mentioned above and found in other regions.

Furthermore, while most elites had been favorable to trade since the mid-nineteenth century, continual political instability and struggles among different political and ideological positions did not guarantee that governments would always favor trade openness. The interests of Latin American elites were dynamic and conflicted with those of British and European subjects as their presence in different economic sectors expanded. As Jones argued in the case of Argentina, certain socioeconomic groups favored protectionism and local state intervention and developed negative attitudes towards foreign competition in sectors such as banking and public utilities. Moreover, Argentina may not have been unique. Gootenberg identified different periods of protectionism in Peru since the 1820s. The level of protectionism reached such a high level that John Coatsworth and Jeffrey Williamson characterized Latin America as the most protectionist region in the world. In certain cases, governments’ decisions to resort to protectionist measures could even be supported by foreign diplomats and bankers. This is in

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sharp contrast to the limited autonomy in terms of commercial policy determination experienced in countries in other regions that would later be colonized or in those having undergone external control. In fact, this tolerance can be interpreted as an implicit recognition that customs revenues were the bulk of most governments’ fiscal revenues and the ultimate resources with which debt could be repaid.

This may not mean, nevertheless, that protectionist policies did not lead to diplomatic tensions, or that European powers did not react to events affecting their interests. On the contrary, we may safely assert that the disconnection between sovereign debt defaults and open intervention was not ex-ante predetermined. European and US governments reserved their right to intervene, and in certain cases, they did. France and Britain were very active in Argentina, Brazil and Uruguay, the US intervened in Mexico in 1846, as did France in 1838 and 1861. By the turn of the century the US was very active in Central America, while Britain, Germany and Italy intervened in Venezuela in 1902. Even if sovereign debt disputes rarely triggered these interventions, they could nevertheless figure prominently as *casus belli*.

**Debt defaults and economic relations since independence**

Following independence, the formation of the new nation states became a hard and challenging task. The fiscal and monetary bases of the former Spanish colonies were destroyed during the confrontations. The reconstruction of the productive base became a major priority for the new governments, for which financial resources were necessary. British merchant banks became important actors as they participated as underwriters of the first foreign loans to Latin America's governments, but also because they became key actors in the export-import markets. Most countries with a strong mining sector, such as Mexico, Peru or Bolivia, benefited from high levels of British private investment that intended to resume the production of gold and silver. However, a disappointing performance, largely related to political instability, deterred investors

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for several decades. The fall in British investment, along with a relatively modest trade growth, led to limited diplomatic efforts by the British government to support bondholders.

In other countries, however, foreign trade had begun to expand even before independence, such as British trade with Argentina, Brazil and Chile. Perhaps strikingly, in many cases the growth in bilateral trade occurred despite the debt defaults that took place as early as 1825, and despite the persistent political instability of the young republics. Certain merchant banks, while having developed permanent relations with local agents and commercial houses, also intervened on behalf of bondholders to support their claims. These mostly successful efforts, along with the expansion of commercial activity, led to a second and major increase in private investments and government loans in the 1860s, a cycle more or less driven by global economic factors, but also by favorable political regimes and by the regions’ abundant natural resources. Again, commercial and financial expansion was not accompanied by armed interventions, despite the high levels of macroeconomic volatility and, in some cases, institutional and political uncertainty.

If we assume that economic incentives strongly motivated European expansionism, the first countries to be colonized were precisely those with which bilateral trade and European investment expanded the most. While we do not have precise figures on foreign investment for the years previous to 1865, certain estimates exist regarding the amounts of capital borrowed from the main financial centers of Europe and the US. Analogous figures exist on the volume of bilateral trade. In the case of foreign investment, the 1860s lending boom from Britain to the rest of the world benefited Latin America and the Middle East similarly. Most Latin American countries defaulted on their external debts, as did other countries in the Middle East. Yet, while the British and French governments supported investors of bonds from Middle Eastern governments, this was not the case for investors of defaulted Latin American government

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bonds. This is at odds with the fact that the most relevant default in terms of total volume of loans was that of Peru (£24.6 million), which exceeded those of Egypt (£11.5 million) and of the Ottoman Empire (£7 million).

It is true, nevertheless, that trade was a different matter. In 1870, Peru’s bilateral trade with Britain reached around £6.5 million (the figure for Argentina, Britain’s most important trade partner in Latin America, was £12.5 million). For Egypt, the comparable figure was £22.8 million, and the Ottoman Empire £12.3 million. In exports per capita terms, nevertheless, Peru and Argentina presented higher figures than their counterparts in the Middle East (2.29 and 1.6 versus 0.51 and 0.66 in 1860, respectively). But this openness also meant that there was ample room for reversal, and in fact, the degree of protectionism had increased since at least 1865 and would remain the highest in the world.

The close economic relations that had developed between Latin America and European countries by the later part of the 19th century, prompted certain historians to favor the idea of foreign control. Charles Jones provides a useful departure point with his emphasis on the importance of the private sphere as a mechanism of control over Latin American states. He focused on Argentina in the latter part of the nineteenth century when the British presence was dominant in most sectors, including finance. By then, the role of merchant banks had become important even in the determination of fiscal and monetary policies. In this sense, Argentina’s relationship with Britain was characterized by the secondary role played by the British government, as compared to foreign private agents, in assuming control over economic policy and economic activity. This condition also implied that, while the absence of territorial ambitions may have deterred (colonial) State interventionism, foreign control in fiscal and monetary issues permitted the expansion of investment and trade. Hopkins illustrated this point by evoking the management of the Baring crisis of 1890, handled by British banks with the support of the Bank of England. In this regard, the final outcome, stemming from a blurring of the borderline between public and private actors, also had a colonial flavor.

It is noteworthy that such a claim did not apply only to Argentina. In the case of Central America, Marichal called the resolution of Santo Domingo’s debt in 1888 “a case of neo-

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32 Figures are from Stone, op.cit. They include governments’ capital calls between 1865 and 1873.
33 Pamuk, op.cit. p.141.
34 Coatsworth and Williamson, ‘Always Protectionist?’
colonial financial solution, much applauded by European bankers”, when a private agent, Western Corporation, assumed control over tax collection.37 This type of control over tax collection was later replicated in the region. In South America, Brazil was portrayed as a bankers’ colony, given the external imposition of a painful monetary regime, which has been interpreted as the demonstration of external financial power exerted over the government.38 This situation was possible given the financial dependence of the central government upon London (and upon the merchant bank Rothschild in particular) since at least 1855.39 Rothschild provided short-term loans and successfully issued long-term bonds even during downward business cycles. In exchange, Brazil avoided defaulting until 1898, and accepted the conditions attached to the bailout loan, which affected the monetary and fiscal policies of the country despite their contractionary effects on the economy, including a banking crisis after the funding loan was signed 40. This solution, which largely replicated Argentina’s agreement of 1891, had also been attempted in Greece in 1893 by the bank Hambro.41 But in contrast to Argentina and Brazil, the government failed to comply with the conditions attached and then defaulted, paving the way for the establishment of the International Financial Commission in 1898.42

**Foreign Control in Latin America: Two Case-Studies**

The resolution of debt disputes varied considerably in Latin America. This diversity affected the recovery rates of bondholders, but also the fiscal capacity of governments, their access to financial markets and the terms of new loans. In more extreme cases, these resolutions included conditionality on economic policies, such as commercial, monetary or fiscal policies, or the cessation of control over customs receipts. While we do not intend to provide an analysis of each case, we concentrate on two contrasting ones during a period in which debt negotiations were far from being institutionalized (through the emergence, for instance, of the Corporation

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41 See Wynne, *op.cit.*
42 Flores 2011, *op.cit.*
of Foreign Bondholders [CFB] formed in 1868) and when European governments were active in the debt disputes in other countries.

These two cases are Mexico and Peru. Mexico’s case is interesting in that it was the only one in Latin America in which a debt dispute during the mid-nineteenth century led to a military intervention. Analyzing the case of Mexico serves to qualify previous claims on the relevance of geopolitics in Latin America. In Peru, while historians still dispute whether a military intervention was a realistic threat, the case shows how foreign control could be exerted by private agents. Debt disputes were one significant point of entry that permitted European merchant banks to dominate the extraction and distribution of Peru’s most relevant natural resource. The fragile initial conditions in both cases were similar, and reflect to a large extent the identical situation in other Latin American countries. Both governments were obliged to face internal and external menaces, prompting them to increase their military expenses and often incur internal and expensive loans, further weakening their fiscal position. Furthermore, as was the case in most other countries, the exports and public revenues were highly dependent upon a reduced set of commodities, mainly silver in the case of Mexico and guano in the case of Peru. Both cases show how private and public factors were porous, as well as the relevance of specific agents' ability to understand the process and resolution of debt defaults.

**Mexico**

Even if it is difficult to draw a strict boundary between geopolitical and economic reasons for the French intervention in Mexico, the historiography concurs that the former was largely dominant. For Shawcross, this episode highlighted the existence of a French informal empire, as the government sought to expand trade between both countries. Until then, the economic connections were relatively unimportant. Nevertheless, this episode occurred at a time when bondholders in London and Paris were aggressively lobbying to obtain a more active attitude from their governments (Salvucci 2009). The French government’s incursion led to the establishment of a monarchical regime that turned out to be short-lived, but this episode showed that the possibility of a debt default leading to foreign intervention in Latin America was also plausible. It also downplays previous arguments on the irrelevance of Latin America in the arena of the world’s imperial competition.

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43 Shawcross, *France, Mexico and Informal Empire in Latin America, 1820-1867.*

Given that Mexico was the first country where this type of arrangement was introduced, a deeper analysis needs to be provided regarding first, the role of merchant banks and second, the reasons why this experience failed. Previous literature has referred to the Mexican case as the “Western” question, by analogy with the “Eastern” question, when competition between imperial powers around the Ottoman Empire provoked them to annex territories belonging to the Ottoman Empire, but at the same time restrained them from openly annexing the territories in question. The Eastern question began with an agreement in 1774 (Küçük Kaynarca) in which the Russian Empire seized certain territories from the Ottoman Empire. The threat of dismembering the Empire was further aggravated by the ambitions of European countries to expand their influence and control over the region. European ascendancy over the Ottoman government’s public policies was gradual and interlinked with fiscal crises and conflicts within and beyond its borders (the war against Russia in particular).

In the Americas, Mexico and Central America were the countries that bore the greatest resemblance to the Eastern question. The US-Mexican war that began in 1846 ushered in a period during which the resulting territorial losses of Mexico were coupled with the perceived threat of complete conquest of the country by the US, which led to proposals in the British Parliament to establish a European protectorate in Mexico. It was acknowledged that British investments were sufficiently high that the territorial expansion of the US ought to be considered as injurious to British interests, while subsequent internal conflicts considerably weakened Mexico’s successive governments and public finances. In fact, the British government had even contemplated the possibility to issue a guaranteed loan on behalf of Mexico's government as early as 1824 (as would later be the case in other, “foreign-controlled” countries, such as Greece in 1833 and Turkey in 1855), but the British government refused the proposals precisely because of the “political complications” that such a solution would have involved. These proposals to establish a more permanent and institutional presence in the country serve to at least qualify Britain's alleged disinterest in the region.

A different issue is whether bondholders and financial intermediaries favored intervention, and whether political considerations were alien to such interests. Salvucci explains...

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46 Shawcross, France, Mexico and Informal Empire in Latin America, 1820-1867, p.157; also emphasizes that the Mexican Conservatives called "the western question" the need for a European intervention in Mexico, so as to prevent the unlimited expansion of the United States.
48 Platt, op.cit., p. 318.
that bondholders and public opinion in the British press had favored the intervention of the British government since at least 1856. However, the British government reluctantly acknowledged the possibility of active involvement in Mexico. As in most other cases of default episodes, while Lord Palmerston admitted that the bondholders were acting within their rights to claim repayment, the reason why the government refrained from intervention was to avoid creating a precedent that could induce investors to assume that the Foreign Office would act as debt collector.  

Nevertheless, Tenenbaum emphasizes that from a Mexican perspective, its government often contemplated the possibility of a British or European invasion for non-payment of the debt. These fears included the defaulted debts incurred by the government towards British citizens and merchants established in Mexico. This could even motivate Mexican creditors to become British (or other European) nationals and thus be eligible to ask for the support of the British (or other European) government. The acceptance of these claims often became diplomatic conventions. Under such new contracts, the Mexican government acknowledged these debts under especially onerous conditions, while raising its commitment to an international compromise. Given the continuously precarious state of Mexican finances, local loans were expensive and very often went into default. As a result, these conventions prompted the European governments to actively intervene on behalf of their creditors.

There were reasons for the British government to monitor the Mexican problem in the early 1860s, mainly due to the political and economic consequences of French territorial ambitions that led to a permanent French presence under the monarchy of Maximilian. The financial outcome of a new political regime in Mexico was uncertain, due to increased pressure on Mexican public resources. According to Yusuf Abdulrahman Nzibo, about 70% of customs revenues were mortgaged to British claimants. This was the outcome from previous agreements and the conventions referred to above. The conventions were divided into British, Spanish and French. From a total of $13.4 million pesos, $0.19 million corresponded to the French conventions. Furthermore, the "London debt", which consisted of Mexican loans that had been issued on the London capital market, amounted to $64.2 million. It is therefore illuminating to analyze the relationship that was forged between the British government and

50 Tenenbaum, ‘Merchants, Money, and Mischief, The British in Mexico, 1821-1862’.
53 Figures from Brazant, op. cit., p.97.
Baring Brothers, which was the main merchant bank with direct relationships with the Mexican government. This bank had been its agent in London since 1826, at a moment when the country entered a period of successive defaults combined with temporary agreements.\textsuperscript{54} The bank persisted in its position as a defendant of bondholders’ interests, and during the French invasion in 1862, Barings sent a permanent agent to the country —George Henry White— to renegotiate the resumption of debt service and report on the events related to the conflict.\textsuperscript{55} White was in permanent communication with Charles L. Wyke, the British Minister in Mexico, who in turn was in contact with the Foreign Office.

Both agents took a pragmatic stand, focusing on the administration of the customs houses at Veracruz and Tampico, the most important ones in the country and over which the French military had assumed control. This was not a minor matter, since the key element that triggered military intervention was not directly linked with British financial claims, but rather with a default of an internal issue of Mexican Treasury bonds acquired by a local banking house, J.B. Jecker, whose owner was a Swiss citizen - later naturalized French.\textsuperscript{56} Jecker’s claims concerned a much smaller amount than previous external loans issued in London. However, bondholders were put on the same footing as other creditors from Spain, Mexico and the French government’s own claims for military expenses.

Overall, the economic interests of the French intervention were relatively negligible compared with those of Britain. It is therefore unsurprising that the main concern recurrently expressed by White was the effect of the war on trade, which had been either reduced or diverted to minor ports (Matamoros and other Pacific ports) where contraband trade had been increasing. One solution, according to White, was either effective control over those ports or a general reduction in the level of tariffs of the ports under French control. But this was only part of a major set of reforms that, White reported, were to be set up by the French government. In a letter dated the 8 December 1862, White notified Barings about a project in which a Mr. Davidson, Rothschild’s agent in Mexico, had been in contact with the French government regarding the issue of a new loan on behalf of Mexico, aimed at consolidating the government’s external debt, and which, it was claimed, was part of a strategy for “putting Mexican finances


\textsuperscript{55} ING Baring Archive, correspondence HC4.5.31-33.

in order”. In June of the following year, White updated Barings about these plans, which now included a guarantee by the French government and “other powers if they will join”.58

Geneviève Gille evoked the need perceived by Napoleon III to achieve the necessary institutional stability to attract international capital (i.e. merchant bank support), a condition for the sustainability of the new political regime.59 She described how the French government expected Barings and Rothschild to participate in the issue of a new loan, but they desisted due to the continuing political uncertainties in Mexico, the lack of confidence in the new financial structure of the Maximilian government —whose sustainability was partly weakened by France’s own demands for war indemnities— and the lack of support within the French government for guaranteeing the planned Mexican loan. This lack of banking support arose despite the establishment of the Financial Commission in Paris in 1864 (with three members from Mexico, France, and Britain), and the fact that Maximilian’s government had agreed to let French agents collect and manage the country’s customs' revenues.

Nevertheless, one of the reasons for the failure of this involvement in Mexico was the sudden reluctance of the French government to support the Maximilian regime after May 1866. According to Salvucci, this shift in French policy was attributed to the lack of confidence in the rapid reestablishment of financial stability and fiscal sustainability, to which the absence of banking support certainly contributed. In a sense, the fate of the regime established in Mexico was also largely dependent upon its popular support but also upon key private actors of different nationalities, particularly British, whose interests were not necessarily aligned with those of the French government. This explains why, after the failure of the Maximilian regime and the consequent repudiation of the loans contracted during his term, the fate of the bonds remained a bone of contention between the two countries, affecting their economic and political relations for several decades.60 Mexico’s government remained in default until 1886, at a time when, under the Porfriean regime, the fiscal framework was reinforced, the country was pacified, and trade began to expand.

57 Ibid, White to Barings’, 8th December 1862. We may safely assume that this was Nathaniel Davidson, who was active in the business of mining (particularly quicksilver) in different places in South and North America, but who retired from Mexico after the French invasion and Rothschild closed its agency in that country. On the Rothschilds in Mexico, see Geneviève Massa-Gille, Les capitaux français et l’expédition du Mexique (Paris, France: Editions A. Pedone, 1965); Alma Parra, ‘Mercury’s Agent: Lionel Davidson and the Rothschilds in Mexico’, The Rothschild Archive Annual Review 9 (April 2007): 27–34.
58 ING Baring Archive, HC4.5.33 Part 2. Letter from George White to Baring Brothers, 15 August 1863.
60 Topik, ‘When Mexico Had the Blues’ p. 737.
By the time of the French intervention in Mexico, British economic presence in South America had expanded. Comparatively speaking, European geopolitical interests in Peru were minor. However, Britain witnessed a major rise in its economic interests in the country as shown mainly by its imports of guano, a natural fertilizer from the accumulated excrement of seabirds and bats, which had increasingly been in demand in Europe since the 1840s. By the 1860s, one contemporary financial publication had called "a cargo of guano is the ready equivalent for so much gold". Peru's government did not exploit this resource directly, but delegated its extraction, loading, transportation and selling to private agents. Since 1849 until 1861, the British merchant house Antony Gibbs and Sons held the monopoly on these activities and was thus the main intermediary between Peru and Europe.

Peru's commercial expansion was not unproblematic. The Peruvian government had been in default since the 1825 crisis and British bondholders had persistently appealed for official support. However, the involvement of the British government remained secondary throughout the whole negotiation. The rise of guano as a relevant commodity for the agricultural sector further complicated the position of the British government, which had to deal with the conflicting interests between the agricultural community and investors. Since the late 1840s, farmers lobbied the government for coercive action to push the Peruvian government to lower the price of guano. They considered that the price was too high, due to the nationalized ownership of guano deposits and the monopolistic position of Antony Gibbs. On the other hand, investors opposed any change in the system given the profits to be obtained from this trade by Peru’s government, a factor which, bondholders expected, would favor the resumption of debt service.

The settlement of Peru’s first default took place in 1849, coinciding with a sharp increase in the price of guano. Under this agreement, Antony Gibbs was instructed to retain the necessary proceeds from the sale of guano in Britain in order to meet the service of the debt. In the 1850s, however, the need for guano prompted farmers to look for alternative sources or close substitutes. In 1857, the British press called the situation the "guano crisis", as the prices

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62 Wynne, *State Insolvency and Foreign Bondholders*.


64 See Mathew, 1968, *op.cit*.
continued climbing and the supply was not sufficient for the existing demand in Britain and Europe. Despite these claims, the British government did not intervene in Peru.

Nevertheless, a second and brief default took place in 1855, when the Peruvian government repudiated a loan incurred two years earlier by the previous government. Interestingly, this loan was the partial conversion of an internal debt into an external one. As a result, it was British merchants in Peru who mainly called for intervention. This repudiation led to the contemplation of military action by the British and French governments, although no such intervention seems to have occurred and Peru’s government eventually recognized the debt in 1857. The British government’s active attitude and the bondholders’ support has generated a huge debate within the historiography of Peru. On the one hand, Mathew has qualified it as marginal. One reason for this is that bondholders were those who had bought the bonds in the secondary market at depressed prices, but claimed repayment in a collective action under the umbrella of the Corporation of Foreign Bondholders, whose propensity to exploit insider information was occasionally reported in the press. Mathew (1970) further argues that the British government did not threaten the Peruvian government, and provides historical evidence showing that the British recognized its own military limitations. On the other hand, Tantaleán Arbulú argues that in 1857, the joint military action by France and Great Britain, as shown through naval activities, obliged the government of Peru to settle its remaining disputes with the bondholders, and quotes other, previous historians, who described the debt settlement as an “Anglo-French protectorate”. Both authors, nevertheless, concur that the main objective of the British and French governments was to seize the Chincha Islands where guano was extracted. It may be no wonder, therefore, that Peru's government ended up accepting all the bondholders' demands.

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65 See The Farmer’s Magazine, Making of the Modern World (London: Rogerson and Tuxford, 1857), or Perthshire Advertiser - Thursday 16 April 1857
66 Mathew, ‘The Imperialism of Free Trade’.
67 This default is not listed in the historical records of the CFB. See the list of defaults between 1823 and 1876 in Corporation of Foreign Bondholders, Annual Report of the Council of the Corporation of Foreign Bondholders (London: London, 1877).
68 Ibid.
69 Flandreau, op.cit.
More recently, scholars have emphasized the positive incentives that motivated the government of Peru to settle its disputes with the bondholders. Following this argument, the beginning of capital exports to Peru shows that it was not the consequence of an active British government impetus, but rather the desire by the Peruvian government to exploit its resources and increase its export capacity. Furthermore, the British government encouraged the involvement of a private firm to manage the competing interests of agriculture and finance. As a result, the government authorized the British merchant house, Gibbs & Sons, to manage the income from guano exports (as consignee) and service its foreign debt (the funds were handed to underwriting banks in London and Paris), in practice withdrawing control by the Peruvian government of a substantial portion of its fiscal revenues. But this merchant house was also in a position to condition short-term credit to the government and support long-term loans, a fact that has led historians of Peru to highlight the dependence of Peru’s economy on a group of foreign merchant houses that controlled the government’s own credit and the sale of the single product it sold in Europe.

During the 1860s, the increase in guano prices and total production raised public revenues, allowing the government to reduce import tariffs. After 1862, guano management was assumed from Paris by the merchant house of Dreyfus, which also became the agent in charge of negotiating the external loans of the Peruvian government with British and French merchant houses. Dreyfus had been a recurrent lender to Peru’s national government, and after 1869 some of the advances made by these merchant houses were to be repaid through the sale of specific amounts of guano at an agreed price. Thereby, Dreyfus became the exclusive seller of Perú’s guano, a fact that led to internal political disputes with domestic capitalists and attempts by the government to cancel the agreement. Quiroz provides evidence of the concerns raised by French diplomacy regarding the potential conflict between Dreyfus and the Peruvian government, and the possible need for official intervention. The fall in guano prices after 1873 and the failure by underwriting banks to place new loans led to financial distress and default.

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76 Marichal, *op. cit.*
The attitude of the British government in the aftermath of this default was to not intervene in favor of the bondholders, and several scholars have demonstrated that the government consistently favored the principle of non-intervention as laid down in Palmerston’s 1848 circular.\textsuperscript{77} By that time, the relevance of guano had declined as reflected in the fall of guano prices, mostly due to competition and to the increased use of substitute fertilizers. Exports to Britain had peaked in 1858, and remained irregular although a declining trend was evident. By 1875, exports in terms of total volume had fallen to about a third of that peak. Furthermore, the contracts signed with Dreyfus show that each of the loans in the 1860s was secured through explicit permission to access the resources in the islands in which it was produced, which, in practical terms, implied the cession of Peru’s sovereignty over the management of these resources.\textsuperscript{78}

Along with the decline of guano’s relevance to its economy, the British government continued to refrain from intervening in the negotiations between the government of Peru and the bondholders. These negotiations were further complicated after the Pacific war in which Chile defeated Peru and annexed some of the territories in which guano was produced and that served as a pledge for loans to Peru. The peace treaty provided no information regarding the responsibility for the loans, and Chile’s government refused to assume responsibility for the debts. However, the Chilean government finally opted for a negotiation with bondholders after diplomatic intervention through an official letter of protest jointly signed by France, Britain and five other European governments. For Felipe Ford Cole, this was a diplomatic procedure that had preceded military intervention in Mexico (and that would also precede the one in Venezuela in 1902).\textsuperscript{79}

**Conclusions**

The absence of a causal link between sovereign debt default and foreign control can lead to two different interpretations. One is the idea of foreign control as a prior step to formal colonialism. This historical presupposition could be adopted in cases such as Egypt, Morocco or Tunisia. However, this interpretation offers a limited perspective from which to analyze other cases such as the Ottoman Empire, Greece or Serbia in the later nineteenth century, and, to an even lesser extent, the cases of Peru and Chile.

\textsuperscript{77} Platt, *Finance, Trade, and Politics in British Foreign Policy*, p.339

\textsuperscript{78} Wynne, *op. cit.*, p. 116-120.

\textsuperscript{79} Felipe Ford Cole, ‘Debt, Bondholders and the Peruvian Corporation, 1820-1955’ (Northwestern University, 2017).
extent, the new forms of external control developed in the interwar period by the League of Nations or by Germany under the Dawes plan.

An alternative explanation, as provided in this paper, suggests that foreign control as exerted by states’ representatives, while politically motivated, mainly served to secure economic objectives, particularly the development of trade. In such cases where the market had been unable to reach a permanent, favorable framework to achieve this primary purpose, the intervention of European governments became unavoidable, particularly in those countries with which trade prospects appeared attractive. Nevertheless, to the extent that sovereign debt entered the field of private capital markets, European governments preferred to refrain from a more proactive intervention.

Such a compromise could also be affected in cases of geopolitical competition, regardless of the economic interests. The French intervention in Mexico can hardly be attributed to debt disputes, but it demonstrated that the establishment of friendly, political regimes did not suffice to attract investment and develop bilateral trade without the participation and support of private agents, particularly merchant banks. While other permanent interventions were absent in Latin America, the commissions and debt management devices already established in Mexico were revised in other, subsequent cases in other regions. These Financial Commissions, while adopting different legal forms, were founded to manage and collect the fiscal revenues pledged for the service of external debt. After the first commission established in Mexico in 1864 (Franco-British Financial Commission), others were founded in Tunisia (Commission financière, 1869), in Egypt (International commission of liquidation of 1880 and the Caisse de la dette publique) and in Greece (International Financial Commission of 1898). The installation of a similar commission was discussed in Venezuela at the turn of the nineteenth century.

80 They are all referred to as “international financial control” cases, to the extent that representatives of various States sat on those commissions, and, while some of them were preceded by bodies that operated as branches within each government’s administration (such as the Caisse de la Dette in Egypt), they later became international organs. 81 These Commissions would later develop different tasks also related to fund management (from the specific public revenues that were pledged as loan guarantees) and sometimes even revenue

80 See François Deville, ‘Les contrôles financiers internationaux et la souveraineté de l’état.’ (Saint-Nicolas, 1912); Michel Fior, Institution Globale et Marchés Financiers: La Société Des Nations Face à La Reconstruction de l’Europe, 1918-1931 (Bern: P. Lang, 2008). Other cases include Serbia in 1895; a comparison of the commissions established in South Eastern Europe and the Middle East are included in Tunçer, op. cit.
81 Karl Strupp, L’intervention en matière financière, 1926.
Their emergence would be accompanied by a debt restructuring agreed upon with bondholders’ participation, and often also with the issue of a new private loan (occasionally guaranteed by the colonial power) to support the regime during transition.

Finally, the case of Peru demonstrated that effective, fiscal management could be delegated to private entities, while the fall of guano exports and the shift to other more lucrative markets by British merchants contributed to the abandonment of Peru as a main destiny of foreign capital. However, this period also marked the trend to a new period in which other more active and powerful merchant banks took the lead in a different form of foreign control without the participation of the state.

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82 Tunçer, op.cit.