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"Rivalry and Collaboration: Relations between Buenos Aires Merchant Bankers and European Bankers in the Issue of Argentine Government Bonds in the 1880s"¹

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In this paper particular attention is paid to the role of merchant and investment bankers on both sides of the Atlantic who were key actors in establishing bridges between the financial markets of Latin America and those of Europe in the 1880's, a period sometimes described as an early stage of financial globalization. The focus is on Argentina because it was the largest debtor in Latin America in this decade and because it was able to place bonds on different European financial markets, including London, Paris, Berlin, and Brussels. The main argument of the paper is that a full understanding of international capital flows requires an understanding of the dynamics of actors in both the *emerging* financial markets of

¹ A previous version of this paper was prepared for the Pre-conference in Geneva, 9-11th October 2008, titled '**Institutions, Markets and Capital Flows from the 1880s to the present: Why are financial centres attractive?**' organized by Youssef Cassis and Laure Quennouelle-Corre.

debtor states and in the mature financial markets of the main capital supplying nations. A comparative review of Argentine international bond issues in the 1880s reveals the key role of local merchant bankers in establishing alliances with European bankers that were essential to placement of loans as well as to the increase of foreign direct investments.

Our study is informed by the recent literature on the comparative analysis of international capital flows in the late nineteenth and early twentieth centuries, which has expanded notably over the last fifteen years. While this essay focuses on specific, financial actors, we nonetheless feel that our approach can complement the more theoretical work by economists and economic historians who have explored questions that are essential to financial analysis in comparative history. Among the themes studied in this literature in recent years are issues of changing perceptions of risk on the basis of sophisticated analysis of the differential spreads of sovereign bonds of many states.² Other studies focus on comparative studies of exchange rates and monetary policy and their impact on capital flows, outstanding examples being the several studies on Argentine finance by Gerardo Della Paolera and his joint book with Alan Taylor.³ Related research has paid attention to the problems of the monetary denomination of public debt and the problems of *original sin*, particularly as a result of *sudden stops* in foreign portfolio investments.⁴ But recent analyses have also focused on comparative case studies, for example on contagion in the financial crises of the early 1890s, with special attention to the Baring crisis of late 1890, the Argentine financial crisis of 1891 and the related Brazilian crisis of 1891/1892.⁵

Generally speaking, the research conducted on late nineteenth century international finance has demonstrated the complexity of contemporary monetary policy (including being off and on the gold standard and the *tilemma*) and the

² Flandreau (2003) and Mauro, Sussman and Yafeh (2006.)

³ Della Paolera (1994) and Della Paolera and Taylor (2001).

⁴ Bordo and Meissner (2007) and Catao (2007).

⁵ Triner and Wandschneider (2005) and Michener and Weidenmier (2006).

relations between dynamics of financial markets and investor perceptions and their impact on capital flows.⁶ It has also allowed for reflection on the degree to which the lessons of the past are useful for analysis of emerging markets crises in the contemporary era.⁷ On the other hand, less attention has been devoted in this rich literature by economists and historians to *financial actors* in the *emerging* markets of the 1880s, including both key Latin American intermediaries as well as the European bankers and their financial agents who negotiated loans with different governments of the region and raised the money among a wide array of investors in major financial centers (London, Paris, Berlin, Frankfurt, Brussels and Amsterdam) and also in smaller, regional money markets in Europe.⁸

In this paper we pay special attention to the merchant bankers of Buenos Aires who competed among each other to gain shares of the rapidly expanding business of international issue of Argentine national, provincial and municipal bonds in the decade of the 1880s. These local bankers were key intermediaries for a broad range of European banks and bankers, and they played a pivotal role in the rival financial syndicates that placed the bonds on various markets. As we demonstrate, the competition among the Buenos Aires merchant banks was a key factor impelling the great loan boom of the 1880s. These local firms were intermediaries between the Argentine politicians seeking loans and the foreign bankers supplying the money, but they also participated in much of the commercial business derived from loan contracts. They also played a part in the expansion of a considerable number of state enterprises and state banks in that period, which in fact were responsible for the bulk of the foreign debt issued. Local merchant bankers were thus as important

⁶ Flandreau (2004) and Obstfeld and Taylor (2002 and 2004).

⁷ Eichengreen (1999).

⁸ Exceptions are works by Andrés Regalsky (1987 and 2002) on French bankers and local intermediaries in Argentina in the period 1880-1914, and a set of studies by Juan Flores (2000) that have been conducted on problems of free riding, moral hazard, and competition between financial intermediaries in Argentina in the mid and late 1880s.

as the politicians and the foreign bankers in generating the extraordinary Argentine loan boom of that age.

The breadth of international financial activities of the Buenos Aires bankers was closely linked to the fact that they were able to attract money from various money markets abroad. In some cases, the banks that took charge of the issue of Argentine bonds placed them principally on one market, but in many other cases financial syndicates sold them on various financial markets at the same time. Our paper begins by offering an overview of the importance of international capital flows in the 1880s and provides an outline of the estimated distribution of Argentine bonds on three leading European financial markets, London, Paris and Berlin: the data provide a clear indication of the growing degree of *financial globalization in the 1880s*. We then synthetically describe the nature of the emerging financial market of Buenos Aires in these years and the complex constellation of financial actors and institutions that operated there, identifying the actors most important in negotiating foreign loans. We close with an analysis of the activities of several Buenos Aires merchant banking firms engaged in the placement of bonds abroad and their strategies in forging alliances with a variety of European financial firms and banks.

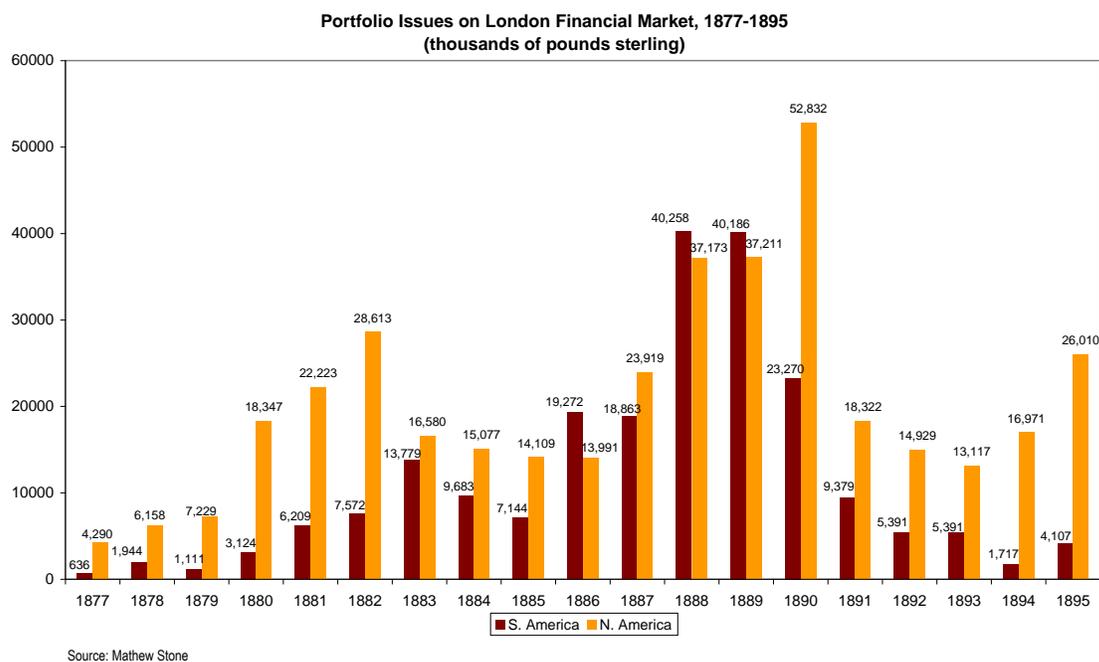
The 1880s, early golden age of economic expansion and financial globalization

While most economic history literature situates the period 1880-1914 as the “belle époque” of early economic and financial globalization, it is worth noting that the 1880s marked takeoff in terms of international capital flows. Indeed, this decade was the key period in which Latin America gained full acceptance in international financial markets.⁹ According to statistics of Stone on British portfolio capital exports in the last third of the nineteenth century, North America (United States and Canada) generally was the first destination in terms of volume, but Latin America

⁹ GOETZMANN, William N. and UKHOV, Andrey D, (2005).

followed closely from the early 1880s and, what is more, during the years 1886-1889 occupied first place on a world scale. (See Graph 1.)

INSERT GRAPH 1



It is true that Latin American bond issues were skewed. During the 1880's two countries, Argentina and Uruguay were responsible for over 50% of the value of all international bonds placed by Latin American states. In the brief span of ten years, Argentina placed an incredible total of 50 foreign loans (including national, provincial and municipal issues). In contrast, other Latin American nations took less loans, but the size of their international transactions were quite large. Five international loans were placed by Brazil, four by Mexico, five by Chile and two by Cuba.¹⁰ Nonetheless, variety and volume of the Argentine bond business is the main reason why this paper focuses on the finances of this nation at the time.

¹⁰ Marichal (1989), chap.5, offers a summary comparison of Latin American loan issues in the 1880s.

The Argentine loan boom was impelled by the rapid economic growth, which was the result of a combination of internal and outward development. Paradoxically, one of the causes of the renewed prosperity in the Rio de la Plata originated in the widespread crisis which had gripped European agriculture. Several bad harvests in the 1870's not only drove food prices sky high but also impelled thousands of hungry European peasants and artisans into the ports where they soon boarded ships bound for the United States, Canada, Australia and Argentina. As the *Buenos Aires Standard* observed in late February, 1880: "The distress in Europe, the loss in crops, and the misery of thousands tend to increase our appreciation of the rare blessings all enjoy in this favored country [Argentina]...Fifty thousand immigrants have settled on these shores in the past year."¹¹

From 1880 onwards European commercial interests began to view the Rio de la Plata region not only as a major wool-producing zone (which it already was) but also as a great potential meat and bread basket for the industrial economies of northern and central Europe. Like the United States and other "newly-settled" nations, Argentina was blessed with vast open frontiers and extraordinarily rich soils which only awaited the arrival of men, threshers and railroads to become one of the most productive agricultural belts in the world. *The South American Journal* commented rapturously: "In fact, absolutely no limit can be put to the development in this direction, the extent of virgin soil suitable for wheat-growing being unlimited...The number of sheep is nearly double that existing in the whole of the United States and is about on a par with the Australian continent and far surpasses it as far as cattle."¹²

The prospects for growth, however, depended not only upon the abundance of natural resources but also upon political and social conditions. In order to establish a stable national government two fundamental problems had to be

¹¹ Cited in *The South American Journal*, February 19, 1880.

¹² *Ibid.* January 8, 1880.

resolved. The first was the expulsion of the Indian tribes from the rich lands of the pampas. During the years 1876-1880, the Argentine army carried out a successful campaign to expand occupation of the western and southern frontiers by slaughtering thousands of Pampa Indians and driving the remaining tribes across the Rio Negro (Black River). The second major obstacle to the consolidation of a unified territorial political system lay in the resolution of regional/political conflicts which still ran rife. So acute were the divisions that in December, 1879 the governor of the wealthiest and most populous province, that of Buenos Aires, launched a military revolt against the national authorities. Eventually, the army succeeded in smashing the insurrection but only at the cost of several thousand lives.¹³

Subsequently, national elections brought to power General Julio Roca, a man who had won fame as the main strategist of the Indian Wars. Roca immediately reduced the power of the provincial government of Buenos Aires by transforming its leading city into the federal capital of the republic and by working out a complex political pact with the ruling elites of the other Argentine provinces. As a result of the complex (albeit often brutal) process of political unification, the national government was able to assume an active role in the promotion of economic growth on a national scale.

The Roca administration, nonetheless, was not the first in promoting an economic development strategy. Indeed, most of the ambitious railway and port projects which it sponsored had actually been initiated during the presidency of Sarmiento (1869-1874).¹⁴ What the government of general Roca did do was to seek an unprecedented degree of financial assistance from abroad to carry out and conclude these programs. The Argentine politicians and technocrats of the early

¹³ The rebellion was led by governor Tejedor in order to impede general Roca from winning the presidency. The rebel militia actually forced the national government authorities out of the capital, but were subsequently defeated by the better-trained and more disciplined troops of the national army. For an eyewitness account of the battles see synopsis in H. Ferns, *Britain and Argentina*, pp.388-391.

¹⁴ See C. Marichal, (1988).

1880's spared no effort in their campaign to attract banking and industrial companies from Great Britain, France, Belgium, Germany and even the United States to participate in the financing of many economic projects in the River Plate.

The rapid expansion of agriculture and ranching enterprise was accompanied by fast, urban growth and a substantial increase in both internal and external commerce. In our view, the interpretation of historian, A R. Hall, with regards to economic expansion in contemporary Australia applies to the River Plate: Hall speaks of the key role of the transport revolution *cum* rapid urban expansion. Urban growth in Argentina spurred a burst in urban real estate business on a scale only matched by the dynamic markets in rural *estancias* and *haciendas*, driven by the export boom in ranching and agricultural commodities. At the same time, the 1880s were witness to a notable transformation of national transport systems, particularly of railroads as well as the building of a series of urban network industries (water and gas systems, tramways) and port works. The number of Argentine public entities engaged in transport and infrastructure as well as in banking multiplied with extraordinary speed and most turned to the issue of international bonds to finance their expansion, in most cases under the umbrella of the Ministry of Finance or, alternatively, with guarantees from provincial and municipal governments.

It was the national government that took the initiative of opening negotiations with a variety of banking houses from London, Paris and Berlin, but it was soon followed by the politicians in charge of provincial and municipal governments, as well as the directors of state railway companies and state banks. By the end of the 1880s, the number of public entities competing for loans on European financial markets had surpassed all expectations.¹⁵ Between 1880 and

¹⁵ Among these state agencies were the Banco Hipotecario Nacional, Banco Hipotecario de la Provincia de Buenos Aires, Banco Nacional, Ferrocarril Oeste de la Provincia de

1890, the diverse Argentine public entities had issued a totaled nominal worth of close to 400 million pesos oro (approximately 80 million pounds sterling) in foreign bonds. To this should be added the many millions of pesos in mortgage bonds (the famous «cédulas hipotecarias») that were placed on a variety European financial markets by financial agents of the Argentine state mortgage banks.¹⁶

The huge volume of bonds issued in Europe raises the question of why among all Latin American nations; Argentina should have received preferential treatment from European bankers and investors from the early 1880s. After all, there were also other countries with important frontiers and potential for growth, and there were other governments that had traditionally raised quite a lot of capital in Europe such as Brazil, Peru and Chile. While Brazil continued to raise some loans, the imperial government was relatively conservative in seeking new loans until the end of the 1880s. On the other hand, it is important to recall that in the years 1879 and 1880, Chile and Peru were at war with each other, and European investors trembled at the very real possibility that their investments there would be wiped out. Peru had already declared general insolvency from 1876 onwards and was not paying service on its foreign debt, the largest by far of all Latin America. Further north the situation was similar: Mexico had repudiated its foreign debts from 1867 and would not renew payments until late 1886. At the same time, smaller countries such as Costa Rica, Ecuador, Santo Domingo and Paraguay

Buenos Aires, state railways of Santa Fé province as well as provincial banks in Buenos Aires, Catamarca, Córdoba, Corrientes, Entre Ríos, Mendoza, San Luis, Santa Fe and Tucuman.

¹⁶ Williams (1920) calculated that the value of cédulas of the Argentine mortgage banks placed in Europe between 1886 and 1890 reached 170 million pesos oro (approximately 34 millones pounds sterling).

were also in default and had not paid service since the international crisis of 1873.¹⁷ The case of Bolivia was also illustrative: the negotiations between the committee of British bondholders and the Bolivian government continued without resolution, year by year, after the default in 1874: as late as 1883, a reputed British investment guide reported that «the present state of Bolivian finance is completely unknown.»¹⁸

Given the relatively desolate financial panorama in most of Latin America, European investors found Argentine an attractive option, particularly given the relatively high interest rates and low prices of its international bonds. Politically stable, with a rapidly expanding ranching and agricultural frontier, growing exports and a trade surplus, this nation attracted a flock of European financiers in the early 1880s. British and French and German bankers soon entered the fray and strove to obtain control of the Argentine loans. Nonetheless, rivalry was not the only characteristic of this there business since there was also frequent collaboration between banks of different nationalities as can be seen in the establishment of syndicates of cosmopolitan, banking groups. Such collaboration evidently reduced the risks of placement of the bonds by allowing for sale in different markets. Each one of the Argentine public entities seeking loans brokered deals with local merchant bankers who were responsible for negotiating the placement of bonds with individual European financial houses or syndicates of banks. That domestic bankers should have been well placed to do so was the result of growth of local

¹⁷ Marichal (1989) chapter has detailed information on all the Latin American defaults of the age.

¹⁸ Fenn (1883), p. 379.

financial markets and banks and to their wide range of international contacts. An overall panorama of the enormous diversity and value of Argentine bond issues in the 1880s is provided in Tables 1 and 2.

TABLE 1

Bonds issued with guarantee of the Argentine national government in Europe, 1880-1890: estimated placement in European financial markets (thousands of pounds sterling)

Año	Purpose	Total Value*	London*		Paris*		Berlin*	
			Value*	%	Value*	%	Value*	%
1881	State Railways	2.450	1,150	47	1.300	53	----	----
1882	Treasury bills	817	211	26	606	74	----	----
1884	National bank	1.714	1.514	90	200	10	----	----
1884	Riachuelo Port	793	-----	-----	793	100	----	----
1886	Public works and State Railways	8.290	5.803	70	2.487	30	----	----
1887-88	State railways	3.968	3.968	100	----	----	----	----
1887	National bank	2.017	----	----	----	----	2.017	100
1887	Treasury debt	624	624	100	----	----	----	----
1888	National bank	3.950	1.185	30	1.185	30	1.580	40
1889	Debt conversion	5.290	1.692	32	1.058	20	2.539	48
1889	Debt conversion	2.660	2.660	100	----	----	----	----
1890	State railways	2.976	----	----	2.166	73	810	27
1881-86	SUBTOTAL	14.064	8.678	62	5.386	38	----	----
1887-90	SUBTOTAL	21.485	10.129	47,1	4.409	20,5	6.946	32

*The data we offer under *Total value* are the *nominal* value of bonds issued in European money markets. While most Argentine bonds were initially placed through financial houses in London, Paris and Berlin, it should be understood that many were sold or resold on other financial markets and it should be noted that our data for each market are estimates of the nominal *value* of bonds placed, based on a variety of sources cited below. For information on issuing banks, interest rates on loans and issue prices see Marichal (1989), appendix B, pp.247-249.

Sources: The information has been culled from various sources, including: Agote (1888), Peña (1907), Peters (1934), Pillado (1900), Shepherd (1933) and Regalsky (2002). Additional data is from Corporation of Foreign Bondholders (CFBH), Seventeenth Annual Report of the Council of the CFBH for the year 1892, and from *Memorias del Ministerio de Hacienda*, 1880-1890.

TABLE 2

Bonds issued with guarantee of the Argentine provincial government in Europe, 1880-1890: estimated placement in European financial markets (thousands of pounds sterling)

Año	Province and Purpose	Total value*	London*		Paris*		Berlin*	
			Value*	%	Value*	%	Value*	%
Buenos Aires								
1881	Port	300	300	100	----	---	----	----
1882	Provincial Bank	4.098	4.098	100	----	---	----	----
1882	State Railways	2.043	2.043	100	----	---	----	----
1883	Port	2.254	1.352	60	901	40	----	----
1884	State Railways	2.000	2.000	100	----	---	----	----
1886	Provincial Bank	2.502	----	----	----	---	2.502	100
1887	Railways	400	400	100	----	---	----	----
1888	Railways	1.250	1.250	100	----	---	----	----
SUBTOTAL		14.848	11.444	77	901	6	2.502	17
Catamarca:								
1888	Provincial Bank	600	----	----	600	100	----	----
Córdoba:								
1886	Public Works	595	595	100	----	----	----	----
1887	Public Works	1.190	1.190	100	----	----	----	----
1888	Provincial Bank	2.000	----	----	1.200	60	800	40
Corrientes:								
1888	Provincial Bank	1.000	----	----	1.000	100	---	---

TABLE 2 (continued)

Año	Province and Purpose	Total Value*	London *		Paris*		Berlin*	
			Value*	%	Value*	%	Value*	%
Entre Ríos								
1885	Railways	1.530	1.530	100	----	----	----	----
1886	Debt payments	800	800	100	----	----	----	----
1887	Provincial Bank	1.200	1.200	100	----	----	----	----
1888	Railways	1.745	1.745	100	----	----	----	----
Mendoza:								
1888	Provincial Bank	992	----	----	992	100	----	----
San Juan:								
1888	Provincial Bank	400	200	50	200	50	----	----
San Luis:								
1888	Provincial Bank	150	----	----	150	100	----	----
Santa Fe:								
1883	Provincial Bank	1.434	1.434	100	----	----	----	----
1883-86	Railways	1.079	1.079	100	----	----	----	----
1886-88	Railways	2.190	2.190	100	----	----	----	----
1888	Provincial Bank	2.000	2.000	100	----	----	----	----
Tucumán:								
1888	Provincial Bank	600	----	----	600	100	----	----
SUBTOTAL		19.508	13.966	72	4.742	24	800	4
TOTAL OF ALL PROVINCES		34.357	25.411	74	5.643	16,4	3.302	9,6

*The data we offer are the *nominal* value of bonds issued in European money markets based on a variety of sources cite below. While most Argentine bonds were initially placed through financial houses in London, Paris and Berlin, it should be understood that many were sold or resold on other financial markets.

Sources: same as Table 1. It is worthwhile comparing our data with that of Regalsky (2002) who includes detailed information on commissions and other data on the loans which were placed in France, particularly in chapters 3 and 4.

As may be observed from the data on foreign loans in these tables, the issue of international bonds by Argentine entities was quite evenly split between the national and provincial governments, with a marked financial peak in the years 1887-1889. But the Argentine financial frenzy was even greater than that indicated in these tables since additional quantities of bonds were issued in Europe by municipal governments (ten loans) as well as the mortgage bonds (known as *cédulas*) issued by the state mortgage banks. And then there was an important stream of foreign direct investments (mostly British but with a significant portion of French capital) which went mainly into Argentine privately-owned railways as well as banks and land companies. The joint totals of foreign capital explain the trend in our Graph 1 which shows that Latin America had become temporarily world leader in attracting British portfolio capital flows in the late 1880s. But it should be emphasized that these financial transfers were not simply the result of the actions of European banks investors but also of local merchant banks that helped channel foreign funds to the River Plate.

Emerging financial markets in Latin America in the 1880s: the case of Buenos Aires

That local bankers in Buenos Aires could have played an important role in this spectacular transfer of European capital to Argentina was in good measure the result of the expansion and internationalization of local, financial markets. In the 1880s there was a notable boom in banking and insurance firms (maritime, life, fire) in the city of Buenos Aires, accompanied by the development of important markets

in mortgage credit and financial operations of real estate and construction firms. It is true that as in other Latin American countries, in Argentina, formal capital markets were slow to develop: from the late 1860s in Santiago de Chile, Rio de Janeiro and Buenos Aires, small scale bourses had been set up and provided some funds for the creation of some domestic, limited liability firms, mostly in transport and industry. But in Buenos Aires in the 1880s, the bulk of financial growth was predicated on the expansion of bank credit for real estate companies, including both rural and urban property firms, construction firms and speculation by investors and landowners with mortgage bonds, placed initially on local markets and then sold in bits and pieces on secondary European markets.

The commercial banking system expanded rapidly and was impelled as forcefully by Argentine public entities as by private investors. The two pillars of the state banking system as of 1880 were the Banco de la Provincia de Buenos Aires (founded in 1854 and already the largest commercial bank in Latin America by the 1870s) and its rising competitor, the Banco Nacional (created in 1872) which set up a national branch banking network and was in charge of most of the finances of the national government. Complementary institutions were the Banco Hipotecario de la Provincia de Buenos Aires and the Banco Hipotecario Nacional (both of which were actually spinoffs of the state commercial banks) and were heavily engaged in the 1880s in placement of tens of millions of pesos in the mortgage bonds, which we have already mentioned.

In the early 1880s, quite a number of private commercial banks also had set up shop in Buenos Aires, a city which was soon to become the second largest in the Americas (by 1914, it was surpassed only by New York). Among the most important were commercial banks linked to immigrant merchants: the Bank of London and the River Plate (1863), the Banco de Italia y Río de la Plata (1872), the Banco Español del Río de la Plata (1887) and the Banco Francés del Río de la Plata (1886). Their headquarters were located on the streets of San Martín and Reconquista in the financial district of Buenos Aires (known locally as the “City”), and some of their huge buildings have survived until the present day. These banks played a major role in facilitating finance for domestic and foreign trade, operating in close connection with many commercial firms engaged in the export trade of wool, hides, meat, tallow, wheat and corn, as well as dozens of import firms that brought European manufactured goods to the River Plate. In addition, they had close ties to many marine insurance firms and brokers dealing in various kinds of local securities and trade bills.

Despite their importance, the commercial banks did not play an overly important role in international capital flows. In this realm it is important to point rather to the special role of a small but powerful circle of *private merchant banks* in Buenos Aires that had excellent connections both in European money markets and with local financial agents of European bankers. The merchant bankers also had close ties to government officials and leading politicians as well as leading capitalists and landowners; in addition they were – in some cases on the boards of directors of state banks. The financial firms of Samuel B. Hale, Portalis et Cie., Ernest Tornquist

& Cia., Mallman & Cia., and Bemberg, Heimendahl & Cia., were among the leading merchant banks of this rapidly growing southern metropolis and were engaged in international trade as well as in the placement of Argentine government bonds and in business related to foreign direct investments.

The firm of Bemberg, Heimendahl, for instance, had offices in both Paris and Buenos Aires: the Bembergs had very close links to the powerful ranching family of the Ocampos, who were also politically influential. Furthermore, the daughter of Pedro Otto Bemberg married the son of the wealthy Parisian banker, Jacques Stern.¹⁹ Otto Bemberg was agent of the powerful French steel and armaments firm, Schneider et Cie., as well as other French export firms which did much business with Argentina.²⁰ For its part, the firm of Franz Mallman & Cia., had offices in Buenos Aires, Montevideo and Paris and was active in the finance of French and German trade with the River Plate.²¹ It should be added that in the decade of 1880-1890 both Mallman and Heimendahl were on the board of directors of the Banco Nacional. In order to illustrate the importance of these firms in international capital flows, we will begin with a look at their role in French participation in Argentine bonds issues in the early 1880s.

¹⁹ Details in Marichal (1976) and Regalsky (2002).

²⁰ The metallurgical firm of Schneider-Creusot exported a large volume of steel rails and locomotivas to Argentina from the 1870s: for details see *Memoria del Ministerio del Interior* (1880), p. LXXVII (1881), p. XXIV, and Zalduendo (1975), pp. 276, 408 and 413.

²¹ The private papers of the Mallman firm were fortunately donated a decade ago to the library of the Instituto Ravignani de Historia Argentina, of the Universidad de Buenos Aires, but to my knowledge have not been exploited, possibly because most of the correspondence is in old German.

Collaboration and rivalry between French bankers in the River Plate

While most studies emphasize the dominant role of British capital and firms in Argentine in the late nineteenth century, it has only been recently that attention has begun to focus on the important role of French and German financiers, banks, investors and firms in the River Plate in the late nineteenth century. The recent, monumental study by Andrés Regalsky has begun to modify traditional views, specifically with regards to French capital flows. It is important to note, in this respect, that in the years 1879-1881 the Paris and Lyons financial markets were in an upswing and that there were many financiers and investors there looking for new possibilities of business overseas. The financial upswing reflected the surprising resiliency of the French economy despite losses suffered in the war of 1870 (including the huge indemnity payments to Germany) as well as losses as a result of the international crisis of 1873. French investors had lost considerable amounts of their investments in Spanish, Egyptian, Turkish and Peruvian bonds, a large amount of which had gone into default after 1875. As historian Rondo Cameron pointed out in a classic study on French overseas investment, it was from this date that French investors began to abandon their positions in southern Europe and the Near East in favor of other regions of the world.²²

When the Argentine government headed by General Roca, began to look abroad for a large, new loan for railway construction in late 1880, three British

²² Cameron (1961) points to French investments in Latin America but especially in Russia from the 1880s.

banking firms two Anglo/Spanish firms began to compete for the contract but so did two groups of French banks.²³ This competition became possible in good measure because the Argentine Ministry of Finance changed the habitual rules of the game. Instead of sending out official agents to Europe to negotiate with banking firms there, the government now opened a process of open bidding in the Buenos Aires financial market, a system which allowed a larger number of financial actors to participate.²⁴

Each bank offered different conditions to the government, a fact which inevitably led the minister of Finance to seek the best terms and to encourage the rivalry among the different financial groups. The proposals presented, however, were somewhat disappointing. Initially, for example, the firm of Stern Brothers of London offered to pay a price of 78 (on the nominal value of 100 of each bond), although later, and due to the competition of Baring Brothers, their offer rose to 81 in March, 1881. The agent of Barings in Buenos Aires, Nicholas Bouwer, believed that the government would conclude by negotiating with his prestigious and powerful firm and calculated that 85 might be a reasonable price. Nonetheless, the London directors of Barings did not decide to make an offer «en firme», that is to say, guaranteeing the government this minimum price.

²³ The railway law authorizing a foreign loan was debated and approved in the Argentine Congress in the months of September and October, 1880. The law authorized the issue of 2,450,000 pounds sterling in gold bonds and was to be used to finance the expansion of the state railways "Central Norte" y "Andino". For details see Peña (1907) and Agote (1887).

²⁴ Regalsky (2002), p.191.

At this point, two rival merchant banks in Buenos Aires, allied with French bankers, began to move. The firm of Bemberg, Heimendahl was able to convince the investment bank of Paribas and the commercial bank of Comptoir d'Escompte to join forces. At the same time, the Buenos Aires firm of Franz Mallman & Cia. arranged with the powerful French commercial and investment bank of Société Générale to also tender an offer. Finally, the Argentine authorities opted for the proposal of the financial syndicate led by Bemberg, Heimendahl & Cia. which offered a price of 82 «en firme». Bemberg then negotiated with the Anglo/Spanish investment bank of Cristobal Murrieta & Co., so that it would take responsibility for issuing approximately half of the bonds on the London financial market.²⁵

The Argentine financial press soon published articles arguing that this was not good business as it would have been possible to get at least five points more on the bonds. The minister of Finance even went so far as to mention to Bower, agent of Baring Brothers at Buenos Aires, that the Cabinet wanted to accept his firm's offer, but that general Roca had insisted on accepting the best offer «en firme», as he feared possible difficulties in light of military tensions on the Argentine-Chilean border²⁶. In the event, the president's decision was highly beneficial to the Bemberg/Paribas/Murrieta financial syndicate which was able to place most of the bonds on European markets at a price of close to 91%, and therefore was able to make a profit of some four to five million francs.

²⁵ Regalsky (2002), pp.191-192.

²⁶ Jones (1972), p. 5.

The Argentine minister at Paris wrote to the minister of Finance in Buenos Aires on June 4, 1881, confirming the success of the bond issue:

«The loan has been covered more than 18 times in Francia... This is, in effect, a great triumph, since the unfavorable impression left on this market by the discredited loans of Mexico, Peru and Honduras made the present issue a dubious business...»²⁷.

The same syndicate represented by the merchant banking firm of Bemberg, Heimendahl and headed by Paribas and Comptoir d'Escompte were joined by other French banking firms in other Argentine loans of the early 1880s and later, participating in bond issues in 1881, 1882, 1884 and 1886.

Another interesting example of the way the bond issues were organized can be found in the 1882 treasury bills loan, when the Argentine government issued 817,000 pounds sterling to cover internal debts still pending from the military operations carried out in 1880 to crush the opponents of General Roca. The bulk of bonds was taken and placed by the French syndicate of bankers, which included the Paribas banking firm that took approximately one quarter of the bonds. Otto Bemberg took 22,000 pounds sterling on his account and A.J. Stern, his close allies, took another 143,000 pounds sterling. The Comptoir National d'Escompte group took an additional quarter of the issue and distributed it for sale among the allied banking houses of Hentsch, Girod, Thomas, Siegfried and Denfert. Finally, a

²⁷ *Setter from Mariano Balcarce, to the Argentine finance minister, June 4, 1881, Archivo de la Deuda Externa (Library, Ministerio de Economía, Buenos Aires), carpeta 2088: I consulted this extraordinary archive many years ago, but it was destroyed by functionaries of that Ministry in the late 1990s.*

participating group in the syndicate, led by the merchant bankers of L. et R. Cahen d'Anvers, took the final tranche and placed it among a cosmopolitan group of private bankers from France, Germany, Italy and Constantinople.²⁸

Notwithstanding the initial enthusiasm of European bankers and investors in Argentine loans, the financial crisis that became visible on the Parisian money market from early 1882 caused a slowdown. This was confirmed by financial weakening in London shortly thereafter and led to the unexpected failure of two national public works loans that were negotiated in 1883 y 1884, underwritten initially by Baring Brothers and J. S. Morgan.²⁹

President Roca was then obliged to send his ex minister, Carlos Pellegrini, to sound out bankers in Paris and London on the possibility of renegotiating the loans jointly and launching a new, grandiose bond operation that would salvage Argentine credit on international markets. Eventually, the Argentine commissioner was able to fulfill this goal and helped organize a financial syndicate that brought together Barings and Morgan as well as a group of French bankers led by Banque de Paris et des Pays Bas. In 1886 they were jointly able to launch a huge public works loans although there was subsequently considerable criticism of Pellegrini

²⁸ Regalsky (2002): see the chart of distribution of bonds on page 146.

²⁹ On the 1882 financial crisis in France see Bouvier (1960). On the failure of the Morgan and Baring loan ventures of 1883 y 1884, see Jones (1972).

for accepting conditions that were described as the most onerous in the financial history of Argentina³⁰.

From mid 1886, the situation of European financial markets improved markedly and scores of large and small banks and bankers from London, Paris, Antwerp, Brussels, Berlín and Frankfort began sending signals that they were anxious to participate in new Argentine loans. The national Argentine government again pounced on this opportunity to offer new bond issues but even more active were provincial governments, engaged in promoting local railways, state provincial banks and a large range of investment schemes.

An illustration of the new found confidence in Argentine bonds can be found in the comments published by the *Money Market Review* (November 26, 1887), to the effect that:

“Holders of Argentine securities may be invited to consider how vast and widespread are the interests now concerned in upholding Argentine credit. Four or five of the greatest private financial firms in London as well as some of the best accredited Banks and other Joint-Stock companies are identified with her loan issues; and so likewise are leading establishments at Paris, Berlin and many other continental centres of finance. It is not as on the old days when the relations of the Argentine Government with Europe were conducted only through one or two channels.”³¹

³⁰ See the caustic but informed comments by the experienced Argentine consul in London, Alberto de Guerrico (1887), pp. 23, 25 and 26. See a more recent interpretation by Juan Flores (2002).

³¹ *Money Market Review* (November 26, 1887).

Between 1886 and 1890 French bankers played a less prominent role in the finances of the national government of Argentina, but on the other hand, they participated actively in the placement of the bonds of Argentine provincial governments and in the sale of mortgage “cédulas” on secondary European financial markets.³² Among the key factors ingenerating this new business was the intense activity of the Bemberg, Heimendahl merchant banking firm which was responsible for the placement of the bonds of several provincial Argentine governments in 1888-89 that were used to set up local state banks: as can be seen in Table 2, the provinces of Catamarca, Corrientes, Mendoza, San Juan, San Luis and Tucumán placed all or part of their international bonds on French markets for this purpose. And, in each case, the key intermediary was the firm of Bemberg, Heimendahl.

German bankers and the Argentine loans: the role of Ernesto Tornquist & Cia.

The participation of German bankers and investors in the international finance of Argentina came a bit later than that of the French. But in the five short years of the Juárez Celman administration (1886-1890) their presence became quite important both in national government loans and several provincial transactions. During the years 1887-1890, the German financiers were responsible

³² The *Money Market Review*, May 29, 1890, p. 702, pointed out that part of the huge sum of almost thirty five million pounds sterling of Argentine mortgage bonds were placed initially in London but subsequently the majority of the issues made their way into the hands of investors on the continent, in particular “through banking firms of Paris, Hamburg, Berlin Amsterdam, Frankfurt and other financial centers.”

for placement of almost a third of Argentine national bonds sold abroad. (See Table 1.)

The first initiative by the Argentine national authorities to engage the great banks of Berlin came as a result of the trip to Europe by Carlos Pellegrini in 1885 that we have already mentioned. Nonetheless, the initial negotiations failed. On the other hand, the agents of the Banco de la Provincia de Buenos Aires were more successful in their overtures to the firms of the Deutsche Bank and the private banking firm of Mendelsohn of Berlin. The directors of the provincial bank needed money to assure the extraordinary growth in credit demand in the richest province of Argentina. The German bankers accepted the offer quite rapidly as the bond issue assured a high profit margin.³³

The following year the Buenos Aires banking firm of Ernesto Tornquist y Cía. negotiated a national loan with the Disconto Bank of Berlín and during several years Argentine bonds became quite popular on German money markets.³⁴ As in the case of the French banks, in order to successfully place the South American securities, German banks were obliged to establish broad financial syndicates which permitted an alliance of financial firms that promoted the sale of the Argentine bonds on various regional financial markets simultaneously. In the two issues mentioned, the Disconto and Deutsche banks, respectively organized

³³ The price paid by the bankers to the Buenos Aires provincial government for the bonds was 75 but they were quickly able to place the bonds on European financial markets at 81. In addition, the issue banks charged a commission of 2,5% for their services. See Shepherd (1913), p. 10, and Agote (1887), vol. IV, p. 48.

³⁴ Diouritch (1909), pp. 331-333.

financial groups that included such important firms as the Darmstadter Bank and the wealthy and influential private banking firms of S. Oppenheim and Sons of Cologne, M. A. Rothschild and Sons of Frankfurt and various banking firms in Hamburg, including the Nordeutsche Bank. The same syndicate was also active in participation in the other Argentine national government loans that followed: the National Bank loan of 1887, the 4 ½% Gold loan of 1888, and the 5% 1890 railway loan.³⁵ At the same time, in some of these national government loans, the German bankers formed alliances with French and British banks to place the Argentine bonds on several European markets at the same time.³⁶

It is hard to know exactly how important these loans were for the expansion of the trade finance business of the German banks with Argentina. But there are some signs that they were not insignificant. In the case of the loans in which the Disconto Bank took a share, virtually all were negotiated through the Buenos Aires firm of Ernesto Tornquist y Cía. It is important to note that Tornquist was probably the politically most influential banker of Argentina after 1885, being an intimate associate of both Senator Pellegrini and General Roca. Subsequently, at least three members of the Tornquist firm became ministers of Finance in the Argentine government. And this influence probably was important in the expansion of German-Argentine trade at the time: Tornquist, for example, was the local representative of the powerful German firm of Krupp & Co. and played a key role

³⁵ M. Pohl, p.139.

³⁶ For example in the great 1889 Argentine loan worth 5,2 million pounds sterling, the German banking group took responsibility for 48% of final sales while French banks took 20% and the British firms of Barings and Murrieta took 16% each. Peña (1907), vol. I, páginas 476-484.

in obtaining contracts for this firm for the supply of railway equipment and armaments exported to Argentina.³⁷ So useful were his services considered that as of 1889 the Discoto bank became a *sleeping partner* in the firm of E. Tornquist y Cía.³⁸

Ernesto Tornquist was the son of Swedish-born merchant who had made his way to Buenos Aires in the early nineteenth century. Ernesto was sent by his father to study commercial practice in a German firm at Hamburg in the late 1840s and on his return he joined the Buenos Aires firm of Algelt, Farber & Cia., one of the leading local firms engaged in trade with Germany. Tornquist married the daughter of Altgelt and by the early 1870s set up his own investment bank. He was heavily engaged in the finance of the hide and wool trade- mainly through Antwerp- most of which was ultimately destined for German cities and factories. Tornquist, in effect, came to replace British merchant banks that had previously handled much of German trade finance with Argentina as he was able to operate through an equally extensive network of commercial correspondents in various ports.³⁹ At the same time, Tornquist began investing money with his associates in early industrial firms in Argentina, including the first great sugar refinery at Rosario (1880) and the first large Argentine meat-packing company (Sasinena y Cia., in the 1880s): the latter enterprise soon set up a network of 200 butcher shops in Buenos Aires as well as other Argentine cities, and also hired French and British ships to export

³⁷ On Krupp in Argentina see Schiff (1972), pp. 437 y 447.

³⁸ For information see ErnestoTornquist y Cía. (1924).

³⁹ Until the end of the nineteenth century, Antwerp served as key entrepot for Argentine commerce with Germany. The Tornquist firm played an important role in financing the Argentine wool and hide trade through Antwerp from the 1870s: See Tilmant (1908).

surplus frozen and chilled beef to Europe. By the 1880s, therefore, Ernest Tornquist & Cia., was not only an important merchant bank but also already the most innovative investment banking firm in Argentina and with an extremely broad network of contacts with international bankers and traders throughout Europe.

At this point, it seems appropriate to ask why it was that between 1886 and 1890 bankers (like Tornquist) and politicians (like Pellegrini) of Buenos Aires were able to generate such considerable interest of German bankers and investors in Argentine bonds, which were soon selling on a considerable scale in Berlin, Frankfurt, Hamburg and secondary German financial markets ? In the first place, it should be noted that the years 1886-90 were a period of financial globalization in German money markets: according to the classic study by Whale, in those five years, 35% of all stocks and bonds sold on the Berlin Bourse were foreign securities.⁴⁰

In the second place, there were strategic reasons that led Germany to diversify its political and military alliances, and also to broaden its financial spheres of influence. Of considerable importance was the decision taken in 1887 by Bismark to conclude the political/military alliance with the Russian empire and, therefore, to reduce financial support. The Berlin Bourse had absorbed large quantities of Russian securities before that date, but subsequently it was the French bankers and investors who would come to be the main financial allies of the

⁴⁰ The data from Whale (1930), p. 93, suggests that this was the high point in relative terms of financial globalization of the Berlin bourse before 1914 and would seem coincide with Pohl (1977), pp.127-137.

Russian Empire, as demonstrated in the classic study by René Girault.⁴¹ These decisive changes in great power alliances probably influenced both the German government and bankers to shift their priorities: the fact is that after 1887, the largest foreign bond issues on the Berlin bourse were for the governments of Hungary, Greece, Italy, Portugal, Norway, Sweden, Turkey and several Latin American nations, including Argentina and México.⁴²

Finance was not, however, divorced from trade. From the decade 1870-80 important innovations in transport and communications contributed to strengthening commercial exchange between Argentina and Germany: in particular, the role of the regular new South American routes of the steamship companies of Hamburg and the establishment of transoceanic telegraph connections were critical. Subsequently, the increase in trade transactions led the Deutsche Bank to establish a branch office in Buenos Aires in 1886; it was, in fact, the first overseas branch of this great bank and was known as the Banco Alemán Transatlántico⁴³. This local commercial banking business, however, was not apparently linked to the great Argentine government loans which continued to be handled by Tornquist and his associates of the Disconto bank.

British merchant banks and the complexity of the international loan business in Buenos Aires in the 1880s

⁴¹ For details see Girault (1973), pp. 137-171.

⁴² On the alliances of Bismark see Stern (1977), pp. 288 y 424-426; on bond issues see Pohl (1977).

⁴³ Diouritch (1909), pp. 496-497; also see the monograph by Manfred Pohl on the history of this bank.

The participation of British bankers in Argentine finance during the decade of 1880-1890 surpassed its French and German rivals, although, as we have seen, in the larger loans, international syndicates were frequently formed to assure sales simultaneously on several European financial markets. In these years, British bankers participated in ten national government loans and over twenty provincial and municipal bond issues: according to our Table 1 and 2, they sold almost 50% of national government bond issues and a larger proportion of provincial issues, although a considerable quantity of the latter found were later placed in continental markets.⁴⁴ Before 1880, two London merchant banks Baring Brothers and the Anglo/Spanish firm of Cristobal Murrieta & Co., had managed most Argentine loans. After that date, however, new competitors came to fore in this sphere, including Morton-Rose, J. S. Morgan, Stern Brothers, L. Cohen and Sons, and Glyn-Mills, among others. While some of these merchant banking firms were occasionally willing to enter into financial syndicates, they generally preferred to operate more independently if they felt that they could handle the entire bond issue. This appears to offer a certain contrast with the *modus operandi* of the French German banks and bankers. In this sense, it might be possible to argue that the British merchant banks operated in a fashion that tended to intensify competition and even to stimulate a high degree of speculation. But it was certainly also the reflection of the deeper and more cosmopolitan nature of the London

⁴⁴ The extremely detailed reports of the Corporation of Foreign Bondholders after the Baring crisis of 1890 provide evidence on the widespread diffusion of Argentine provincial and municipal bonds.

financial market, which attracted many non-British investors throughout the century, as Christopher Platt long argued.⁴⁵

It has sometimes been suggested that the London merchant banks established certain types of financial spheres of influence in Argentina which allowed for a certain balance between rivalry and collaboration. The data on Argentine foreign bond issues indicates that house of Baring Brothers, for example, was most active in the larger nacional government loans, and did frequently lead international financial syndicates to assure successful issue. But Baring's also had a predilection for loans issued by the government of the province of Buenos Aires and those of the famous water works company of Buenos Aires city, as well as bond issues by the neighboring government of Uruguay (loans of 1883, 1885, 1888) and by the city of Montevideo (1889).⁴⁶ The latter were heavily responsible for the excess weight of South American bonds in the Baring portfolio on the eve of the crisis of 1890.

The greatest rival of Barings in Argentina was the firm of Cristóbal Murrieta & Co., which participated in almost equivalent number of national loans but was particularly interested in financial operations for the state railway firm known as the *Ferrocarril Central Norte de Argentina*, which connected Cordoba with the northern provinces of the country. As a result of this geographic preference, it is not strange to observe that in the 1880s Murrieta was also engaged in international bond

⁴⁵ See, for example, Platt (1980), pp.2-6.

⁴⁶ For data on loans see Marichal (1989), chapter five and Appendix B, pp.248-249: for additional information see Platt (1983).

issues for the governments and railways of the provinces of Santa Fe and Entre Ríos⁴⁷. The overload of Argentine debt on the books of Murrieta in 1890 also led to bankruptcy as in the case of Barings, but the former banking firm went completely under in 1891 and was not saved by the Bank of England as was Barings.

As a final example of the complexity of the Argentine loan business and of the role of Buenos Aires merchant banks in the negotiations, we call attention to the role of a rival of Barings and Murrieta, which is usually left out of studies on Argentina in the late nineteenth century. This was the Anglo/Canadian firm of Morton-Rose & Co., which developed a very specialized approach to its Argentine business: it limited its participation to the issue of four loans destined to finance the expansion of the state railway company known as the *Ferrocarril Oeste de la Provincia de Buenos Aires*, probably the most profitable company in the nation. In order to continue expanding, this state-run railway company needed much modern equipment to operate and expand. The sale of the Buenos Aires railway bonds by Morton-Rose provided funds to the firm which led to a series of multilateral trade operations that illustrate again the important role of Buenos Aires merchant banks in the loan boom of the age.⁴⁸

⁴⁷ For information on the activities of Murrieta see *Memoria* (Departamento de Hacienda de la Provincia de Buenos Aires) (1870), pp. 108-137; Agote (1887), vol. IV, pp. 54-55; Mulhall (1885), pp. 62, 421-422; Zalduendo (1975), pp. 285, 297, 411.

⁴⁸ Morton, Rose & Company specialized in the financing of Canadian railways in the second half of the nineteenth century, raising money in London and using it to buy railway equipment in the United States which was shipped to Canada. For details see B. Naylor, *The History of Canadian Business* (Toronto, 1975), I, chap.8.

In this case, the local merchant banking house in Buenos Aires that proved to be a critical intermediary was that of Samuel B. Hale & Cia. This local firm contacted the Morton-Rose bank in order to raise money in London to help finance the leading Argentine railway company, the Ferrocarril Oeste de Buenos Aires, with a complex and sophisticated technological package which included the import of supplies from various countries: rails from the Schneider steel mills in France; carriages and bridge material from Cockerill & Company in Belgium; and powerful locomotives from the Baldwin Locomotives Company in the United States.⁴⁹ As a result, the Ferrocarril Oeste remained an efficient carrier throughout the 1880's, sustaining a volume of commodity and passenger traffic that was matched only by the British-run Great Southern Railway of Buenos Aires.

This case suggests that it was not only merchant bankers and politicians who formulated the loan packages but also sophisticated railway managers, who in this case happened to run a profitable and efficient state-owned railroad.⁵⁰ This transport company had been operating on international markets for some time and during the 1870s depended on foreign financial operations handled by Murrieta as well as Baring Brothers.⁵¹ But in the early 1880s, it turned to more specialized financing. In order to provide an outline of the *global* complexity of these transactions, it is worthwhile focusing on four actors in the case of the railway loan

⁴⁹ For details on the financing of the Ferrocarril Oeste see E. Zalduendo, *Libras y rieles*, pp.265-285.

⁵⁰ There is abundant information on the financial and company operations of the Ferrocarril Oeste in the annual *Memorias* del Departamento de Hacienda de la Provincia de Buenos Aires as well as in Agote (1888).

⁵¹ Information on the role of Murrieta in loans in 1870 can be found in *Memoria* del Departamento de Hacienda de la provincia de Buenos Aires (1870), pp. 108-145.

of 1882, all of which continued to be engaged in subsequent international business transactions in the latter part of the decade.

- 1) the state enterprise which sought foreign finance, the Ferrocarril Oeste de la Provincia de Buenos Aires, that was owned by the provincial government;
- 2) the Anglo/Canadian merchant bank Morton-Rose & Co., active on the London financial market but also an important player on Canadian financial markets and in Wall Street;
- 3) the local financial agent, the Buenos Aires Merchant bank of Samuel B. Hale y Cía.;
- 4) the industrial companies (in Belgium, France, and United States) which provided the railway equipment.

The early history of the Ferrocarril Oeste has recently been reconstructed in detail in a study by Jorge Schvarzer, and demonstrates that from its beginnings in the 1850s until the late 1880s it was a well-run and profitable firm that helped to impel the expansion of ranching and agricultural production in the western and northern parts of Buenos Aires province, with some of the the richest soils in the world.⁵² In early years the company was financed mainly by the local Banco de la Provincia de Buenos Aires, but due to growing needs for imported equipment, this official bank and the railway directors turned increasingly to foreign bankers for money to buy the expensive, heavy equipment required.

⁵² See Schvarzer (2006) on the early years of the Ferrocarril Oeste and for later years Zaldueño (1975), pp. 265-285.

In 1882, the railway managers and directors decided to launch an ambitious financial plan and moved to take a large two million pound sterling loan through the issue of railway bonds on European financial markets. This was in fact, the first of a serie of such financial transactions. The bonds paid 6.5% interest a year, which made them an attractive investment for foreign investors at the time. The directors of the railway company contacted the Buenos Aires merchant banking firm of Samuel Hale y Cía. that made the arrangements to contact the firm of Morton-Rose in London, which accepted to take charge of the issue of the railway bonds in association with its sister firm Morton, Bliss of Nueva York⁵³. In practice practically all bonds were placed in London, but the New York contact proved useful for other purposes, related to the acquisition of Baldwin locomotives for the Argentine railway firm.

It is worthwhile keeping in mind that Morton-Rose had extensive experience in railway finance, both in the United States and Canada. In fact, John Rose – one of the senior partners- was one of the most influential politicians and bankers of contemporary Canada.⁵⁴ Rose was well acquainted with the multilateral arrangements of use for railway finance. In the case of the construction of many Canadian railroads, it was common to issue bonds on the London market and later use the funds to acquire heavy railway equipment from the United States. The

⁵³ Charles Sanford, vicepresident of S. B. Hale y Cía., travelled to New York to promote the sale of the railway bonds there but apparently without great success. The bulk of bonds were sold in London: Drees (1922), pp. 180-182.

⁵⁴ On John Rose and his firm Morton-Rose see Naylor (1975), pp. 68-69, 221.

operation promoted by Hale and the Ferrocarril Oeste de la Provincia de Buenos Aires fell into this category of multilateral, international business.

Morton-Rose took the Argentine railway bonds and successfully placed them with their broad clientele in London. Subsequently, the administrators of the Ferrocarril Oeste notified their agent, Samuel B. Hale, to use the money to proceed to acquire the best equipment available on international markets in three nations France, Belgium and the United States. S. B. Hale negotiated with the United States firm of Baldwin Locomotives to provide sale and shipment of a good number of locomotives. Subsequently Hale and other agents contacted the French firm of Schneider-Creusot for the supply of steel rails and additional locomotives; in addition they contracted with several Belgian companies (including Cockerill et Cie) to fill an order for 1500 cargo and passenger cars.⁵⁵ In summary, the directors of the Ferrocarril Oeste were able to arrange a complex technological package with the aid of the Buenos Aires merchant banking firm of Samuel B. Hale, that was capable of connecting all ends of a complex international financial operation that facilitated large, commercial transactions essential to the expansion of a major state-owned Argentine railway company.

⁵⁵ On these supply contracts see the *Memoria del Ferrocarril Oeste* annexed to the *Memoria del Departamento de Hacienda de la provincia de Buenos Aires*, 1882 and 1883.

In lieu of a conclusion

By 1889 the speculation in Argentine bonds of all kinds had reached a fever pitch in various European financial markets, and had probably surpassed a total nominal value of 80 million pounds sterling. The result was a glut on the market which eventually led to the collapse of several London financial firms, most notably Barings and Murrieta. It also led to a banking, debt and stock market crisis in Buenos Aires in 1891. At the end of the day, there was no option to a massive conversion and rescue operation. Argentine taxpayers had to foot the bill, but domestic and foreign bankers and investors also were forced to take major losses.

While the Baring crisis has been the subject of quite a number of historical studies, it still is an important case study for comparative analysis of the intersection of emerging markets collapse and crisis in leading world financial centers. This paper offers some new elements to grasp the surprising degree of international financial globalization that was generated by the issue of a huge volume of Argentine bonds in the 1880s. It also suggests that it is important to keep in mind the key role of local merchant bankers as well as the European bankers in all phases of the extraordinary Argentine *loan boom* that preceded the final and inevitable financial crash of 1890/1891.

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