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Enforcement by Gunboats

In theory, cooperation between debtors and creditors could emerge not only through concerns about reputation, but also through the fear of issue linkage. Either independently or in collaboration with their home governments, creditors could link default to non-financial penalties, such as military reprisals or trade embargoes. If the non-financial consequences of default are sufficiently severe, they might deter governments from cheating on debt contracts and reassure otherwise nervous investors that they could safely engage in foreign lending.

To what extent have linkage strategies influenced international financial relations? This chapter moves us closer to an answer by exploring the possibility of linkages between sovereign debt and military power.

The Gunboat Hypothesis

For much of financial history, it is argued, creditors used military power to enforce debt contracts. They blockaded, cannonaded, even invaded nations that refused to honor financial commitments. The claim that creditors employed a military linkage strategy can be dubbed the "gunboat hypothesis."

The gunboat hypothesis has many adherents. Jack Donnelly, for example, writes that militarized debt collection was "a well-accepted part of international relations" in the nineteenth century, and Martha Finnemore concurs that it was "accepted practice" until the Hague Peace Conference of 1907.[1] Laurence Whitehead judges that such behavior was "fairly standard" before World War I, and Rudi Dornbusch describes the era as a time when "rich countries wrote the rules" and "had the gunboats to collect debts."[2]

Some contend that great powers intervened "frequently" and "repeatedly" on behalf of bondholders, especially in Latin America.[3] Kris Mitchener and Marc Weidenmier, for instance, estimate that "supersanctions" were "commonly used enforcement mechanism" in the nineteenth and early twentieth centuries. "All nations that defaulted on sovereign debt," they explain, "ran the risk of gunboats blockading their ports or creditor nations seizing fiscal control of their country if they defaulted."[4] Carlos Marichal conveys a similar impression: military punishment for nonpayment became "common practice" in Latin America by the turn of the century.[5] The image of great powers as debt collectors has even been used to epitomize the international system of the nineteenth century. The 1800s have thus been called "a century of gunboat diplomacy" in which "countries blockaded ports until debt service was resumed" and the use of force for the collection of debts was axiomatic"[6]

Other commentators argue that great powers were more selective. Gunboat diplomacy, in their estimation, was "sporadic," not axiomatic.[7] Bondholders often petitioned for military assistance, but creditors took up arms in only a few spectacular instances.[8] The most frequently cited example took place in 1902, when Britain, Germany, and Italy imposed a naval blockade on Veneuzela, which was not paying its foreign debts. Soon after the intervention, Venezuela struck a deal with foreign bondholders and began meeting its obligations. The Correlates of War project, the leading source of data for the scientific study of war, refers to this episode as the "Venezuelan Debt Crisis,"[9] and many scholars regard it as proof that creditors applied military force to ensure repayment.

In his classic book on the *Export of Capital*, Hobson refers to the Venezuelan blockade as a prime example of "the terrors which can be held out against a recalcitrant government,"[10] and more recent works classify the Venezuelan crisis as "best known," "most famous," and "most startling" application of military force on behalf of bondholders.[11] Journalists, too, regularly invoke the Venezuelan case. The *Economist* magazine opened its 2005 feature about Argentine debt by harkening back to 1902. "After Venezuela defaulted on its sovereign debt, German, British and Italian gunboats blockaded the country's ports until the government paid up."[12] The *New Yorker* cited the same case in an editorial about "Dealing with Deadbeats" but concluded that "creditors have lightened up since then."[13]

The overall impression one gets, from both the academic literature and the popular press, is that military linkage strategies worked; they helped sustain lending and repayment in the absence of a world government. In Venezuela and elsewhere, gunboats were "particularly effective" enforcement mechanisms that brought defaulters "to their knees" and forced them back "into line."[14] The prospect of military intervention has been hailed as "the remedy for default" in the nineteenth century and "an excellent means by which to speed loan repayment."[15] What works in theory, it seems, also worked in practice.

But despite its popularity, the gunboat hypothesis has never been tested systematically. The literature relies mainly on anecdotes, rather than evidence.[16] Did creditors regularly use military coercion to extract payments from foreign governments? The remainder of this chapter introduces several new datasets and uses them to reexamine the common hypothesis about armed enforcement of sovereign debts.

Toward a Comprehensive Test

My empirical analysis of the gunboat hypothesis focuses on the years 1820 to 1913. This period is especially instructive because it offers an easy proving ground for proposition that creditors used arms to collect debts. All alleged examples of bondholder wars, including the famous Venezuelan crisis, occurred before the First World War. In subsequent years, analysts became increasingly convinced that debt default would not trigger a military response.

By the 1920s, scholars began categorizing enforcement by warship as "a thing of the past" and a "matter of history."[17] The subsequent record matched their forecast. After the Venezuelan imbroglio, observers could find "no clear case" of using arms to collect private debts.[18] The impression continued to crystallize after World War II and was nicely articulated by political scientist Martin Needler, who wrote in 1966 that "no Western state is likely to do today what Britain, France, Germany, and the United States did in the decades immediately preceding and immediately following the turn of the century, to send gunboats and marines to enforce payments on the bonds held by foreign bondholders."[19] By the time Latin American nations plunged into financial crisis in the 1980s, the "de-linkage" between debt negotiations and security issues was "almost complete," and gunboat and dollar diplomacy were "irrevocably gone."[20] Today, even proponents of the gunboat hypothesis acknowledge that creditors no longer use warships to collect debts.[21]

Consequently, any sign of linkage—any evidence of a connection between sovereign default and military intervention—seems likely to come from the period before World War I. If the gunboat hypothesis fails during the historical era when, by all accounts, it stands the best chance of succeeding, we should reject the proposition more generally.

If governments linked debt default with military retaliation, we should find a positive correlation between defaults and militarized interstate disputes (MIDs). Other factors equal, creditors should have been more likely to threaten, display, or use military force against deadbeats than against punctual payers. To some degree, of course, the mere possibility of gunboat diplomacy might have deterred debtors, thereby obviating the need for actual threats or force deployments. I return to this point later in the chapter. But the existing literature suggests that creditors did, in fact, deliver ultimatums, blockade ports, and occupy the territories of defaulting states. Any first-order test of the gunboat hypothesis should, therefore, investigate whether creditors behaved this way.

To check for evidence of linkage, I gathered data on relations between sovereign debtors and the six most important creditor nations of the pre-WWI period: the Netherlands, Great Britain, France, Germany, Belgium, and the United Sates. The research involved three steps. First, I established who owed money to whom, in order to give the gunboat hypothesis the best chance of succeeding. Each creditor nation, I reasoned, might have intervened when its own citizens had a grievance, but it presumably would not have taken military action against countries that defaulted on someone else's loans. If a creditor remained on the sidelines when their own investors were not implicated, this should not count as evidence against the gunboat hypothesis.

Who, then, owed money to each of the six investor nations? It is hard to know for sure because international bond markets were anonymous: citizens bought and sold bearer bonds, and the names of individual buyers and sellers either were not recorded or have not survived. One can, however, obtain a reasonable estimate by scrutinizing the list of bonds that were traded on each creditor's stock exchanges. If, for example, the bonds of a particular country were listed on the Amsterdam exchange, Dutch citizens probably held those bonds and would suffer if the country defaulted. Conversely, if the bonds of a particular country were not listed in Amsterdam, the Dutch presumably did not hold that country's securities in significant quantities.

Following this logic, I collected stock market price sheets for each creditor on an annual basis for the period 1820-1913. Information for the British and US markets were available from published sources in the United States; records for the other creditors came from archives and special library collections in Belgium, France, Germany, and the Netherlands. The German market proved most difficult to chronicle, because foreign borrowers issued bonds in at least three financial centers: Berlin, Frankfurt, and Hamburg. I investigated each center separately and combined the records to create an overall measure of obligations to German investors. The Bibliography lists the key sources that were used.

The resulting database establishes, for the first time, an annual inventory of relationships between each sovereign debtor its foreign creditors; it reveals when each borrower's bonds were traded on each of the six foreign markets. Four creditor nations (Britain, France, Germany, and the Netherlands) had foreign claims for the entire sample period, and Belgium attained creditor status shortly after independence in the 1830s. The United States, in contrast, did not participate actively in foreign lending to sovereign governments until 1899, when part of an international loan to Mexico was placed in New York. For the next fourteen years the US market grew, and the investment portfolios of Americans came to include an ever-larger foreign component.

The second step involved compiling data about defaults and settlements. I treated defaults as beginning when the borrower violated the loan contract by missing a coupon payment or failing to repay principal on schedule; defaults ended when a majority of bondholders consented to a settlement package, either by voting at a bondholder meeting or by exchanging old securities for restructured ones. Information about defaults and settlements came from a wide range of bond yearbooks and the annual reports of bondholder associations, which are listed in the Bibliography.

Finally, for data about the military actions of creditors, I consulted the Militarized Interstate Disputes (MIDs) dataset from the Correlates of War Project. This dataset contains information about disputes since 1816 "in which the threat, display or use of military force short of war by one member state is explicitly directed towards the government, official representatives, official forces, property or territory of another state."[22]

Together, these sources constitute a new dataset that reveals, for all sovereign debtors in the world, (1) when their bonds were held and traded by investors in the Netherlands, Britain, France, Germany, Belgium, and the United States; (2) when those foreign bonds went into default, thereby triggering a possible military response; and (3) when each of the six creditor countries threatened, displayed, or used force against the borrower.

Table 7.1 lists the fifty-five countries in the sample and gives the range of years in which each appears. To qualify for inclusion, a country had to meet both financial and political criteria. Financially, the country had to be one of the six major creditors, or a debtor whose government bonds were listed on one of the creditor's stock exchanges. Politically, the country had to be a member of the Correlates of War system. This second criterion is necessary because MID data are not available for countries and territories that the COW project does not regard as sovereign.

{Table 7.1 about here}

The financial and political criteria did not always coincide. Some countries satisfied the financial criteria long before they met the political one. Argentina, for example, floated its first government bond on the London market in 1824, but the country is not regarded as having joined the COW system until 1841. Other countries entered the COW system well before they became borrowers. The COW project classifies Bolivia as a sovereign nation beginning in 1848, but Bolivia did not obtain its first foreign loan until 1872. The lack of overlap between financial and political criteria may introduce some biases, e.g. excluding several Latin American defaulters from the sample in the first half of the nineteenth century because they had not yet met the COW criterion for statehood. I overcome this limitation later in the chapter by examining diplomatic correspondence about Central and South American borrowers during the period when they were not yet members of the COW system.

The dataset contains annual information about pairs of countries, or dyads. Given the goal of studying debtor-creditor relations, I focused on dyads that contained one creditor and one debtor. I paired each creditor *only* with countries in which their citizens invested, and only for the years in which those investments were held. For example, Chinese government bonds first appeared on the Amsterdam exchange in 1895 and were quoted each subsequent year until the end of the sample period. I therefore included the Netherlands-China dyad only for the years 1895 until 1913. By defining the sample in this way, I was able to compare how creditors treated two types of debtors: those that were paying on time, and those that were not. The complete dataset contains 7,972 records, each corresponding to a debtor-creditor relationship in a particular year.

On first inspection, the data seem consistent with the gunboat hypothesis. When debtors were meeting their obligations (in 6,635 of the dyad-years in the sample), creditors threatened or used force against them approximately 1.8 percent of the time (see Table 7.2). When the debtors lapsed into default (1,337 dyad years), the frequency of creditor-initiated MIDs increased to 3.0 percent. Thus, countries that defaulted became targets of militarized disputes at a higher rate than countries that paid. Although the absolute rates in both cases are low, the relative risk is considerable: based on these point estimates, militarized disputes were more than 60 percent more likely when countries were in default than when they were faithfully maintaining debt service.

{Table 7.2 about here}

Moreover, this difference in rates likely did not arise by chance. The Chi-squared statistic for this relationship is 7.4 with 1 degree of freedom. Under the null hypothesis of no relationship between debt default and creditor-initiated military action, we would see a Chi-squared that large less than 1 percent of the time. Other nonparametric measures of association support the same conclusion. For example, the tau-b statistic for this contingency table is .03, nearly three times its asymptotic standard error.

As Table 7.3 shows, the association seems robust to alternative specifications. Each row of the table gives the results from a rare-events logistic regression.[23] The unit of observation is the dyad-year, and the dependent variable is the presence of a creditor-initiated MID. The key explanatory variable in all models is "Default," coded 1 if the debtor is in default on its foreign debts and coded zero otherwise. Although the models do not explicitly include other potentially relevant factors, such as proximity or military power, I do control for such factors implicitly by including fixed effects in several specifications.

{Table 7.3 about here}

The first row of Table 7.3 provides a baseline. In a simple rare-events logit model with robust standard errors, the estimated coefficient on Default is .51 with a standard error of .18. Monte-carlo simulation from the model shows that default increased the probability of a MID by approximately 1.2 points, with a 95-percent confidence interval from .004 to .023. The relative risk, computed as the probability of a MID given default, divided by the probability of a MID during periods of repayment, is 1.7 with a confidence interval entirely above 1.

These estimates provide a benchmark for other specifications, which address problems of independence and heterogeneity. As the remaining rows of Table 7.3 show, the estimated relationship remains substantively large and statistically significant, even after adjusting the standard errors for correlation within dyads, debtors, or debtor-years. The table also includes models that control for systematic differences across debtors, creditors, and dyads. If anything, these fixed-effects models only strengthen the apparent relationship between default and militarized action. Thus, standard empirical methods seem to support the gunboat hypothesis.

A Deeper Look at the Militarized Disputes

A closer look suggests, however, that the apparent relationship between defaults and MID could be spurious. Figure 7.1 provides the first hint that these creditor-initiated MIDs had little to do with debt collection. The figure presents data for all thirteen countries that experienced MIDs that coincided with periods of debt default. (The remaining countries in the sample are not shown, either because they paid all creditors, or because creditors took no military action against them during periods of default.) Time is measured along the horizontal axis, and the vertical axis gives a 3-letter abbreviation for each debtor state (full names are listed Table 7.1). The thin horizontal line for each country indicates periods in which the country was a member of the Correlates of War system *and* its bonds were listed on at least one creditor's stock exchange. Dots mark spells of debt default, and vertical pipes indicate years in which a MID took place between the debtor and at least one of its creditors.

{Figure 7.1 about here}

The graph shows an interesting pattern. If creditors truly used arms to collect debts, one might have expected a military response shortly after the lapse of payments. Even more importantly, one would have expected military action to end the default. On the contrary, the vast majority of MIDs against defaulters occurred in the middle of long default phases and did not result in a resumption of payments. Argentina, for example, began borrowing in 1824 and defaulted in 1828, long before it became a member of the COW system. Its major creditor, Britain, took militarized action against Argentina in 1842, 1843, 1845, and 1846, but the government in Buenos Aires did not settle with bondholders and resume payment until the late 1850s. The figure does not conclusively disprove the hypothesis that the British launched military campaigns against Argentina in the 1840s to collect debts, it does raise enough doubt to warrant follow-up analysis.

As a next step, I used primary and secondary sources to trace the history of every militarized dispute in Figure 7.1 that coincided with a debt default. The results of this investigation are summarized in Table 7.4. The first columns provide, for reference and replication: the unique identifying number for each MID, the debtors and creditors that were involved, the years in which the dispute took place, and the highest level of action by the creditor – a threat to use force, a display of force, the use of force short of war, or an outright interstate war. The remaining columns synthesize the demands each creditor made against the debtor during the MID, and the extent to which default continued after the MID was resolved.

{Table 7.4 about here}

Surprisingly, the MIDs under investigation had little if any connection to debt default. The Argentine MIDs, listed at the top of the table, are representative of the larger group. During its conflicts with Argentina in the 1840s, Britain never delivered an ultimatium regarding debt repayment or even linked its naval actions to the plight of bondholders. On the contrary, the British government made clear that it was intervening in La Plata to bring an end to the Uruguayan civil war. British authorities stressed that Her Majesty's government would back-off only if President Rosas accepted Anglo-French mediation, withdrew forces from Uruguay, allowed peaceful navigation of the Parana and Uruguay rivers, and respected the rights of foreign nationals who were living in the region. Available documents show that "the demand of the bondholders was no part of the case against General Rosas which led to the Anglo-French intervention."[24] The conflicts with Argentina ended in 1846, when Rosas conceded and Britain lifted the blockade of Buenos Aires. Debt default nonetheless persisted for more than a decade before Argentina resumed payment.[25]

Table 7.4 shows many similar MIDs, which were triggered by contemporaneous civil or international wars, rather than the interests of bondholders. Additional examples, beyond the Argentine case, include British moves to end hostilities between Chile and Peru; British and French efforts to keep Greece out of the Crimean War; British, French, and German action to stabilize Crete during a period of internal religious conflict; British steps to maintain neutrality during the Honduran civil war; British pressure on Portugal to prevent weapons from reaching the Boers; French and German intervention in the Spanish civil war; British and German efforts to restore stability following religious riots in Turkey. The Mexican wars of the 1860s fall into this category, as well, and were not instances of militarized debt collection.[26]

Other MIDs in Table 7.4 arose from ongoing territorial disputes, e.g. US action to prevent the Acre controversy from sparking war between Brazil and Bolivia; French pressure on Turkey to respect French control over Tunisia; British, French, and German steps to enforce new boundaries between Turkey and Greece; and coercion aimed at getting Venezuela to recognize Dutch ownership of the Aves Islands.

Finally, several MIDs in the table occurred because the target nation refused to pay reparations for physical or economic injury to foreign nationals. MIDs in this category include the Joseph Russell affair (UK versus Colombia 1837), the Mackintosh claims (UK versus Colombia 1856-57), the Boismaire indemnities (France versus Dominican Republic 1900), the Don Pacifico crisis (UK versus Greece 1850), the Virginius case (UK versus Spain 1873), the French Cable Company (France versus Venezuela 1905), and several shipping disputes (UK versus Spain 1825, Netherlands versus Venezuela in 1849 and 1869).

In summary, debt default may be correlated with military action, but it is surprisingly difficult to find cases in which default triggered military action or in which the threat, show, or use of force resolved a default. Nearly all the cases in Table 7.4 arose from other grievances, which happened to coincide with debt default. The statistical association between default and military intervention appears mostly spurious.

The Venezuelan Case

How, then, should we interpret the famous intervention against Venezuela in 1902? Judging from Table 7.4, this could have been a significant example of collection by gunboats. In August 1901 Cipriano Castro, the Venezuelan dictator who had risen to power by overthrowing the sitting president two years earlier, suspended all payments on the foreign debt. The decision undoubtedly harmed British and German investors, who held bonds of the Venezuelan government. British citizens, in particular, owned the New Consolidated Debt of 1881, which carried an annual interest rate of three percent, whereas Germans were principally invested in the five percent loan of 1896, which had been offered by Disconto Gesellschaft of Berlin. On the eve of the intervention, the outstanding principal on these two loans stood at 2.6 and 1.9 million pounds sterling, respectively.[27]

After Castro declared default, Britain and Germany sent warships to press their financial claims. The US minister in Caracas warned Castro, "You owe money, and sooner or later you will have to pay."[28] Britain and Germany then severed diplomatic relations with Venezuela and delivered a final ultimatum on December 7. Among other things, the ultimatum called upon Venezuela to reach a new agreement with bondholders. The powers gave Venezuela 48 hours to yield, and warned that failure to satisfy such demands would lead to immediate military action.

President Castro did not concede, and the war began on December 9. Over the next few weeks, Britain and Germany sank several Venezuelan ships, seized others, blockaded the five principal Venezuelan ports and the mouth of the Orinoco river, and bombarded forts on the Venezuelan coastline. Two Italian warships eventually joined the blockade. By February, all sides agreed to American-sponsored mediation, and the powers lifted their blockade. The crisis officially ended with the Washington Protocol of February 13, 1903, in which the Venezuelan government pledged "to enter into a fresh arrangement respecting the external debt of Venezuela, with a view to the satisfaction of the claims of the bondholders." Venezuela also promised to specify which sources of funds would be used to meet the foreign debt payments.

After more than two years of negotiation, Venezuela reached an agreement with British and German investors. It unified the debts of 1881 and 1896 into a single issue, the so-called Diplomatic Debt of 1905, and capitalized the arrears of interest by adding them to the face value of the new debt. As security for this new bond issue, Venezuela pledged a share of its customs revenues.[29] Payments began in August and continued until the debt was retired in 1930.

On its face, the Venezuelan episode appears to be a compelling example of military linkage. The government owed money, and creditors used force to bring the recalcitrant debtor into line. A close examination of British and German documents shows, however, that even in this seemingly exceptional case, the powers did not act on behalf of bondholders.[30] The (1) timing of the intervention, (2) the content of private communications, (3) the nature of the final ultimatum, (4) the immediate outcome of the intervention, and (5) the public pronouncements of leaders are all inconsistent with the gunboat hypothesis. I consider each of these empirical tests, first for Britain and then for Germany.

British Action against Venezuela

The Timing of the Intervention. If the British government were acting on behalf of bondholders, we would expect a fairly close connection between the onset of default and the deployment of armed forces. In the Venezuelan case, no such connection exists; the government had been in default for 54 of the previous 81 years without any sign of debt-collecting warships. Venezuela received its first loans in 1822 and 1824 as part of the old Republic of Colombia. Default occurred in 1826. When the Republic of Colombia split, the resulting states of Ecuador, New Grenada, and Venezuela agreed to divide the debt among themselves, with 28.5 percent apportioned to Venezuela. Not until 1840 did the Venezuelan president acknowledge his country's share of the obligations and strike an agreement to end the default. The period of good grace soon ended, however. Venezuela again lapsed into default for part or all of the years 1847-1862, 1864-1876, 1878-1880, 1882-1883, and 1898-1902, when British and German forces arrived.

During these long and numerous phases of default, British bondholders petitioned their home government for assistance. In one especially telling case, the leading loan houses of

London delivered a memorial to Lord Stanley, the English Foreign Secretary, in the Fall of 1867. The document declared that "the time has now arrived for Her Majesty's Government to adopt active measures to enforce on the Government of Venezuela the due performance of its special obligations to British subjects."[31] The memorialists essentially had asked for "armed intervention to collect the hypothecated duties."[32] Lord Stanley replied, however, that "Her Majesty's government do not feel justified in seeking the sanction of Parliament to adopt coercive measures which might involve this country in a war with the Republic of Venezuela."[33]

After so many years of nonintervention by British authorities, Edward Eastwick, commissioner for the Venezuelan loan of 1864, complained that "the English Government gratuitously parades its determination not to enforce the claims of its subjects." Even if Her Majesty's government never wished to employ ulterior measures, it should not proclaim this fact to the rest of the world, Eastwick reasoned. Such public declarations of noninterference were "like putting up a board to warn trespassers that they will *not* be prosecuted."[34]

As Venezuela extended its record of default, representatives of the bondholders again petitioned the British government for help. The answer, drafted by the Permanent Undersecretary of the Foreign Office, is worth quoting at length because it explains why the British government scrupulously avoided linking debt default to military retaliation against Venezuela and other nations. British policy, the undersecretary explained,

> has always been, and will continue to be, limited to unofficial support and friendly remonstrance…. Her Majesty's Government are in no way party to private loan transactions with foreign States. Contracts of this nature rest only between the Power borrowing and the capitalists who enter into them as speculative enterprises, and who are

> content to undertake extraordinary risks in the hope of large contingent profits. Further, it is scarcely necessary to point out the endless troubles which certainly would arise if the active intervention of England were exerted to redress the grievances of bondholders. Independently of the expense which would necessarily be incurred, and the risk of international complications, forcible measures, if adopted toward small States, which for the most part are the ones complained of, would subject this country to grievous imputaitons. For such and other obvious reasons … the parties must not expect that forcible measures, such as reprisals, and still less any of a more decidedly warlike character, will ever be resorted to by Her Majesty's government in support of their claims.[35]

If the British truly intervened in 1902 to assist bondholders, how can we explain why Her Majesty's Government remained on the sidelines during more than a half century of cumulated default? One possibility, suggested by academic commentators, is that Britain had finally abandoned its longstanding policy of leaving bondholders to their own devices. To political scientist John Latané, it was "perfectly apparent" that the action against Venezuela was "undertaken in the interest of bondholders." He regarded the intervention as a revolution in British and German policy, "a decided innovation in the practice of nations."[36] Historian Herbert Feis concurred that "in this episode the government had swung full circle; the whole force of the state had been put behind the foreign investor."[37] Similar interpretations emerged in the popular press. The *Daily Telegraph* reported that the attack was "without any near precedent," because it involved, "for the first time, the right of a State to undertake the collection by force of debts due to its citizens from another state."[38] In a retrospective on the intervention of 1902, the *South*

American Journal agreed that "up to that time there was no precedent for such action on the part of any of the Great Powers."[39]

Some observers expressed horror at the apparently new doctrine. Earl Spenser, speaking before the House of Lords, stressed that if the government actually were using force to settle private debts, this would represent "a very dangerous and entirely new doctrine."[40] Others, however, welcomed what seemed like a major transformation in British foreign policy. One member of Parliament, who also served as Chairman of the Governments Stock and Other Securities Investment Company, publicly thanked the administration for finally coming to the aid of bondholders. It was, in his view "the first time that any British government has ever declared war on any other country in connection with the interests of bondholders."[41] The *Financial Times* expressed a similar view. After lamenting that the British government had "never" before accepted responsibility for protecting the holders of foreign bonds, it hailed the attack on Venezuela as a "distinct step forward."[42] Such a sea-change in government policy could account for the otherwise curious timing of British intervention.

There is, however, another explanation that more closely fits the sequence of events, and also explains why Britain had not intervened in earlier years. The explanation centers on injuries British nationals had suffered during the years 1900-1902. Some injuries stemmed from the Venezuelan civil war that helped solidify Castro's hold on power. In the course of the fighting, Venezuelan government squadrons had bombarded and plundered the homes of British residents, wrongfully arrested British subjects and subjected them to court martial, and expropriated cattle and other property.[43]

By far the most important trigger, however, was the renegade behavior of the Venezuelan Navy, which not only mistreated British subjects and destroyed their property, but also violated

British territory. The flagrant misbehavior began in January 1901 when Venezuelan forces sailed to Patos Island, a British possession and part of the Colony of Trinidad and Tobago. British subjects had been waiting there for the tide to turn, before embarking for Port of Spain. The Venezuelans appropriated the cargo, seized several British subjects, and left the remaining passengers on the island without rations or means of escape. The British Charge d'Affaires in Caracas protested immediately, but the Castro government did not respond.[44]

More violations followed. Venezuelan gunboats encroached on British territorial waters in Patos Bay, landed armed forces on Patos Island, fired on British vessels, assaulted British citizens, and pillaged and burned British ships. Meanwhile, the Venezuelan government failed to answer repeated diplomatic notes about the abuses that were taking place. The event that finally tipped the scales in favor of intervention occurred in June 1902, when a Venezuelan gunboat seized the *Queen*, a British vessel, on the high seas. The craft was pillaged and confiscated, and the crew were left stranded at the port of Porlamar. Legal advisors in the foreign office concluded that Britain finally had "clear proof of an outrage that justifies, and coupled with the other outrages, requires reprisals."

Francis Villiers, the British Foreign Office advisor on Venezuela, wrote that "the time has come for strong measures against the Venezuelans," and Foreign Secretary Lansdowne agreed that "we clearly cannot let this pass." He instructed the British minister in Caracas to warn that unless the British "receive explicit assurances that incidents of this nature shall not recur, and unless the Venezuelan Government promptly pay to the injured parties full compensation … His Majesty's Government will take such steps as may be necessary to obtain reparation."[45]

Venezuela ignored the demand, but the powers delayed in order to wait for better military conditions. British and German leaders had been advised to postpone military action until the end of November, in order to avoid the "unhealthy season" in Central America, and to take advantage of additional warships that would become available when the Newfoundland Fishing season ended.[46] Military action did, in fact, start at the beginning of December. As explanations for the timing of British intervention, the shipping and civil war claims seem far more plausible than debt defaults that had begun 77 years earlier.

Private Communications: If the British were acting on behalf of bondholders, discussions of their plight should have appeared prominently in internal memoranda and diplomatic correspondence. This was not the case. Spurred by the outrages against the *Queen*, the British foreign office prepared a list of grievances against Venezuela. The June 20th memorandum never mentioned the loan of 1881, which had been in default for several years. Instead, the memorandum cited the numerous shipping claims that had recently arisen.[47]

Based on the memorandum, the British minister in Venezuela then delivered an initial list of demands to the Venezuelan minister of foreign affairs and relayed identical information to the Admiralty of the British fleet. These communications, which laid the foundation for military action, did not reference the bondholders, either.[48] Finally, even though the British were coordinating joint military action with the Germans, the topic of bondholders typically did not arise in correspondence with the German Ambassador.[49]

How, the, did bondholders get included in the final ultimatum? Internal documents provide an explanation. In September 1902, well after Britain had resolved to move against Venezuela, the Corporation of Foreign Bondholders contacted Her Majesty's Government to petition for assistance.[50] The foreign office finally relented "to make the slate clean." The first official mention support for bondholders occurred on November 17, and the British government presented the claims of bondholders to the Venezuelan government for the first time in December. Clearly, British bondholders were an afterthought, not an inspiration, for military intervention.

The Final Ultimatum: If the British were intervening to collect debts, the final ultimatum should have focused on the claims of bondholders. In fact the opposite was true. At the behest of Germany, the intervening powers ranked their claims against Venezuela. Britain assigned first rank to shipping claims, which were non-negotiable and had to be paid immediately in cash. Britain's second-tier claims involved personal and property damage arising from civil war that brought Castro to power and the anti-rebel action that ensured. The British government wanted Venezuela to acknowledge liability for these claims, but was prepared to enter mediation or arbitration over the exact amount of compensation. Bondholders were relegated to the third tier, the bottom of the British hierarchy. Although grateful for any assistance at all, the Corporation of Foreign Bondholders found its bottom-rank status "undoubtedly disappointing."[51]

The Immediate Aftermath: If the British were acting for bondholders, they would have ended the default immediately. On the contrary, Article VI of the Washington Protocol simply stated that Venezuela would "undertake to enter into a fresh arrangement" with the bondholders. From that point forward, neither the British military nor the Foreign Office accepted responsibility for prying open the Venezuelan coffers. Villiers instead reminded the CFB that it had always placed bondholder claims in a "wholly different category" from the other demands. Although it seemed desirable to include the loan of 1881 as part of a comprehensive settlement, official efforts on behalf of bondholders "never went further than this." The British government refused to get involved in the debt negotiations, which took place privately between the CFB, Disconto Gesellschaft, and the Castro administration.

The Official Rationale: If the British were trying to set a new precedent, not only to punish Venezuela but also to deter future defaulters, it would have publicized its intention to the wider world. Instead, the most visible members of the cabinet emphasized that they were enforcing tort claims. Prime Minister Arthur Balfour stated his position before the House of Commons. "I doubt whether we have in the past ever gone to war for the bondholders," Balfour explained, "and I confess I should be very sorry to see that made a practice in this country." [52] The operations against Venezuela were "not undertaken to recover the debts of bondholders. They have been undertaken most reluctantly, and after long and patient delay, because the Venezuelans assaulted British citizens and seized British ships."[53]

Lord Cranborne, the Undersecretary of State for Foreign Affairs, was similarly insistent. The day after the fighting began, Cranborne listed for Parliament the grievances that had spurred Britain to action. Tellingly, his speech contained no references to bondholders.[54] A few days later, in response to questioning, Cranborne explicitly repudiated the charge that Britain had gone to war for bondholders. "I can frankly tell the House," he explained, "that it is not the claims of the bondholders that bulk largest in the estimation of the Governemnt. I do not believe the Governemnt would ever have taken the strong measures to which they have been driven if it had not been for the attacks by Venezuela upon the lives, the liberty, and the property of British subjects."[55] Other government officials, including Selborne (First Lord of the Admiralty) and Chamberlain (cabinet minister), made similar statements before the Parliament and in meetings with members of the London community.[56]

In summary, five lines of analysis point to the same conclusion: even during the famous Venezuelan intervention of 1902, Britain was not implementing the kind of linkage strategy implied by the gunboat hypothesis. As we will see, the same conclusion applies to Germany.

German Action against Venezuela

The Timing of the Intervention: The lapse between the onset of default and the resort to arms was much shorter in the German case than in the British one, because German investors had only recently begun holding Venezuelan bonds. German involvement began in 1887, when the Venezuelan government granted Krupp a concession to build a railway between Caracas and Valencia. The following year, Krupp passed the concession to Disconto Gesellschaft and Norddeutsche Bank, who established the Great Venezuela Railway Company and began to finance the construction project. Work progressed slowly due to landslides, broken dams, and unforeseen difficulties in purchasing land. When the 180-kilometer line was completed in 1894, the final price tag was 62 Million marks, more than double the original estimate.

In the original concession, the Venezuelan government had committed to pay a yearly interest of seven percent on the building capital. Payments were scheduled to begin in 1894, when the railroad opened, but Venezuela immediately defaulted on this obligation. Two years later, the government capitalized the overdue and future railway guarantees into a new obligation, the five percent debt of 1896, which was financed by Disconto Gesellschaft. Although interest on the loan was paid briefly, authorities announced in November 1897 that they could not meet their commitments, and from June 1898 onward German creditors received nothing.

Thus Germany, unlike Britain, had only endured a short phase of default before sending gunboats to Venezuela. It is, therefore, plausible that debt default could have triggered the German intervention. Another event coincided with the railway defaults, however, and holds equal potential to explain both the fact and the timing of German military deployments. This parallel event is the Venezuelan civil war.

At the turn of the century, a large number of German nationals were living in Venezuela. Many experienced significant losses during the civil wars of 1898-1900 and were continuing to suffer from Castro's anti-rebel campaigns. Venezuelan forces had shelled and pillaged their homes, seized their cattle, forced them to transport troops, and required them and make "voluntary" contributions to the Venezuelan dictator. The German government valued these claims at about 1.7 million Bolivars and had been working to secure compensation.

In January 1901, though, the Venezuelan government issued a decree that effectively precluded Germany from obtaining indemnities. The decree invalidated all claims that originated before Castro became President and empowered special commission (which consisted entirely of Venezuelan officials) to decide the status of other claims. The decree also required that any payments be delivered not in cash, but in the form of bonds from a new revolutionary loan.[57]

In sum, Germany had two significant grievances, both of which arose at approximately the same time and could have driven the Imperial Chancellor to intervene. To judge the relative importance of these grievances, I now turn to other types of evidence, including private communications and public statements of German officials.

Private Communications: In private, German leaders tended to place more weight on the civil war claims than on defaulted bonds. Shortly after debt default of 1898, investors asked the German government to take action against Venezuela, but Oswald von Richthofen (Foreign Secretary from 1900 to 1906) made plain in both 1899 and 1901 that the German government would not use military coercion. "He bluntly informed the Hamburg Board of Trade when it attempted to lobby the Foreign Secretary for armed intervention in Venezuela … that it was not the government's business to pull Disconto's chestnuts out of the fire."[58]

Internal German memoranda from December 1901 do cite both the Disconto loan.[59] In this sense, bondholders entered the policy calculation much earlier in Germany than in Britain. Nevertheless, German chancellor Bernhard von Bülow had clear priorities. "The Chancellor above all desired pressure upon Castro to meet the damage claims from German nationals in Venezuela; the reclamations of the Great Venezuelan Railroad and the Disconto Bank were to be taken up only at a later date."[60]

Yet another indication of German priorities comes from the diplomatic correspondence of Otto von Mühlberg, Undersecretary of the German Foreign Office. In a letter to the German ambassador in London, Mühlberg stressed that the Disconto bonds "do not in themselves provide the basis for an insistent stance, since Venezuela does not dispute its obligations," but merely pleads that it does not have enough money to pay at the moment. "In contrast, the claims … stemming from the civil war, have taken on a character that makes action against Venezuela urgently necessary."[61]

The Final Ultimatum and the Immediate Aftermath: Germany, like Britain, ranked its claims in the weeks before the intervention. The first class claims concerned damages that German nationals had suffered during the Venezuelan civil wars. Germany, like Britain, insisted that the first-class claims were non-negotiable and expected payment in cash. If Venezuela refused to pay the civil war indemnities and the powers resorted to coercion, Germany would then append a series of "second class" claims, including arrears on the Disconto loan. The powers did, of course, resort to coercion, and Germany included bondholders in its final ultimatum to Castro. Nevertheless, the ranking of claims reveals much about their importance. The German ambassador in London explained that "Germany's 'whole action' against Venezuela had been based on its first class claims."[62]

The Official Rationale: Finally, public pronouncements by German leaders undermine the hypothesis that military action aimed to bail out Disconto. On the eve of hostilities, Chancellor Bülow summarized the grievances that had accumulated against Venezuela. He stressed the losses that German nationals had suffered in Venezuela and mentioned the bondholders only briefly.[63] Later that month, in an interview, Bülow dispelled the idea that Germany was "engaged in the collection of business debts." He explained: "Among the German claims against Venezuela we gave precedence to those arising from the last Venezuelan civil wars. Those claims have not the character of mere business debts contracted by the Republic, but have grown out of acts of violence committed against German citizens in Venezuela."[64] In a follow-up speech to the Reichstag on March 19, 1903, Bülow again cited the injuries associated with the civil war of 1898 to 1900 as the main reason for the intervention.[65]

The Venezuelan crisis of 1902 is widely regarded as the most famous and shocking example of a linkage between debt and arms. Britain and Germany sent gunboats, it is argued, to punish a country for defaulting and compel it to resume payments. A close look at primary documents from both countries suggests a different conclusion. The powers sent gunboats to vindicate the claims of foreign nationals, whose liberties and properties had been compromised during the Venezuelan civil war and under the dictatorship of Cipriano Castro. Seen this way, the Venezuelan intervention belongs in the same category as the many other tort cases in Table 7.4. It was not, as many have assumed, a bondholder war.

A Survey of British Diplomatic Correspondence

I now extend the analysis by examining public speeches and diplomatic correspondence from the first half of the nineteenth century. This extension is useful for two reasons: it provides deeper insights into the motivations of the key creditor at the time, and it helps bridge a gap in our previous analysis. The Militarized Interstate Dispute dataset omits several countries in the early nineteenth century, because they did satisfy criteria for sovereignty as defined by the Correlates of War research team. (For the pre-WWI period, countries did not qualify as COW system members until they received formal diplomatic missions from both Britain and France.) Perhaps we found no clear evidence of collection-by-gunboats because creditors employed such tactics in the early nineteenth century, a period that is not well covered in the existing MID data. I investigated this possibility in both political speeches and diplomatic correspondence.

In the mid-1820s, a wave of defaults in Latin America and on the Iberian Peninsula outraged the holders of foreign bonds, who asked British authorities to "take prompt and energetic steps" to "compel the governments to pay."[66] At almost every turn, though, the government opted not to get involved. Speaking to the House of Commons in 1824, Foreign Secretary George Canning "did not mean to throw the slightest blame on those who employed their capital in loans to the states of South America. All men had a perfect right to advance their capital in foreign governments, if they thought fit…." But "parties so engaged ought not to carry with them the force and influence of the British government, in order to compel foreign states to fulfill their contracts."[67] In the decades that followed, no public address by any British Prime Minister or Foreign Secretary ever contradicted this policy of nonintervention.

As an additional step, I systematically coded a unique collection of diplomatic correspondence from the first half of the century. In 1847 and 1853, the Foreign Office presented the House of Commons with a collection of 520 letters relative to foreign loans. The correspondence, spanning the period from 1823 to 1853, involved three types of parties: the British government, foreign powers, and disgruntled bondholders. Letters from the British government were especially instructive, because they revealed how Britain dealt with debtors and creditors.

It is hard to verify whether the collection was comprehensive, but even if the publication contained only a sample of letters, there are two reasons to use it for empirical analysis. First, the collection was extensive not only in the sheer number of letters but also in its geographic coverage. Documents pertained to the debts of Spain, Portugal, Greece, Mexico, Central America, New Grenada (Colombia), Venezuela, Ecuador, Peru, Argentina, Chile, and Uruguay, a good cross-section of sovereign borrowers. Second, any bias in the selection of correspondence would have favored the linkage hypothesis. If the British government truly sought to deter countries from defaulting, it would have published the most threatening letters: ones with the most explicit connections between default and military retaliation.

The letters confirm that, even in the early nineteenth century, the British government would not take official action on behalf of bondholders. Table 7.5 summarizes the content of the collection. For *every* country discussed in the letters, British authorities stated at least once—and often a half-dozen times or more—that it would not link debt default to any kind of official response. As Palmerston explained in one of the letters, “no doubt an expression of the intention of the British Government authoritatively to interfere on behalf of the bondholders might be useful to them; but such a declaration would be at variance with the fixed rule of the British

Government in regard to all such cases."[68] British authorities articulated the same position seventy times and applied it around the world.

{Table 7.5 about here}

The letters do contain a small number of threats, in which diplomats suggested that the British government might someday decide to "take up the matter." These threats were invariably vague, however. They never specified the consequences—military or otherwise—that might follow from continued default, nor did they give a deadline for resuming payment on its defaulted bonds. Clear expressions of non-involvement were at least 11 times more common than these vague threats, which in any case were delivered to only four of the twelve countries in the sample.

The letters describe one humorous exchange in which Bondholders, frustrated by the British policy of nonintervention, requested permission to take matters into their own hands. Would Britain government object, they asked, if the bondholders fitted out their own armed vessels to make reprisals on the Mexican government? After reaffirming that the Mexican default had arisen from "private transactions which do not admit the exercise on the part of His Majesty's Government of any official or authoritative interference," the Foreign Office addressed the bondholders' creative proposal. The proposition, Palmerston explained, "cannot possibly be sanctioned or allowed by His Majesty's Governemnt." Thus, in the Mexcan case and elsewhere, British authorities not only refused to provide assistance, but also prohibited the bondholders from enforcing their own form of vigilante justice.

Although the British government eschewed official involvement, its diplomats assumed an unofficial role, sometimes using "good offices" to represent the feelings of disappointment and express the hopes of British investors. As the correspondence clearly shows, though, when diplomats entered into dialogue with a defaulting state, they never explicitly threatened to take coercive steps, military or otherwise. On the contrary, they argued that continued default would undermine the reputation of the country in the eyes of capital markets, and would therefore make it unlikely that investors would offer new loans. Without such money, economic development would suffer. The consistent line during this period, then, was not the threat of coercion but an appeal to reputation.

Conclusion

Overall, we have found surprisingly little evidence of a systematic linkage between power and money. Prior to World War I, countries that defaulted became targets of military action at a higher rate than countries that paid. Detailed historical analysis shows, however, that the apparent relationship between default and militarized action is spurious. Debt default and military intervention coincided, not because creditors were taking up arms on behalf of bondholders, but because defaulters happened to be involved in other disputes (civil wars, territorial conflicts, tort claims) that attracted the attention of major powers. Contrary to popular wisdom, creditor governments generally did not use—or even threaten to use—force on behalf of bondholders, and neither investors nor borrowers expected that default would lead to military intervention. The next chapter considers whether creditors enforced contracts by threatening to apply commercial, rather than military, punishments.

[1] Donnelly (2000, 145); Finnemore (2003, 24).

[2] Whitehead (1989, 234); Dornbusch (2000, 9).

[3] See, e.g., Hilaire (1997, 11); Larkin (2005, 65); Stewart (2003, 94).

[4] Mitchener and Weidenmier (2005b, 2). Although the British government preferred not to intervene, "Exceptions to this policy … were numerous." See Mitchener and Weidenmier (2005a, 661-62).

[5] Marichal (1989, 121).

[6] Dammers (1984, 80), Marks (1979, 20). Additional authors who cite the use of gunboats to collect debts include Born (1986, 13-17); Chowdhry (1991, 123); De Bonis et al (1999, 67); Krasner (1999, 38); Krasner (2004, 78); Lewis and Davis (1987, 389); Meetarbhan (1995, 488); Reinisch (1995, 539), and Winker (1933, 137), among many others.

[7] Maxfield (1997, 159).

[8] Baer and Hargis (1997, 1807); Bethell (1989, 12); Frieden (1989a); Lipson (1989); Mauro et al (2006, 134 and 156); Mosley (2003, 270); Platt (1968); Sachs (1982, 220); World Bank (Global Development Finance 2003, 57-58).

[9] Correlates of War, "Militarized Interstate Disputes" Dataset Version 2.1, MID 254.

[10] Hobson (1914, xxii).

[11] Dammers (1984, 80); Larkin (2005, 65-66); Mosley (2003, 270). See also Finnemore (2003);

[12] *Economist*, March 3, 2005.

[13] *New Yorker*, October 28, 2002 p. 48. The Venezuelan case even been the subject of poetry. See, for example, Rudyard Kipling's "The Rowers," published in the *Times* (London), December 22, 1902 p. 9.

[14] Mitchener and Weidenmier (2005b, 2); Kaletsky (1985, 40); Rodrik (1996, 175).

[15] Gianviti (1990, 241); Chernow (1990, 131).

[16] A few excellent studies have examined the British role in particular cases, e.g. Platt (1968) and Lipson (1989), but no work has checked for patterns across all debtors and creditors.

[17] Madden and Nadler (1929, 359); Sakolski (1925, 165).

[18] Feilchenfeld (1934, 230).

[19] Needler (1966, 236).

[20] Lipson (1989, 207); Diaz Alejandro (1986, 160).

[21] See, e.g., Bulow and Rogoff (1989a, 157); Chowdhry (1991, 123); Donnelly (2000, 145); Kaletsky (1985, 39); Mauro et al (2006, 134); Roubini and Setser (2004, 297).

[22] Jones, Bremer, Singer (1996, 169).

[23] King and Zeng.

[24] Ferns (1977, 223).

[25] The blockades may, in fact, have exacerbated the default by disrupting plans to settle with creditors. See Jenks (1927, 122).

[26] Add citations.

[27] "Memoranda on Venezuelan Loans of 1881 and 1896," January 1903, in *Correspondence Respecting the Affairs of Venezuela* (1903, No. 234).

[28] Herbert Bowen (U.S. Minister at Caracas) to John Hay (U.S. Secretary of State), November 28, 1902, quoted in Mitchell (1996, 186).

[29] CFB Annual Report 32 (1905, 14-16 and 446).

[30] My analysis of British policy builds upon the important work of Platt (1968) and Lipson (1989).

[31] Economist, November 9, 1867, p. 1268.

[32] Economist, November 9, 1867, p. 1269.

[33] Times (London), Dec 3, 1867 p. 8.

[34] Eastwick (1868, 328).

[35] Edmund Hammond to Hyde Clarke, April 26, 1871, printed as No. 61, *Correspondence on the Ottoman Loans of 1868 and 1862*, P.P. 1874(c. 1077), p. 59.

[36] Latané (1906, 546-47).

[37] Feis (1930, 109).

[38] *Daily Telegraph*, December 10, 1902.

[39] *South American Journal*, May 26, 1906.

[40] Earl Spenser, In House of Lords, Parliamentary Debates 118, 4th Session (March 2, 1903): 1085.

[41] Financial Times, January 29, 1903.

[42] Financial Times, December 10 and December 17, 1902.

[43] Memorandum by Mr. Larcom respecting British Claims against Venez, February 20, 1903, in *British Documents on Foreign Affairs* Part I Series D, p. 193-94.

[44] "Memorandum on Existing Causes of Complaint against Venezuela," July 20, 1902, in *Correspondence Respecting the Affairs of Venezuela* (1902), p. 1; *Times* (London), December 16, 1902; Moloney to Chamberlain, February 24, 1901 in *British* n *British Documents on Foreign Affairs* Part I Series D, p. 96.

[45] Check citations.

[46] Herwig (1986, 107); Times (London), February 7, 1903.

[47] "Memorandum on Existing Causes of Complaint against Venezuela," July 20, 1902, in Correspondence Respecting the Affairs of Venezuela (1902), p. 1.

[48] Lansdowne to Haggard, July 29, 1902; Haggard to Lansdowne, August 1, 1902; and Villers to Admiralty, August 8, 1902, all in *British n British Documents on Foreign Affairs* Part I Series D.

[49] See, e.g., "Memorandum for Communication to the German Ambassador," October 22, 1902 in in *British n British Documents on Foreign Affairs* Part I Series D.

[50] Cooper to Foreign Office, September 23, 1902.

[51] CFB Annual Report #30 (1913, 15).

[52] CXVI Parl.Deb. 4s (December 15, 1902), 1273.

[53] CXVI Parl.Deb. 4s (December 17, 1902), 1491.

[54] CXVI Parl.Deb. 4s (December 10, 1902), 654. See also *Financial News*, December 12, 1902.

[55] CXVI Parl.Deb. 4s (December 15, 1902), 1263.

[56] See, e.g., Selborne in CXVIII Parl.Deb. 4s (March 2, 1903), 1085-86 and Chamberlain in *Times* (London), February 2, 1903.

[57] Times, December 9,1902.

[58] Herwig (1986, 240).

[59] Bülow to William II, Auswartiges Amt Venezuela 1/18, December 30, 1901.

[60] Herwig (1986, 221).

[61] Mu:hlberg to Metternich, Auswartiges Amt Venezuela 1/21, July 17, 1902.

[62] Kneer (1975, 53).

[63] Bulow speech, December 8, 1902; Times (London), December 9, 1902.

[64] Times (London), December 23, 1902.

[65] Bulow speech, March 19, 1903.

[66] George Shee to William Ewing, 5 October 1831, letter 165.

[67] XI Parl.Deb. 2s, 15 June 1824: 404.

[68] E.J. Stanley to Thomas Lethbridge, 6 March 1847, letter 29.

Table 7.1: Countries in the Gunboat Sample

Country Name	Abbreviation	Start Year	End Year
Argentina	ARG	1841	1913
Austria-Hungary	AUH	1820	1913
Baden	BAD	1820	1871
Bavaria	BAV	1820	1871
Belgium	BEL	1831	1913
Bolivia	BOL	1872	1913
Brazil	BRA	1826	1913
Bulgaria	BUL	1908	1913
Chile	CHL	1839	1913
China	CHN	1876	1913
Colombia	COL	1831	1913
Cuba	CUB	1902	1913
Denmark	DEN	1820	1913
Dominican Republic	DOM	1894	1913
Ecuador	ECU	1854	1913
Egypt	EGY	1862	1882
El Salvador	SAL	1889	1913
France	FRN	1820	1913
Germany	GMY	1820	1913
Greece	GRC	1828	1913
Guatemala	GUA	1868	1913
Haiti	HAI	1859	1913
Hanover	HAN	1838	1847
Hesse Electoral	HSE	1820	1866
Hesse Grand Ducal	HSG	1820	1867
Honduras	HON	1899	1913
Iran	IRN	1911	1913
Italy	ITA	1820	1913
Japan	JPN	1870	1913
Mexico	MEX	1831	1913
Morocco	MOR	1862	1911
Netherlands	NTH	1820	1913
Nicaragua	NIC	1900	1913
Norway	NOR	1905	1913
Papal States	PAP	1824	1860
Paraguay	PAR	1876	1913
Peru	PER	1839	1913
Portugal	POR	1823	1913
Romania	ROM	1878	1913
Russia	RUS	1820	1913
Saxony	SAX	1867	1867
Spain	SPN	1820	1913

Sweden	SWD	1852	1913
Switzerland	SWZ	1857	1913
Thailand	THI	1905	1913
Tunisia	TUN	1863	1881
Turkey	TUR	1852	1913
Tuscany	TUS	1850	1860
Two Sicilies	SIC	1820	1861
United Kingdom	UKG	1820	1913
United States of America	USA	1820	1913
Uruguay	URU	1882	1913
Venezuela	VEN	1841	1913
Wuerttemburg	WRT	1848	1871
Yugoslavia	YUG	1882	1913

Table 7.2: Creditors Targeted Defaulters at a Higher Rate than Non-Defaulters

(The number of dyad-years appears in parentheses)

Debtor in Default	Creditor-initiated MID	
	No	Yes
No	98.2% (N=6,513)	1.8% (N=122)
Yes	97.0% (N=1,297)	3.0% (N=40)

Table 7.3: Logit Estimates for the Initiation of Militarized Interstate Disputes

Model		Default		ΔPr(MID)		Relative Risk		
Fixed effects	Clustered s.e.'s	Coeff.	s.e.	Est.	95% CI	Est.	95% CI	*N*
No	No	.51	.18	.012	.004 to .023	1.7	1.2 to 2.4	7972
No	Dyads	.51	.25	.011	.001 to .027	1.6	1.1 to 2.7	7972
No	Debtors	.51	.28	.011	-.001 to .028	1.6	.9 to 2.7	7972
No	Debtor-years	.51	.22	.012	.002 to .026	1.6	1.1 to 2.4	7972
Dyads	No	.76	.26					3253
Dyads	Dyads	.76	.36					3253
Debtors	No	.59	.25					6156
Debtors	Debtors	.59	.38					6156
Countries	No	.61	.25					5380

Note: Estimates from rare-events logistic regressions. The dependent variable is the occurrence of a creditor-initiated MID against a debtor state, and the explanatory variable, debt default, is coded 1 if the sovereign is in default on its foreign bonds and 0 otherwise. Some models included fixed effects for dyads, debtors, or countries (both debtor and creditor unit effects). Robust standard errors are reported.

Table 7.4: Analysis of Demands and Outcomes of Militarized Interstate Disputes

MID#	Debtor	Creditors	Period	Action	Demands	Bonds mentioned?	Years of post-MID default
371	ARG	UKG	1842	Threat	Permit Britain and France to mediate an end to the Uruguayan civil war	NO	15
2055	ARG	UKG	1842-43	Display	Withdraw Argentine forces from Uruguay, allow peaceful navigation of rivers, respect rights of foreign nationals, allow Anglo-French mediation	NO	14
123	ARG	UKG	1845-46	Use	Withdraw Argentine forces from Uruguay, end Argentine blockade of Montevideo	NO	11
2005	BRA	USA	1903	Threat	Avoid war with Bolivia over the disputed territory of Acre	NO	7
1517	CHL	UKG	1883	Threat	End the War of the Pacific, preserve Peru from "annihilation"	NO	1
2243	COL	UKG	1837	Use	Release Russell (British Vice-Consul) from jail, compensate Russell for his imprisonment, remove responsible authorities from power, restore the British Consular office	NO	8

1757	COL	UKG	1856-57	Display	Pay Mr. Mackintosh for the sale of army equipment to Gran Colombia three decades earlier	NO	4
68	DOM	FRN	1900	Threat	Pay for harm to Boismare (wrongly imprisoned), Caccavelli (murdered), and De Pradis (not paid for goods sold)	NO	8
71	GRC	UKG	1850	Use	Pay Don Pacifico and other British citizens for destruction and seizure of property	NO	28
2367	GRC*	UKG, FRN	1854	Display	Stop Greek insurgents from attacking Turkey during the Crimean War, avoid forming an alliance with Russia	NO	24
2837	GRC	UKG, FRN, GMY	1896	Display	Restore stability to Crete during period of Christian-Muslim conflict	NO	2
56	GRC	UKG, FRN, GMY	1897	Use	Withdraw Greek forces from Crete, stop supporting Cretan Christians	NO	1
1734	GUA	UKG	1911	Use	Remain neutral during the Honduran civil war	NO	2

238	GUA	UKG	1913	Display	Restore coffee duties, which originally had been hypothecated to British investors but were subsequently alinated in favor of newer creditors	YES	0
1734	HON	UKG	1911	Use?	Arrange an armistice in the Honduran civil war	NO	14
135	MEX	UKG	1861-62	Use	TBD	NO	2
135	MEX	FRN	1864	War	TBD	NO	0
135	MEX	FRN	1866-67	War	TBD	NO	18
1649	POR	UKG	1899	Threat	Prevent weapons from reaching the Boers during Anglo-Boer conflict	NO	3
89	SPN	FRN, GMY	1823	War	Restore stability to Spain during civil war, re-establish Spanish monarchy	NO	11
3233	SPN	UKG	1825	Use	Capture pirates on two offshore Cuban islands	NO	9
256	SPN*	UKG	1873	Display	Pay reparations for capture and deaths of British citizens who had been aboard the Virginius	NO	9

1750	TUR	UKG	1876	Display	Restore stability and protect Christians in Turkey following religious riots in Salonica	NO	5
3322	TUR	GMY	1876	Threat	Protect Christians from Muslims, establish an armistice, resettle the insurgents	NO	5
228	TUR*	FRN	1881	Threat	Respect French control over Tunisia	NO	0
141	TUR	UKG, FRN, GMY	1880-81	Display	Respect new boundries between Turkey and Greece	NO	1
1493	VEN*	NTH	1849	Display	Pay indemnities for Dutch ships that had been seized	NO	13
1495	VEN	NTH	1856	Display	Acknowledge Dutch ownership of Aves Islands, pay indemnities for attacks on Jewish Dutch traders in Coro	NO	6
1628	VEN	UKG	1858	Use	Release former president President Monagás from prison, allow him to leave the country	NO	4
1497	VEN*	NTH	1869	Display	Release Dutch ship that had been seized, protect Dutch nationals in Venezuela	NO	7

254	VEN	UKG	1902-03	Use	Pay indemnities for shipping claims and damages arising from Venezuelan civil wars. Reach a settlement with foreign bondholders.	YES	2
310	VEN	FRN	1905	Display	Stop interfering with operations of French Cable Company, withdraw insulting note addressed to French chargé d'Affaires in Caracas	NO	0

Note: Asterisk indicates that the MID was initiated by the debtor.

Table 7.5: Diplomatic Correspondence 1823-1853 Shows that

Britain Refused to Apply Official Pressure

(Table gives the number of communications in which Britain either refused pressure or delivered what could be construed as a threat)

Country	Refused to apply official pressure	Delivered a threat or a warning
Argentina	2	0
Central America	1	0
Chile	3	1
Colombia	11	2
Ecuador	6	0
Greece	3	0
Mexico	10	2
Peru	2	1
Portugal	11	0
Spain	15	0
Uruguay	1	0
Venezuela	5	0
Total	70	6

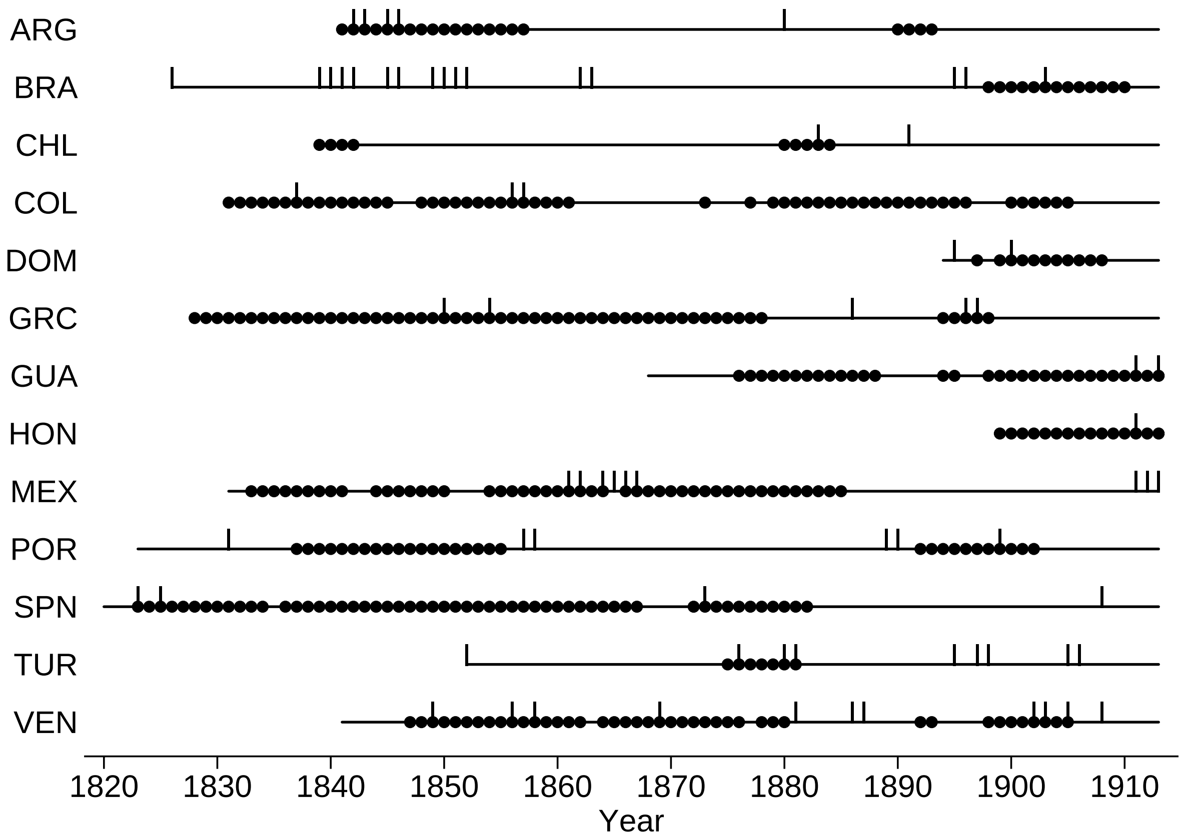

Figure 7.1: Defaults and Militarized Interstate Disputes

Thin horizontal lines indicate periods in which the country was a member of the Correlates of War system *and* its bonds were listed on at least one creditors' stock exchange. Dots represent phases of debt default, and vertical pipes indicate years in which a MID took place between the debtor and at least one of its creditors.