

The Historical Review/La Revue Historique

Vol 10 (2013)

Responding to Economic Crises in Historical Perspective, nineteenth and twentieth centuries

The *H*istorical Review
La Revue *H*istorique



VOLUME X (2013)

Section de Recherches Néohelléniques
Institut de Recherches Historiques / FNRS

Section of Neohellenic Research
Institute of Historical Research / NHRF

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doi: [10.12681/hr.305](https://doi.org/10.12681/hr.305)

To cite this article:

Chatziioannou, M. C. (2013). War, Crisis and Sovereign Loans: The Greek War of Independence and British Economic Expansion in the 1820s. *The Historical Review/La Revue Historique*, 10, 33–56. <https://doi.org/10.12681/hr.305>

WAR, CRISIS AND SOVEREIGN LOANS:
THE GREEK WAR OF INDEPENDENCE AND BRITISH ECONOMIC EXPANSION
IN THE 1820s*

Maria Christina Chatziioannou

ABSTRACT: This article focuses on the principal actors who undertook the financial intermediation of the Greek loans of 1824 and 1825 and the agents who carried it out, the financial market, the stock market exchange and the joint-stock corporate organization. The main argument is that there was an asymmetric relationship between these principal actors and agents. My research hypothesis works on the convergence of two different crises at the same time: the systemic banking crisis of 1825 in London; and the severe internal crisis for the insurgent Greeks. I argue that the causes for these “hapless loans” could be more complex, beyond the known moral critique.

The two loans obtained by the Greeks during the course of the Greek War of Independence, specifically in 1824 and 1825, are important because they essentially constitute the first international recognition of the Greek State. Two daunting economic challenges marked that same period, on the one hand in Greece, civil strife, financial hardship and the inability to sustain and equip the insurgency, and on the other in the City of London, the 1825 bank panic. Additionally, the administration of the two loans, while the struggle against Ottoman rule was still at a critical stage, opened up a very important chapter in Anglo-Greek relations at a time when Britain’s expansionist economy was taking off. During this period, British philhellenism and political liberalism would encounter the principles of free trade and the new entrepreneurial strategy developing in Britain in the 1820s. While the expectations of insurgent Greeks, Greek diaspora merchants, British politicians and bankers, and bondholders intersected, they were often unfulfilled, due to a variety of factors, which will be presented below in an attempt to analyze an important stage of Greek national history in an international historical context that is more complex than previously thought.

During the 1820s, important British politicians were emphasizing the manifold benefits of foreign trade for their country’s economy. Their interest was centred on promoting national élites willing to cooperate with the institutions of the British economy, according to the example of the former Spanish and Portuguese possessions in Latin America. At the same time, many protagonists of the 1821 Greek War of Independence had a

positive view of the significant contribution that British assistance made to their struggle through the country's political institutions and the influence of public discourse.¹ These views were also held by George Canning (1770-1827), the statesman who served as British foreign secretary during that same decade.² During this period, the fundamental model of the British concept of first-rate political and economic development associated economic progress with individual liberty, the right to property and political stability.³ The exponents of liberalism supported the principles of free trade, and entrepreneurs devised novel strategies as they confronted new social realities shaped by the Industrial Revolution. In Britain, newspapers, periodicals and pamphlets would broadcast personal altercations, as well as public criticism, of the financial system's new practices, with its joint-stock companies and administration of international loans, while at the same time upholding the principles of philhellenism in the first half of the nineteenth century. The international capital market of the nineteenth century was dominated by three groups: government agents, various types of brokers and "financiers" and bondholders.⁴ It was in this international political and economic context that the insurgent Greeks sought to obtain financial support for the first time. Indeed, an elaborate system of intermediaries was set up for this purpose.

The Provisional Administration of Greece, a political organization that was not internationally recognized, sought to ensure public external

¹I would like to thank Professor Miles Taylor, Director of the IHR, for giving me the opportunity of a research fellowship (March 2013) affiliated to the Institute for Historical Research, School for Advanced Study, University of London.

²*Αρχεία της ελληνικής παλιγγενεσίας, λυτά έγγραφα Α' & Β' βουλευτικής περιόδου (1822-1824). Κατάλοιπα οικονομικών εγγράφων, 1822* [Archives of the Greek regeneration, loose documents, 1st and 2nd parliamentary term (1822-1824): extant financial documents 1822], January-May 1823, Vol. XXVI, Athens 1999, p. 187.

³In 1825, Canning's rhetoric favoured these views; while in his final months, he became Prime Minister of the United Kingdom; Derek Beales, "Canning, George (1770-1827)", *Oxford Dictionary of National Biography*, Oxford: Oxford University Press, 2004; online ed., January 2008 [http://www.oxforddnb.com.catalogue.ulrls.lon.ac.uk/view/article/4556, accessed: 10 April 2013].

⁴Eric J. Evans, *The Forging of the Modern State: Early Industrial Britain, 1783-1870*, Harlow: Longman, 2001, pp. 203-204.

⁵For a new approach to sovereign loans, see Marc Flandreau and Juan H. Flores, "Bonds and Brands: Intermediaries and Reputation in Sovereign Debt Markets, 1820-1830", *Journal of Economic History* 69/3 (2009), pp. 646-684; and *id.*, "The Peaceful Conspiracy: Bond Markets and International Relations during the Pax Britannica", *International Organization* 66 (2012), pp. 211-241.

borrowing for the needs of the Greek War of Independence through political intermediaries, such as Alexandros Mavrokordatos, Ioannis Orlandos and Georgios Spaniolakis, as well as members of the Greek merchant diaspora, such as Andreas Louriotis, Alexandros Kontostavlos, Pandias Ralli and Dimitrios Corgialenios. The Provisional Administration of Greece consisted of the Executive with Alexandros Mavrokordatos and then, after 1823, Ioannis Orlandos as president, and the Senate with Dimitrios Ipsilantis first and, then, Petrobey Mavromichalis as president. Members were primarily from the Peloponnese and Hydra. Moreover, as various distinct centres of power had developed in the Peloponnese, it was not long before civil conflict made its appearance, as early as the beginning of 1824. The most critical period in the struggle for Greek independence was the period 1824-1826, which was marked by civil war, Ibrahim's landing in the Peloponnese, Lord Byron's death and the fall of Missolonghi.⁵

The loans of the Greek War of Independence in 1824 and 1825 forced Greek politicians, chieftains and merchants to collaborate in the name of national independence. At the same time, they brought all these people, directly or indirectly, face to face with the most powerful economy of their time. As a result, their situation emerged as a case characteristic of the workings of the City of London's financial industry. The history of the first loans was extensively discussed in the British press of the period, because it concerned Modern Greece, which was viewed as the continuation of the Ancient Greece of classical learning and the arts. The Greek national struggle of 1821 had acquired a European dimension, primarily through the philhellenes' interest in the just cause of the descendents of the Ancient Greeks. Ultimately, the term philhellenism became the broader expression of any interest foreigners, mostly of European descent, might have had in the cause of Greek national independence. The request for financial assistance to liberate Greece from Ottoman rule constituted a just demand for British philhellenes and proved to be a characteristic example of the pairing of economic expectations with cultural components. The main arguments that were employed in Britain to support the struggle for Greek national independence and, furthermore, that led to the creation in 1823 of the London Greek Committee, which managed

⁵See N. Rotzokos, *Επανάσταση και εμφύλιος στο Εικοσιένα* [Revolution and civil conflict in 1821], Athens: Plethron/Dokimes, 1997; Michael V. Sakellarios, *Η απόβαση του Ιμπραήμ στην Πελοπόννησο καταλύτης για την αποδιοργάνωση της Ελληνικής Επανάστασης (24 Φεβρουαρίου-23 Μαΐου 1825)* [Ibrahim's landing in the Peloponnese: the catalyst that disrupted the Greek War of Independence (24 February-23 May 1825)], Heraklion: Crete University Press, 2012, pp. 41 ff.

in London the loans to the Greek struggle, were: a) the European debt to Ancient Greek civilization made it imperative to assist the Modern Greeks, whose alphabet and language, moreover, were similar to that of the Ancients; b) the Greeks were a Christian nation, and Christian solidarity dictated a common struggle against the infidel Turks; and c) supporting Modern Greece would lead to the expansion of British commercial transactions in the Mediterranean.⁶

However, the external financing of the struggle for Greek independence quickly came to an impasse due to mismanagement and to the misunderstandings between the Greek Provisional Administration and various intermediaries. The known players in this international affair were the Greek three-member committee (Orlandos, Louriotis, Ioannis Zaimis, and, later, Spaniolakis), the London Greek Committee, the British merchant bankers of the City and the Greek merchants of the diaspora. The first international loan of 1824, aimed at providing financial support for the Greek War of Independence, was issued the same year Byron died, producing a confused atmosphere in British circles; influenced by the loss of the Romantic poet, many public figures castigated the habitual profit-seeking management of international loans in the City of London.

Greek merchants involved in international transactions, specifically Louriotis, Ralli, Kontostavlos and Dimitrios Corgialenios, participated and played a defining role in the negotiations to secure the loans, as well as in the administration of the bonds.⁷ The administration of these loans was a significant economic lesson for both Greek and British entrepreneurs and facilitated the Greek merchants' entry into the financial market of the City of London. Marinos Corgialenios is a typical example, as is Louriotis. Both members of Greek commercial networks, they had participated in international negotiations in the ports along the Mediterranean. Drawn by the City's supply of capital and its development into an international financial centre, their paths led them to Britain at different times.

An analysis of the first international loans provided to Greece prior to the establishment of the Modern Greek State requires an examination of the

⁶William St Clair, *That Greece Might Still Be Free: The Philhellenes in the War of Independence*, Oxford: Oxford University Press, 1972; F. Rosen, *Greek Nationalism and British Liberalism*, Conférence annuelle C. Th. Dimaras 1997, Athens: INR / NHRF, 1998. Specifically regarding Bentham, see K. Papageorgiou (ed.), *Ο Ιερεμίας Μπένθαμ και η Ελληνική Επανάσταση* [Jeremy Bentham and the Greek War of Independence], Athens: Hellenic Parliament Foundation for Parliamentarism and Democracy, 2012.

⁷S. G. Howe, *An Historical Sketch of the Greek Revolution*, New York: White, Gallaher & White, 1828, pp. 371-372.

political, economic and social components, as well as the intermediations of this international undertaking and an evaluation of the following points: the borrowing needs of the Greek struggle for independence and the purpose of these loans; the financial conditions in the City of London, the international banking centre of the nineteenth century; and the role of foreign bondholders.

Were we to place the matter of Greece's first international loan in the theoretical model of a commercial enterprise, this would inevitably lead to its reassessment. The theory of financial intermediation (agency theory), which studies how relationships are organized in a business, was primarily formulated by the work of Michael Jensen and William Meckling during the 1970s and 1980s.⁸ In our case, for the Provisional Administration of Greece to succeed in securing international borrowing agreements in early nineteenth-century Britain a new type of intermediation relationship would have to be achieved in the sphere of international trade. The Provisional Administration was the first political institution to represent the Greek State before its official establishment in 1832. On the one hand we have the principal, the Provisional Administration, and on the other the agents, a heterogeneous group of British merchant bankers and Greek merchants from the emerging financial world of the City, flanked by politicians and journalists. According to the theory of financial intermediation, the principal determines the work and the obligations assumed by the agent. Therefore, in keeping with this theory, two problems arise under conditions of asymmetric information: first, adverse selection, which stems from the principal's uncertainty as to the agent's ability to carry out the assigned project, and, second, moral hazard, which stems from the principal's uncertainty as to whether the agent will do his utmost to succeed in carrying out the assigned project. The variables that define the agreements, the contracts between principal and agent, depend on uncertainty and risk, as well as on the information system. It becomes difficult for two parties to reach agreement because of the frequent conflict between the objectives of the principal and the agent, and because of the involvement of various agents who make it difficult to evaluate the agreement. In this particular situation, asymmetric information denotes the different information the parties involved possessed regarding the terms of international borrowing. This discrepancy had catalytic effects on the

⁸ Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure", *Journal of Financial Economics* 3/4 (1976), pp. 305-360; R. J. Zeckhauser and J. W. Pratt, *Principal Agent Theory: The Structure of Business*, Boston 1984.

contracting mechanisms of the loans of Greek independence as well as on the behaviour of principals and agents.

In this specific agency case, the principals of the 1824 and 1825 loans gave the agents the task of executing a service, that is, to issue loans as well as to manage the loan bonds in the market. This relationship corresponds to that between fund manager and shareholders, which frequently determines a conflict of benefits. The cost of intermediation is also associated with the intended and achieved results, while a successful intermediation is judged by whether it achieves its goal, which, in the specific case of the Greek loans, was to borrow the maximum amount while minimizing the imposed interest rate and other charges. However, due to the high risk resulting from the conflict situation in the Greek territories, maintaining an effective principal-agent relationship made for a costly intermediation.⁹ Intermediation is one of the most important operations of the financial system, with agents negotiating relationships and capital. Economists have observed that an active market with many buyers and sellers and low transaction costs, as well as sufficient information, rarely exists.

The British loans granted during the War of Independence were the beginning of the Greek State's public debt. The public debt that was created to finance the struggle for national independence inaugurated the era of the country's economic relationship with British and other international funds. Greece's public image at the outset of the creation of the nation-state was defined to a greater degree by the history of the first loans the Greek State obtained than by the fact that financial support was afforded a nation fighting for its independence against Ottoman domination. In 1824 and 1825, the Greek State was first recognized and its legal existence brought to the fore when the City of London acknowledged the Provisional Administration as the first receiver of the public international loans. The management of the finances of the War of Independence, through private loans, private sponsorships and capitalization of personal labour, could not but lead to moral criticism.

This enterprise was shaped by the rules of financial intermediation, under conditions of asymmetric information, in London during the same period that the City was consolidating its position as an international financial centre. The degree to which it was an adverse selection and the moral hazard

⁹ For a general definition, see Joseph E. Stiglitz, "Principal and Agent", *The New Palgrave: A Dictionary of Economics*, London: Macmillan, 1987, Vol. III, pp. 966-971. Specifically, see Kathleen M. Eisenhardt, "Building Theories from Case Study Research", *The Academy of Management Review* 14/4 (1989), pp. 532-550; and *id.*, "Agency Theory: An Assessment and Review", *The Academy of Management Review* 14/1 (1989), pp. 57-74.

that characterized this affair practically invalidate the relationship between principal and agent. Nevertheless, on the level of the protagonists, the history of the loans of Greek Independence encouraged a new relationship among the Greeks involved in international transactions, and their relationship and familiarity with the financial centre of the City of London.

In the nineteenth century, Britain, and London especially, cultivated the idea of aggressive commercial expansion. The City's financial success instilled in its protagonists the conviction that their personal interests and those of the British nation were indistinguishable. At the same time, Jews, Protestants and Catholics from the Netherlands, Germany and France, along with Orthodox Greeks, Armenians and Muslims from the Eastern Mediterranean, immigrated to London in search of liquidity and financial services to carry out their commercial transactions. During this phase, international family trading networks were being actively created, frequently with a distinct ethno-religious origin.¹⁰

After 1815, the City assumed a leading role in the international market with regard to balancing the British balance of payments, while, from the mid-1820s, the British economy was developing in line with the rapidly rising returns on its foreign investments in Europe, America and the Middle East. London's financial and commercial services played a vital role in creating markets for the export of British products and securing the raw materials essential for the operation of British industry.¹¹ During the 1820s, London's financial market underwent fundamental transformations, mostly due to the operation of joint-stock banking companies and the democratization they brought to banking with the introduction of new players, who did not belong to the old financial aristocracy.¹² Merchant banks, such as Baring Brothers & Co., Goldsmith and N. M. Rothschild & Sons, were the main players in the financial market of the City of London. This was a period of great capital liquidity, bolstered by the Bank of England, after a long

¹⁰ From the relevant bibliography of non-state diaspora networks in Britain, see Joan George, *Merchants in Exile: The Armenians in Manchester, England, 1835-1935*, London: Gomidas Institute, 2002; Todd M. Endelman, *The Jews of Britain, 1656 to 2000*, Berkeley and London: University of California Press, 2002; Maria Christina Chatziioannou, "Mediterranean Pathways of Greek Merchants to Victorian England", *Historical Review* 7 (2010), pp. 214-237.

¹¹ P. J. Cain and A. G. Hopkins, *British Imperialism: Innovation and Expansion, 1688-1914*, London and New York: Longman, 1993.

¹² T. L. Alborn, *Conceiving Companies: Joint-stock Politics in Victorian England*, London and New York: Routledge, 1998, pp. 85-105.

period of international military operations, such as the American War of Independence and the Napoleonic Wars. The end of the Napoleonic Wars caused a tremendous demand for credit to strengthen the economies of the countries that had been directly involved. This demand essentially brought five brothers from Frankfurt's Jewish ghetto, the Rothschilds, to the forefront of international transactions. The powerful private merchant banks, which also issued international loans, were generating a capital revolution in London: a revolution in the financial system, which affected the public sphere a great deal more than either trade or industry.¹³

London's international financial nature was first moulded by the merchant banks. Merchant banks were frequently discount houses, companies that had a family structure up to and including the twentieth century.¹⁴ The number of banking and insurance company shares offered on the market multiplied on the London Stock Exchange; thus, by 1824, investors were able to invest in over 624 joint-stock companies. The entire investment process was simplified in comparison to earlier investments offered on the market, which were limited to long-term capital commitments that frequently also required legal support. Most joint-stock companies would pay dividends on their shares directly, and those shares could easily be purchased and sold through brokers.¹⁵ This business change shaped a new financial landscape presided over by merchant bankers and client-bondholders, who expected profits from their bonds or shares.

During the same period, many Latin American countries had turned to the City to secure international government loans. By 1824, at least 100 British commercial houses were installed in Latin America, while the British community in Buenos Aires, Argentina, numbered 3000. Bankers and

¹³ R. Cameron, "Introduction", in V. I. Bovykin (ed.), *International Banking, 1870-1914*, Oxford: Oxford University Press, 1991, p. 5; Y. Cassis, *Capitals of Capital: A History of International Financial Centres, 1780-2005*, Cambridge: Cambridge University Press, 2010, pp. 16 ff. Certain monographs on the bankers of the City: P. Ziegler, *The Sixth Great Power: Barings*, London: Collins, 1988; R. Roberts, *Schroders: Merchants & Bankers*, London: Macmillan, 1992. Regarding the Rothschilds, see B. Gille, *Histoire de la Maison Rothschild*, 2 vols, Geneva: Librairie Droz, 1965-1967; N. Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848*, Vol. I: *The House of Rothschild: The World's Banker, 1849-1999*, New York: Viking-Penguin, 1998; H. H. Kaplan, *Nathan Mayer Rothschild and the Creation of a Dynasty: The Critical Years, 1806-1816*, Redwood City, CA: Stanford University Press, 2006.

¹⁴ Leland H. Jenks, *The Migration of British Capital to 1875*, London: Nelson, 1971, pp. 233-255.

¹⁵ Mary Poovey, "Writing about Finance in Victorian England: Disclosure and Secrecy in the Culture of Investment", *Victorian Studies* 45/1 (2002), pp. 17-41.

merchants swarmed the markets to provide British goods to Latin America. At the same time, along with public borrowing and a strong trend towards investing in the mining industry, Canning was promoting British policies seeking to curb American penetration in the region.¹⁶ The most famous example of the time is Mexico, which in the period 1824-1825 incurred an external debt amounting to £32,000,000. Three years later, however, Mexico was still in no position to meet its debt obligations and, as a result, remained outside the European credit markets until 1888. Indeed, at one point Mexico offered bondholders barren stretches of Texas, New Mexico and California as a way to demonstrate the country's solvency. The story of Mexico's international borrowing has been analyzed in the light of the foreign control of its public resources. Moral criticism is now the prevalent approach to a detailed analysis of the management of the bonds in question and to interpreting this "perpetual" financial commitment made by Mexico.¹⁷

Beginning in 1823, all international loans offered to merchant bankers via a competitive system could be registered on the London Stock Exchange. The bonds of public loans destined for countries with sound financial conditions were offered directly to the public, available simply by paying a commission to the merchant bank or financial institution. In certain cases, when a financial institution assumed a loan, it could advance the sum to the government. As a result, the price at which the government of the borrowing nation obtained the loan would sometimes deviate a great deal from that at which it was offered to the public by the financial institution.¹⁸ During this period in Britain, the City's merchant bankers invested capital in loans to foreign countries, bonds and perpetual bonds. At the same time, inflationary effects had appeared for reasons that will be analyzed below.

Many different banks, having the right to do so, issued and circulated a great many small bank notes in the London market. This greatly enhanced the circulation of liquidity, which in 1825 amounted to 50% more than in 1822. The rapid sales of small stocks of industrial products brought large gains to the

¹⁶ Ronald Hyam, *Britain's Imperial Century, 1815-1914: A Study of Empire and Expansion*, London: Palgrave Macmillan, 2002, pp. 56-58.

¹⁷ G. F. Dawson, *The First Latin American Debt Crisis: The City of London and the 1822-25 Loan Bubble*, New Haven: Yale University Press, 1990, pp. 1-6; M. P. Costeloe, *Bonds and Bondholders: British Investors and Mexico's Foreign Debt, 1824-1888*, Westport, CT: Praeger, 2003; R. J. Salvucci, *Politics, Markets, and Mexico's "London Debt", 1823-1887*, Cambridge: Cambridge University Press, 2009.

¹⁸ "Loans, Public", entry in Sir Robert Harry Inglis Palgrave, *Dictionary of Political Economy*, London: Macmillan, 1923-1926.

market. This resulted in the establishment, as already mentioned, of a large number (624) of joint-stock companies whose total capital requirements were £372,000,000, with only £17,500,000 deposited. At the same time, the level of international loans issued by Britain rose to £32,000,000, of which £25,000,000 had been advanced. These firms would receive only 5%, so a rise in the share price could generate large profits on the sums invested. For example, on a share with a nominal value of £100, purchased at £5, a premium increase of £40 would pay each share profits eight times the original amount paid. This was the premise of small high-risk investments that nourished expectations of high returns in large social groups. It was a “get rich quick” scheme, which was prevalent in the London market of the period and involved all levels of income and of society, men as well as women. At the end of 1825, the Bank of England’s gold reserves had decreased, and the market was seized by panic for a short while, leading to the destruction of many commercial houses. After the panic of 1825, at least 60 private merchant banking houses disappeared from London and its environs. The systemic crisis of the banking system was accompanied by bankruptcies and unemployment; subsequently, the trend towards discounting commercial bills of exchange was strengthened.¹⁹ An assessment of the period highlights the speculation that the “false profits” joint-stock companies were promising the urban middle class *vis-à-vis* the old familiar honest partnerships, specifically the old commercial firms known as limited partnerships.²⁰ Joint-stock companies constituted incorporations of capital more so than individuals and, consequently, had no individual moral behaviour.²¹ Joint-stock companies had essentially been banned since the time of the scandal involving the South Sea Company (South Sea Bubble Crisis) in 1720, which, however, was forgotten over the years until 1825 and the rise of shareholder banks.²²

All the Greek merchants coming from the trading world of the Mediterranean were familiar with *en commandite* type partnerships, where one or more manager-partners were individually or collectively responsible

¹⁹ Regarding the effect of the crisis of 1825 on the British financial system, see L. Neal, “The Financial Crisis of 1825 and the Restructuring of the British Financial System”, *Review: Federal Reserve Bank of St. Louis* 80 (1998), pp. 53-76.

²⁰ B. M. Begbie, *Partnership “en commandite”, or Partnership with Limited Liabilities [...] for the Employment of Capital, the Circulation of Wages, and the Revival of our Home and Colonial Trade*, London: Effingham Wilson, 1848, pp. 68-70.

²¹ J. Taylor, *Creating Capitalism: Joint-stock Enterprise in British Politics and Culture, 1800-1870*, Royal Historical Society, Woodbridge: Boydell Press, 2006, pp. 12-28.

²² Evans, *The Forging of the Modern State*, pp. 203-204.

for the total liabilities of the company, and one or more silent investor-partners were liable only for their share amounts. Corporate transactions were usually made in the company name or in the names of the manager-partners with the addition of "& Co.", for example Ralli & Co.²³ This was a simple company structure with limited business horizons, suitable for international commercial transactions based on trust, familial relationships and the circulation of personal bills of exchange. Character and personal acumen were the hallmarks of these business structures, which were coalitions of individuals and which handled commercial activities.

The people involved in the Greek loans of 1824 and 1825 were a heterogeneous group: on the British side, radical politicians and philhellenes; and on the Greek side, politicians and merchants caught up in difficult exchanges aimed at funding the struggle for Greek Independence. The rhetoric favouring the Greek War of Independence in the British press of the period was based on an admiration of classical antiquity and philhellenism, as well as on moral criticism regarding the operation of the joint-stock merchant bank. This censure was also broadcast through literary means of expression, such as poetry and critical satire.²⁴

An interwar study of philhellenism in Britain during the period 1821-1827 presented the philhellenic tide through the then flourishing British press and the activities of the London Greek Committee (1823-1826).²⁵ The British protagonists operated in a context of political liberalism, and almost all had previous trading and financial experience. The philhellene Edward Blaqui re (1779-1832) had fought in the Napoleonic Wars, while Sir John Bowring (1792-1872), the committee secretary, was a merchant trading in the Western Mediterranean and a politician. Joseph Hume (1777-1855) was a politician with very close ties to the East India Company in India. He returned to Britain with a fortune that allowed him to purchase a seat in parliament and involve

²³ Martin Saint-L on, "Commandite in France", *The Economic Journal* 17/66 (1907), p. 284.

²⁴ See the lines of the Irish poet Thomas Moore, in the poem "The Two Bondsman": "Oh Joseph [Ricardo]! thou Bondsman of Greece, can it be // That the actions of namesakes so little agree?", and Byron's lines from the "Isles of Greece": "Trust not for freedom to the Franks // They have a king who buys and sells". The poems appeared in *The Times* of London in 1826. Relevant passages from the British press can be found in [J. Gennadius], *The Greek Loans of 1824 & 1825: How They Were Handled, and What the World Thought of It. Opinions of the Day, Without Comment*, London: P. S. King, 1878, pp. 33-34, 44, 47.

²⁵ Virginia Penn, "Philhellenism in England (1821-1827)", *The Slavonic and East European Review* 14/41 (1936), pp. 363-371, and 14/42 (1936), pp. 647-660.

himself in politics.²⁶ Byron's close friend, the politician John Cam Hobhouse (1786-1869), and Admiral Thomas Cochrane (1775-1860) belonged to the same generation. Cochrane, who offered his services to the liberation of Chile, Peru, Brazil and subsequently Greece, had been accused of possible involvement in a stock market scandal during the Napoleonic Wars (1814).²⁷ It was Cochrane who would coordinate the maritime operations with the new ships being constructed on behalf of the Greeks through the first independence loans. The Greeks had pledged £2,500,000, deposited in the Bank of England, for the expenses of the upcoming campaign. From this amount, Cochrane would receive a remuneration of £150,000 and he had already received £37,000 before even leaving Britain. After his triumphant return from South America, he demanded the new frigates be supplied with high-pressure engines that would be manufactured in the Thames shipyards.²⁸ In a period when navies were a powerful advantage and functioned as a symbol for the nineteenth century's wars of national liberation, Cochrane was an enlightened mercenary who was much in demand.

The financial situation in the Peloponnese a few years after the outbreak of the War of Independence was exceptionally grim. After the Second National Assembly (1823), the insurgent Greeks were engaged in open armed civil conflict and political dissension. At the same time, the upkeep of the fighting units in the insurgent Peloponnese and Central Greece required considerable financial capital, while the need to formulate a budget had already been emphasized by the first Provisional Constitution of Epidaurus (1822). The struggle for independence was mainly reinforced by the islands, which had a merchant fleet, but, generally, the resources of the insurgent Greeks were insufficient and limited to the plunder and spoils of war, internal borrowing, taxation and customs duties, as well as the contributions of philhellenes.²⁹

²⁶ Howe, *An Historical Sketch*; and *id.*, *Annual Register, or a View of the History, Politics, and Literature of the Year 1826*, New York: White, Gallaher & White, 1828, pp. 374-376. "The Greek Loan, Mr. Hume", *The Oriental Herald and Journal of General Literature* 12 (1827), p. 76. For a biographical note on Joseph Hume, see M. Taylor, "Biography of Joseph Hume", <http://www.liberalhistory.org.uk/>.

²⁷ When the false rumour of Napoleon's death resulted in a sharp rise in the price of stocks on the London Stock Exchange. J. C. Hobhouse, *Travels in Albania and Other Provinces of Turkey in 1809 & 1810*, London: J. C. Broughton, 1850. Regarding Cochrane, see R. Dale, *Napoleon is Dead: Lord Cochrane and the Great Stock Exchange Scandal*, London: Sutton, 2006.

²⁸ Letter from Stephanos Xenos, published in *The Times* (4 February 1864).

²⁹ Tassos Lignadis, "Τα οικονομικά της Επανάστασης από το 1821 ως το 1827" [The finances of the Greek Revolution from 1821 until 1827], in *Ιστορία του Ελληνικού Έθνους*.

During this period, the Greeks began to realize the positive consequences arising from opportunities for public international borrowing. Despite being completely ignorant of the terms of Greece's international loans, the Hydriote Anastasis Tsamados was exceptionally insightful, supporting international borrowing as a way of exerting diplomatic pressure on the European powers: "Get as many millions as you can so we can force them to recognize us."³⁰

Originally, the Greek insurgents had sought the funds for the struggle for independence in the Mediterranean world, with which they were more familiar, looking to the Order of the Knights of Malta, as well as to Spain and Portugal, for financial support. Louriotis met with members of the philhellene effort in London's Strand district at the Crown & Anchor Tavern, known for hosting public meetings and political debates, where the first financial contributions to the Greek War of Independence were gathered.³¹ According to international practice, the public loan process was either a direct agreement or it took place through intermediary bankers on behalf of a nation and an unknown number of bondholders. The loan was announced to prospective investors by printed proclamation or by advertisement of the bonds. Each bank bond had its coupons, which corresponded to each individual interest instalment, the name of the loan, the amount of interest and the payment date. Advertising the bonds of a loan was part of a new financial practice inaugurated during the period.³²

From the outset, we should note that all the relevant testimonies differ regarding the amounts of the loans.³³ The first loan (February 1824), with a

Η Ελληνική Επανάσταση και η ίδρυση του Ελληνικού Κράτους (1821-1832) [History of the Greek nation: the Greek War of Independence and the establishment of the Greek State (1821-1832)], Vol. XII, Athens 1975, pp. 606-611.

³⁰ Athens, IHR / NHRF, Louriotis Archive, File XVI, coppialettere, A. Louriotis (in London) to A. Mavrokordatos (Nafplio), 15 March 1826.

³¹ The details of the meeting can be found in the Xenos letter to *The Times* (4 February 1864).

³² The public announcement of the first international loan to Greece, which was entered into in London in 1824, is preserved in the British Library, London. See British Library, Add. 49113, Vol. XXVIII (ff. 174), 1824-1830, 4: Prospectus of the loan, 1824. For the loan issuance process, see Edwin Borchard, *State Insolvency and Foreign Bondholders*, Vol. I: *General Principles*, New Haven: Yale University Press, 1951, pp. 3, 19, 23.

³³ The majority of the material regarding the loans comes from the following: A. M. Andreadis, *Τα δάνεια της Ανεξαρτησίας* [The loans of Greek Independence], Athens: Estia, 1904; J. Levandis, *The Greek Foreign Debt, 1821-1898*, New York: Columbia University Press, 1944; A. D. Lignadis, *Το πρώτον δάνειον της Ανεξαρτησίας* [The first loan of Greek Independence], Athens 1970; G. V. Dertilis, *Ιστορία του Ελληνικού Κράτους, 1830-1920* [History of the Greek State, 1830-1920], Vol. I, Athens: Estia, 2005, pp. 107 ff.

nominal capital of £800,000, was issued at 59% and yielded £472, 000, with only £348,000 going to Greece. The second loan (February 1825), with a nominal capital of £2,000,000, was issued at 55.5% and yielded £1,100,000. In other words, of a nominal capital totalling £2,800,000, only £1,572,000 were ultimately advanced. Of these funds, £540,000 were sent to Greece, and £1,032,000 were held for various reasons in Britain. £683,000 were floated on the London Stock Exchange (two years' worth of pre-paid interest, brokerage fees and bond redemption). According to one line of thought, the first loan ought not be sent directly to Greece due to the civil war, but be deposited with the merchant banking house of Kaisaras Logothetis and the British merchant Samuel Banff on Zante, with the consent of Byron, Leicester Fitzgerald Charles Stanhope and Lazaros Koundouriotis.³⁴ The bonds remaining in Britain were administered by a team consisting of bankers and philhellenes.³⁵ The inherent risk of these bonds, issued to a country in a state of war with an uncertain position on the international political stage, was the main justification for their speculative management.

Loughnan, Son, & O'Brien Counting-House, with Edward Ellice, Joseph Hume and Andrew Loughnan, issued the bonds of the 1824 loan, while the bonds of the 1825 loan were issued by the house of David Ricardo. Both houses administered and sold the loan bonds on the market to reap a quick profit, but also to parcel out the inherent risk of this dangerous enterprise, since it involved providing financial support to the struggle for independence of a small country with a glorious past, which had risen up against the Ottoman Porte.

The house of the David Ricardo (1772-1823) had been established by a Sephardic Jewish family that had immigrated to London from Amsterdam in the eighteenth century. It was a family business, which profited by exploiting the operations of merchant banks, while it was also involved in discounting loans on the London Stock Exchange. Ricardo did business on the stock exchange with a great deal of acumen, seeking to take advantage of situations other brokers had undervalued. He was not a stockbroker but a stockjobber, that is, he traded shares on the stock exchange market. His were short-term transactions, with low profit margins on large sums. His great, and profitable, success was taking over the government loans during the Napoleonic Wars in the period 1811-1815, competing with such firms as Goldsmith, Barings and Rothschild. Ultimately, the Greek loan of 1824 was not administered by

³⁴ Xenos letter, *The Times* (4 February 1864).

³⁵ See Andreadis, *Τα δάνεια*.

David, the renowned political economy theoretician who had died in the meantime, but by his brothers.³⁶

The London Greek Committee came to disagree with the principal Greek envoys to London (Orlandos, Louriotis) regarding the administration of the loans, which were intended to be used to purchase steamships and frigates from Britain and the United States to create a Greek national fleet. As a result, servicing on the loans was suspended in 1827 and Greece was excluded from the European stock markets.³⁷

The history of the loans has political, economic and cultural components. The Greek envoys publicized their disagreements and views regarding the loan terms and negotiation processes in letters to the press and by publishing pertinent pamphlets.³⁸ Members of London's Greek community also became involved in the matter of the administration of the loans of Greek independence; among them the Ralli brothers, who also appear in the accounts published by S. G. Howe.³⁹ Moreover, an accusation against Louriotis appeared in the British press because he had not deposited the bonds in the Bank of England through the Ralli brothers, who also maintained an account there.⁴⁰ If we situate the history of the loans of Greek independence in the context of

³⁶David Ricardo, *The Works and Correspondence of David Ricardo*, Vol. X: *Biographical Miscellany*, ed. P. Sraffa, Indianapolis: Liberty Fund, 2005; M. Skousen, *The Making of Modern Economics: The Lives and Ideas of the Great Thinkers*, Armonk, NY: M. E. Sharpe, 2009, pp. 96-97.

³⁷Dertilis, *Ιστορία του Ελληνικού Κράτους*, Vol. I, pp. 107 ff.

³⁸I. Orlandos and A. Louriotis, *Απολογία Ιωάννου Ορλάνδου και Ανδρέου Λουριώτου εις τήν κατ' αὐτῶν ἀπόφασιν τοῦ ἐλεγκτικοῦ συνεδρίου περὶ τῶν ἐν Λονδίῳ διαπραγματευθέντων δύο ἐλληνικῶν δανείων κατὰ τὸ 1824 καὶ 1825* [Defence of Ioannis Orlandos and Andreas Louriotis against the decision delivered against them by the Committee of Auditors regarding the two loans], published in Nafplio on 29 October 1834 and publicized on 18 January 1835 as *Ἀνάπτυξις τῆς ἀπολογίας Ἰωάννου Ορλάνδου καὶ Ἀνδρέου Λουριώτου πρὸς τὸ ἐλεγκτικὸν συνέδριον περὶ τῶν δύο δανείων* [Elaboration of the defence of Ioannis Orlandos and Andreas Louriotis before the Committee of Auditors regarding the two loans]; G. Spaniolakis, *Παρατηρήσεις ἐπὶ τῆς ἀπολογίας Ἰ. Ορλάνδου καὶ Ἀ. Λουριώτου εις τήν κατ' αὐτῶν ἀπόφασιν τοῦ Ἐλεγκτικοῦ Συνεδρίου* [Observations on the defence of Ioannis Orlandos and Andreas Louriotis before the Committee of Auditors regarding the decision against them], 2 vols, Athens: Konstantinos Antoniadis Press, 1839-1840 [http://invenio.lib.auth.gr/record/125956]; I. Orlandos, *Ὁ Ορλάνδος ἀπολογούμενος. Ἐνώπιον τοῦ κοινοῦ* [Orlandos defending himself publicly], Athens: Christos Anastasiou Press, 1841 [http://anemi.lib.uoc.gr/metadata/e/a/b/metadata-39-0000435.tkl].

³⁹Howe, *An Historical Sketch*, pp. 367-379.

⁴⁰The Ralli brothers would have executed the order taking an appropriate commission; see *The Bristol Mercury* (30 October 1826).

London's financial history during the critical decade of the 1820s, then we can perceive Anglo-Greek relations through the prism of philhellenism; what also becomes clearer is the Greek negotiators' commercial, as opposed to financial experience, and the ways this unprecedented, by Greek standards, undertaking was administered, as well as its dynamics, which affected not only the players involved but also the public finances of Greece.

The goal of using the loans to create and finance a national navy was not accomplished due to the asymmetric information between the lead players in the case. The size of the loans had been reduced to a minimum, and the different individuals and groups were unable to communicate. This left no scope for anything other than moral criticism and denunciation. Nonetheless, the emotionally charged climate favouring Greece in 1820s Britain was heightened by the loans' attribution to philhellenic sentiment regarding the struggle of the descendents of the Ancient Greeks against the Muslim Ottomans, the massacre of Chios (1822) and the death of Byron, as well as public criticism of the joint-stock company's quick returns to its small investors.

Greece's national borrowing was accompanied by the botched order for warships to bolster the struggle. In this case, once again the venture apparently surpassed the international and domestic experience of the insurgent Greeks. One controversial item as regards the reasons for this failure concerns the ships' machinery. Had the order taken into consideration a technological innovation based on steam power and the durability of iron skeletons? An anecdotal argument appeared in the British press stating that while Archimedes made scientific discoveries with Syracuse under siege, his British counterparts were not present at Missolonghi. The mechanics constructing the Greek frigates had neglected the time factor and, in order to save the Greek nation with new, innovative engines, which, in any case, did not work, delayed so long that ultimately the entire cause of Greek independence was in danger of failing.⁴¹

The order for these famous frigates (their number varies from four to eight in the pertinent statements) was placed with Le Roy, Bayard & Co. and G. G. & S. Howland in New York, on the instructions of the Provisional Administration in early 1825. It was managed by the merchant Kontostavlos, who had been assigned the task by the Greek commissioners in London. According to the Italian philhellene Alerino Palma, the order was placed by General Charles François Antoine Lallemand (1774-1839), late of the Napoleonic army, perhaps due to his previous experience in the United

⁴¹ "Greek Armament", *Glasgow Herald* (22 September 1826).

States;⁴² during that same period, Lafayette (Marie-Joseph Paul Yves Roch Gilbert du Motier, Marquis de Lafayette, 1757-1834), the famous French military officer, was also in the United States, an element that indirectly links the Greek War of Independence with two protagonists of the French Revolution. The order for the Greek ships began with a £25,000 letter of guarantee from Samuel Williams of London. Two frigates would be constructed at an estimated cost of £50,000 with a six-month delivery date, the balance to be paid either by Williams or by the Ricardo loan, which was already under way. Construction began on 14 May 1825. Within a year, the cost of the frigates rose to \$750,000 dollars or £150,000, and they would not sail until their cost had been paid in full. From this point on, a public feud began involving lawyers and experts with actuarial comparisons and estimates regarding costs and commissions in dollars and pounds sterling. Many accusations flew against the builders, the intermediaries and Kontostavlos, and the case reached an impasse. Apparently, even the American president, John Quincy Adams, became involved. Kontostavlos, in his turn, published a pamphlet with a detailed analysis of the costs and down payments. At the same time, the frigate *Karteria* – with further philhellenic financial and legal assistance – was prepared to set sail for Greece.⁴³

Yet another complication was added to the economic ones, this one concerning the ship mechanic Alexander Galloway (1776-1847), a committed radical and excellent engineer who had a large clientele in London during the 1820s. His company had undertaken to manufacture the machinery for the Greek frigates, as well as the equipment for the *Karteria*. Not only was the latter not delivered as agreed upon, but Galloway himself was blamed for its poor quality. As the equipment was being prepared, one of Galloway's sons offered his services to Mehmet Ali of Egypt; consequently, the engineer was accused of having sold out the Greek national cause to the enemy. Once again, accusations and excuses were fired off with various statements in the press, revealing not only the complete lack of communication between the

⁴² Alerino Palma, *The Greek Steam-boats, and Mehemet Ali's Firman*, 1827, repr. Athens 1974; Harris Gaylord Warren and Betje Black Klier, "Charles François Antoine Lallemand", *Handbook of Texas Online* [<http://www.tshaonline.org/handbook/online/articles/fla14>], accessed: 13 April 2013].

⁴³ *The Edinburgh Annual Register* 19 (January 1826), pp. 236-237; "Vindication of Henry D. Sedgwick, with Some Inquiries Respecting the Award in the Case of the Greek Frigates", *The Morning Chronicle* [London] (17 November 1826). See the pamphlet by Alexander Contostavlos [sic], *A Narrative of the Material Facts in Relation to the Building of the Two Greek Frigates*, New York 1826.

parties involved, including even the shipbuilders and Galloway, but also the absence of any central management of the project.⁴⁴

Finally, the *Karteria* was fully equipped and sailed for Greek waters in May 1826. Frank Abney Hastings (1794-1828) organized the naval warfare operations of the *Karteria* and ultimately died at Zante aboard the legendary ship. Hastings, a British naval officer, had ardently advocated supplying the Greek navy with steam-powered warships, and the Provisional Administration of Greece had embarked upon its external borrowing for this purpose. Hastings himself belonged to the group of British soldiers and veterans of the Napoleonic Wars, who along with liberal politicians and financiers took an active part in the struggle for Greek independence and became directly and indirectly involved in the first Greek loans.

From the beginning, the bondholders of the Greek loans were a group that was mainly distinguished in two ways: through the public criticism levied against them, or through their demands to collect the anticipated profits from their investment in the bonds of the Greek loans. Although a distinct group, it presents common characteristics with the groups of bondholders of other state loans contracted in the City during the 1820s. In 1868, the creation of the Corporation of Foreign Bondholders was a decisive move, since it proved to be an institution that would play a leading role in the administration of the loans of Greece, Turkey and Latin America. As of 1874, the Corporation's council began publishing annual reports on "bad loans" to keep bondholders informed. These annual reports commented on the progress of the Greek loans, which had accumulated in the meantime, until 1883, when all pertinent references ceased; then, from 1896 on, the accounts of the Greek loans once again appeared in the reports. What most holders of Greek bonds did not know was that at that time, the end of the nineteenth century, Greece had a population of 2,187,208 with an external debt of £10 per head, given that the loans of the Greek State had reached an outstanding sum of £22,134,147 for the period 1881-1893.⁴⁵

⁴⁴ Michael T. Davis, "Galloway, Alexander (1776-1847)", *Oxford Dictionary of National Biography*, Oxford: Oxford University Press, 2004; online ed., Jan 2013 [<http://0-www.oxforddnb.com.catalogue.ulrls.lon.ac.uk/view/article/74200>, accessed 25 Sept 2013].

⁴⁵ *1st Annual Report of the Council of the Corporation of Foreign Bondholders (CFB)*, London 1874, p. 17; *5th Annual Report of the Council of the CFB for the Year 1877*, London 1878, p. 52; *6th-11th Annual Reports of the Council of the CFB*, London 1879-1884. The history of the Greek loans appears in the *22nd-23rd Annual Reports of the Council of the CFB*, London 1895-1896.

As early as the beginning of the nineteenth century, bondholders and merchant bankers would gather and discuss how profitable their bonds were, their expectations and demands, usually in London's social gathering spots, such as the London Tavern. During the period, bondholders endured criticism, which attacked these new "games of chance" that directed a large portion of private capital to highly lucrative and risky "bets" promising immediate returns. These small capitalists were not investing in a productive business. On the contrary, this investment was in a Greek government that was not actually a government but rather a group of people spearheading Greece's liberation from the Turks, following the example of Latin America. According to one of the caustic publications of the time:

Greedy Fools, you have lost your money; you have deservedly lost your money. This punishment of you is just, as far as it goes; but it is not so great as you deserve [...] Your hypocrisy has met with suitable chastisement. You money-jobbers and usurers, who have always been the deadly enemies of the liberties of Englishmen; you, who are Jews in soul though Christians by profession; [...] you greedy wretches, pretended to feel great zeal in the cause of restoring the Greeks liberty; but, you, at the same time, took special care to assist their cause in such a way as you thought would give you from ten to fifteen per cent for your money!⁴⁶

The demands of the bondholders, who were able to obtain information from the plethora of accounts published in the British press regarding the accusations flying among the intermediaries, were direct and addressed to individuals as well as institutions. For example, on 22 June 1826 the value of Mexican, Russian and Danish bonds had fallen, and few Colombian bonds had been purchased, while the acknowledgment of the Greek loans had no actual repercussion on their value in the City.⁴⁷ The demands of the bondholders were also published in the press; their main request was to receive the proceeds from their bonds.

Stanhope, an army man, played a brief but leading role in the matter of the Greek loans, as, in 1823, he had travelled to insurgent Greece at the request of the London Greek Committee to handle the matter of the first loan. In the end, he returned to Britain the following year accompanying Byron's remains, having left the Greeks rather disgruntled since, rather than concentrating on insurrection and the financial support of the struggle, he

⁴⁶ W. Cobbett, "To the Greek Bondholders", *Wm. Cobbett's Weekly Register* (29 September 1827), pp. 1-54, 64.

⁴⁷ Bond trading reported in *The Morning Chronicle* (22 June 1826).

was more interested in promoting his ideas on creating a free press and schools.⁴⁸ Back home, Stanhope presided over one of the first meetings of Greek bondholders at the London Tavern in September 1826. There, he made clear that he had been a simple committee member during the administration of the first Greek loan. By the time the second was being negotiated, he had been replaced by Louriotis, Orlandos and Zaimis; the last was subsequently replaced by Spaniolakis.

It was becoming obvious that public comparisons of the detailed accounts were leading nowhere, yet the interpretations of the events are important. In this meeting, the lack of a decisive, rational British administration that would defend the interests of bondholders was brought up.⁴⁹ The next month, yet another meeting of approximately 60 bondholders took place in the same location, during which the proceedings of the previous meeting were read: Loughnan, Son, & O'Brien, the issuer of the bonds for the 1824 loan had submitted detailed accounts, while Ricardo refused to provide information on the second loan. The committee wondered why the Greek representatives had blindly trusted a French officer, refusing other offers to supply warships, although they had secured assistance from philhellenic committees in Switzerland and France, and especially from the banker Jean-Gabriel Eynard. Despite all the difficulties and miscommunications, they agreed that sending £150,000 at that time could change the dramatic situation in the Peloponnese. After approximately 20 meetings of the bondholders, it became apparent that money should not be sent to Greece without British oversight, otherwise – always according to Stanhope – it would be like throwing money into the sea. The main issue was the financial manager of the loans. The political manager was the Provisional Administration of Greece, and its representatives had assigned the first loan to the Mavrokordatos merchant banking house, which in the meantime had gone bankrupt, and to Ralli, who refused to place the funds in the Bank of England for security.⁵⁰ The Greek venture was supported by the philhellenes in Britain, but the lack of coordination was becoming public knowledge through successive articles in the press. This alarmed those

⁴⁸ Elizabeth Baigent, "Stanhope, Leicester Fitzgerald Charles, Fifth Earl of Harrington (1784-1862)", *Oxford Dictionary of National Biography*, Oxford: Oxford University Press, 2004, online ed., May 2007 [<http://0-www.oxforddnb.com.catalogue.ulrls.lon.ac.uk/view/article/26250>, accessed: 7 May 2013].

⁴⁹ See the relevant articles in the British press, *The Leeds Mercury* (9 September 1826); *The Morning Chronicle* (24 and 30 October 1826). Detailed accounts in the *Glasgow Herald* (30 October 1826); *The Morning Post* (31 October 1826).

⁵⁰ "The Greek Loans", *The Times* (24 October 1826).

bondholders who were following the downward trend of the bonds of the mature Greek loans.⁵¹ As of 1827, the Greek independence loans were no longer serviced. Thirty years later, Greek bonds continued to be bought and sold on the London stock market, although at low rates.⁵²

Essentially, the epilogue for the independence loans has yet to be written, since they continue to be used symbolically. From 1824 to 1825 – in the midst of the crisis of the war against the Ottoman Turks and Egyptians to secure Greece's national independence – to the present, these loans have played a key role in Greek political and economic life even though they were repaid. Their importance was not limited to the public finances of the Greek State. They were also used as an argument for the international recognition of the future state, as grounds for coercion or blackmail in the country's international relations, and, ultimately, they functioned as the original sin burdening Greece both actually and figuratively.

These loans, coming one after the other, defined the image of the Greek State in the international markets. Along with Greece, other countries in the Mediterranean and Latin America, and even the Ottoman State itself, found themselves in a similar position. The merchant bankers of the nineteenth century were non-discriminating lenders. It is doubtful whether they had examined the creditworthiness of Greece, or the other developing countries, to see whether the country was able to service its external debt. The loan agreements collateralized the agricultural wealth of Greece – this also occurred in the Ottoman State – and raised the purchasing public's expectations for short-term returns on capital and savings. From the early nineteenth century, the Pax Britannica expressed Britain's military as well as peaceful conquest of a large geographic area; its economy, trade and international loans were both its main weapons and comparative advantages.

Servicing the public debt placed a disproportionate burden on the Greek economy at least until the mid-nineteenth century. As early as 1827, the Greek State was unable to service the first loans it had assumed before it was even established, let alone the so-called loan of King Othon. From the first national loans to Joannes Gennadius' confrontation with the Dutch financier Louis Drucker in the 1870s,⁵³ accusations and denunciations were exchanged based on speculative behaviour and racial comparisons such as the use of "Jewish

⁵¹ "The Greek Loans", *The Leeds Mercury* (21 October 1826).

⁵² Letter from Stephanos Xenos, *The Times* (10 October 1863).

⁵³ For references to Louis Drucker, see below the pamphlets of J. Gennadius; also, L. Drucker, *An Appeal to the Governments and Monarchs of Europe*, Leiden: L. van Nifterik, 1877.

practices” on the part of the loan administrators. I have already mentioned that the Greek side’s ignorance of the terms of international borrowing was one of the parameters defining their failure. Yet how did Gennadius manage to reverse a charged anti-Greek stance that repeatedly cropped up in the international market for approximately 50 years? Gennadius, as early as the period of the Dilessi Affair (1870) and the unfair accusations levelled against Greece ensuing from that unfortunate individual event, had associated Britain’s negative attitude towards Greece with the loans of 1824 and 1825. He reserved for himself the right to expose Greece’s unjust exclusion from the international financial markets, denouncing Britain’s pro-Turkish stance and imperialism. During the preparations for the Berlin Conference (1878), which brought about major political changes in South-East Europe, Gennadius turned his attention to normalizing the problem of the loans obtained during the period of the War of Independence. Anonymous pamphlets attributed to Gennadius recount the case of the Greek independence loans, which resulted in Greece’s previous exclusion from the international financial markets and the country’s political aspirations being ignored.⁵⁴ Indeed, in 1878 the law “On the Settlement of the Old Loans of the Years 1824 and 1825” was published; this was an arrangement to manage Greece’s original debt. After many months of negotiations with the Corporation of Foreign Bondholders and especially the Committee of Greek Bondholders, Gennadius reached an agreement, which, after its approval by the holders of the securities, was discussed and approved by the Greek parliament.

Loans that became gifts, national insolvency and confiscation of public revenues were the keywords of the criticism prevalent during the 1820s. The solution was found at precisely the point where a nineteenth-century intellectual and diplomat, Joannes Gennadius, uncoupled the loans of Greek independence from their historical burden and their accumulated unfulfilled obligations and proposed a realistic viable haircut in the Age of Empires, during the launch of stock market capitalism in the final quarter of the nineteenth century. The first loans negotiated with the insurgent Greeks are not directly related to the current situation, involving loans frequently

⁵⁴ [J. Gennadius], *Notes on the Recent Murders by Brigands in Greece*, London 1870, pp. 160 ff; [id.], *The Greek Loans of 1824 & 1825: How They Were Handled*; [id.], *The Greek Loans of 1824 & 1825: Their Conversion and Settlement and the Dutch Protest: A Letter Addressed to the Right Hon. Edward Pleydell Bouverie*, London: privately printed, 1880. A brief introduction to Gennadius and his social network can be found in M. C. Chatziioannou, “Between Tradition and Modernity: Joannes Gennadius at the End of the 19th Century”, *The New Griffon* 12: *Hidden Treasures at the Gennadius Library* (2011), pp. 13-26.

granted by markets and risk-taking investors, who may even be aware of the borrowers' inability to meet their obligations. In quite a few cases, then and now, the lenders' goal was the loans' short-term yield, brokerage fees, interest rates and coupons rather than their final settlement. The merchant banks of the City of London that granted the first loans in 1824 and 1825 built expectations on them and their future performance in the context of a small country with a great past. The predatory management of these loans – as it has frequently been described – is due to many factors; however, one of them certainly was the Greeks' ignorance of the rules of the game.

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