

# On the origins and consequences of Latin America's first debt crisis

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Un monde de dettes. Une histoire politique et globale  
de la dette publique aux XIXe et XXe siècles.

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“Between 1826 and 1964, Greece was in default for 90 of those 138 years, so it should come as no surprise that Greece will most likely become the first Euro member to default”

*Bryan Taylor, President and Chief Economist, Global Financial Data. “Déjà Vu Again and Again: When Moral Hazard Meets a Serial Defaulter”, 2011.*

- What is a “serial defaulter”?
- Latin America:
  - Argentina
  - Brazil
  - Colombia
  - Mexico
  - ...

# Waves of sovereign defaults

- 1820s
  - All Latin American governments defaulted (Brazil was the exception)
- 1870s
- 1890s
- 1930s
- 1980s
- 1990s
- 2010s?

# On this presentation

1. Literature review
2. Lending boom: the origins
3. British investment in foreign loans and mining
4. Winners and losers: looking for the usual suspects

# 1. Literature review

- 1820s: loans between 1822-5; defaults since 1825
  - Historical accounts: Marichal (1989; 2014), Dawson (1992)
  - Wars (Sicotte and Vizcarra, 2009), institutional fragilities (Summerhill, 2006), macroeconomic imbalances (Bordo and Murshid, 1999; Della Paolera and Taylor, 2013)
- Financial crisis in 1825:
  - Banking crisis in London after a period of high liquidity (speculative boom followed by a bust) - Neal, 1997; Neal and Weidenmier, 2003.

# Some doubts about the narrative

- Boom-bust period avoidable?
- Was it speculative?
- Was it a fraud?
- Yes, but strong «push forces» at the **beginning** of the period
- To a large extent (although information asymmetries **less pronounced** than expected)
- Mixed evidence

## 2. Lending boom: the **origins**

- Not really a boom (to Latin America)
  - Financial market issuing mechanism allowed for an exit option
  - Estimates by Rippy (1959) and Fodor (2003):
    - Face value in government loans: 21.13 million pound sterling; 16.89 sum realized;
    - Authorized capital in mining: 24.19 million pound sterling; 3.5 paid in.



# Conditions for a lending boom

- Favorable political conditions
- Commercial boom
- Upward business cycle
- Financial innovation
  - Impact on commercial and financial structure
  - Also on intermediaries and investors expectations

# At the origin there was trade

- Baring and Hope actively traded during colonial times
- Other merchant houses in South America
  - Mulhall's (1878) British in South America: traders and soldiers during independence wars.
  - Increasing British trade (in 1'000 pounds declared values):

Year	Chile	Argentina and Uruguay	Peru and Bolivia	Brazil	Mexico	US	Latin America	World
1815	0	399	0	1896	0	13473	10083	51610
1816	0	312	2	1824	0	9567	7141	41654
1817	37	549	0	2035	0	6930	9790	41818
1818	16	738	3	3181	34	9451	11156	46471
1819	22	390	0	1937	21	4930	8101	35211
1820	150	630	39	2101	0	3875	8059	36424
1821	347	591	127	1858	1	6232	8296	36655
1822	389	981	112	1524	89	7213	7474	36966
1823	384	664	282	2415	267	5465	8676	35357
1824	713	1142	431	2590	392	6090	10199	38422

Source: Llorca Jana (2012).

# Political ambiguity and commercial reality

- Baring conditioned a loan to Spain on recognition of the new republics; also attempted to export mercury to Mexico after its independence
- Increased presence of British merchants
  - Asked for support to defend their interests;
  - The US recognized the new republics before the UK, which led to fears of competitive disadvantages

# Role of British and local merchants

- Favored bilateral trade
  - Local merchant houses
  - British merchant houses sent permanent agents to Latin America
- Became lenders of the new governments (also forced loans)

# Speculative origins?

- Production factors (mainly capital) and new technology: a positive shock on productivity
  - Loans would help governments overcome the short-term difficulties;
  - Investment in mining would guarantee future economic growth

# Silver production in Mexico



Source: Dobado and Marrero (2014).

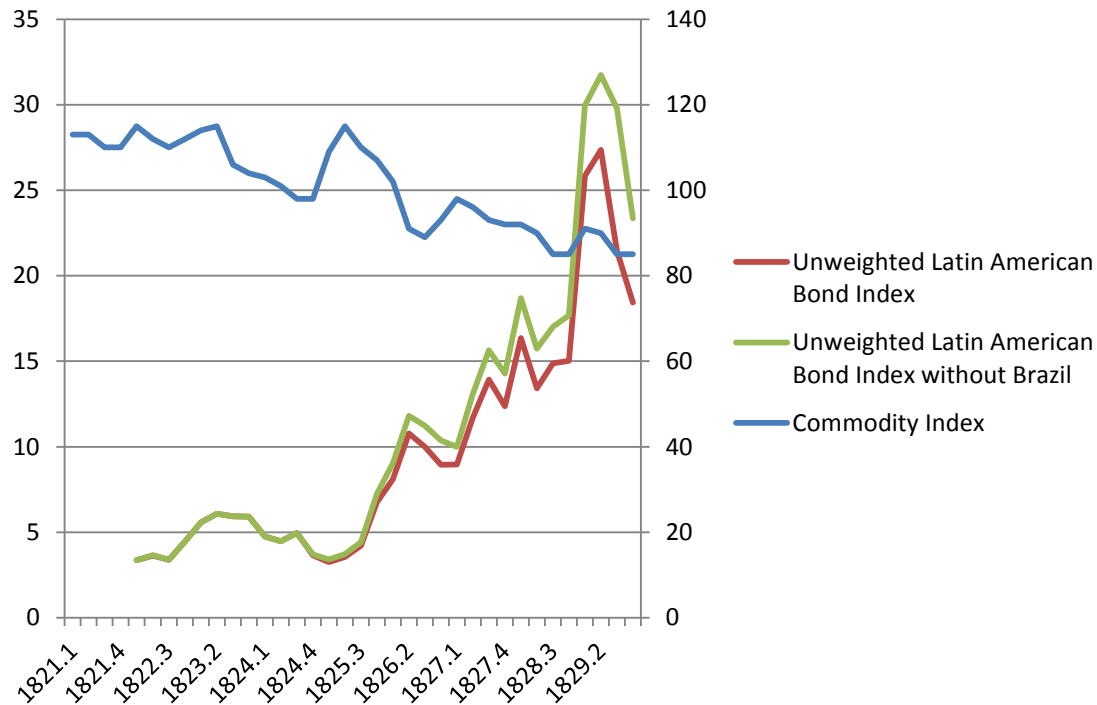
# And elsewhere

## Production between 1800-1810

Country	Quantity in million ounces	Percentages
World	286.61	100.0
Mexico	178.05	62.12
Central America	-	-
Argentina	-	-
Bolivia	31.03	10.83
Brazil	0.12	0.041
Chile	2.25	0.79
Colombia	1.6	0.56
Ecuador	-	-
Peru	48.64	16.97
Venezuela	-	-
<b>Total Latin America</b>	<b>261.69</b>	<b>91.3</b>

Source: U.S. Department of Commerce.  
"Summarized Data of Silver Production" Economic  
Paper 8, 1930.

# Commodity prices and Latam bond spreads



Source: Silbering (1923) and own calculations from Flandreau and Flores (2009).



### 3. British investment in foreign loans and mining: Latin America (I)

Country	Government loans (million £)	Mining company	Capital (Nominal amount in million £)	Included in Fenn's Epitome 1837
Argentina	1.0	Famatina	0.25	No
		Rio de la Plata or Buenos Ayres Mining company	1.0	No
Brazil	1.0	Brazilian	2.0	No
	2.0	Imperial Brazilian	1.0	Yes
		Castello and Espirito Santo Brazil Mining Association	1.0	No
Chile	1.0	Anglo-Chilian	1.5	No
		Chilian Mining Association	1.0	No
		Chilian and Peruvian	1.0	No
		United Chilean Association	0.5	No (abandoned since 1827)
Colombia	2.0	Bolivar	0.5	Yes
	4.75	Colombian	1.0	Yes
Guatemala	1.43	United Provinces of Central America forming the kingdom of Guatemala	1.5	No

Source: English (1825, 1827), Fenn (1838) and Flandreau and Flores (2009).

# 3. British investment in foreign loans and mining: Latin America (II)

<b>Mexico</b>	<b>3.2</b>	<b>Anglo-Mexican</b>	<b>10.0</b>	<b>Yes</b>
	3.2	Bolanos	0.2	Yes
		Guanajuato Mining Association	0.4	No (abandoned since 1827)
		Mexican company	1.0	Yes
		Real del Monte	0.2	Yes
		Association for working the mines of Tlalpujahua and others in Mexico	0.4	No
		United Mexican Mining company	0.24	Yes
<b>Peru</b>	0.45	Anglo-Peruvian	0.06	No (abandoned since 1827)
	0.75	Chilian and Peruvian	1.0	No
	0.62	Potosi, La Paz, and Peruvian Mining Association	1.0	No
		Pasco Peruvian Mining company	1.0	No
		Peruvian Trading and Mining company	1.0	No

Source: English (1825, 1827), Fenn (1838) and Flandreau and Flores (2009).

# Loan pricing and intermediaries (I)

Source:  
Flandreau  
and Flores  
(2009)

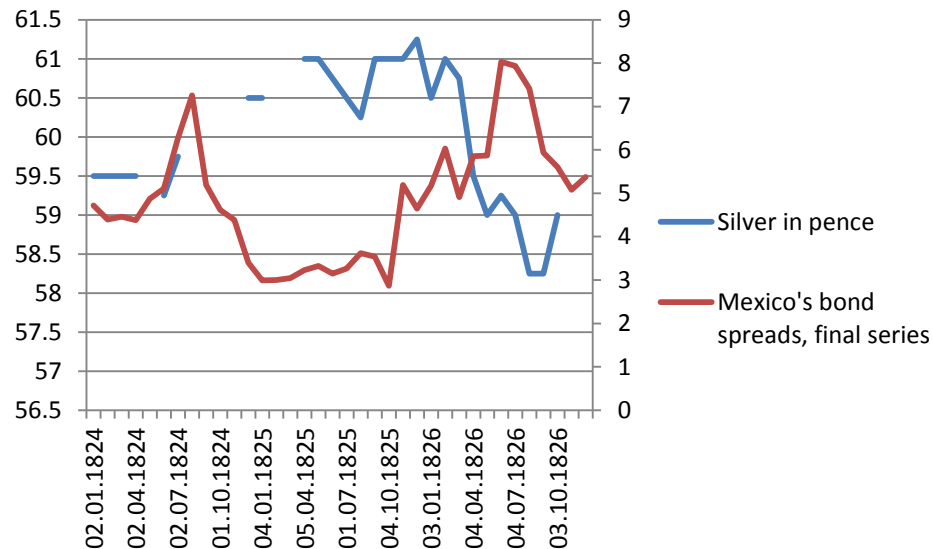
Country	Year	Coupon	Contractor	Issuer	Payment of dividend and coupon	Amount	Price of issue	Yield at issue	Status in december 1829
Buenos Ayres	1824	6	Carlson, Catro and Robertson	Baring Brothers	Baring Brothers	1	85	7.1	Arrears since 01-1828
Chile	1822	6	Hullett, Brothers and C°	Hullett, Brothers and C°	Hullett, Brothers and C°	1	70	8.6	Arrears since 09-1826
Columbia	1822	6	Herring, Graham and Powles	Herring, Graham and Powles	Herring, Graham and Powles	2	84	7.1	Arrears since 05-1826
Columbia	1824	6	B. A. Goldschmidt	B. A. Goldschmidt	B. A. Goldschmidt	4.75	88.5	6.8	Arrears since 01-1826
Guatemala	1825	5	Barclay, Herring, Richardson & C°, and J. A. Powles and C°	Barclay, Herring, Richardson & C°, and J. A. Powles and C°	Barclay, Herring, Richardson & C°, and J. A. Powles and C°	1.43	73	6.8	Arrears since 02-1828
Mexican	1824	5	B. A. Goldschmidt & C°	B. A. Goldschmidt & C°	B. A. Goldschmidt & C°	3.2	58	8.6	Arrears since 10-1827
Mexican	1825	6	Barclay, Herring, Richardson & C°, and J. A. Powles and C°	B. A. Goldschmidt & C°	B. A. Goldschmidt & C°	3.2	89.75	6.7	id.

# Loan pricing and intermediaries (II)

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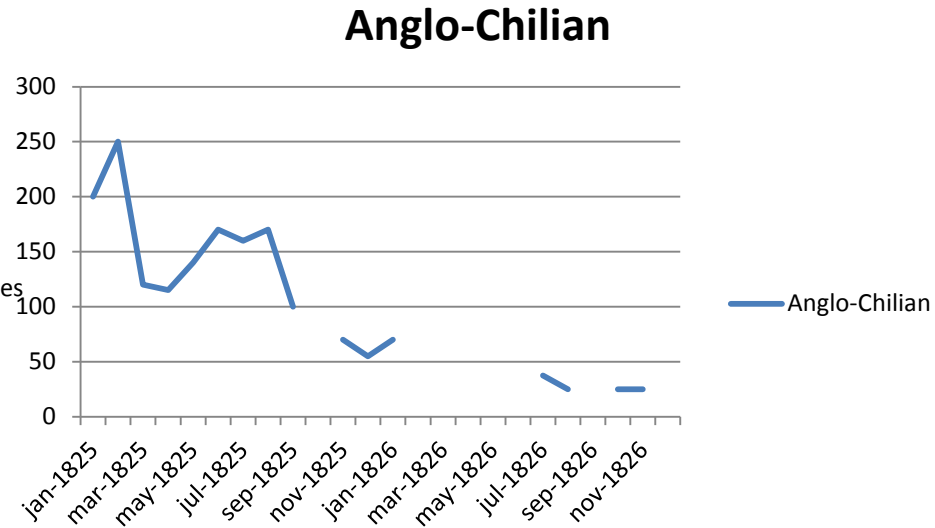
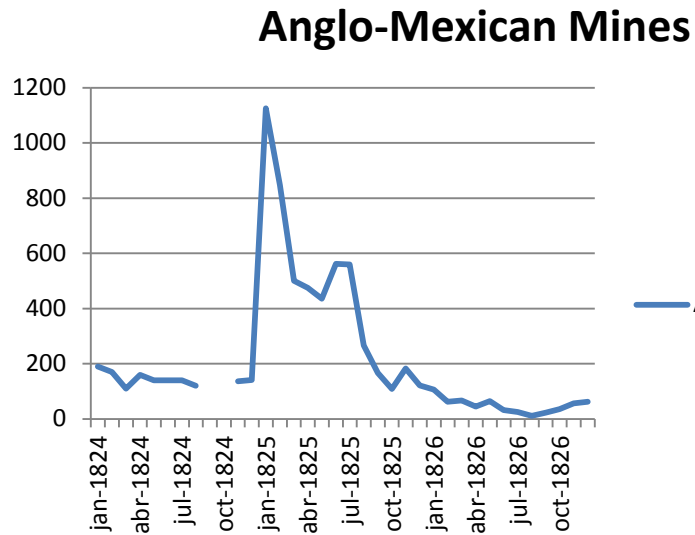
Country	Year	Coupon	Contractor	Issuer	Payment of dividend and coupon	Amount	Price of issue	Yield at issue	Status in december 1829
Peru	1822	6	Thomas Kinder	Thomas Kinder	Fray&Chapman	0.45	88	6.8	Arrears since 04-1826
Peru	1824	6	Thomas Kinder	Thomas Kinder	Fray&Chapman	0.75	82	7.3	id.
Peru	1825	6	Thomas Kinder	Thomas Kinder	Fray&Chapman	0.62	78	7.7	id.
Austria	1823	5	Rothschild	Rothschild	Rothschild	3.5	82	6.1	104
Brazil	1824	5	Bazett, Fletcher and T.Wilson	Bazett, Fletcher and T.Wilson	Thomas Wilson and C°	1	75	6.7	73
Brazil	1825	5	Rothschild	Rothschild	Rothschild	2	85	5.9	73

# Silver prices and Mexico's government bond prices



Sources: Silver prices from Lloyd's list; bond prices from Flandreau and Flores (2009).

# Share prices of mining companies



Source: British Newspaper Archive

# Information availability

- Prospects, consular reports, later also those issued by the companies
- Frequently quoted was Humboldt's "Political Essay on the Kingdom of New Spain" (translated to English in 1811, original in French written in 1808)

# Winners and losers: looking for the usual suspects

## Consequences of independence

- Fiscal and monetary desintegration (Irigoin and Grafe, 2006); low economic performance (Prados de la Escosura, 2006)
  - Negative effects on fiscal basis; tax reforms introduced
  - Monetary chaos; paper money issued to finance independence wars
- *Forced loans; governments defaulted on internal debt*



# From local «Cajas» to National treasuries – comparison with foreign loans

Country	Pre-independence revenue (million £)	Post-independence revenue (million £)	Foreign loans (million £)	Amount required for debt service (million £)	As compared to colonial revenue	As compared to revenue
Mexico	4.48	1.93	6.4	0.42	9.3	21.5
Buenos Aires	0.53	0.66	1.0	0.06	11.4	9.0
New Granada	0.59	0.48	6.75	0.47	80.2	97.7
Peru	0.71	0.90	1.82	0.13	18.0	14.1
Brazil	0.17	0.95	3.0	0.18	108.9	18.9
Chile	0.64	0.53	1.0	0.07	10.94	13.3
Guatemala	0.13	0.11	1.43	0.1	77.06	91.6

*Source: Own estimates. Pre-independence revenue concerns particular year or average during the decade prior to independence. The only exception is Brazil: 1775-1777. Post-independence revenue is 1822-1823. Exceptions are Guatemala (1825) and Colombia (1826). Original units of revenues: local currency, converted to sterling pounds through silver prices in pounds and silver content of Spanish pesos. Exception Brazil: official parity from: Kelly, The Universal Cambist, 1835.*

Mines	Country	President of the Company	Contractors of foreign loans in Board of Directors	Among Auditors
Anglo-Mexican	Mexico		Barclay, Herring, Powles	Richardson
Brazilian	Brazil		Fletcher	
Chilian Mining Association	Chile	Mariano Egaña	Barclay, Herring, Powles, Richardson	
Colombian	New Granada (Colombia)	José Hurtado	Powles and Richardson	
Castello and Espirito Santo Brazil Mining Association	Brazil		Barclay	
Famatina	United Provinces of La Plata		Robertson	
Guanajuajo Mining Association	Mexico		Prospectus without directors names;	
Potosi, La Paz, and Peruvian Mining Association	Peru	Juan García del Río; Vice-president James Paroissien		
Pasco Peruvian Mining company	Peru		Thomas Kinder, Parish Robertson	
United Provinces Central America	Guatemala	Antonio José de Irisarri	Not brought into the market	Juan Francisco de Irisarri
United Mexican Mining company	Mexico	Don Lucas Alaman	Hullet	

# Underwriting fees and other commissions on foreign loans

- Underwriting fees by the banks ranged between 2.5-14%
- Commissions by government agents could be more:
  - 2%, specified in debt contracts: Brazil, Chile, Colombia, Guatemala
  - Buenos Aires: Baring: 3%; Castro and Robertson: 13% ; 130'000 pound sterling (government received 690'000)

# Conclusions (I)

- Boom-bust period avoidable?
- Was it speculative?
- Was it a fraud?
- Yes, but strong «push forces» at the **beginning** of the period
- To a large extent (although information asymmetries **less pronounced** than expected)
- Mixed evidence

# Conclusions (II)

- Latin American governments were excluded from capital markets until the end of the 1850s
- In the 1860s a new lending boom began, followed by a new bust; question whether debt restructuring was sustainable