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Debt and Independence: Information Asymmetries and Market Reaction in the Early 19th Century London Foreign Debt Market – The Case of The Greek "Independence Loans"

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Debt and Independence: Information Asymmetries and Market Reaction In The Early 19th Century London Foreign Debt Market – The Case Of The Greek "Independence Loans"

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Abstract
The first two Greek loans, issued on the London Stock Exchange in 1824 and 1825, were contracted before Greece was recognised as a sovereign state. What could have prompted investors to offer their money for a revolutionary cause of an unrecognised state in southern Europe? By compiling a time series of Greek bond prices for the period that the "Independence Loans" were trading (1824-1827), this paper aims to analyse market reaction following important developments over the course of the Greek War of Independence. The price trajectory and the information that was available at the time, through reports or the press, provide various insights on investment behaviour of 19th-century bondholders. The information asymmetries prevalent at that time made investors more prone to "noise trading," which was further fuelled by speculative purposes. The story of the Greek "Independence Loans" ultimately provides an interesting area of study for information asymmetries and investment behaviour, against the backdrop of the London foreign debt market boom of the 1820s.

I. Introduction

On February 22, 1821, an armed group led by Alexandros Ypsilantis crossed the river Prut (Russian-Ottoman border since 1812) and invaded Iași, proclaiming a revolution against the Ottoman Empire.[1] Even though the revolt in the Danubian Principalities was crushed, it provided the necessary spark for the Greek War of Independence. One month later, major cities in Morea (Peloponnese) had already been captured by Greek revolutionaries. Over the next decade, the Greek Revolution would become a central issue of the "Eastern Question," involving both state and non-state actors in the process. Yet initially the chance of success for the Greek Revolution was arguably limited to non-existent. In the post-Napoleonic

[1] Şükrü Ilıcak, "The Revolt of Alexandros Ipsilantis and the Fate of the Fanariots in Ottoman Documents" in *The Greek Revolution of 1821: A European Event*, ed. Petros Pizanias (Istanbul: The ISIS Press, 2011): p. 226.

wars' framework of the Holy Alliance any insurgency against legitimate rule was characterised as threatening to the status quo, granting the Great Powers with the ability to intervene against revolutionary movements.[2] The same year of the Greek Revolution, Austrian troops were sent to supress the people of Naples and Piedmont who rebelled against their rulers.[3] Meanwhile, other Great Powers, such as Britain and France, initially adopted a policy of strict neutrality and were hesitant towards any direct intervention, while Russia tried to downplay Ottoman suspicions that it was the instrumental force behind the revolt.[4] Without any assistance from abroad, the Greeks were constrained both in terms of resources and military force to measure up to the Ottoman Empire. These circumstances led the revolutionaries to embark on a shaky road to independence, involving private borrowing, civil strife, and external political intervention.

Despite such adverse circumstances, the Greek revolutionaries successfully negotiated two loans, floated as bonds on the London Stock Exchange, of total nominal value at £2.8 million.[5] Even though a fraction of this amount would eventually reach Greece and their management was ridden with misuse (culminating in a public scandal and a subsequent blame-game between the contracting parties) the story of the Greek "Independence Loans" raises some interesting questions regarding bond markets and investors in the 19th century. The main subject of enquiry relates to the reasons that investors would lend to a state still lacking official sovereignty and any collateral against the debt raised. Was their decision based on "rational" expectations of profit – even in a speculative manner – and what type of information determined their behaviour? This line of enquiry is followed by questions as to Greece's creditworthiness, as well as the market's reaction to events that defined the course of the Greek War of Independence.

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[2] Alexis Heraclides and Ada Dialla, *Humanitarian Intervention in the Long Nineteenth Century: Setting the Precedent* (Manchester: Manchester University Press, 2015): p. 105.
[3] Virginia Penn, "Philhellenism in England (1821-1827)", *Slavonic and East European Review*, vol. 14 (January 1935): p. 363.
[4] Ilıcak (2011), "The Revolt of Alexandros Ipsilantis and the Fate of the Fanariots in Ottoman Documents": p. 228.
[5] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829-2015", *NBER Working Paper Series*, no. 21664 (October 2015): pp. 12-13

In a wider sense, this paper is ultimately an investigation into the inner workings of the early 19th-century bond market. The Greek bonds issued at the London Stock Exchange present an interesting, yet unutilised, case study for analysis of the relationship between investment behaviour and public discourse under the context of market reaction to relevant developments. In an era where news travelled slow and was transmitted via rumours and print newspapers and pamphlets, information asymmetries and other fundamental problems of exchange were undoubtedly prevalent. Under such circumstances, it is interesting to consider, firstly, how a non-sovereign state issued sovereign debt, and secondly, to what extent the price of this debt was determined by developments on the ground, instead of economic fundamentals. For example, was the Fall of Messolonghi – one of the main fortresses in continental Greece – also detrimental to Greek bond prices once this information reached the marketplace through rumours or the newspapers? In 1825, the news of British Admiral Lord Cochrane being contracted to get involved in the struggle increased the price of the Greek bonds, despite the fact that the revolutionaries were struggling with the Ottoman counter-attack.[6] Was it asymmetric information and mere speculation deriving from the foreign debt bubble of the 1820s London market or a result of "noise traders," meaning that investors' behaviour was bounded by their expectations of the market's reaction upon new developments?

To answer this question, this study will utilise a time series of Greek securities' prices that has been compiled for the years 1824-1827 from data sourced from the *Course of the Exchange*. By tracing the trajectory of the yield prices against newspaper articles on Greek affairs published in *The Times*, this paper will evaluate the market's reaction to four milestone events in the historiography of the Greek Revolution, aiming to examine the behaviour of 19th-century bond investors. Section II of this paper will present an overview of the literature this study is contributing to, in addition to a discussion of the sources and methodology

[6] Maria Christina Chatziioannou, "Greek Sovereign Debt and Loans in 19th Century Public Discourse," *The Journal of European Economic History*, no. 2 (2019): p. 42.

used in this investigation. Main findings of the study and their analysis are presented in section III, followed by concluding remarks in section IV.

II. Literature Review, Sources & Methodology

This study relates to two broader areas of scholarship; namely the historiography of the Greek War of Independence and the literature on how financial markets behave. Primarily, this investigation relates to the former, whose literature has been growing recently following last year's bicentennial. Nevertheless, research on economic aspects of the Greek Revolution remains limited. Older scholarship on the topic tends to focus strictly on the timeline of developments, usually making a passing reference to the loans raised in the London market, or any economic affairs of the Revolution for that matter.[7] On the other hand, more recent scholars focus on political aspects of the Revolution, such as its influence as a liberal cause.[8] For example, by revisiting key events during the course of the revolution, Mazower (2021) provides an internationalist perspective relating to the effects on issues, like humanitarian intervention, slavery and population transfers, ultimately pointing to the formation of an early notion of the nation-state in Europe.[9] In a similar vein, extensive literature exists on the foreign policy implications of the Greek Revolution on the post-Napoleonic balance of power system.[10] The analysis

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[7] For example: George Finlay, *History of the Greek Revolution*, vol. 1&2 (Edinburgh: William Blackwood and Sons: 1861) and William St. Clair, *That Greece Might Still Be Free: The Philhellenes in the War of Independence*. (Cambridge: Open Book Publishers, 1972), among other.

[8] As in: Frederick Rosen, "Bentham's Constitutional Theory and the Greek Constitution of 1822," *Balkan Studies*, vol, 25 (January 1984): pp. 31-54; Paschalis M. Kitromilidis, "Jeremy Bentham and Adamantios Korais," *The Bentham Newsletter*, no. 9 (1985): pp. 34-48; Frederick Rosen, *Bentham, Byron and Greece: Constitutionalism, Nationalism and Early Liberal Political Thought*. (Oxford: Clarendon Press, 1992); and others.

[9] Mark Mazower, *The Greek Revolution: 1821 and the Making of Modern Europe,* (London: Penguin-Random House, 2021): p. xxii.

[10] For instance: C. W. Crawley, *The Question of Greek Independence: A Study of British Policy in the Near East, 1821-1833* (New York: Howard Fertig, 1973); Korina Kagan, "The Myth of the European Concert: The Realist-Institutionalist Debate and Great Power Behaviour in the Eastern Question, 1821-41," *Security Studies*, vol. 7, no. 2 (1997): pp. 1-57; Maria Christina Chatziioannou, "War, Crisis and Sovereign Loans: The Greek War of Independence and British Economic Expansion in the 1820s", *The Historical Review/La Revue Historique*, vol. 10 (2013): 33-56; Alexis Heraclides and Ada Dialla, *Humanitarian Intervention in the Long Nineteenth Century: Setting the Precedent.* (Manchester: Manchester University Press, 2015); Ada Dialla, "The Congress of Vienna, the Russian Empire, and the Greek Revolution: Rethinking Legitimacy," Journal of *Modern Greek Studies,* vol. 39, no. 1 (May 2021): pp. 27-47; among others.

of the foreign policy shift from 'strict neutrality' to intervention, in spite of the 'Holy Alliance' context, serves as a reminder that the Greek cause for independence initially lacked European support and was therefore far from constituting 'sound investment' by lenders. This necessitated the involvement of various European philhellenes in rallying support and mobilising resources for the Greek War of Independence, which has also been subject of extensive research.[11] This area of study is closely associated with the involvement of the London Greek Committee in the negotiation and management of the Greek loans and therefore important for the current study.

Interest in Greece's economic history rekindled somewhat during the Eurozone debt crisis. Many scholars were drawing analogies with Greece's past experience of indebtedness and default, detecting "a recurring pattern of bailout lending and related political interference."[12]

The majority of this research, however, concentrates on the 1893 default and the subsequent financial control and supervision by the International Financial Commission.[13] The literature on economic aspects of the Greek Revolution remains less extensive. Among the first to work purely on the subject of the "Independence Loans" was Andreadis (1904), who provided a very detailed account of the negotiation process and the technical aspects of the final loan agreements, in addition to the aftermath and the mismanagement of the funds raised.[14] In a similar vein, Levandis (1944) also provides an extended analysis of the terms and conditions of the loan agreements, however focusing on the foreign political

[11] For example: Virginia Penn, "Philhellenism in England (1821-1827)", *Slavonic and East European Review*, vol. 14 (January 1935): 363-371; George F. Bartle, "Bowring and the Greek Loans of 1824 and 1825," *Balkan Studies*, vol. 3, no. 1 (1962): pp. 61-74; Allan Cunningham, "The Philhellenes, Canning and Greek Independence," *Middle Eastern Studies,* 14:2 (1978): pp. 151-181; and so on.
[12] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829-2015", *NBER Working Paper Series*, no. 21664 (October 2015): p. 15.
[13] Michael Waibel, "Echoes of History: The International Financial Commission in Greece" in *Sovereign Default: Do We Need a Legal Procedure*?, ed. Christoph Paulus (London: Bloomsbury Publishing, 2014): pp. 3-19; Andreas Kakridis, "Greece's 1893 Default and the International Financial Commission," *Neoellinika Istorika,* vol. 5 (2018): pp. 195-240; and others.
[14] Andreas M. Andreadis, *History of National Loans Vol. A: The Independence Loans (1824-1825) and Public Debt During the Bavarian Dynasty*. (Athens: Estia Press, 1904): pp. 46-51.

intervention that ensued.[15] Maybe the most extensive study on the economic aspects of the Greek Revolution comes from Bozikis (2020). Utilising primary sources, he provides a thorough analysis of the public economy and the state formation process during the course of the revolution. Bozikis (2020) dedicates the final chapter of his book to external borrowing operations, where he recounts the story of the "Independence Loans" but focuses, again, on the political process of consolidating these resources under a single state entity, rather than competing political factions.[16]

The current study also relates to the literature on financial markets and investor behaviour. However, this area of research is quite broad, therefore focus has been given to the literature that focuses on the creditor-borrower relationship in sovereign bond markets and, subsequently, the effect of news events on asset prices. Among the most exhaustive studies on bond markets from the 19th century onwards is conducted by Meyer, Reinhart and Trebesch (2019). By quantifying yields on issues for external debt since 1815, they find that sovereign risk premiums exceeded historical credit losses and that most defaults were resolved by the conversion of old debt into new, as was the case with the "Independence Loans."[17] This area of study also contributes a great deal to the question of how investors solved information asymmetries over risk and other fundamental problems of exchange involving trust. Other research on trust and enforcement problems of the 19th-century bond markets focuses on the role of external political interference and "gunboat diplomacy" in enforcing debt settlements. For example, Mitchener and Weidenmier (2010) analyse the role of "supersanctions" imposed by creditors on borrowers, in response to sovereign debt defaults. They suggest that this was a particularly effective enforcement mechanism that was frequently used in the late 19th and early 20th centuries. In addition to higher risk premiums and "supersanctions," Stasavage (2016) also argues that the presence of political

[15] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898.* (New York: Columbia University Press, 1944).
[16] Simos Bozikis, *Greek Revolution & Public Economy: The Formation of the Greek Nation State, 1821-1832.* (Athens: Publications Asini, 2020): p. 475.
[17] Josefin Meyer, Carmen M. Reinhart and Christoph Trebesch, "Sovereign Bonds Since Waterloo," *NBER Working Paper Series*, no. 25543 (February 2019): p. 3.

institutions favouring creditors facilitated the issuing of long-term sovereign debt.[18] Such studies are helpful in understanding the operation of early bond markets and the various institutions that facilitated the commercialisation of sovereign debt, giving people incentives to invest in such ventures. Still, there's another branch of the literature on the development and operation of financial markets to which this investigation relates; namely the effect of news events on financial asset prices.

The question of what determines the trajectory of financial asset prices has been the focus of numerous studies in economic history.[19] Such research attempts to quantify the influence of news events on asset prices, usually by analysing changes in market fundamentals. Among the pioneers of such studies is Niederhoffer (1971), who studies the influence of world events on the stock market. He was able to discern an effect of world events on stock market price averages within 5 days of the said event being reported in the newspapers.[20] In a similar vein, Cutler, Poterba and Summers (1988) examine the variance of equity prices following major news events bearing on market fundamentals. However, they conclude that such information cannot explain more than half of the variance of stock prices.[21] Still, in their subsequent studies on market speculation, Cutler, Poterba and Summers (1990a,b) explore the predictability of yields and suggest various patterns that characterise speculative assets. They suggest that a positive correlation of market expectations and returns can occur in the short-run, provided there's a time-lag in the reception of news by traders.[22] This is an

[18] David Stasavage, "What We Can Learn from the Early History of Sovereign Debt," *Explorations in Economic History*, vol. 59 (2016): p. 5.
[19] To name a few: Douglas W. Elmendorf, Mary L. Hirschfeld and David N. Weil, "The Effect of News on Bond Prices: Evidence from the United Kingdom, 1900-1920," *NBER Working Paper Series,* no. 4234 (December 1992): pp. 1-32; Niall Ferguson, "Political Risk and the International Bond Market Between the 1848 Revolution and the Outbreak of the First World War" *Economic History Review,* vol. 59, no. 1 (2006): pp. 70-112; Gareth Campbell *et al.*, "What Moved Share Prices in the Nineteenth-Century Stock Market?," *QUCEH Working Paper Series,* no. 06, 2015: pp. 1-51; and others.
[20] Victor Niederhoffer, "The Analysis of World Events and Stock Prices," *The Journal of Business*, vol. 44, no. 2 (April 1971): p. 214.
[21] David M. Cutler, James M. Poterba and Lawrence H. Summers, "What Moves Stock Prices?" *NBER Working Paper Series,* no. 2538 (March 1988): p. 14.
[22] David M. Cutler, James M. Poterba and Lawrence H. Summers, "Speculative Dynamics," *NBER Working Paper Series,* no. 3242 (January 1990): p. 37.

important finding for the current study, given that news developments and information were not transmitted in real-time in the early 19th century. This lag in the dissemination of information on important developments during the course of the Greek Revolution, would suggest that Greek bondholders reacted in a manner similar to the one outlined by Cutler, Poterba and Summers (1990a).

These frameworks analysing investor behaviour, in addition to other theoretical models, such as that of "feedback traders" (investors whose "expected returns are based on the history of past returns, rather than the expectation of future fundamentals")[23] or "noise traders," (irrational investors acting upon "pseudosignals," rather than information on market fundamentals)[24] provide close representations of how investors could react faced with the information asymmetries evident in 19th-century bond markets. The absence of quantitative information on core economic fundamentals, such as current or trade account balances or currency/specie reserves for Greece during the revolution, would justify that traders reacted in ways that are perceived as "irrational," based on modern conceptions of asset pricing, based on market fundamentals. In dealing with such information asymmetries, Flandreau and Flores (2009) argued that investors relied on the reputation of bankers and intermediaries to discern the risk of an investment.[25] In their subsequent study, they find that the Rothschilds outperformed other underwriters during the first foreign debt boom in the 19th century, arguing that their reputation was advantageous in issuing "investment grade" government securities.[26] As a result, the greater the information asymmetry, the more a government lacking a credible track-record relied on this reputation for its market performance.[27] Nevertheless, reputation also worked in the opposite direction. In an illustrative study of the ambivalent role of reputation

[23] David M. Cutler, James M. Poterba and Lawrence H. Summers, "Speculative Dynamics and the Role of Feedback Traders," *NBER Working Paper Series,* no. 3243 (January 1990): p. 1.
[24] Bradford De Long *et al.* "Noise Trader Risk in Financial Markets," *The Journal of Political Economy*, vol. 98, no. 4 (August 1990): p. 706.
[25] Marc Flandreau and Juan H. Flores, "Bonds and Brands: Foundations of Sovereign Debt Markets, 1820-1830," *Journal of Economic History*, vol. 69, no 3 (September 2009): p. 647.
[26] Marc Flandreau and Juan H. Flores, "The Peaceful Conspiracy: Bond Markets and International Relations During the Pax Britannica", *International Organization*, vol. 66 (Spring 2012): p. 221.
[27] *Ibid.,* p. 226.

in influencing economic decisions at the time, Schönhärl (2019) focuses on the third Greek loan, the Guarantee Loan (1833), issued by the Rothschilds. Upon investigating the reasons that such a reputable bank would contract a loan to newly formed Greece, among other reasons, she suggests that the public perception of the Greek Revolution as a cause for liberty, made for good social capital among Europe's liberal political circles. As a result, association with the Greek cause also provided a moral incentive for investors, who then used this social capital to access relevant political and entrepreneurial networks.[28] Capturing these factors in the investment decision-making of Greek bondholders in the 1820s is the main challenge of this investigation's sources and methodology.

II.1 Sources

To map out the trajectory of the Greek bond prices, a time series has been compiled for the years 1824 to 1827. The time period corresponds to the duration that the two loans traded in the London Stock Exchange. The bond prices have been sourced from a primary source, the *Course of the Exchange*, a publication that listed prices for stocks and securities for the London market. The twice-a-week format of this pamphlet makes it an invaluable primary source for the construction of daily time series of asset prices of the London market. The *Course of the Exchange* was a respected catalogue, eventually becoming the Official List of the Stock Exchange in the early 19th century.[29] The publication includes the fluctuation of asset prices during the day (up to 4 p.m.), however, for this investigation, only the closing price has been used in the database, in order to avoid the multiplicity of data points for a single date. The absence of some data points reflects either the suspension of trading, bank holidays or Sundays.

In terms of sources to assess investors' information and their knowledge of developments, the challenge here is capturing the role of rumours and their effect

[28] Korina Schönhärl, "Why Does A Prestigious Emission House Emit A Loan For A Peripheral State? The House of Rothschild and the Greek Guarantee Loan of 1833," *Business History* (April 2019): p. 9.
[29] Philip Mirowski, "The Rise (and Retreat) of a Market: English Stock Shares in the Eighteenth Century," *The Journal of Economic History*, vol. 41, no. 3 (September 1981): p. 564.

on stock prices. During the early phases of foreign capital markets, rumours had a significant effect in market sentiment and hence the trajectory of prices. This is exemplified by the legend of Nathan Rothschild's knowledge of the outcome Battle of Waterloo and his use of that information to make a profit by circulating false rumours of defeat before official news determined market reaction.[30] Nevertheless, given that there is no certain way of accounting for rumours in the discourse of a marketplace – except when newspapers report them to have circulated – one is necessarily led to any form of printed or written form of documentation as evidence of the sort of information available to investors at the time. As such, newspapers are a valuable source in illustrating the public discourse of a time period and the sort of prevailing narrative that surrounded Greek affairs in particular. This is because of their daily circulation, at least in 19th-century London, as well as their relative monopoly as a medium of information on news developments at that time. In addition, journalists had access to investors and were often informed by them directly on market developments, especially in urban centres, such as the City of London where trading was concentrated.[31] Consequently, news reports provide an important estimate of investors' information and knowledge of developments, at a specific time frame as well. As a result, this investigation will utilise primary printed sources, such as newspapers, reports and pamphlets, in order to determine the type of information and the date it became available to investors in the 1820s.

A majority of this evidence has been accessed through the digital archive of the daily newspaper *The Times*. Despite that it would be a stretch to proxy all the information available in the London money market to *The Times*, it is the only database available that includes the period under investigation. Even though it was founded in 1821, the digital archive of *The Manchester Guardian* begins from 1828 onwards, when the Greek bonds were already in default and the revolution at its concluding stages, while *The Telegraph*'s database spans from 1855 to 2000. Other credible news sources – which would have been especially helpful in

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[30] Niall Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848.* (London: Penguin Books, 1998): pp. 98-99.
[31] Campbell (2015), "What Moved Share Prices in the Nineteenth-Century London Stock Market?": p. 2.

discerning market and investor sentiments given their focus on the financial news cycle – such as *The Economist* and *The Financial Times*, were founded in 1843 and 1888, respectively, which again excludes the period under investigation. This leaves *The Times* as the main source available to acquire information on the public discourse in the London market for the 1820s. The assumption of its widespread readability derives from the fact that, by the time of the Greek Revolution, the newspaper was nearing half a century in circulation and had already become a household name.[32] Moreover, during the time period under investigation, editor of *The Times* was the influential Thomas Barnes. Throughout his tenure, he was instrumental in transforming *The Times* and fostering the newspaper's reputation into its long-lasting legacy of association with mainstream political and financial circles.[33] For instance, his innovation, the 'Letter to the Editors' column, hosted the highly publicised exchange between the Greek Deputies and members of the London Greek Committee regarding the scandalous use of the loans in the autumn of 1826.[34] As a result, *The Times* actually provides an important source into the Greek affairs of the time, especially because of its thorough involvement in reporting on the war effort and the loan scandals. Pamphlets and other reports on topics relating to the Greek affairs can also provide an understanding of the narrative and the sort of information investors were exposed to at the time. The analysis will make use of reports commissioned by the London Greek Committee and authored by its member Edward Blanquiere, following his visits to Greece in 1823 and 1824. His reports and books represented central pillars in the communication campaign that London-based philhellenes initiated in support of the Greek cause. Blanquere's 1824 book, *The Greek Revolution*, was actually rushed in its publication, arguably to thwart negative publicity received by Greek revolutionaries, due to their barbarous fighting tactics.[35] Again, it is hinted that such publications had an effect on investor sentiment and subsequently their decisions.

[32] Derek Hudson, *Thomas Barnes of The Times*. (Cambridge: Cambridge University Press, [1947] 2013): p. xi.
[33] Laurel Brake and Marysa Demoor, *Dictionary of Nineteenth-Century Journalism in Great Britain and Ireland*. (London: Academia Press, 2009): p. 39.
[34] Bartle (1962), "Bowring and the Greek Loans of 1824 and 1825,": pp. 70-73.
[35] Cunningham (1978), "The Philhellenes, Canning and Greek Independence": p. 178.

Finally, Foreign Office briefs and memos have been used in this investigation, mainly as an insight to official government policy and narrative of the period. Even though these documents were classified at the time, hence cannot be assumed as public knowledge, they are still important in illustrating the stance of the British government towards the Greek affair and the extent to which investors could bet on foreign mediation in favour of the revolutionaries. In addition, correspondence between actors involved in the negotiations and management of the loans are also utilised as means of understanding the discourse in this network of stakeholders. Lastly, minutes from the *Parliamentary Papers* series will be used to provide an understanding of the political discourse on Greek affairs at the highest official level.

The main problem with the period under investigation in this study is that economic data, especially on Greece's economy, are either not available in the first place or of limited credibility. Even though the Greek revolutionaries embarked on a path to state formation, by actions such as adopting a budget and electing a provisional government to act as the executive, the process was very gradual at best. The numbers found in these budgets are usually yearly projections and are based on produce of lands that were officially still under Ottoman sovereignty. The resources at the disposal of the Greeks were limited and mostly resulted from foreign contributions, piracy and plunder, some types of internal borrowing from wealthy merchants or taxation and custom duties from occupied areas.[36] Nevertheless, even these 'official' sources of revenue were not consolidated under the supervision of a single state entity, but were rather controlled by different factions, which were also prone to infighting over these resources. As a result, indicators of economic fundamentals on Greece for that period are flawed at best.

The absence of data on economic fundamentals could be perceived as a limitation to any study on investment behaviour in bond markets. Nevertheless, it would also be a fallacy to assume that investors in the 1820s would react to news events in the same way as modern investors. Despite that market actors in major

[36] Chatziioannou (2013), "War, Crisis and Sovereign Loans": p. 44.

European cities of the 19th century had regular information on certain commodity prices, bullion reserves and exchange rates, fiscal data was scarce and annual budgets' reliability dubious, especially for monarchies.[37] Moreover, the standard model of assessment for bond prices, based on economic indicators, is ineffectual when considering that Greece, at the time of the bonds' issuance, was still not even recognised officially as a sovereign state. This brings us back to the paradox that initiated the investigation of this paper; merely why would investors lend to an unrecognised state, that is still in revolt and is lacking official sovereignty over its territory? These circumstances necessitate that the study adopts a mixed approach, utilising both the data on Greek bond prices and the qualitative nature of news and developments in the struggle for Greek independence, as reported by the contemporary press.

II.2 Methodology

The significance of both quantitative and qualitative aspects in this investigation makes it difficult to construct a model in strict econometric fashion. How can one quantify what the news of a fallen Greek city-fortress meant to an investor? Many scholars conducting research on the behaviour of financial markets, usually proxy the effect of a news event to changing market fundamentals, such as fiscal policy and budget, exchange rates, and the money supply, among other. For example, Cutler, Poterba and Summers (1990a) use yields on different currencies, prices of commodities, like gold and silver, as well as returns on real estate and various collectible real assets, in order to assess the predictability of stock and bond prices.[38] Elmendorf, Hirschfeld and Weil (1992) compare the variance of bond prices between weeks with news on economic fundamentals with weeks without any such developments,[39] while Ferguson (2005) measures the spread of continental Europe bonds against the "(relatively) risk-free" British consols upon significant historical events.[40] However, these studies focus on the late 19th and

[37] Ferguson (2006), "Political Risk and the International Bond Market": pp. 78-79.
[38] Cutler, Poterba and Summers (1990), "Speculative Dynamics": p. 1.
[39] Elmendorf (1992), "The Effect of News on Bond Prices: Evidence from the United Kingdom, 1900-1920": p. 12.
[40] Ferguson (2005), "Political Risk": p. 76.

early 20th centuries, where economic data are both more obtainable and credible. Campbell *et al.* (2015) do extend their analysis to 1823, but focus on stock prices, which adhere to market fundamentals, such as gold and wheat prices, which are more widely available for the London market.[41]

Building on the framework set out by the aforementioned studies, but conscious of the lack of concrete economic data on Greece in the 1820s, this paper will analyse the price trajectory of the Greek bonds and compare its variability around periods of important events in the Greek War of Independence. These events include:

- Ibrahim Pasha's landing in Morea
- Admiral Cochrane's involvement
- The Fall of Messolonghi
- The Battle of Navarino

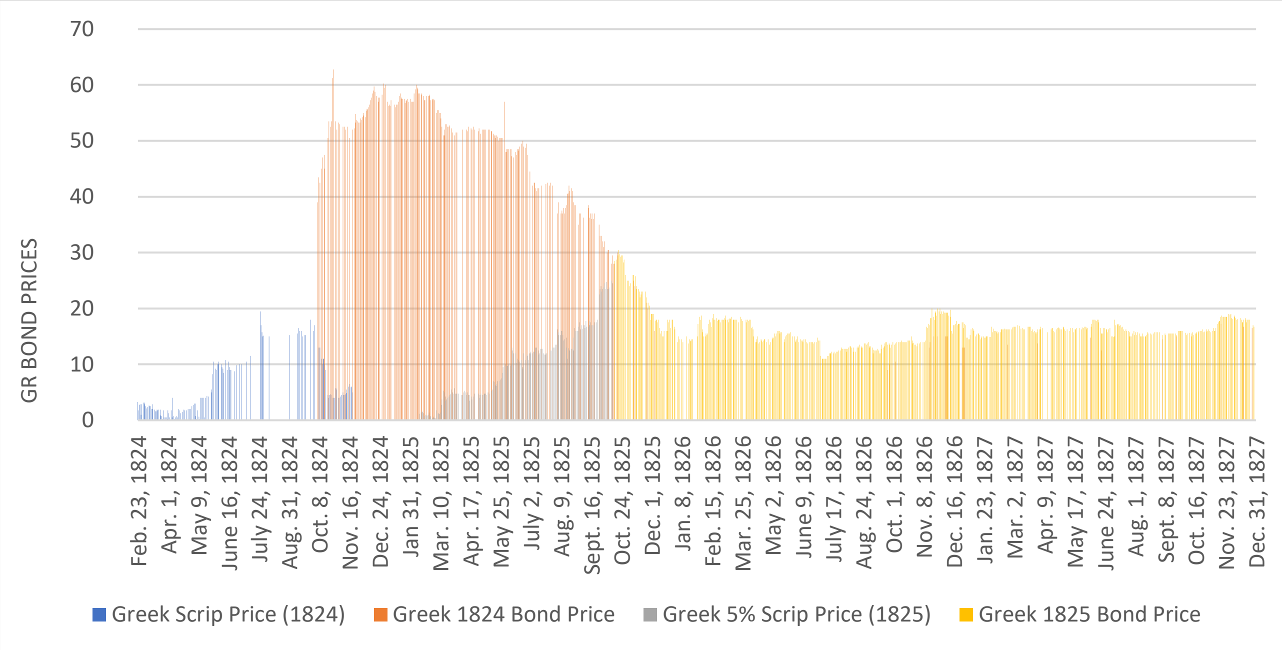
The above are considered some of the milestone events in the historiography of the Greek Revolution. Incidences, like the landing of Egyptian forces under Ibrahim Pasha in Morea and the Fall of Messolonghi, reflected negatively to the prospects of the revolution, while others, like the involvement of Lord Cochrane, suggested that intervention by the European Great Powers was still a possibility. The foreign policy shift from neutrality to intervention culminated in the Battle of Navarino, where the Ottoman-Egyptian fleet was destroyed, paving the way for the subsequent recognition of a sovereign Greek state.[42] The daily figures, in addition to the fluctuation of asset prices which are provided by the *Course of the Exchange*, can adequately illustrate the volatility of the Greek bonds following important developments relating to the cause for independence.

[41] Campbell *et al.* (2015), "What Moved Share Prices in the Nineteenth-Century Stock Market?": p. 2.
[42] Heraclides and Dialla (2015), *Humanitarian Intervention in the Long Nineteenth Century*: p. 119.

III. Findings and Analysis

Figure 1 below presents the Greek bond prices for the period 1824-1827, as compiled from the *Course of the Exchange*. Some first observations can be made on the full picture of the price trajectory.

Figure 1: Greek Bond Prices, 1824-1827 [43]



The initial excitement of investors can be detected in the upward trend of the bond issues during the autumn of 1824. As the analysis will show, this is a result of the informational campaign orchestrated by stakeholders of the first loan, in addition to the generalised trend of speculation that was evident at the time in London's foreign debt market. The gradual drop commencing from the winter of 1825 can be attributed to various developments on the ground – such as the landing of Ibrahim Pasha in Morea in February 1825 – but ultimately strongly relates to the bursting of the stock market bubble in December 1825, making 1826 the crisis year.[44] Ironically, the trajectory of the second loan issued in February 1825 seems

[43] Course of the Exchange, "Prices of Foreign Bonds" (1824-1827), *National Archives,* ADM 114/110-114.

[44] Larry Neal, "The Financial Crisis of 1825 and the Restructuring of the British Financial System," *Federal Reserve Bank of St. Louis Review* (May/June 1998): p. 68.

less volatile compared to the 1824 bond price development, despite that it involved much more speculation.

The analysis will show that this was the result of an array of information, which varied in its validity of the developments on the ground. This information, disseminated on the press by despatch letters or intelligence from foreign newspapers, was tailored to appeal to investor types, such as "noise traders" that De Long *et al.* (1990) examine in their study. As the analysis will show, important events such as the Fall of Messolonghi in the spring of 1826, started as mere rumours, which were then often refuted, only to be confirmed weeks and even months after the fact. The announcement of Lord Cochrane's involvement was another example of careful crafting of market signals by stakeholders involved with the management of the Greek loans, which will be evaluated below. Despite that this information campaign ended up collapsing in late 1826 – in the most public of ways as well, through the revelation of the scandal involving the mismanagement of the loans' funds by contractors and other stakeholders – investor sentiment was maintained by expectations of foreign intervention by the Great Powers. These expectations were fulfilled in 1827, culminating in the Battle of Navarino, the news of which "produced a ferment in the money-market" when they reached London, almost a month after the actual event. [45] Among the events in this investigation, the Battle of Navarino is also the most influential in its effect on Greek bond prices, as will be shown below.

Before proceeding in the analysis of market reaction following the aforementioned milestone events during the Greek War of Independence, it is worthwhile to consider some essential questions regarding the two loans. First, why did the Greek revolutionaries choose the London market and, second, how were they able to issue bonds, without their *de jure* recognition as a sovereign state? The terms and conditions of the loan agreements, outlined below, are illustrative of the fundamental reasons that bankers would facilitate debt raising for a nation still

[45] The Times, "The Money-Market," *The Times Digital Archive* (November 12, 1827): p. 3. Accessed August 22, 2022.

in revolt. In comparison to loans contracted to other unrecognised states at the time, such as Peru or Mexico, interest rates weren't much different, nor were brokerage fees and other commissions charged.[46] Even though a comparative assessment with Latin American cases is beyond the scope of this investigation, some information on the price of issue and the amounts raised by other states – both sovereign and unrecognised – in the London Stock Exchange's foreign debt market during the early 1820s are found on table 1 below. In attempting to discern the incentives of both bankers and investors in relation to Greek securities, it's important to consider the conditions of the London bond market in the early 19th century, as well as the role of the foreign debt bubble.

Table 1: Foreign Loan Contracts Listed at the London Stock Exchange, 1822-1825 [47]

Year	Country	Amount Raised (£)	Interest Rate (%)	Price of issue (%)
1822	Chile	1 million	6%	70%
1822	Colombia	2 million	6%	84%
1822	Denmark	2 million	5%	77.5%
1822	Peru	450,000	6%	88%
1822	Russia	3.5 million	5%	81%
1823	Austria	1.5 million	5%	82%
1823	Portugal	1.5 million	5%	87%
1824	Brazil	1.68 million	5%	75%
1824	Colombia	4.75 million	6%	88.5%
1824	Greece	800,000	5%	59%
1824	Mexico	3.2 million	5%	58%
1824	Peru	750.000	6%	82%
1825	Brazil	4 million	5%	85%
1825	Denmark	3.5 million	5%	75%
1825	Greece	2 million	5%	56.5%
1825	Mexico	3.2 million	6%	89%
1825	Peru	616,000	6%	78%

[46] Bozikis (2020), *Greek Revolution & Public Economy*: p. 448.
[47] Course of the Exchange, "Prices of Foreign Bonds" (1822-1825), *National Archives,* ADM 114/109-113; Andreadis (1904), *History of National Loans*: p. 16; Bozikis (2020), *Greek Revolution & Public Economy*: p. 448.

III.1 The 1820s Foreign Debt Bubble

Over the course of the Napoleonic wars, the British financial system benefited in multiple ways. The government increased its revenue by imposing higher income taxes to fund the war effort, the Bank of England (BoE) benefited as the government's agent for fiscal transfers and London's private banks prospered from the foreign capital influx of merchants fleeing continental Europe.[48] In the aftermath, the main challenge for the British government was reducing the huge debt it had accumulated. The deflationary policies adopted by the BoE to restore convertibility of specie provided fertile ground for a foreign investment boom. This trend was further stimulated by the establishment of newly-independent Latin American states, in need of major infrastructure projects.[49] These conditions generated a stock market bubble, which would come to an abrupt end in December 1825.[50]

This Latin American investment boom in the London market also gave rise to huge information asymmetries.[51] With capital being abundant, while the retirement of long-term, high-yield debt decreased returns on British consols at the time (between 3.5% and 4.5%, down from 4% to 6%), investors were attracted to riskier ventures, in pursuit of higher yields.[52] This situation was so characteristic that the phrase "John Bull cannot stand 2%" was coined at the time, in reference to low yields of British consols.[53] Also illustrative of the conditions in the London Stock Exchange was the Poyais scandal, where the Scottish mercenary Gregor MacGregor successfully managed to raise £200,000 debt for an imaginary country through a loan at 6% interest.[54] According to the BoE, the excessive issuing of notes by country banks increased the money supply and fostered a speculative

[48] Neal (1998), "The Financial Crisis of 1825 and the Restructuring of the British Financial System": p. 55.
[49] Michael D. Bordo, "What Happened in 1815?" *Federal Reserve Bank of St. Louis Review* (May/June 1998): p. 77.
[50] *Ibid.*
[51] Neal (1998), "The Financial Crisis of 1825 and the Restructuring of the British Financial System": p. 54.
[52] Bozikis (2020), *Greek Revolution & Public Economy*: p. 448.
[53] Andreadis (1904), *History of National Loans*: p. 15.
[54] Damian Clavel, "What's In A Fraud? The Many Worlds of Gregor MacGregor, 1817-1824," *Enterprise & Society*, vol. 22, issue 4 (December 2021): p. 1015.

bubble in the foreign debt market.[55] Neal (1998) argues that this situation was further exacerbated by information asymmetries, pushing interest premiums higher, while creating an adverse selection problem, where high-quality investment was crowded-out by riskier borrowers who defaulted when their ventures failed.[56]

From a financial perspective, the conditions of the London money market in the 1820s were favourable for the Greek revolutionaries. In addition to the increased money supply and the willingness of investors for riskier ventures, London was also the biggest exporter of capital at the time, outranking both Paris and Amsterdam.[57] Moreover, the operation of various radical and liberal groups, favouring liberation movements, such as the Greek Revolution, alongside Britain's more autonomous policy stance, in relation to the Holy Alliance framework, increased the chances of a successful loan agreement in London.[58] Indicative of the Holy Alliance's opposition to the Greek cause was the failure of the revolutionaries to raise any funds in regions that were under the influence of Austrian Chancellor, Klemens von Metternich.[59] On the other hand, France's relations with the Ottoman ruler of Egypt, Mohammed Ali Pasha, made any financial support from the Paris money market highly unlikely.[60] For these reasons, the Greek revolutionaries focused their efforts on the City of London, which despite its close relation to the British political system, was still characterised by its freedom to establish financial relations outside the influence of the British government.

III.2 The Terms of the Loans

The question remains however: How did bankers agree to contract a loan for a yet to be recognised state? Outlining their incentives requires that the terms of the loans be evaluated. The first loan was contracted in 1824 by Loughnan, O'Brien,

[55] Neal (1998), "The Financial Crisis of 1825 and the Restructuring of the British Financial System": p. 65.
[56] *Ibid*: p. 74.
[57] Bozikis (2020), *Greek Revolution & Public Economy*: p. 438.
[58] *Ibid.*
[59] Levandis (1944), *The Greek Foreign Debt and the Great Powers*: p. 6.
[60] *Ibid.*: p. 8.

Ellice and Co. for a nominal sum of £800,000 at 5% interest, with a 1% sinking-fund charge, to be repaid over a 30-year period.[61] The loan was floated on February 21, 1824 in the London Stock Exchange with issue price set at 59%.[62] This meant that, at a fraction of the nominal value, investors could purchase a certificate of ownership, a *scrip*, which they could then trade in the secondary market.[63] By issuing prices below the nominal, bankers would ensure that the price of an issue would appreciate when it started trading, thus providing incentives to investors, whilst indirectly inviting speculators as well.[64] This practice may have been beneficial to the bankers in propping up bond prices, however, the *real* capital value of the loan was reduced in this way. By issuing the Greek bond at 59%, the sum borrowed in *real* terms amounted to £472,000.[65] Nevertheless, contractors' commissions, alongside interest charges and other fees, were still charged on the nominal value (£800,000).[66] This partly explains the incentives that bankers had in overlooking credibility problems, when raising debt for unofficial states. In addition, payments were stipulated to be conducted in sterling, in order to avoid losses from possible currency manipulations, while contractors were also to be appointed agents in mercantile transactions, on behalf of the Greek revolutionaries, securing commissions from such dealings too.[67] Moreover, the borrowers had to pre-pay two years' worth of interest payments (£80,000) and sinking fund charges (£16,000), on top of other brokerage fees and commissions, leaving the final sum available to the revolutionaries from the first loan at £348,800.[68] Similar were the brokerage fees and the conditions of the second Greek loan, issued by the House of Ricardo on February 7, 1825. The nominal value was £2 million with a 5% interest, this time issued at 56.5%; thus £1.1 million in *real* terms.[69] The total nominal sum raised by the two loans, amounted to £2.8 million,

[61] Andreadis (1904), *History of National Loans*: p. 17.
[62] Levandis (1944), *The Greek Foreign Debt and the Great Powers*: p. 14.
[63] Bozikis (2020), *Greek Revolution & Public Economy*: p. 443.
[64] Flandreau and Flores (2009), "Bonds and Brands": p. 654.
[65] Andreadis (1904), *History of National Loans*: p. 18.
[66] Levandis (1944), *The Greek Foreign Debt and the Great Powers*: p. 13.
[67] *Ibid.,* p. 11.
[68] Andreadis (1904), *History of National Loans*: p. 18.
[69] *Ibid.*: p. 23.

nevertheless, the funds ultimately raised were £1.57 million, of which £540,000 reached Greece.[70]

This contractual arrangement and the creditor-borrower dynamics that it set, strongly benefiting the former, reflects Stasavage's (2016) argument that institutions favouring lenders will facilitate the issuing of debt.[71] The question now turns to the investors' incentives in lending to the Greek revolutionaries. Here the answer is more complicated, as it relates to the information that investors had available. Certainly, the down payment of two years' worth of interest, in addition to the booming conditions of the foreign debt market at the time, maintained a speculative force around the Greek bonds.[72] In addition, the underpricing of the issues provided an added margin of profit for investors. For example, in the case of the first loan, investors could purchase of an issue worth £100, by merely paying £59, which would provide them with an interest of £5, deriving from the nominal instead of the *real* value. This amounted to a *real* interest of 8.5%, considering the £59 that the investor had actually loaned.[73] Aside from incentives for lenders and investors deriving from the contractual nature of the loans, Greece did not have any other collateral to provide, other than the produce of lands, which were still under Ottoman sovereignty. Under such circumstances, both the revolutionaries and the stakeholders responsible for managing the loan, had to embark to an informational campaign regarding the possibilities that an independent Greece could fulfil, in order to convince investors of their creditworthiness.

III.3 State Formation, Institutions, and Investor Information

A year after the uprising in Morea, the Greek revolutionaries gathered in Epidaurus, in what became known as the First National Assembly (1822). Among the main topics of the deliberations was the need to access foreign credit to finance the continuation of the war. The revolutionaries were aware of the obstacles in

[70] Chatziioannou (2013), "War, Crisis and Sovereign Loans": pp. 45-46.
[71] Stasavage (2016), "What We Can Learn From the Early History of Sovereign Debt": p. 2.
[72] Andreadis (1904), *History of National Loans*: p. 24.
[73] Bozikis (2020), *Greek Revolution & Public Economy*: p. 446.

accessing foreign credit, deriving from the absence of legitimacy and sovereignty in the Greek state, as well as the lack of any collateral.

Attempting to address this lack of credibility, the revolutionaries at the First National Assembly founded the Constitution of Epidaurus (1822) as the provisional framework for a state formation process, inspired by Western stereotypes. At the time, Jeremy Bentham had also contributed in the public discourse revolving the Constitution of Epidaurus with his writings.[74] Other than forming an Executive and a Legislature, the Constitution underlined the need to formulate a budget and set out administrative duties, among other institutional procedures.[75] This institutionalist transformation nurtured the narrative that was presented to investors in the public discourse; namely that the Greek Revolution was a cause for liberty.[76] Nevertheless, consolidating political and military influence under a single state entity was not an easy challenge. St Clair (1972) suggests that the Constitution of Epidaurus "never existed in Greece except on paper" and that it was a mere attempt by the revolutionaries to associate the Greek cause with progressive liberal principles.[77] Following the Second National Assembly (1823) the Greeks were often engaged in civil conflict, as chieftains from various regions in Morea and Continental Greece had attained more power and influence, while competition over resources had intensified.[78] Under these difficult conditions, the Greek deputies and other agents in London had to negotiate a loan and present the public with the merits of the Greek cause to increase subscriptions to the Greek issues.

In January 1824, a delegation of Greek Deputies arrived in London to commence negotiations for a loan, brokered by the London Greek Committee.[79] Formed in early 1823 by British philhellenes, the Committee was chaired by John Bowring,

[74] Rosen (1984), "Bentham's Constitutional Theory and the Greek Constitution of 1822": p. 32.
[75] Levandis (1944), *The Greek Foreign Debt and the Great Powers*: p. 44.
[76] The Times "The Cause of The Greeks and the Greek Constitution," *The Times Digital Archive* (April 29, 1822): p. 3. Accessed August 6, 2022.
[77] St. Clair (1972), *That Greece Might Still Be Free*: p. 94.
[78] Chatziioannou (2013), "War, Crisis and Sovereign Loans": p. 44.
[79] Bartle (1962), "Bowring and the Greek Loans of 1824 and 1825": p. 62.

a Benthamite, and consisted mostly of radicals and liberals, but also Whig MPs and other prominent members of British society.[80] Its members were instrumental in setting the ground for a Greek loan at the London money market. Alongside lobbying efforts to mobilise support by private donors, public officials and policymakers, Committee members also authored reports on the state of the Greek Confederation, published in print newspapers and pamphlets to influence public discourse. [81] These reports presented the conditions on the ground in favourable light and contained both moral and financial arguments in favour of the Greek cause.[82]

In the report of his visit in Morea in 1823, London Greek Committee member Edward Blanquiere begins by defining the Greek War of Independence in moral terms; as a question of "humanity in favour of a Christian community threatened with extermination."[83] However, he continues by presenting the political and economic developments in the Greek state formation process. Commending the Greeks for adopting "the most liberal institutions of Europe" in the Constitution of Epidaurus, Blanquiere (1823) makes a proto-institutionalist argument alluding to Greece's economic success deriving from these institutional reforms, which emanate from "the letter and the spirit of English law," in addition to the introduction of procedures relating to finances, public accounts and the prompt collection of state revenue, among other.[84] After citing rich croplands, such Gastuni in Morea whose produce was estimated at five million francs and the yearly production of 400,000 barrels of Cretan oil amounting to "an average price of eight Spanish dollars in the markets of France and Italy," Blanquiere proceeds with an extended reference to the naval and military organisation of the revolutionaries.[85] Such reports, or the one drafted by Colonel Stanhope a year later

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[80] Frederick Rosen, "London Greek Committee," *Oxford Dictionary of National Biography,* (May 2007). Accessed August 26, 2022 via: https://doi.org/10.1093/ref:odnb/95072.
[81] Edward Blanquiere, "Greece," *The Examiner*, (September 28, 1823). Accessed via *British Newspaper Archives* on July 22, 2022.
[82] Andreadis (1904), *History of National Loans*: p. 14.
[83] Edward Blanquiere, "Report on the Present State of the Greek Confederation and on its Claims to the Support of the Christian World: Read to the Greek Committee on Saturday 13, 1823," *The Pamphleteer*, vol. 12 (London: A.J. Valpy, 1823): pp. 553-555.
[84] *Ibid.*: p. 555.
[85] *Ibid.*: p. 567.

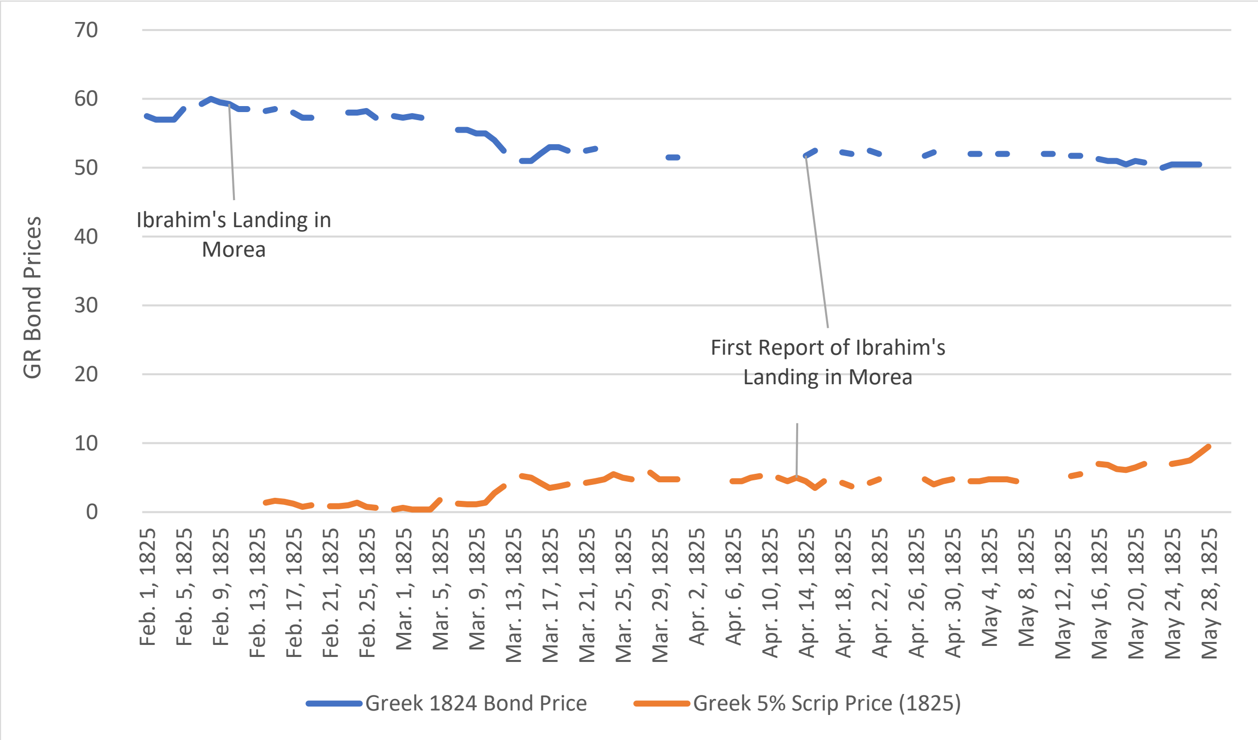
that even took a more balanced approach to the state of affairs in Greece, reflect the type and quality of information that investors had access to at the time.[86] After evaluating these fundamental forces and operations of early 19th-century bond markets, the analysis can now turn to the events under investigation.

III.4 Ibrahim Pasha's Landing in Morea

The year 1825 was a turning point for the Greek Revolution. The initial excitement surrounding the moral aspects of the uprising had subsided and interest in the success of the Greek cause was declining significantly.[87] Meanwhile, the Ottoman Sultan, Mahmud II, had enlisted the support of Egyptian forces, under the command Ibrahim Pasha. Considered as the best army of the East, Egyptian troops began landing in Morea in the spring of 1825.[88] Figure 2 below shows the trajectory of the Greek bond prices during that period. The actual and the reported dates of the event are also marked, in order to account for the time lag of the information reaching London.

[86] The Times, "Greece – Extracts from a Letter of Colonel Stanhope to the Secretary of the Greek Committee," *The Times Digital Archive* (July 21, 1824): p. 2. Accessed August 6, 2022.
[87] Penn (1935), "Philhellenism in England (1821-1827)": p. 654.
[88] Cunningham (1978), "The Philhellenes, Canning and Greek Independence": p. 170.

Figure 2: Greek Bond Prices, February-May 1825 [89]



The first report of Ibrahim Pasha's landing in Morea appears on *The Times* on April 14, 1825.[90] More details were made public on April 29, when *The Times* reported that the expedition against Morea "has abundance of provisions and ammunition" and that accounts from the Ottoman army's push from the north towards continental Greece would "open the campaign by the taking of Messolonghi."[91] The declining trend of Greek bond prices, falling from 52.5% to 50% within a month of the reported event, was expected following such a severe development in the dynamic on the battleground. Nevertheless, market reaction was fairly minimal to this rebalancing of scale in the military might of the contest. This can be explained in two ways. First, that the military effect of Ibrahim Pasha's landing in Morea was not yet understood with the hindsight and weight that modern historians assign to this event. The other, more likely, explanation

[89] Course of the Exchange, "Prices of Foreign Bonds" (1825), *National Archives,* ADM 114/113.
[90] The Times, "Greece," *The Times Digital Archive* (April 14, 1825): p. 3. Accessed August 21, 2022.
[91] The Times, "London, Friday, April 29, 1825," *The Times Digital Archive* (April 14, 1825): p. 3. Accessed August 21, 2022.

relates to rumours of negotiations for a second Greek loan. As *The Times* reported on February 7th, 1825, the Greek Deputies were close to agreeing on a loan amounting to 30 million francs (£1.25 million) with bankers in Paris.[92] The Greek Provisional Government was indeed looking into alternative contractors for a second loan, however, it was deemed that the higher amount that London money markets could offer was preferable to the option of Paris.[93] As a result, in a quite sudden change of events, the second loan contracted by the House of Ricardo was announced on *The Times* the following day, with more details revealed on February 14th, 1825, maintaining expectations for investors, despite Ibrahim's landing in Morea.[94]

The London Greek Committee was not as much involved in the management of the second loan and took a lesser role in presenting the merits of the Greek case.[95] Nevertheless, the contractor being the House of Ricardo contains some information in itself. Aside from his fame as a political economist, David Ricardo also had a reputation for being a stockjobber; meaning that he profited off of risky ventures by short-term transactions.[96] Despite that he didn't live by the time the Greek loan was contracted, underwriters' reputation at the time has been found to play a central role as conveyers of information for investors.[97] Following Flandreau and Flores' (2012) framework on brands and reputation, the involvement of the House of Ricardo would have made the management of the second loan more prone to speculative tactics and forces. This can also be discerned by the type and accuracy of information made public at the time, inviting a lot of speculation from the often contradictory reports of developments in the Greek cause.

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[92] The Times, "Most of the Shares in the Different New Associations," *The Times Digital Archive* (February 7, 1825): p. 3. Accessed August 20, 2022.
[93] Levandis (1944), *The Greek Foreign Debt and the Great Powers 1821-1898*: p. 16.
[94] The Times, "The Contract for the New Greek Loan," *The Times Digital Archive* (February 8, 1825): p. 2. Accessed August 20, 2022; and The Times, "The New Greek Loan Contracted for by Messrs. Ricardo," *The Times Digital Archive* (February 14, 1825): p. 3. Accessed August 20, 2022.
[95] Bartle (1962), "Bowring and the Greek Loans of 1824 and 1825": p. 68.
[96] Chatziioannou, "War, Crisis and Sovereign Loans": p. 46.
[97] Marc Flandreau and Juan H. Flores, "Bondholders versus Bond-Sellers? Investment Banks and Conditionality Lending in the London Market for Foreign Government Debt, 1815-1913", *European Review of Economic History*, vol. 16 (2012): p. 358.

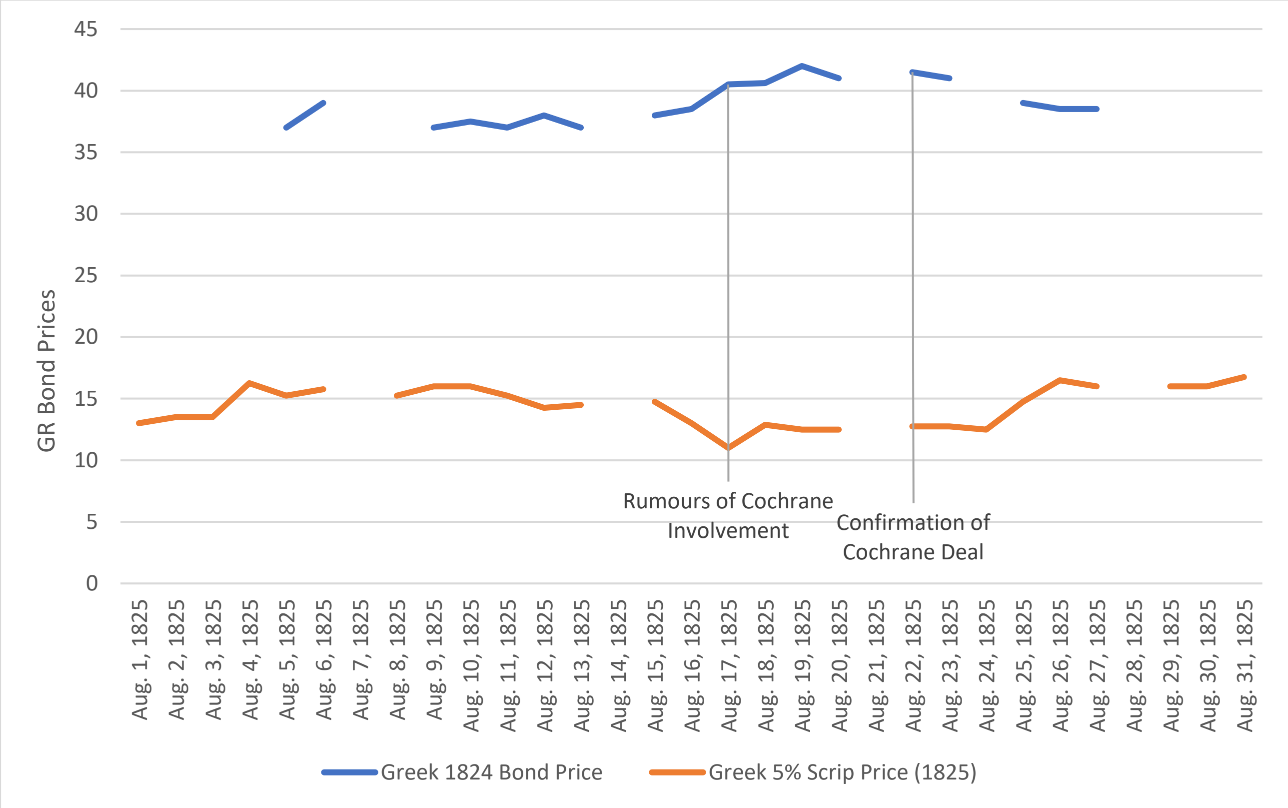
III.5 Admiral Thomas Cochrane's Involvement

Ibrahim Pasha's landing in Morea shifted the scale of military force in favour of the Ottoman Empire. During the summer of 1825, news articles were coming to this realisation, making reference to Ibrahim's advances and even suggesting that there was "little doubt but that Ibrahim Pasha will make himself master of the Morea."[98] The situation worsened for the Greeks, culminating in suspicions of fabricating favourable news from the battleground. In the end of July 1825, *The Times* was consulting readers of alleged Greek victories to steadily be "on their guard against imposition," as "interest can exist for the purpose of falsification," hinting at the Greek contractors and speculating bondholders.[99] In this adverse climate, the Greek revolutionaries had to provide the investing public with news that would maintain hope in the cause.

Thomas Cochrane was a British Admiral famous for his role in the liberation of Chile, Peru and Brazil.[100] Having been discharged from the Royal Navy, ironically, because of a stock market scandal during the Napoleonic Wars, he had offered his services to the revolutionaries of Latin America, where he became famous for dominating over the Spanish Armada.[101] On August 18, 1825, *The Times* wrote that: "A report had obtained some credit in the city, that Lord Cochrane has made an arrangement with the Greek Committee, by which he is to attach himself to the Greek cause."[102] Following a meeting with the Greek Deputies a deal was concluded, as reported by *The Times* on August 22, 1825.[103] Figure 3 below presents the trajectory of Greek bond prices for August 1825.

[98] The Times, "Greece," *The Times Digital Archive* (July 1, 1825): p. 3. Accessed August 20, 2022.
[99] The Times, "As the Foreign Papers Continue to Publish Accounts of Victory From Greece," *The Times Digital Archive* (July 29, 1825): p. 2. Accessed August 20, 2022.
[100] Chatziioannou (2013), "War, Crisis and Sovereign Loans": p. 44.
[101] *Ibid.*
[102] The Times, "A Report Has Obtained Some Credit in the City," *The Times Digital Archive* (August 18, 1825): p. 2. Accessed August 20, 2022.
[103] The Times, "The Negotiation Between Lord Cochrane and the Greek Deputies is Concluded," *The Times Digital Archive* (August 22, 1825): p. 2. Accessed August 20, 2022.

Figure 3: Greek Bond Prices, August 1825 [104]



The news of Lord Cochrane's involvement on the side of the Greek revolutionaries certainly regained the confidence of investors in Greek titles. This was expected, given his proven track record in naval battles all over Latin America. The declining trend of the 1824 bond price again relates to the announcement of the second loan a few months before, constituting the 1825 scrip more reflective of the market's reaction. The price of the 1825 title increased just from the rumours of Lord Cochrane's involvement circulating in the City of London. At this stage, Levandis' (1944) claim that the servicing of the bonds directly depended on the war progress, became evident for both contractors and investors in Greek titles.[105] This wasn't yet apparent during Ibrahim Pasha's landing in Morea, according to the price variations evaluated in the previous case study, in contrast to market reaction in the case of Cochrane's involvement. This is also portrayed by a short panic in Greek titles that took place on September 26, 1825. According to *The Times*, the panic was in consequence of news for a governmental order, blocking

[104] Course of the Exchange, "Prices of Foreign Bonds" (1825), *National Archives,* ADM 114/113.
[105] Levandis (1944), *The Greek Foreign Debt and the Great Powers 1821-1898*: p. 20.

the sailing of vessels transferring arms and ammunition to the Greek revolutionaries. The sale that was provoked by this intelligence made the value of Greek securities fall almost by 4%.[106]

Such incidences suggest a shift in investment behaviour, indicating a "noise trading" strategy in terms of expectations. Investors in the second loan were paying more attention to the war effort over other semantic values, such as those presented by various philhellenes in the beginning. Aware of the changing climate and of the fact that moral reasons to invest on the Greek cause for liberty weren't as effective anymore, the Greek Deputies attempted to persuade the British government to intervene. On September 29, 1825, the Greek Deputies made an offer for Greece to become a protectorate of Britain during a meeting with Foreign Secretary George Canning.[107] The attempt was proven unsuccessful and Canning reiterated Britain's policy of strict neutrality between the Belligerents.[108] Despite that any serious attempts at brokering a ceasefire would not take place for another year, the Greeks maintained their lobbying efforts, in addition to favourable publicity of developments, in the hopes of signalling to investors that foreign intervention was still possible. For instance, an article published in *The Times* on October 19, 1825, claims that the news of difficulties for the Ottomans in Morea increased the Greek stock from 28% to 30.5%.[109] The importance of such war-related developments in investor expectations is also highlighted in writings of the Greek loans' agents. For instance, in a letter from December 22, 1825, Blanquiere claims that the situation was "not by any means so desperate," prompting investors to derive satisfaction from the fact that the Greek cause is "object of serious discussion with the four Great Powers of Europe."[110] Nevertheless, articles refuting Greek successes on the battleground continued to surface during the

[106] The Times, "The Holder of Greek Scrip and Stock Were Visited By A Sudden Panic Yesterday Afternoon," *The Times Digital Archive* (September 27, 1825): p. 2. Accessed August 20, 2022.
[107] Crawley (1973), *The Question of Greek Independence*: p. 47.
[108] Foreign Office Memo, "Abstract of Proceedings in the Greek Question, Up to the Period of the Duke of Wellington's Mission to St. Petersburgh, in 1826", *National Archives,* FO 800/230: p. 13.
[109] The Times, "Yesterday Was Kept As A Close Holyday Both at the Bank and Stock-Exchange," *The Times Digital Archive* (October 19, 1825): p. 4. Accessed August 20, 2022.
[110] Edward Blanquiere, "Greece and Her Claims", *The Pamphleteer*, vol. 16 (London: A.J. Valpy, 1826): pp. 311-312

winter of 1825.[111] The increased influence of developments on the battlefront on Greek bondholders becomes clearer in the case of the Fall of Messolonghi.

III.6 The Fall of Messolonghi

In 1826, the last garrison other than Athens in Continental Greece, Messolonghi, was already under heavy siege by the Ottomans. In their desperation, the Greek agents continued to feed European newspapers with comfortable lies on the war effort.[112] In this case, the communication campaign by stakeholders of the Greek loans became most intense, with outright attempt to manipulate public discourse and information. This is also suggested by a letter sent to the Provisional Government by the Greek Deputies, requesting some good news to revive Greece's sinking credit.[113] Figure 4 below shows the trajectory of Greek bond prices over the course of the months following the Fall of Messolonghi.

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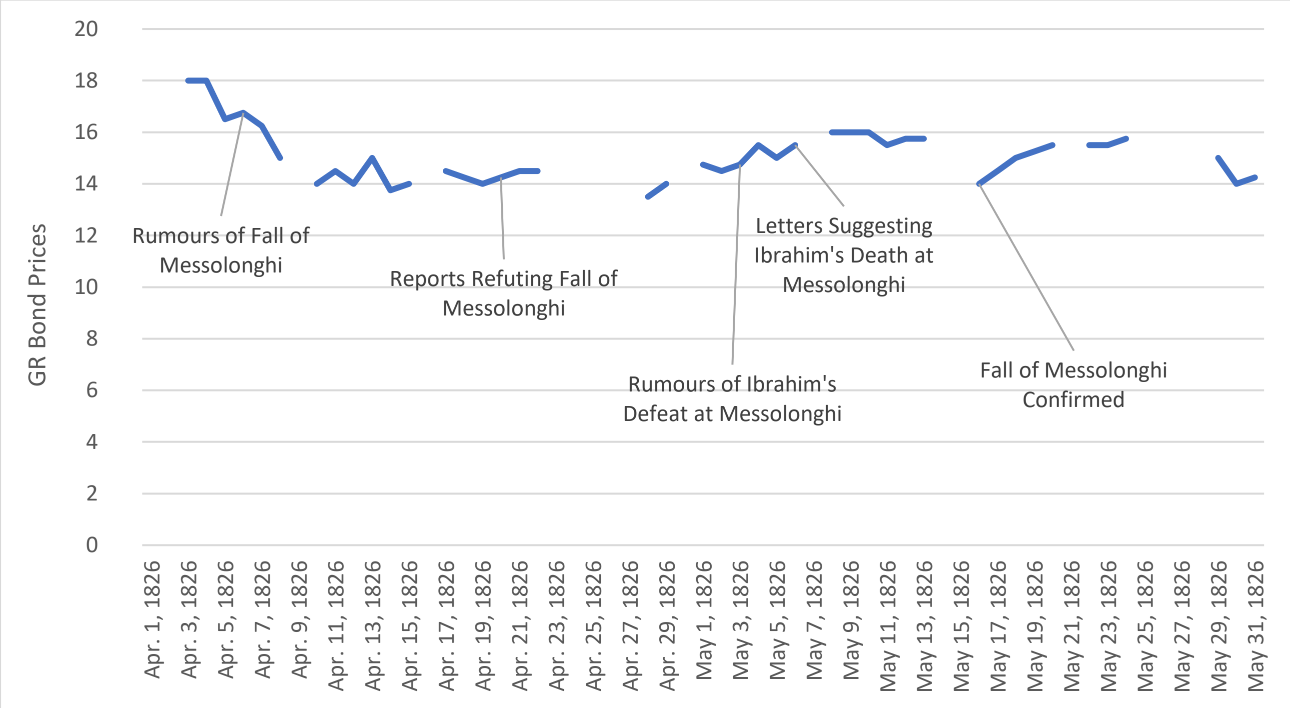
[111] The Times, "Greece," *The Times Digital Archive* (November 11, 1825): p. 4. Accessed August 20, 2022.
[112] Crawley (1973), *The Question of Greek Independence*: p. 57.
[113] *Ibid.*

Figure 4: Greek Bond Prices, April-May 1826 [114]



Intelligence and the reporting of the Fall of Messolonghi was not the most accurate. Over the course of April and May 1826, there was an informational confusion regarding the developments on the ground. Messolonghi was under siege for over a year and the first rumours of the city's surrender to the Ottomans circulated on April 6, prompting a major fall in Greek bond prices.[115] The market climate was stabilised in the following days, after intelligence that British Ambassador to the Ottoman Empire, Stratford Canning, had been instructed to negotiate an armistice with the Sultan "to end the barbarous warfare."[116] Newspaper reports at the end of April suggested that Messolonghi was still holding out, stabilising the fall of Greek bond prices. [117] Moreover, reports in early

[114] Course of the Exchange, "Prices of Foreign Bonds" (1826), *National Archives,* ADM 114/114.
[115] The Times, "Money-Market," *The Times Digital Archive* (April 6, 1826): p. 2. Accessed August 20, 2022.
[116] The Times, "We Believe We May State With Some Confidence, that Mr. Stratford Canning Has Been Instructed To," *The Times Digital Archive* (April 7, 1826): p. 2. Accessed August 13, 2022.
[117] The Times, "London, Thursday, April 20, 1826," *The Times Digital Archive* (April 20, 1826): p. 2. Accessed August 22, 2022.

May went as far as to suggest that Ibrahim Pasha had lost battles around Messolonghi, even reporting his death on the battleground.[118] Investors rejoiced at such positive intelligence, sending prices up again. Nevertheless, none of these were true and the Fall of Messolonghi was reported as confirmed on *The Times* on May 16.

The increase in Greek bond prices following the confirmation of the event seems illogical but can be explained in two ways. First, the market had already "priced" the news of the city's fall when rumours began circulating on April 6, 1826. The sharp fall in prices – from 16.25% to 15% in a single day – suggests that investors had already reacted to the development, even before its confirmation. The speculative game that ensued over the next month, involving false intelligence, highlights the types of "noise traders" involved in Greek securities. The second explanation for the increase in Greek bond prices after the confirmation of Messolonghi's fall to the Ottomans is the expectation of foreign intervention to end hostilities. Nevertheless, parliamentary minutes suggest that even though the Greek affair had become a frequent topic of discussion and debate, the government was persistent in its policy of neutrality.[119] Still, the connotations in the capture of the city where Lord Byron had died created a wave of sympathetic publicity in the aftermath.[120] *The Times* were reporting on May 18 that the war was not over and was not to be determined by military superiority, deriving from successes on the battlefield, hinting at a forthcoming diplomatic solution to end the hostilities.[121] Such anticipations managed to reverse investor sentiment, making Greek bond prices recover to levels recorded before the Fall of Messolonghi.[122] This is also reported on the 'Money-Market' column of *The Times* on May 22, suggesting

[118] The Times, "The Money-Market," *The Times Digital Archive* (May 4, 1826): p. 2. Accessed August 20, 2022; and The Times, "London, Saturday, May 6, 1826," *The Times Digital Archive* (May 6, 1826): p. 2. Accessed August 22, 2022.
[119] Parliamentary Papers, "Affairs of Greece, HL Debate, 20 April 1826," vol. 15, cc384-5.
[120] Mazower (2021), *The Greek Revolution*: p. 326.
[121] The Times, "We Perceive that the Fall of Missolonghi Has Excited Some Uneasiness Among the Friends of Greece," *The Times Digital Archive* (May 18, 1826): p. 2. Accessed August 20, 2022.
[122] The Times, "Money-Market," *The Times Digital Archive* (May 19, 1826): p. 3. Accessed August 20, 2022.

that expectation of British interference improved Greek bond prices by almost 1%.[123]

Foreign military intervention was nevertheless a year and a half away into the future. The hopeful publicity generated following the Fall of Messolonghi, reinvigorating the moral aspects of the Greek War of Independence, soon gave way to further negative publicity about the state of affairs in Greece. Voicing an ever-growing feeling of distrust by investors, exacerbated by the bursting of the stock market bubble in December 1825, Count Palma's 1826 book *Greece Vindicated* called for a thorough investigation of the management and disposal of Greek funds raised, hinting at misuse on the part of the London Greek Committee.[124] Furthermore, over the summer of 1826, articles relating to the anarchic state of Greece began to surface once more. Reports of plunder and piracy in the Mediterranean Sea, alongside suspicious handlings by foreign agents, began alienating any support that was left for Greece.[125] News such as the fact that Lord Cochrane had still not sailed for Greece, despite that a contract for his services had been signed ten months beforehand, fuelled distrust towards the contractors and the Greek cause in general.[126]

This climate shift culminated in the autumn of 1826, when the first informal Greek bondholder meeting took place in early September. [127] An inquiry on the management of the funds was called for and a new committee was appointed to conduct the examination of the accounts.[128] Over the next couple of months, a very public blame-game between the stakeholders of the Greek loans would ensue, hosted on the pages of *The Times*. The scandal continued unveiling until early

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[123] The Times, "The Money-Market," *The Times Digital Archive* (May 22, 1826): p. 2. Accessed August 20, 2022.
[124] Bartle (1962), "Bowring and the Greek Loans of 1824 and 1825": p. 69.
[125] The Times, "Piracies In The Mediterranean," *The Times Digital Archive* (July 28, 1826): p. 2. Accessed August 13, 2022.
[126] The Times, "It Has Not, Perhaps, Been Generally Understood, That About Ten Months Ago, When A Contract Was Signed By," *The Times Digital Archive* (May 23, 1826): p. 2. Accessed August 24, 2022.
[127] The Times, "The Greek Bonds Were the Subject Yesterday of A Public Meeting," *The Times Digital Archive* (September 5, 1826): p. 2. Accessed August 13, 2022.
[128] Bartle (1962), "Bowring and the Greek Loans of 1824 and 1825": p. 70.

November 1826, when Bowring admitted requesting the Greek government to purchase his stock that was losing value in the stock market.[129] Other members of the London Greek Committee, like the radical Joseph Hume, made similar requests when the Greek securities were trading downwards, effectively shifting their losses to the Greek revolutionaries.[130] Finally, in addition to the general mismanagement of the loans, the revelation of misuse in funds dedicated to the construction of a Greek navy, destroyed what was left in the legitimacy and credibility of the Greek cause for investors.[131]

III.7 The Battle of Navarino

The death of Tsar Alexander I in December 1825 ultimately changed Russia's position on the Greek affair. His successor, Tsar Nicholas I, aimed more actively to take advantage of the situation and promote Russian interests in the Balkan and Mediterranean regions.[132] Intending to check Russian expansionism, British foreign policy had also began shifting towards mediation, however, maintaining a distance from the possibility of active military intervention.[133] In July 1827, the Treaty of London was signed between Britain, France and Russia, calling for an armistice between the Greeks and the Ottoman Empire.[134] The armistice was never accepted by the Sultan, however, an allied fleet of British, French and Russian vessels harboured off the Bay of Navarino to enforce the ceasefire at sea. By intercepting Ottoman-Egyptian supplies and ammunition, even "by canon shot" when all other means were exhausted, the opposing navies were increasingly faced with the prospect of armed conflict.[135]

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[129] *Ibid.*: p. 73.
[130] The Times, "To The Editor of The Times," *The Times Digital Archive* (November 4, 1826): p. 2. Accessed August 29, 2022.
[131] The Times, "We Had Thought That the Conduct of our Own Countrymen in the Preparation of Steam-Boats to Aid Liberty," *The Times Digital Archive* (November 9, 1826): p. 2. Accessed August 13, 2022.
[132] Heraclides and Dialla (2015), *Humanitarian Intervention in the Long Nineteenth Century*: p. 114.
[133] *Ibid.*
[134] Mazower (2021), *The Greek Revolution*: p. 408.
[135] *Ibid.*: p. 410.

In this adversary atmosphere, the first reports of shots fired by a British ship in Navarino appeared on *The Times* in October 16, before the actual battle ensued. Although the story was readily dismissed as "liable to much doubt," Greek bond prices recorded a slight increase, as seen in figure 5 below.[136] Even though the Greek loans were already in default by 1827, trading of the 1825 bond titles continued on the basis of the two-year interest payments that the borrowers had to pay in advance.[137] Indicative of the reputation for flawed information that had been shaped in the public discourse revolving Greek affairs, reports released ten days later suggest that the shots fired at Navarino was a "made-up story."[138] Aside from the bad reputation revolving Greek affairs, dismissals of intelligence reporting clashes also reflect the distance that British government officials were maintaining from active military interference. Despite that the underlying orders were stipulating the use of violence only as last resort, on October 20, 1827, following a misinterpreted signal by one of the ships, the Ottoman-Egyptian fleet was destroyed to such an extent that it was rendered useless.[139]

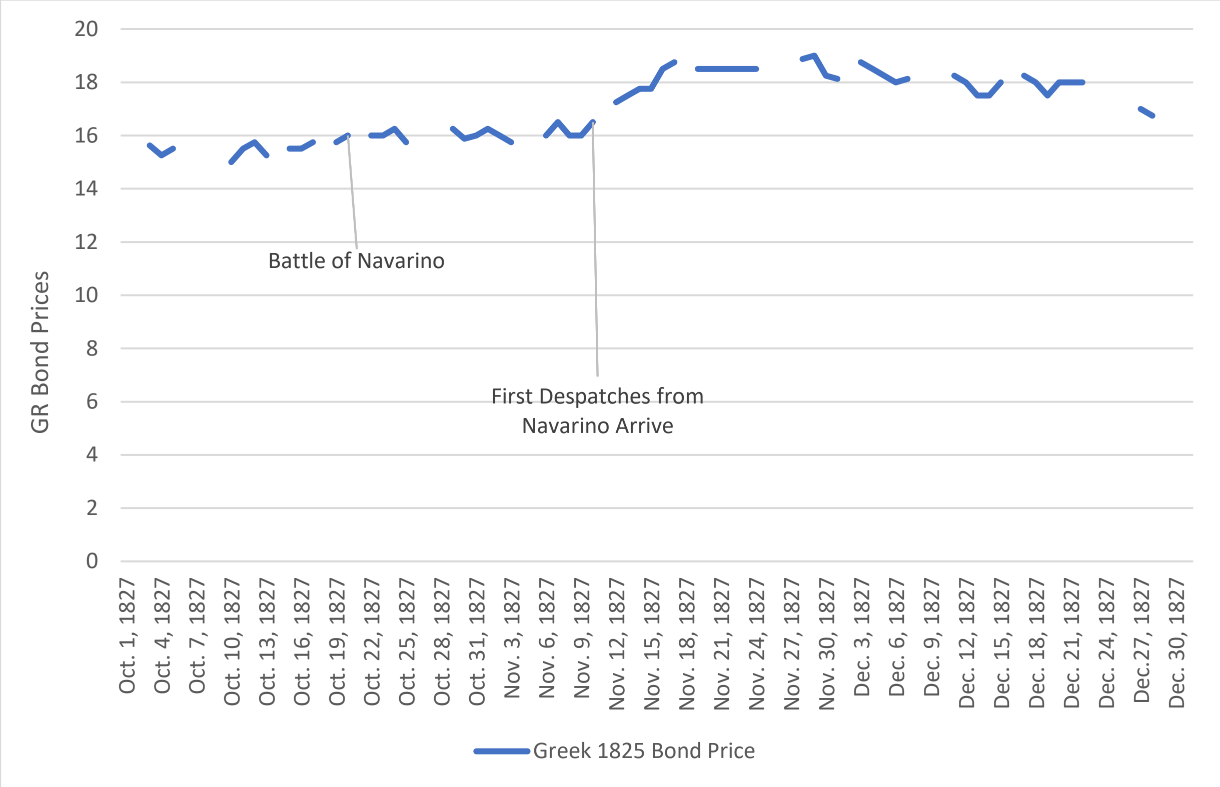
[136] The Times, "The Money-Market," *The Times Digital Archive* (October 16, 1827): p. 2. Accessed August 22, 2022.

[137] Chatziioannou (2019), "Greek Sovereign Debt and Loans in 19th Century Public Discourse": p. 28.

[138] The Times, "The Money-Market," *The Times Digital Archive*, (October 27, 1827): p. 2. Accessed August 22, 2022.

[139] Mazower (2021), *The Greek Revolution*: p. 418.

Figure 5: Greek 1825 Bond Price, October-December 1827 [140]



The positive market reaction in this case is the strongest, in comparison to the aforementioned ones, as seen by the trajectory of the 1825 Greek bond price in the months following the Battle of Navarino, shown in figure 5 above. The possibility of a conflict with the Ottoman navy was so unexpected in Britain that even the validity of the first despatch letters that arrived in London were contested initially. *The Times* was assessing that it would necessitate four days "if favoured by wind," for the intelligence to be dispatched from Navarino to Constantinople and then to London within the remaining 19-day frame.[141] Nevertheless, the "total destruction of the Turkish and Egyptian fleets" was confirmed on November 12, making Greek bond prices peak at 18.75%, from around 16% that were recorded before the news broke out.[142] Such a positive market reaction, especially

[140] Course of the Exchange, "Prices of Foreign Bonds" (1827), *National Archives,* ADM 114/115.
[141] The Times, "The Money-Market," *The Times Digital Archive* (November 13, 1827): p. 2. Accessed August 7, 2022.
[142] The Times, "Total Destruction of the Turkish and Egyptian Fleets," *The Times Digital Archive*, (November 12, 1827): p. 2. Accessed August 22, 2022.

concerning assets that were essentially in default, can only be explained by the expectation of investors for further foreign intervention in the Greek War of Independence. Nevertheless, this was not exactly the case. Despite that the Battle of Navarino is described by the Anglo-Hellenic narrative as the most crucial milestone in the formation of the Greek state, the intervention was considered by the British as a mistake at the time.[143] The destruction of the Ottoman-Egyptian fleet seriously weakened the Ottomans against a Russian invasion.[144] This even led some MPs in Parliament to request more information as to "the nature of the instructions given" to Admiral Codrington, who was responsible for the expedition.[145] For the Greek revolutionaries, however, this meant that the Great Powers could not shift their policy approach back to neutrality, ensuring that their independence would be recognised sooner or later.[146] The mutual suspicion among the Great Powers of ceding the ability for more interference in Greece proved the revolutionaries' best chance to solidify their path to independence.[147]

IV. Conclusion

For all the years that diplomatic intervention was expected in the public discourse, it didn't occur until enthusiasm over Greek affairs had run its course. Instead, by the time the Great Powers intervened, a feeling of distrust had even settled due to the publicity of the scandalous handling of the loans.[148] In the years following the intervention at Navarino, attempts were made by Greek bondholders in influencing the British government to broker a resolution for the defaulted loans.[149] Nevertheless, such attempts were met with hindrance by public officials, calling such investments "speculations […] which are of a purely private

[143] Mazower (2021), *The Greek Revolution*: p. 418.
[144] Robert Holland, "Patterns of Anglo-Hellenism: A 'Colonial' Connection?" *The Journal of Imperial and Commonwealth History*, vol. 36, no. 3 (2008): p. 385.
[145] Parliamentary Papers, "Turkey and Greece, HL Deb 01 February 1828", Second Series, vol. 18, c94 (1828).
[146] Heraclides and Dialla (2015), *Humanitarian Intervention in the Long Nineteenth Century*: p. 118.
[147] Crawley (1973), *The Question of Greek Independence*: p. 77
[148] *Ibid.*: p. 13.
[149] Sir Edward Hertslet, "GREECE: Memo Greek Loans of 1824-25," *National Archives,* Bound Mema FO 881/4237 (June 28, 1880): p. 2.

nature."[150] Seeking to refrain from exercising "authoritative interference with foreign States," the Foreign Office merely promised bondholders to bring the matter to the Greek government's attention at the opportune time.[151] This position refutes claims made throughout the years that the Battle of Navarino was orchestrated as a "supersanction" mechanism to push the Greeks in resuming debt payments.

By tracing the Greek bond prices over the duration that the Greek "Independence Loans" were trading in the London Stock Exchange, this study reveals characteristics of 19th-century investors' behaviour that resemble the type of "noise traders," developed by De Long *et al.* (1990). This investment behaviour became prevalent in the absence of concrete information on market fundamentals, making investors react to mere signals relating to developments on the battleground. In line with Campbell *et al.* (2016) findings, this study also concludes that geopolitical events were more important in the Greek case than changing market fundamentals.[152] Information asymmetries produced by rumours or flawed intelligence also played a major role in shifting investors' behaviour to developments towards a signals-based response. This becomes more noticeable after 1825 and especially in the case of the second loan.

According to the case studies evaluated, the two former – Ibrahim's landing in Morea and Lord Cochrane's involvement – demonstrate some signals-based market response, however less so in Ibrahim's case. Where "noise trading" behaviour becomes more evident is in the latter two cases – the Fall of Messolonghi and the Battle of Navarino. This can be explained by recalling the intense communication campaign that Greek agents initially embarked on, employing both financial and moral arguments in favour of Greek support. As the reputation spread that intelligence relating to developments in Greek affairs was heavily

[150] The Times, "Money-Market and City Intelligence," *The Times Digital Archive* (April 3, 1830): p. 5. Accessed August 20, 2021.
[151] Levandis (1944), *The Greek Foreign Debt and the Great Powers 1821-1898*, p. 26.
[152] Campbell *et al.* (2015), "What Moved Share Prices in the Nineteenth-Century Stock Market?": p. 22.

manipulated and often flawed, investors in Greek securities became ever more speculative, behaving as "noise traders," in anticipation of market reaction depending on the type of information circulating.

Following the Treaty of Adrianople (1829), the Ottoman Empire recognised the independence of the revolutionaries and Greece was declared a sovereign state at the London Convention (1832). The Kingdom of Greece was born and headed by the 17-year old Bavarian Prince Otto, appointed by the Great Powers. In 1833, a third loan (this time guaranteed by Britain, France and Russia) was provided for the reconstruction of Greece, amounting 60 million francs (£2.4 million).[153] Once again, less than 30% of the total sum eventually reached the Greek public treasury.[154] Bondholders of the two "Independence Loans" again attempted some sort of resolution for their defaulted titles, claiming that Greek national property was pledged against the repayment of the old debt. However, King Otto never recognised this debt as legitimate, having been raised when Greece wasn't yet a recognised sovereign state.[155] Following years of on-and-off deliberations, taken up by the Foreign Bondholder Committee, established in 1868, an agreement was finally reached on September 4, 1878, leading to the conversion of the "Independence Loans" into newly issued debt with some write-off on nominal charges incurred by compounded interests.[156] Hence, the modern history of the Greek state began. Despite the misuse of the two loans by the Greek revolutionaries and their agents, it would seem that the wider goal of indebtedness was achieved: Greece was recognised as a sovereign nation. Still, Greece's path to sovereignty was paved through sovereign indebtedness, a precondition that would lead to later infringements of her sovereignty in a cyclical pattern that is fairly evident even today.

[153] Demetrius Bikelas, "Statistics of the Kingdom of Greece," *Journal of the Statistical Society of London*, vol. 31, no. 3 (September 1868): p. 286.
[154] Reinhart and Trebesch (2015), "The Pitfalls of External Dependence: Greece, 1829-2015": p. 14.
[155] Hertslet (1880), "GREECE: Memo Greek Loans of 1824-25": p. 3.
[156] Foreign Office, "Greece: New Loans and Loans of 1824, 1825," *National Archives,* T1/16795 (January 4, 1879): p. 215.

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