Sovereign Debt and International Financial Control

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Sovereign Debt and International Financial Control

The Middle East and the Balkans, 1870–1914

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Contents

List of Figures

List of Tables

Preface

This book offers a comparative history of sovereign debt and international financial control in the Middle East and the Balkans from 1870s to 1914. Despite the broad geographical reference, the study does not deal with every single country in the region. Instead, the discussion focuses on the Ottoman Empire, Egypt, Greece and Serbia. These four countries together accounted for more than three-quarters of the population and the economy of the area. Moreover, thanks to the particular way that they interacted with international financial markets, their combined history provides an illuminating picture of how governance of sovereign debt evolved before 1914.

One of the motivations behind the book is to reconcile the history of the sovereign debt in the Middle East and the Balkans with the history of pre-1914 financial globalisation, since the region as a whole went through a process of fast integration with international financial markets during this period. When these countries defaulted on their foreign obligations, one after the other within a period of just 20 years (1875–1895), foreign creditors and their representatives adopted very similar methods to deal with these crises. In other words, rapid borrowing in international financial markets, default on foreign obligations, creditors' enforcement via international financial control and re-integration with financial markets altogether constitute the main timeline for all four countries discussed in this book.

One of the broad assumptions behind this study is that sovereign debt is a political mechanism as well as an economic one. Governments need funds to sustain themselves, and when they choose the path of borrowing instead of taxation, they also make a choice on distribution of wealth in a society. This is equally true if governments choose to borrow externally rather than internally – as in the former, the bondholders and the taxpayers are usually different individuals, and in the latter, they are likely to be the same. Similarly decisions to default or willingness to pay back can also be understood in a political economy framework because each option would have significantly different implications on the present and future distribution of a society's wealth. The governments in the Middle East and the Balkans before 1914 faced with such decisions in their history of sovereign lending and default. In the book, I point out economic and political implications of such decisions.

Secondly, these decisions regarding different forms of raising revenue have consequences for the development of political and fiscal institutions in the long term. Governments can use funds to build institutions that will generate further income in the long term. Hence a government's access to revenue sources (either via borrowing or taxation) is essential for its long-term development. The causality also runs the other way around, and it is probably not possible to establish precisely which comes first given that political and fiscal institutions could enable governments to borrow in better terms or to tax more efficiently. The difficulty is that there may be a range of other factors, other than institutions, which can determine a government's ability to borrow in international financial markets. The book endeavours to determine how the governments in the region established their access to the international financial markets before 1914 and to what cost.

Finally, there is not always a trade-off between borrowing and taxation, as they may also be mutually reinforcing or undermining. Governments' ability to borrow is also closely linked to their ability to tax, since creditors would consider fiscal capacity as an indicator of strong public finance, and hence treat it as a factor lowering default risk. On the other side of the picture, if governments can borrow cheaply despite their limited ability to tax, they may hinder the development of a set of political institutions, which emerge out of the interactions between taxation, legitimacy and negotiation. More specifically, if governments can secure their positions in international markets via some other set of factors such as their geopolitical position or international political considerations, they may opt out the politically costly route of raising tax revenues by institution building. In this case, borrowing becomes a constraint on the long-term development of a country. International financial control in the region resides right in the middle of all these interactions between taxation, borrowing and institutions. Hence, I disentangle these links and highlight how international financial control contributed to the ability to borrow in the long term and how this may have hindered the development of a certain set of institutions in some cases. This analysis is likely to provide insights on why some countries resist the advice and supervision of international financial institutions or any other type of conditionality imposed by their creditors. Going beyond the explanations of infringement of national sovereignty, the book proposes that the degree of cooperation with foreign creditors can be linked to the differences in political regimes and taxation systems.

The main challenge for such a comparative historical study was to deal with the diverse range of sources in order to create a homogenous narrative. To overcome this problem, the book is structured into two parts. In the first part (Chapters 3–6), I adopt a case study approach and provide a documentary history of sovereign debt and international financial control for each country from the first date of borrowing in international financial markets until World War I. Here each case is discussed separately, but together they provide a long-term picture of international financial architecture from 1870s to 1914. In the second part of the book (Chapters 7–8), I bring together the cases in a comparative perspective with particular reference to the themes of sovereign risk and political economy of international financial control. In terms of methodology, in many instances I rely on some commonly used quantitative methods in financial history and try to keep the technical language to a minimum. In addition to standard statistical techniques and tools, I also attempt to interpret the quantitative evidence within the conceptual framework of fiscal sociology and new political economy. Besides documenting the history of sovereign debt and international financial control, and analysing some of the key political economy questions in a comparative perspective, the book also comes with a data appendix containing some of the key macroeconomic and financial indicators for the Ottoman Empire, Egypt, Greece and Serbia for the use of other researchers.

Acknowledgements

The core material of this study originates from my PhD thesis submitted to the London School of Economics in 2011; however, the initial idea for producing a comparative history of international financial control emerged out my conversations with Kostas P. Kostis in 2006 when I was a graduate student in UADPhilEcon in Athens. I should thank him for his unconditional support and encouragement, and for being an inspiration to follow the exciting path of financial history of the Middle East and the Balkans.

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List of Abbreviations

BIC	Bayesian Information Criteria
BLM	British Library Manuscripts (London)
CFB	Corporation of Foreign Bondholders (London)
COPDA	Council of Ottoman Public Debt Administration (London)
EG	Egypt
FO	Foreign Office (UK)
GFD	Global Financial Database
GR	Greece
HCPP	House of Common Parliamentary Papers (London)
IFC	International Financial Control
IMM	Investors Monthly Manual (London)
IOB	Imperial Ottoman Bank
LMU	Latin Monetary Union
NBE	National Bank of Egypt
NBG	National Bank of Greece
NBGHA	National Bank of Greece Historical Archive (Athens)
OE	Ottoman Empire
SE	Serbia
SEEMHN	Southeast European Monetary History
SP	Sequential Procedure
SY	*Statesman's Yearbook* (Statistical and Historical Annual)