Financial History

EUROPEAN INVESTMENT IN GREECE IN THE NINETEENTH CENTURY

A BEHAVIOURAL APPROACH TO FINANCIAL HISTORY

Korinna Schönhärl

ROUTLEDGE

EUROPEAN INVESTMENT IN GREECE IN THE NINETEENTH CENTURY

Banking historiography often does not sufficiently take into account bankers' deliberations of their decision making, but rather limits investigation to considerations of profit maximisation. This book shows that the decision-making processes of nineteenth-century bankers contemplating high-risk financial markets like Greece are just as complex as present-day investment decisions.

The book, now published in English after a first German edition, offers in-depth studies of decision making in concrete historical situations, considering political and economic circumstances and also the individual background of the actors concerned, including a reflection on the influence of cultural movements such as Philhellenism. Employing methodological inspirations from the field of behavioural finance, the book analyses a broad range of published and unpublished English, French, Greek, German and Swiss sources on European investment in Greece between 1821 and the Balkan wars. Additionally, rich insights into Greek economic history, the economic integration of the country into Europe and long-lasting European stereotypes of Southern Europe and Greece are provided; this furthers understanding of the historical background of the Greek financial crisis after 2009.

In combining the perspectives of financial, economic, political and cultural history, this book is primarily significant for students of various fields of historiography. Due to its strong awareness of methodological questions, it is also of great interest to academic historians. In addition, the strong public interest in the Greek financial crisis after 2009 and its consequences for Europe will, thirdly, attract the interest of a broader public.

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PREFACE TO THE ENGLISH TRANSLATION

In August 2018, Greece was released from the Third Economic Adjustment Programme. This does not mean that the Greek government and economy are no longer closely supervised by the international lenders, but at the moment no new funds are under negotiation. And Greece is therefore no longer attracting the immediate attention of the international press, except in the context of African refugees on the 'Balkan Route'. Even the parliamentary elections in July 2019 were only briefly commented upon in the international press, although they led to the removal from office of prime minister Tsipras from the left-wing populist Syriza and to the forming of a conservative government. Greece is no longer the focus of European interest, notwithstanding the fact that the repercussions of the crisis continue to affect the economic and social life of the country. The negative Greek narratives that dominated much of the press coverage in the years after 2009, and that are traced back to the nineteenth century in this book, have thus moved out of the limelight – until the next Greece crisis, the historian would suspect.

It is therefore all the more important that in the calm after the storm, the fruits of this research should be made accessible to a broader, English-reading public, also in Greece. In April 2019, this piece of research was awarded a special prize by the trust 'Geisteswissenschaften International' (a joint initiative of the Fritz Thyssen Foundation, the German Federal Foreign Office, the collection society VG Wort and the Börsenverein des Deutschen Buchhandels [German Publishers & Booksellers Association]), who provided the necessary funds for the translation as prize money. Katharine Thomas could therefore translate the book, and my particular thanks go to her for her precise and empathic work and the smooth cooperation. I thank my student assistants Nasrin Düll and Nadya Melina Ramirez Lugo for adapting the citations to comply with the Routledge standards.

In the meantime, I have taken up a point that the book only touches upon in passing: the question of tax morale, which international observers suggested was disastrous in nineteenth-century Greece. Little has changed with this external opinion, and it also corresponds with the Greek self-description.

Remarkably, in Greece, it is totally acceptable to argue that inadequate tax payment behaviour is a regrettable legacy of Ottoman rule, which ended in 1830. In contrast in Western Europe, no serious political discussion could include the suggestion that inadequate tax payment behaviour, for instance in Germany or France, could be traced back to the Napoleonic wars and that this made it so difficult to improve. Why do people talk so differently about paying taxes in different countries and why have the related norms developed in such diverse ways? This is the research question I am pursuing in the context of the Heisenberg programme of the German Research Foundation at Goethe University Frankfurt, with West Germany, Spain and the USA in the second half of the twentieth century as case studies. The fundamental question thus continues to accompany me: we talk about the economy, how does it change in and through this discourse?

Frankfurt, in February 2020
Korinna Schönhärl

Part I

INTRODUCTION

INVESTMENTS BY EUROPEAN BANKERS IN GREECE IN THE NINETEENTH CENTURY

The burden and blessing of an ancient heritage in precarious financial situations

'Swindlers in the Euro-Family. Is Greece cheating us of our Money?' demanded the front page of the German news magazine *Fokus* on 22 February 2010.[1] This headline was illustrated with the famous statue of Aphrodite, the so-called Venus de Milo, an image of Greek antiquity that is firmly rooted in European visual memory and is today housed in the Louvre in Paris. Although the right hand is missing in the original, the Fokus added an arm with a raised middle finger. A dirty Greek flag was wrapped around the figure's hips (Figure I.1). Greece took the magazine to court for this so-called Greece-bashing. The case was heard in Athens and ended with an acquittal, but the damage to German-Greek relations was undeniable.[2]

Admittedly, it has long been common to illustrate headlines about Greece with images and symbols of antiquity, such as the Acropolis of Athens, even if usually without the obscene alienation effects. Greek politics and, in particular, the Greek financial crisis inevitably lead West European reporters to illustrate current events with images related to Greece's great past. This contrasts to, for instance, the situation with Ireland and Iceland where nobody would think of drawing on historical references. Even in the case of Italy, comparable historical images are seldom used. With Greece, it seems that the Europeans think automatically of antiquity (Klemm 2015, 352). Reporting on the financial crisis in Greece seems almost impossible without recourse to ancient history, which forms a glossy backdrop that further accentuates the severity of the contemporary situation. Between 2010 and 2012, reports in German media about the 'broke Greeks' were correspondingly negative, at times even defamatory (Bickes et al. 2015). Six months of this negative reporting, particularly prevalent in the *Fokus* and the *Bild*, were enough to fully activate the negative images of Greece (ibid., 347).[3] However, justifying a financial rescue policy for the crisis-stricken country seems similarly to require reference to its function as the cradle of Western civilisation and democracy, as seen in the poem

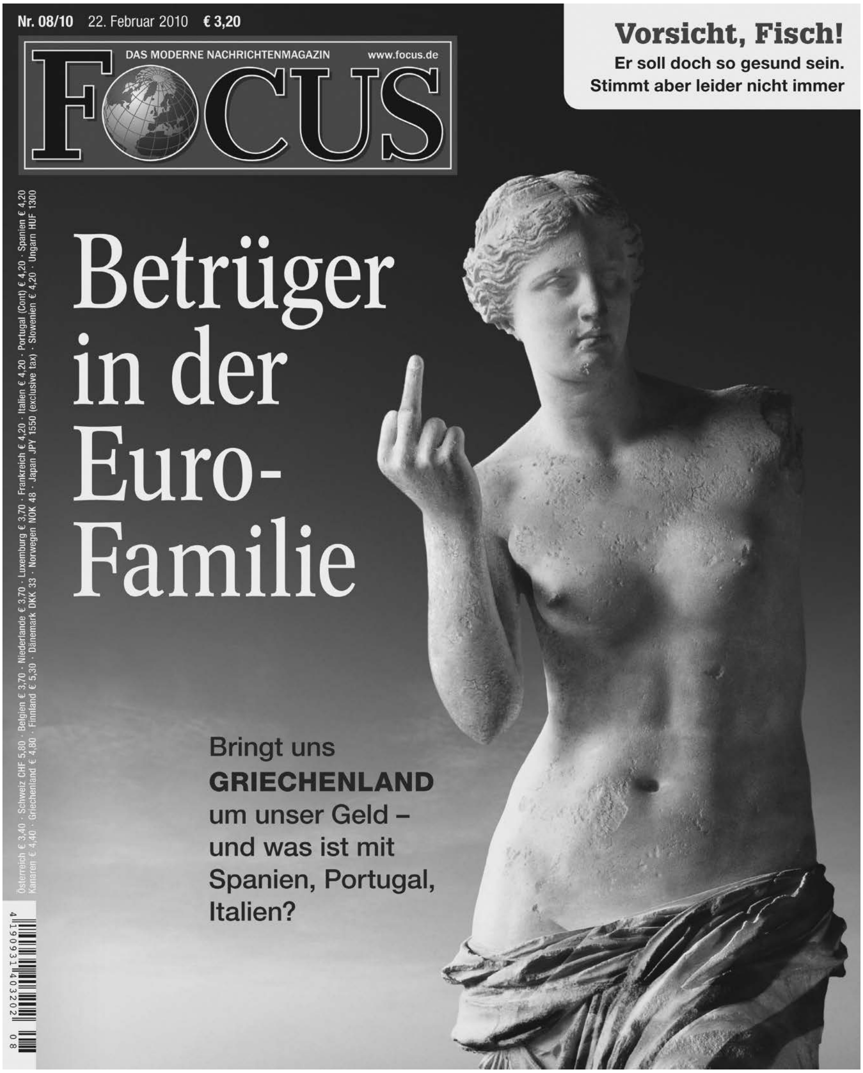

Figure I.1 Fokus, Cover, 22.2.2010.

by the famous German poet Günther Grass (Grass 2012).[4] It is equally rare for France to produce an unprejudiced view of Greece sine ira et studio (Basch 1995, 500), and in Great Britain, Greece is also ‘an emotional word’ (Holland/Markides 2006, 1). Throughout Europe, it is apparently impossible to think about or comment on Greece’s finances without referring to antiquity. In contrast, Greece’s Byzantine history is never used for comparison, despite the fact that in its latter days, it offered manifold examples of nepotism, corruption and state decline. In West European imagination, however, this era is hardly ever linked to Greece. The Greeks themselves occasionally utilise images of antiquity to their advantage. Thus at his first visit to the French president in Paris, the Greek prime minister Alexis Tsipras, who has held the position since January 2015, announced his delight at being in a country that had taken on the baton of democracy from Greece, thus audaciously building a bridge between the Acropolis and the Storming of the Bastille, as the *Süddeutsche Zeitung* commented (Cáceres/Wernicke 2015). However, there are comparable examples of extensive laments about the 'misfortune of being a Greek' and constantly being confronted with exaggerated expectations from abroad (Dimou 2012).

While the use of such comparisons with antiquity may seem particularly original to certain contemporary journalists, they can be traced back to before the founding of the modern Greek state in 1830. In the 1820s, Greek freedom fighters were in London and Paris promoting their cause in the hope of gaining financial support for their struggle for independence from the Ottoman Empire. They too used ancient Greek heritage and the hope for its renaissance as important arguments to persuade Philhellenes to provide investment. This linking of the spheres of culture and finance was to continue, as will be seen, far beyond the phase of great European Philhellenism at the time of the Greek Revolution, and can be traced throughout the entire nineteenth century. Greek thus became an 'imagined market'[5] for many West Europeans, an assimilation that drew together and intermingled many different periods, modifying the receiving culture while constituting the reference culture.[6]

This renders Greece particularly attractive for a cultural-historical investigation of the perception of financial markets by bankers, the mental dispositions underlying their actions and their cultural roots. A further advantage is the starting point provided by the especially convenient 'zero hour' of the founding of the Greek state in 1830 (Loules 1986, 409).[7] It is notable that despite three state bankruptcies (in 1827, 1843 and 1893[8]), Greece developed into an accepted investment market for European bankers in the course of the long nineteenth century, even if the country only accounted for 0.15% of world trade in 1913. It seems exaggerated to speak of Greece as an 'El Dorado'; the term 'emerging country' seems more applicable (Bonin 2013, 12, 42, 70). Before the Balkan Wars, Greece had no problems obtaining credit at reasonable conditions on the European exchanges, and numerous direct investments streamed into the country. The majority of European bankers now perceived Greece as a potential financial market, albeit a risky one.[9] The two Balkan Wars, starting in 1912, significantly changed business activities and banking in the region, and thus mark the end of the research period. In terms of the political history of Greece, the Goudi coup of 1909 and the subsequent coming to power of Eleftherios Venizelos in 1910 similarly heralded a new era, so that it seems reasonable to end the study period here. How, then, did Greece develop into a promising financial market in the perception of foreign bankers in the period from the Greek Revolution until the Balkan Wars?[10] This starting point leads on to interesting questions of financial and banking history: How did bankers make investment decisions in the nineteenth century?[11] How and via which paths did bankers access relevant information about interesting markets? How did they interpret this information? What forms of risk management did they develop and maintain, and how did they establish trust in the international context of globalising finance? The small size and limited economic importance of Greece in worldwide terms limit its comparability with other investment markets. However, pronounced contrasts in Western European perceptions of the country render it particularly interesting with regard to the cultural dimension of financial transfers. As images of Greece were and are so contradictory and powerful, the Greek example is especially suitable for an investigation of the multifacetedness of investment decisions.

Financial business in Greece was led by banks from Switzerland, France, Great Britain, Bavaria and – after 1871 – the German Empire; this sets the geographical framework for the investors. In terms of the area of investments, research is limited to the territory of the Greek state, which slowly increased in size throughout the nineteenth century. This excludes the area that was added to Greece after the Balkan Wars, as this was knowledge the actors could not previously be aware of, except possibly in the form of the 'Megali idea' (the notion of a large Greek state) that may have encouraged them to speculate on territorial expansion.[12]

Is Greece a risk?

'Classic' banking history would tend to focus on profit rates and risk premiums when answering this question. Traditional accounts of banking history assume that nineteenth-century bankers adopted a utility maximisation approach to investment projects and assessed the potential profits in order to decide whether to accept or reject a specific project. Other motives usually attract little attention. The aim of this cultural-historical investigation is to move beyond this approach and to consider the entire spectrum of motives that influenced bankers' investment decisions. Rather than assuming that bankers carefully conceived and followed some master plan, pursuing geostrategic axes across the Mediterranean for instance, the focus is on situative constellations of decision making.[13] Profits, on which all banking houses depend, are not neglected here. However, the analysis also includes bankers' statements preserved in the archives where they speak of additional and/or sometimes completely different kinds of motivation: their burning Philhellenism, their emotional enthusiasm for Greek antiquity, their drive to further their own reputation or improve their political relations, their fear of the competition, their dependence on once-chosen paths, their imperial fervour, to mention but a few. In banking history research, such findings, reflections and explanations tend to be dismissed as hollow, legitimating phrases, as 'obvious pure ideology' (Reitmayer 1999, 207, tr. by K.S.). However, findings from behavioural psychology and historical emotions research suggest that such statements should be taken seriously: they play an important role in the self-perceptions of financial market actors and significantly influence their decision making through various justification mechanisms.

This work thus adopts a meta-meta perspective (Gillespie 2008): observing the European bankers while they observed Greece. How did the bankers make their decisions, e.g. how did they differentiate between danger and risk, between investment and speculation, between trust and control? What risk strategies did they have and how did these strategies change over time?[14] The explicit focus is on bankers and not on other investors such as private individuals, who are much more difficult to trace in the sources and whose inclusion would require not only qualitative, but also quantitative methods. Most attention is paid to the long-term investments of bankers in industry, in the banking sector and in Greek state bonds, particularly project financing (Gourvish 2008), where it is much more difficult to determine potential risk in advance than is the case, for instance, with the granting of credit. Even today, it is not possible to measure the so-called operative risk of such project finance; due to the many incalculable factors involved, it can at best be estimated in terms of categories (Hughes 2007, 27f.). How did the bankers deal with this operative risk? The aim of this research is to analyse their decision-making processes with reference to Greece, combining the approaches of banking history and cultural history.

What types of bankers are we dealing with? In the nineteenth century, European banking was in a phase of profound change. The so-called merchant banks of the early modern period dealt with exchange and finance business as just *one* branch of their activities alongside trade, but around the end of the eighteenth century, banks developed that focused, sometimes exclusively, on financial matters (Chapman 1984). These were initially only private banks run by one family or individual. In the course of the nineteenth century, the face of the international capital markets and thus the banks then changed fundamentally. While at the beginning of the century government bonds offered the highest profits, by the end of the century industrial finance played a decisive role (Cottrell 1980).

At the same time, other new business formats developed as members of the European middle classes looked for investment opportunities for their savings. In Great Britain, the founding of joint-stock banks was permitted from 1825 (Cassis 1990, 74f.; Kynaston 1994, 40), and they then spread across the continent in the following decades (ibid., 2012, 69).[15] This form of organisation allowed the public to invest even smaller sums in large projects and thus promoted capital accumulation, which was most necessary for industrial growth. This development brought new challenges for bankers as the new financial products required specialised, trained salespeople and involved new bureaucratic and administrative tasks. Hired managers took over the business of these banks and, in the context of corporate governance, were required to report to supervisory boards and shareholders at regular intervals, legitimising their actions. This led to a professionalisation of the field (Litterer 1986; Burhop 2007; Kurgan-van Hentenryk 2008; Feldman 2008, 292; Dahlem 2009; Wylegala 2017), to the development of systems of experts in specific legal constellations with honed information-processing abilities (Berghoff 2004, 68). The various interests of the investors and managers needed to be communicated in order to ensure the viability of joint-stock banks, and the increasing bureaucratisation that ensued could also lead to a division of responsibilities (Baecker 2008, 153). There is controversy in the research field as to whether nineteenth-century managers of joint-stock banks were more willing to take risks than family bankers because they were not risking their own capital,[16] or whether they were actually more risk-averse because they bore responsibility for the money entrusted to them by shareholders (Schönhärl 2017b). In principle, both shared the same criteria of risk evaluation (Pohle-Fraser 1999, 108). It should, however, be emphasised that banking behaviour and the practices of risk management were deeply influenced by culture and could therefore vary greatly from country to country and from financial metropolis to financial metropolis (Cassis 1994; Feldman 2008, 291; Dilley 2009; Williamson 2010).[17]

With the increasingly international focus, techniques of risk management became evermore significant in the banks, who, at times following their industrial customers, ventured beyond their familiar and pragmatically manageable world of experience (Schütz/Luckmann 2003, 33; Tarrade 2012), in some cases into the Mediterranean area, in some cases into South America or Asia. The capital markets are also said to have experienced a first wave of globalisation in the nineteenth century, although a strong focus on Europe remained evident.[18] The banking houses that followed this development[19] were faced with uncertainties that required an offensive, risk-oriented course of action, but they also had to hedge these risks (Berghoff 2004, 71). To this end, some of the banks developed international networks. The Rothschild family is a well-known example. The sons ran branches in Frankfurt, Naples, London, Paris and Vienna, and supported one another in raising investment funds and in crises (Ferguson 2002). Many interconnections through marriage and strong loyalty relations safeguarded family businesses of this kind.[20] However, such networks were based not only on family, but could also include compatriots in the diaspora. Thus in the nineteenth century, the merchant bankers who originated from the Greek island of Chios developed a dense network of bases that covered the whole of Europe, enabling trusting cooperation and flat hierarchies (Dertilis 1995;

Harlaftis 2005; Minoglou 2002a, 2005; Christ et al. 2015). Religious communities could also form the basis of such networks (Δρίτσα [Dritsa] 1998, 304–344).

When talking about the risk management of banks, it is first necessary to define the term 'risk', a concept that has recently attracted growing interest among historians (Asmussen et al. 2014; Itzen 2016; Mohun 2016; Brakensiek et al. 2017). The earliest attempts at finding a definition date back to the 1920s (Knight 1921). Risk can be defined as the possibility that certain actions will lead to damage or losses. Risks thus refer not to the unpleasant circumstances of an uncertain world, but rather to the results of decisions made by economic actors (Hahn 1998, 49; Baecker 2008). Risks can always be linked to an actor's decisions, in contrast to external dangers that actors cannot influence.[21] Depending on how a particular situation is interpreted, it can thus be perceived as either risky or dangerous (Hahn 1998). While economic logic dictates the avoidance of dangers that cannot be influenced, risks arising from decisions may be sought out if profitable. Economic actors can derive profit from the contingency of future developments by receiving payment for assuming the risks (risk premium) (ibid., 49). This is particularly true for banks: they assume responsibility for compensating the time differences that constantly occur in the economy (Luhmann 2009, 8) and thus deal with promises of payment for a contingent future (Baecker 2008, VIf.). They secure the safety of payments through continued rescheduling and handle different types of risks, e.g. risk of fraud, risk of insolvency, risk of illiquidity and risk of default. Generally speaking, the banks run the risk that they may not be able to maintain the ability to meet their obligations (ibid., 108–112).

Banks are thus constantly faced with the decision to accept or reject risks. Indeed, their business is unimaginable without risk. The most important aim for bankers is (and was) not to be taken in by an illusion of security, because this would damage the chances of identifying and allocating risks.

> The only security that can be won in this situation is found by consciously engaging with risk structures that consist of a network of sufficient actors who are able to reveal, understand and, using their own resources, master that part of the risk that they assume.
>
> (Baecker 2008, V, tr. by K.S.)[22]

Nonetheless, bankers are often required to portray themselves to the public and policymakers as risk-averse because it 'is only by visibly maintaining the impression of risk aversion, and thus creating a fiction of security, that banks can act undisturbed by governmental and other public interference' (Pohle-Fraser 1999, 2). This leads to an unrealistic public image, such that 'banks' risk aversion has become a sort of doctrinal opinion' (ibid., 48).

Once risks have been identified, the next step is to develop methods for dealing with them. Through their risk management, the banks attempt to position themselves as profitably as possible in relation to the options for risk assumption in the market (Baecker 2008, 125). Risk management is undertaken on three levels: firstly, through observation of the market to identify profitable business opportunities; secondly, through risk management within the organisation to regulate the conditions of risk assumption and thirdly, through the design of financial instruments to split risks (ibid., 126). The latter includes the transformation or sharing of risks (unbundling of risks) (ibid., 135), e.g. by distributing risks among a number of partners.

This investigation thus explores the techniques used by nineteenth-century European banks to filter the noise of their environment in relation to Greece and to reduce the complexity of their decision-making situation. Which past experiences did banks draw upon (ibid., 36)?[23] Which paths and what methods did they choose to try to gain information, including the use of technological innovations (Müller 2016)? Which information-gathering practices were viewed as acceptable in banking circles (Simmel 2013, 278)? How did they deal with the constant information gaps and nonetheless take decisions? It should be noted here that the banks did not just passively receive information, but rather actively generated it themselves (Pohle-Fraser 1999, 373). Overcoming information asymmetries, including those that exist with customers ('brokerage'), is a core concern of the banking business (Battilossi 2008, 75–96, 78). It was thus essential that the banks possessed precise knowledge about the Greek market and the other actors involved, and an in-depth study of risk-management techniques in the private sector, as called for by Hartmut Berghoff, thus promises new findings and insights on industrialisation and globalisation (2004, 66).

Complete knowledge of one's counterpart that would allow a prognosis of his or her actions is as impossible in economic relations as in other forms of social interaction. Such actions are always contingent (Simmel 2013, 268, 274).[24] In the economic context, new institutional economics has established that increased control over a business partner is linked to increased transaction costs, whether these are caused through gathering information, monitoring or auditing (Berghoff 1999).

Such transaction costs can only be reduced if business partners, while fully aware of the risks (Ripperger 2005, 37f.),[25] decide to trust one another (Berghoff 1999, 59). Trust can be defined as a 'mechanism for stabilising uncertain expectations and reducing the associated complexity of human action' (Ripperger 2005, 9, tr. by K.S.). Trust should be clearly distinguished from hope because trust always involves awareness of the risk involved. Thus, 'trust reflects contingency, hope eliminates contingency' (Luhmann 2009, 29, tr. by K.S.). The recognition that economic action is not possible without a basis of trust can be traced back to the beginnings of sociology, e.g. in Georg Simmel's study of the nature of money (Simmel 1900).

> Trust as the hypothesis for future behaviour, which is certain enough thereby to ground practical action, is, as hypothesis, a middle position between knowledge and ignorance of others. Someone who knows all need not *trust*, someone who knows nothing cannot reasonably trust at all.
>
> (Simmel 2009, 315)

In recent decades, political sciences (e.g. Hartmann/Offe 2001), sociology, anthropology and economics have developed completely different notions of the phenomenon of 'trust' without arriving at a consensus concerning its genesis or, indeed, even attempting to do so (Fukuyama 1995, 493).[26] Ute Frevert's attempt to operationalise trust, or confidence, for historical analysis suffers from the lack of a clear, analytical definition.[27] She describes the nineteenth century as the 'century of trust' but simultaneously views the term as 'attractive, but vague and dubious' (Frevert 2003a, 43, 65, tr. by K.S.). Others are more concrete, e.g. Marek Korczynski distinguishes between trust in governance structures, trust in personal relations in line with Mark Granovetter, knowledge of the internal norms of the other party and system trust (Korczynski 2000, 5). However, this still does not allow the term to be operationalised.

This investigation therefore employs the understanding of 'trust' developed by Tanja Ripperger, who draws on the approach of new institutional economics. Trust or confidence between business partners is not viewed as an end in itself or as a moral value, but as an important competitive factor that can help to sink transaction costs (Ripperger 2005, 262).[28] Francis Fukuyama argues similarly, linking the high performance of certain industrial societies such as Japan or Germany to the social trust inherent to them. He suggests that these high-trust preconditions are important for economic success, although they are derived from non-economic areas of life (Fukuyama 1995, 150).[29]

When information is incomplete, the role played by trust in the principal-agent relationship is particularly vital. The principal intentionally decides to overcome information gaps concerning the intentions of the agent by extrapolating from existing information, for instance, by trusting his or her assessment or by generalising from previous experience with the same group (Ripperger 2005, 133). In the end, however, trust is a voluntary act and any reasons given to explain it serve only to legitimise a decision that cannot be based on pure rationality (Luhmann 2009, 31). Demanding or providing detailed factual information or evidence contradicts the nature of trust (ibid., 37). The principal actually achieves more with an irreversible investment, for instance, a contract or a risky advance payment. If this is not exploited by the agent, then this forms the starting point of trusting collaboration (Ripperger 2005, 131). As this collaboration is further consolidated, it becomes easier to do without means of control and safeguards against opportunistic behaviour and 'moral hazard' (ibid., 268).

When considering transaction cost theory, it is nonetheless important not to lose sight of the fact that bankers are 'businesspeople of flesh and blood, who rely more on experience and feelings, on everyday influences and ethical norms than on calculations of transaction costs' (Berghoff 1999, 174, tr. by K.S.). Decisions concerning trust are also influenced by the emotions of the moment. This makes it problematic to retrospectively classify bankers either as responsible and honest merchants or as speculators, depending on whether their business deals were successful or not, an approach that is often taken in banking history. Analysis should rather focus on the state of knowledge of the bankers at the time of their decision making (Pohle-Fraser 1999, 45–48).[30]

The question thus arises as to how the Greek financial market and its actors were able to win the trust of the West European bankers. Here, it is necessary to consider what factors were favourable for the development of trust in the nineteenth century generally and within the group of bankers in particular (Fukuyama 1995, 480). It seems likely that assessment of the potential business partner may have been much more important in developing a trusting relationship than the project itself, as can indeed still be the case in contemporary banking (Baecker 2008, 114). Mechanisms of fostering trust and building confidence in the nineteenth century have, for instance, been researched by David Sunderland (2007), who investigated the development of social capital in English society with regard to the use of clothing, language and objects and the role played by gifts, reputation and interactions with peers in the context of visits to the theatre, museums or art galleries.[31] The focus here is thus on symbols that demonstrate trustworthiness and generate social capital (Luhmann 2009, 36).[32] Newer approaches have moved away from viewing reputation as monolithic and think of it rather as multiple in nature and even as contradictory for different audiences; in all cases, reputation is understood as mediated (Olegario/McKenna 2013). Morten Reitmayer (1999) has investigated questions of social profile and habitus in German banking circles,[33] while for British circles, there are many relevant references to this field in the work of Youssef Cassis (1991, 53–71, 1995, 2015), David Kynaston (1994), Susie J. Pak (2013a, 2013b) and Christopher Kobrak (2013), as well as in the research of Lucy Newton (2000). Here, the focus is primarily on strategies of fostering and maintaining reputation as part of a generalised aspiration to social capital which could multiply an actor's potential impact (Ripperger 2005, 225f.).[34] It should be noted here that no firm or country was able to completely control its external image as this was influenced by many unmanageable factors (Olegario/McKenna 2013). Philanthropy research also provides interesting findings on the significance of social capital in the context of charitable activities such as donating and collecting among the middle classes, as was intensively practised by the Philhellene movement (Ostrower 1995; Adam 2009; Adam et al. 2009). Approaches from the field of postcolonial studies draw attention to the role of intermediaries like brokers in the development of trust and reputation and the initiation of business deals.[35] The term is clearly much more widely conceived here than is usual in banking history.[36]

Decision making in banks: notions from behavioural finance

Trust was, however, only *one* alternative for the bankers. The range of motives underlying the investment decisions of bankers was much greater than may be captured by transaction cost theory, notions of social capital or philanthropy research, especially as monocausal approaches should be avoided.[37] How then is it possible to grasp the entire spectrum of possible reasons for an investment decision (Samakovitis 2012)? Findings from behavioural psychology are helpful here. Choice theory intensively researches factors relevant to decision taking and 'has uncovered substantial and systematic regularities in how people make decisions' (Allingham 2002; LeBoeuf/Shafir 2012, 301). The need to supplement the rational choice model was recognised decades ago as it became clear that the notion of rational utility maximisation was unable to supply answers to questions concerning the different levels of success of national economies or the phased nature of financial market volatility (Fukuyama 1995, 351). The assumption that individuals always choose the most profitable alternative has lost ground vis-à-vis more differentiated models and the idea of 'bounded rationality' (Gigerenzer/Selten 2001a). These findings from behavioural and cognitive psychology are applied to the financial sphere by behavioural finance in an attempt to provide explanations for the decisions actually made by those active in the market (Daxhammer/Facsar 2012, 75). This also allows consideration of discrepancies between the reasons underlying a particular decision and the way that decision is justified in public.[38] The approaches can be operationalised for banking history and used to highlight interesting questions and open up new perspectives, even if it is clearly not possible to test the modern theories with historical material.

Behavioural finance views the perception of risks as the process 'by which an individual is in search of preeminent clarification of sensory information so that he or she can make a final judgement based on their level of expertise and past experience' (Ricciardi 2008b, 86). Risks are perceived very differently by different individuals, and it is this subjectively perceived risk, which may differ greatly from 'reality', that is decisive in a decision-making situation (ibid., 87f.).[39] Attempts to quantify risks are thus doomed to failure (Tanner 2005, 129). 'Essentially, perceived risk is a person's opinion (viewpoint) of the likelihood of risk (the potential of exposure to loss, danger or harm) associated with engaging in a specific activity' (Ricciardi 2008b, 88). It follows that the perception of risk can be understood as a highly individual method of organising and interpreting the sensations through which a person makes sense of his or her surroundings. Joseph A. Litterer describes perception as a process with two external factors: an overwhelming amount of information that caves in on the individual on the one hand, and the past experiences and values of that person on the other hand.[40] He goes on to describe three internal factors influencing the perception of the decision maker: selectivity, interpretation and closure. Selectivity refers to the conscious and unconscious choices of specific pieces of information as a mechanism to reduce information overload, which is necessary due to the limited capacities of human minds. Interpretation describes the way in which the same stimulus can be differently perceived by different actors, depending on their past experiences and values. Closure recognises people's preference for a complete and comprehensive image of a decision-making situation that makes sense in the context of the actor's experience. In order to construct such an image, any missing information may be supplemented to create consistency and contradictory information may be neglected to avoid cognitive dissonance. The risk perception created by this mechanism serves as a basis for the pending decision (Litterer 1973, 89f.).[41] In this way, events and sequences of events can be organised into meaningful stories that structure human memories and can significantly influence economic behaviour (Akerlof/Shiller 2009, 84–92).

> We are confident when a story we tell ourselves comes easily to mind, with no contradiction and no competing scenario. […] The associative machine is set to suppress doubt and to evoke ideas and information that are compatible with the currently dominant story.
> (Kahneman 2011, 239)

Thus, it is clearly impossible to speak of a dominant strategy of utility maximisation. Although the preferences of actors on the financial market are viewed as stable by classical finance research, behavioural finance investigations suggest that they are actually multifaceted and changeable, and often only emerge in the course of the decision-making process. Such preferences can be egoistic or altruistic or a mixture of the two. Investors often strive to satisfy their expectations rather than to maximise their profits. They thus do not pursue the optimal solution, but are satisfied with the first option that meets the goals they have set themselves. They are seldom aware of the consequences of their actions and the entire range of alternatives available in the contingent future. Decisions are directed by the so-called heuristics, which can be described as rules of thumb that are firmly anchored in the mind (Daxhammer/Fascar 2012, 78) or as 'mental shortcuts or strategies derived from our past experience that get us where we need to go quickly, but at the cost of sending us in the wrong direction' (Ricciardi 2008b, 96). They allow market actors to remain functional in widely varied economic situations and are a quick and efficient way of coping with information overload. It would be misleading to suggest that heuristics are per se irrational, as they can lead to the fulfilment of personal goals – indeed, they often make it possible to actually arrive at the point of taking a decision in complex situations (Daxhammer/Fascar 2012, 78). Prospect theory focuses particularly on such mechanisms of decision making in uncertain conditions and thus explains decisions that are extremely inconsistent with a neoclassical, rational evaluation of probabilities and expected utility (ibid., 175).[42] Decision makers tend to prefer to utilise easily accessible, clearly presented and fresh information rather than complicated or old information; they see easily imaginable scenarios as more probable than those that are difficult to envision or remember; and they trust familiar sources of information more than unknown sources (availability heuristic). They feel more secure in situations that they believe they can control than in ones where they are forced to remain passive (perceived control); they tend to overly trust in their own abilities and knowledge (overconfidence) (Glaser/Weber 2010, 241–258); they view the avoidance of losses as more important than the achieving of gain (loss aversion); they make selective decisions by continuing to invest in non-profitable businesses to achieve turnaround and success after all (sunk-cost effect) (Daxhammer/Fascar 2012, 226). They tend to interpret new situations in the light of past situations, even if this is inappropriate (representativeness) (Taffler 2010). They allow themselves to be influenced by the presentation of a decision-making situation, e.g. through the use of particular vocabulary (framing); they overrate their first impression of a situation or retain references that were adopted earlier without incorporating newer information (anchoring); they privilege familiar data over unfamiliar (familiarity bias (Foad 2010), when concretely related to the home region then home bias (Tesar/Werner 1995)); they blindly trust experts (expert knowledge); they make decisions based on emotions, affects or intuition (affects/feeling) (Ricciardi 2008b, 95–105); they join in or follow the actions of other market actors, at times even ignoring their own information (herding) (Forbes 2009, 221–238; Daxhammer/Fascar 2012, 98–101, 192–194). Or they focus on fictional pictures of the future that are imagined in narratives, theories or discourses (Beckert 2013, 2016). As well as such individual factors, cultural factors can influence the long-term willingness of a specific group to take risks (Ricciardi 2008b; 105; Dilley 2017) and can also affect assessments of financial markets in particular countries (Williamson 2010, 631). Overall, it can be said that many decisions are actually made because they feel right, because of gut instinct (Akerlof/Shiller 2009, 33).[43]

This decision-making model is in no way compatible with the neoclassical capital market theory that sees all information about market activities as being captured by the pricing mechanisms of an efficient market (Ricciardi 2008a). Indeed, such a notion fails to satisfactorily account for the pronounced price fluctuations on the financial markets (Akerlof/Shiller 2009, 190). It assumes that investors make purely rational decisions based only on prices. This is not the case today and it was not the case in the nineteenth century. Numerous studies in the field of behavioural finance have rather shown that the rationality of actors on the financial markets is limited; they are 'remarkably illogical regarding their money, finances, and investments' (Ricciardi 2008b, 91). It may be helpful to think in terms of a 'homo oeconomicus humanus' who is often influenced by cognitive and emotional factors (Daxhammer/Fascar 2012, 77). His or her preferences may be based on selfishness, but also on altruism or morality, or on a mixture. Interesting results have been gained from research on green and ethical investment, which excludes products linked to animal testing, the weapons trade, environmental pollution or other morally questionable investment fields. Researchers have demonstrated that while those who practise ethical investment are certainly interested in profits, they are also keen to maintain a consistent lifestyle with all the associated moral implications (Cullis et al. 1992; Lewis/Mackenzie 2000).[44] They are examples 'of people putting their money where their morals are, bringing their values systems in line with their economic behaviour' (Lewis/Mackenzie 2000, 6). Of relevance here is the idea held by many investors that the 'nice guys' will make higher profits in the long run because ethically correct firms will come to dominate the market (ibid., 36). At the same time, many investors hope that the markets and the world will be morally improved by their actions and want to preserve their moral integrity, even if they are not necessarily on the left wing of the political spectrum (ibid., 49). Albert O. Hirschman described voice-and-exit strategies of this sort as early as 1970 (Hirschman 1970). Many investors are willing to accept reduced profits or even losses in this cause, even though their portfolios seldom consist only of ethnical investments. 'The raison d'être for our participants is putting their moral commitments into practice' (Lewis/Mackenzie 2000, 68). The origin of the money also plays a role for investors, i.e. whether it is inherited or independently earned.

It is, of course, impossible to simply apply psychological and finance models developed in the second half of the twentieth century to actors of the nineteenth century, as the existence of anthropological constants cannot be assumed. The historical context differs in many ways. For instance, especially at the beginning of the nineteenth century, it cannot be assumed that all actors had equal access to a range of information and thus simply needed to differentiate between the relevant and irrelevant. It was rather the case that networks of sources needed to be painstakingly established and maintained, as the example of the house of Rothschild demonstrates (Liedtke 2006). Heuristics should therefore be understood as culturally influenced and rooted in time and space (Gigerenzer/Selten 2001b, 9). However, the aim here is not to test modern models with historical data, but rather to open up new perspectives and stimulate inspiring questions that widen our view of the way in which European bankers of the nineteenth century made their investment decisions.[45] Furthermore, this approach allows a coherent narrative to be developed and tie together the case studies. In contrast to the dominant image of the classical economy, the picture of the economy that emerges is open to emotions, an aspect that has attracted a great deal of historical interest in recent years.[46] Furthermore, ethical perspectives also receive attention. For instance in Amitai Etzioni's new social economy, people are viewed not only as individuals, but also as members of communities which they support by prioritising the interests of the community over their own interests and accepting social and ethical obligations (Etzioni 1988, X; Reese-Schäfer 2001, 83). The focus is not only on various possibly moral preferences; rather, markets are more generally understood as not being completely regulated by prices. Consideration of power is also integrated into this approach (Etzioni 1988, 217–236; Reese-Schäfer 2001, 85–87).[47] Albert O. Hirschmann also emphasises the ability of market actors to reflect on their preferences on a moral level and to develop meta-preferences (Hirschmann 1970, 227f.).

In this investigation, the Greek financial market of the nineteenth century is thus not understood as efficient and solely controlled by prices, but rather as constructed in the heads of the bankers with all their preferences and emotions. The primary focus is on how the perception of this financial market occurred.[48] What information was available to the bankers? What did they select as being relevant and how did they interpret it based on their past experiences and their value systems? Which information did they supplement in order to render their impressions meaningful and to form closed images and visions of the future? What stories about Greece did they tell? These questions offer numerous points of access for banking and cultural-historical approaches. The biographies and careers of the actors are investigated in terms of their experiences, their 'biographically determined planning hierarchy' (Schütz/Luckmann 2003, 50, tr. by K.S.), the decisions that they make and the financial practices that they use, but also in terms of any relationships to Greece that may exist. Their value systems are analysed against the background of financial practices and banking norms typical of the time. The images of Greece that were meaningfully constructed through the so-called closure are reconstructed in the context of the reception of Greece among their contemporaries. The questions inspired by the behavioural finance approach thus make it possible to investigate the decisions of European bankers in the light of their perceptions of Greece, moving beyond financial topics to connect banking and cultural history (Löffler 2010). Banks can be understood as 'socially-constructed and historically-specific institutions whose functions and performance are dramatically shaped by the social structure, the cultural environment, and the legal and political set-up' (Battilossi 2008, 77). The intention is to free banking from some of its reputation as a 'cold and impersonal discipline' (Green 2008b, 14) and to render the history of banking more compatible with general history. Whether the historical findings contribute towards the process of risk management in modern-day banks remains an open question.[49]

Structure of the book

The main part of this book consists of nine case studies that shed light on the central investment projects of foreign financiers. They cover the most important fields of European investment activity in Greece: government bonds, investments in banks and direct investments in the economy. The choice of case studies was also influenced by the available sources, the conditio sine qua non for an in-depth analysis. In the selected cases, the sources allowed the detailed investigation of the decision-making situations and the risk management of the bankers involved – the only way for a historian to achieve reliable results on this individualised micro-level.

The first case study begins with the Greek Revolution and deals with the earliest Greek loans issued on the London Stock Exchange in 1824/1825 with the support of the London Philhellenic Committee. Chapter 2 then turns the spotlight on a key actor, Jean Gabriel Eynard, a great friend to Greece resident in Geneva. His activities are traced in detail up to the founding of the Greek National Bank (ETE) in 1841, which he initiated. The centre of attention is thus the continuation of Philhellene commitment in a phase when Western Europe was characterised by great disillusionment about the realities of the Greek situation. The third chapter considers another case of sustained devotion to Greece, focusing on the von Eichthal family, whose members were based in Munich and Paris, and their financial and cultural activities in Greece from the 1830s until the 1870s. This chapter hence presents a longer term view of several decades.

Convinced Philhellenes did not, however, play much of a role in the project considered in Chapter 4, even if antiquity was relevant. The case study concerns the development of the silver and lead mines of Lavrion in the middle of the 1860s, financed by French investors, and links back to the traditional mines of antiquity on which the wealth of Athens was once based.

The political context of such investments is considered in the following chapter. The fifth case study is concerned with the new phase of Greek foreign loans from 1879 to 1893, when within a few years more foreign capital flowed into the country than ever before. Of particular interest here is the German banker Gerson von Bleichröder, Otto von Bismarck's house banker, and the reasons for his commitment to Greece.

Chapter 6 examines the building of the Canal of Corinth, pursued at the same time but in a completely different field and initiated by France. The canal was intended to complete a project begun in antiquity to allow ships to avoid sailing around the Peloponnesus and facilitate trade in the Mediterranean.

This consideration of infrastructure is followed by an investigation of agriculture, more precisely the draining of the Copais marsh. This occurred at the same time as the two preceding projects and also has deep historical roots, as the draining of the marsh was first undertaken in Mycenaean times, allowing the fertile land to be cultivated.

The phase of new debt that attracted these large international investments to the country was followed by Greece's bankruptcy in 1893, which forced the country to accept an international financial commission in 1898. The role played by this commission in rekindling international trust in Greece forms the focus of the eighth chapter. Chapter 9 also considers the regaining of trust, this time through investigation of an early twentieth-century currant trading company, which aimed to optimise sales of this important export on the international markets.

Although the chronological order is not consistent, taking second place to the thematic focuses, the case studies nonetheless provide an overview of the overall development of the Greece economy in the nineteenth century. The fields that were touched by foreign investment also represent the most important pillars of Greek economic development: state finance, the property trade, mining, infrastructure (railway and canal construction), agriculture and trade. Simultaneously, the research traces 90 years of banking history. This was a time in which banking changed significantly; the financial markets at the beginning of the twentieth century differed greatly from those of the 1820s, both in terms of actors and of mechanisms. Although these changes are not the focus of attention here, they are often of relevance in explaining the institutional context of the investment decisions.

State of research

This research is able to draw on previous work in manifold regards. While a focus on questions of risk management is rare in banking history investigations (Hollow 2013, 2017), perhaps linked to the fact that the practice of identifying risk structures in banks is not straightforward (Baecker 2008, 138), the promising potential of this perspective has certainly been recognised.[50] Of particular note is the (unpublished) work of Monika Pohle-Fraser, who investigates risk management of German and French banks in the nineteenth century. Repeated reference is made to this research in the course of the discussion (Pohle-Fraser 1999). In addition to the work on habitus and social capital mentioned earlier, the 'human factor in banking' has received attention in newer banking history research (Green/Pohle-Fraser 2008; Demont 2011),[51] with its importance being acknowledged at least since the 1950s:

> In order to understand banking history it is indispensible to see the banker embedded in his familial, social and political context, which in part determines his professional activities.
>
> (Gille 1959, 271, tr. by K.S.)

Furthermore, studies of foreign investment exist for all the countries considered here (Great Britain, France, Germany and Switzerland). These are helpful in demonstrating the scale of the Greek investments and analysing the market as a whole, and also because they frequently pursue the question of the relationship between banking and politics as well.[52] In the case of the Ottoman Empire, a number of investigations focus on investments from various countries in a specific region (Clay 2000; Eldem 2005; Cottrell 2008a, 2008b; Geyikdağı 2011).[53]

There is a great deal of research on direct investments in the Greek economy[54] which presents their institutional and legal frameworks (Pepelasis 2011). This is also the case for the political history of modern Greece in the phase of nation state building and 'modernisation'.[55] Greek banking history is similarly well researched (Dertilis 1988; Κωστής, [Kostis]/Τσοκόπουλου [Tsokopulos] 1988; Pepelasis 2009).[56] This is particularly true for a number of banks such as the Ionian Bank (IOB) which was founded on the Ionian Islands in 1863 and became a Greek bank when the islands became part of the Greek state. The history of this bank is so well researched that it is only occasionally touched upon here, particularly as it was founded in the British era rather than the Greek (Cottrell 2007; Δερτιλής [Dertilis] 1980). In recent years, intensive research has also been directed towards Greek diaspora bankers throughout the world, in particular in the European metropolises and in Constantinople (Chatziioannou/Harlaftis 2002; Minoglou 2002a; Ioannides/Minoglou 2004; McCabe et al. 2005; Tziobas 2009; Calapodis 2010; Chatziioannou 2010; Sifneos 2011; Lyons/Mandaville 2012; Elo/Minto-Coy 2019). Even though this group of bankers is not the focus of the present investigation, this body of work provides interesting information about networks and individual brokers.

Numerous studies from the beginning of the twentieth century right up to recent years tackle the foreign loans taken out by Greece (Ανδρεάδης, 61T61T[Andreadis] 1904, 1925, 2010; Levandis 1944; Wynne 1951; Kofas 1981; Ηλιαδάκης [Iliadakis] 2011; Tsoulfidis/Zouboulakis 2016, Ψαλιδόπουλος [Psalidopoulos], 2019). There are even several publications on foreign direct investment in Greece (Γιαννίτσης [Giangitsis] 1977; Pepelasis/Varvaritis 2016), although some of these are strongly rooted in the Greek socialist research tradition and thus assume a Marxist standpoint that assesses all foreign investment negatively (Δραγούμης [Dragoumis] 1901; Στεφανίδης [Stefanidis] 1930; Μπελογιάννης, [Belogiannis] 1998).[57] All these investigations adopt a Greek perspective on the foreign investments rather than that of the financier investing. This is also true of studies of the individual projects considered here: the silver mines of Lavrion (Δερμάτης [Dermatis] 2003), the Canal of Corinth (Παπαγιαννοπούλου [Papagiannopoulos] 1989), the draining of Lake Copais (Papadopoulos 1993), the construction of the railways (Παπαγιαννάκης [Papayiannakis] 1982) and the currant trade (Πιζάνιας [Pizanias] 1988; Franghiadis 1990). Only Hubert Bonin's work on

French investments in Greece since the mid-1880s selects an alternative perspective and focuses on the bankers concerned. However, Bonin pays little attention to the cultural-historical dimension of the topic or to the processes of decision making, concentrating instead on the business and geostrategic interests of the banks and the French state in the Mediterranean area. His focus is on the development of business relationships between French and Greek banks in the last decades of the nineteenth and twentieth centuries (Bonin 2013).[58]

Turning to the cultural-historical dimension of the topic, the reception of Greece in Europe, extensive research has been directed towards Philhellenism at the time of the Greek struggle for independence in all the countries considered here (Penn 1936a, 1936b; Dimakis 1968; Dünki 1984; Quack-Eustathiades 1984; Hauser 1990; Noe 1994; Ruge/Konstantinou 1994; Heydenreuter 1995a, 1995b; Irmscher 1998; Landfester/Lessenich 2006; Βακαλόπουλος [Vakalopoulos] 2008; Prévélakis 2008; Barau 2009; Klein 2009; Maufroy 2011; Mazurel 2013; Meyer-Eisenhut 2013). Much less attention has been paid to the period after Greek independence until the First World War, but there are nonetheless several profound investigations for this period (Clarke 1989; Basch 1995; Tourraix 2000; Konstantinou 2008; Mylona 2014).[59] A great deal of research has been conducted into travel literature about Greece (Angelomatis-Tsougarakis 1990; Meid 2012; Mylona 2014). There are also a number of publications concerned with the reception of the Balkans in Europe, following the postcolonial tradition of Edward Said (1978). Marija Todorova (1997) sees the region as a bridge between the perceived 'other' of the Orient and the 'self' of Europe,[60] a hypothesis that proves extremely applicable to a nineteenth-century discussion about and in Greece concerning whether the country was now part of the 'West' or the 'East'.[61] Just as Todorova describes for the Balkans as a whole, certain contemporaries presented Greece as a peripheral part of the 'self', suggesting that its otherness and deviations endangered the order and certainties of the 'self'. In this way, Greece was said to be strongly influenced by the Orient but lacking its fairylike charm (Basch 1995, 30). The construction of such images clearly reveals the way in which new information may be made to fit with well-known images by ignoring details that are not compatible with the existing construct, as described by behavioural psychology. Furthermore, the social learning of images saves individuals the costs of learning or experimenting themselves (Henrich 2001).

However, Greece can be understood as part of the European 'South', which has also been the object of research in recent years. Benjamin Schenk and Martina Winkler base their investigations on the concept of 'mental maps', cognitive maps in people's heads that connect a region to a set of associations (Schenk/Winkler 2007b, 8). The South seems to appear as a place of sunshine and mild climate with a rich history and tradition, simple ways of life and relaxation (ibid.). Since the nineteenth and twentieth centuries, these pictures have been joined by images of economic backwardness, corruption, political chaos and criminality (ibid., 12). In the light of these reflections and discussion concerning the term 'historical region', a lively research landscape has developed on the history of the Mediterranean (Bourguet et al. 1998; Berndt/Pütz 2007; Troebst 2007; Borutta/Lemmes 2013; see also Consiglio et al. 2012; Dabag et al. 2014; Lichtenberger/Rüden 2014), also tackling, at times critically, Fernand Braudel's famous study of the Mediterranean from 1949 (Braudel 1949; Borutta 2016).

Sources

Unpublished sources on the history of foreign investments in Greece are found in the archives of the French, British and German banks which were involved. They are generally easily accessible for research purposes. The political archives in England, France, Germany and Greece also hold illuminating material on the investment activities of the domestic banks abroad, in particular the files of the foreign offices; this is, of course, also true of the Greek state archive. It was also possible to view the estates of individual politicians and bankers in special archives, e.g. the estate of the Swiss banker Jean-Gabriel Eynard in the Bibliothèque de Genève, the estate of the Greek prime minister Charilaos Trikoupis in the Hellenic Literary and Historical Archive (ELIA) and the bequests of the London Greek Committees (LGC) in the Athens National Library. The archives of the Greek national bank (ETE) also deserve explicit mention as they hold a plethora of materials (Λιάτα [Liata] 1980). The bank archives contain not only correspondence between the bankers and between bankers and politicians, but also balance sheets, statements, syndicate lists, reports and assessments that shed light on the individual investment projects. The Crédit Lyonnais (CL) archive even holds a report by an envoy of the bank about his two-month trip to Greece and a short description of all the Greek banks and their creditworthiness, an extremely interesting document with regard to information procurement and risk management.[62] In individual cases, handbooks for nineteenth-century bankers were also used to better understand the general practices of risk management (Rae 1850, 34ff.).

In addition to unpublished sources, there is also a wealth of published material. Memoranda, collections of documents or pamphlets of great use to the historian tended to be published particularly in cases characterised by conflict between the investors and the Greek government or Greek partners, for instance concerning the mines of Lavrion (Cordella 1864; Serpieri 1871a). Both the Philhellenes and, in the second half of the nineteenth century, various other interest groups published extracts of their work or correspondence for publicity purposes (Comité de Genève en faveur des Grecs 1826a, 1826b; N.N. (Ioannis Gennadios) 1878). Other printed sources include numerous descriptions, travel reports, memoirs and economic reports about Greece (Cheston 1887a; Théry 1905) and the documents published by the foreign offices (Bourne et al. 1987; Gaschke 2006).

An additional important source is contemporary newspaper coverage about Greece, particularly financial journalism, published in the international press, which underwent intensification and diversification during the research period (Taylor 2013; Schwarz 2016). Thematically catalogued compendiums of press cuttings on Greece collected by some of the banks and by the foreign offices were of some use here.

Notes

1 Tr. by K.S.

2 The term Greece-bashing, which describes the aggressive reporting on Greece found in much of the German media since 2010, is defined in Bickes et al. (2015, 326). At the first peak of the financial crisis, even the well-reputed Frankfurter Allgemeine Zeitung included extensive quotes from the work of the Frenchman Edmond About, one of the most vehement nineteenth-century critics of Greece. The paper's editors apparently saw no problem in transferring About's complaints concerning the shortcomings of the Greek financial administration to the present-day situation; see About (2012). On the court case, see Riehl (2012).

3 However, negative German stereotypes were simultaneously activated in Greece, where certain media sweepingly defamed the Germans as Nazis; see Tzogopoulos (2013, 5); Simitis (2014).

4 Concerning the debate about this poem, see N.N. (2012).

5 This term is inspired by Beckert (2013), who speaks of 'imagined futures'.

6 Due to this two-way interaction, Bergemann et al. speak of the transformation of antiquity as 'allelopoiese'; see Bergemann et al. (2011, 39).

7 The term 'zero hour' is used here in the sense that there was hardly any foreign investment in the corresponding area of the Ottoman Empire before the Greek state was founded.

8 It is nonetheless overstated to suggest that from 1800 (when the state did not even exist) until long after the Second World War, Greece found itself almost continually in arrears with payments; see Reinhart (2010, 29).

9 This conclusion is found, e.g. in a dossier on Greece entitled 'Finanzielles Arbeitsfeld Griechenland' by Karleugen Wehrli-Thielen from Zürich dated 12.5.1918 and held by DB, P11623.

10 This question is very different from that addressed by Hubert Bonin as to why and how the banks 'made' Greece a market; see Bonin (2013, 21).

11 On this question concerning firms in general, see also Plumpe (2016).

12 This contrasts with Bonin, who includes Saloniki and other nodes of the Greek diaspora in his investigation because, he argues, they were regions 'which it [Greece] was destined to acquire' (Bonin 2013, 355).

13 In contrast to ibid., 25–27.

14 The term risk strategies refers to patterns of behaviour that are always activated when a relevant problem emerges; see Kahneman (2011, 340).

15 Crédit mobilier was founded in France in 1852; see Fargette (2013).

16 With reference to modern family businesses, these are the findings of Naldi et al. (2007, 43).

17 For current national differences, see Willinger et al. (2003).

18 On historical research on globalisation, see e.g. O'Rourke/Williamson (1999); Osterhammel (2004); Torp (2004). A good overview of the latest trends of global history is provided by Kramper (2009); Barth (2014c).
19 It must, however, be noted that the majority of banks continued to operate on a national or even regional scale.
20 In family businesses, the individuals often identify so strongly with the group that they put the interests of the group before their own; see Fukuyama (1995, 156).
21 This definition differs clearly from the economic definition that follows the work of Frank Knight, who viewed risk as a definable value that can be measured with the help of mathematical probability calculations, while uncertainty is immeasurable and cannot be expressed as a probability; see Akerlof/Shiller (2009, 205).
22 See similarly Ripperger (2005, 19f.).
23 See also the volumes arising from the post-graduate programme 'Vorsorge, Voraussicht, Vorhersage: Kontingenzbewältigung durch Zukunftshandeln' held at University Duisburg-Essen with its publications (Becker et al. 2016; Bernhardt et al. 2016, 2017).
24 See also Tönnies (1887).
25 If the partners are not aware of the risks, then Ripperger refers to confidence (Zuversicht) rather than trust (Vertrauen).
26 A categorisation is also attempted by Marková et al. (2008).
27 Frevert (2002); a comprehensive history of the term trust is found in Frevert (2003a, 14–30). See also Frevert (2003b).
28 Also see with regard to financial centres Tanner (2014).
29 Akerlof draws on John Maynard Keynes' multiplier and hence suggests that there is even a trust multiplier that influences the behaviour of economic actors; see Akerlof/Shiller (2009, 33–39).
30 See also Priemel (2013).
31 For Jewish circles in Germany, see Lässig (2004); Schiif (2005).
32 Helpful indications are also provided in the handbook: Barnett/Pollock (2012).
33 See also Lässig (2008).
34 A profound overview of research on social capital is provided by Felis-Rota (2011).
35 'Intermediaries such as credit reporting firms and financial newspapers emerged precisely in order to bridge the gaps that exist between firms and the groups that have a stake in, but no direct knowledge of, those firms. […] Rather than simply transmit images of a corporation to an undifferentiated public, intermediaries and networks confer reputations and make them meaningful to specific audiences. We can go even further and posit that without intermediaries and networks, the reputations of firms and individuals would not exist' (Olegario/McKenna 2013, 652). See also Engerman/Davis (2003); Schaffer et al. (2009); Jobs/Mackenthun (2013a).
36 See e.g. Krooss/Blyn (1971).
37 This is called for by Berghoff (1999, 175). The article deals with chances and deficits of transaction cost theory.
38 This is the central question in Pohle-Fraser (1999). See also Knake (2017).
39 However, Baker/Nofsinger (2010) 'Answers to Chapter Discussion Questions' define risk differently as known and calculable, while anything that cannot be calculated is termed uncertainty. See also **24 n.21** in this book.
40 See for this whole section: Litterer (1973, 106–132).
41 The model seems particularly compatible with the ideas of Alfred Schütz and Thomas Luckmann on lifeworlds (2003). They assume that actors always attempt to integrate new experiences from beyond their familiar lifeworld in their

familiar wealth of knowledge and experience. This is only questioned when new experiences cannot be integrated, a process that ends as soon as a new interpretation leads to the creation of congruence; see ibid., 37–41.

42 See also Altman (2010).

43 Game theory has made some interesting findings on the willingness of financial market actors to cooperate and the development of trust, but is not further discussed here; see Fukuyama (1995, 485).

44 An example of such investment funds being religiously based: Lainer-Vos (2013).

45 An attempt to apply prospect theory to the share markets is made by Barberis et al. (2001).

46 See e.g. Trepp (2001); Ciompi/Endert (2011); Frevert/Schmidt (2011).

47 Etzioni also influenced Amartya Sen with his social economy; see Reese-Schäfer (2001, 91).

48 A methodological focus on actor-network theory would be of little use in addressing this core question. In order to shed light on the Greek financial market, it would be necessary to analyse *all* the actors involved, in particular also on the Greek side. This is only undertaken here in exceptional cases. Attention is rather focused on the perspective of the investing West Europeans.

49 'To achieve this predictive capability, risk managers require a source of historical loss event data that has relevant exposure information and casual factors attached to each loss event' (Hughes 2007, 42). This refers to the internal data of banks. It may be worth considering, however, whether it can also be applied to banking historical research.

50 'This suggests that cross-country comparison of how risk-taking by bankers was disciplined will loom large in the future research agenda' (Battilossi 2008, 91). See also Colvin (2015).

51 There are also many indications in the work of Youssef Cassis, e.g. Cassis 1994; Kynaston 1994; Cassis et al. 1995; Cassis 2002.

52 For example, Jenks 1927; Cameron 1961; Cassis 1990; Schaefer 1995; Dilley 2009, 2012; Esteves 2011. However: 'The question of power and finance has been a perennial theme in imperial historiography' (Attard/Dilley 2013, 3).

53 A similar approach to the Italian financial market is found in a very concise form in Hertner (1991). An African region is the focus in Barton (2016).

54 Κατσούλης [Katsoulis] et al. (1985); Δερτιλής [Dertilis] (2009); Καλαφάτης [Kalafatis] et al. (2011); Τσουλφίδης [Tsoulfidis] (2009); Αγριαντώνη [Agriantoni] (2010). For agriculture e.g. Πετμεζάς [Petmezas] (2003).

55 To name but a few examples of overviews: Petropulos 1968; Zelepos 2002; Koliopoulos/Veremis 2010. On the formation of modern statehood generally in the nineteenth century: Maier (2012).

56 There are also numerous studies of individual Greek banks, particularly the National Bank ETE, which are considered in more detail below.

57 The ideological stance of many Greek historians is described by Δερτιλής [Dertilis] (2009, 594).

58 See also Schönhärl (2014b).

59 With a stronger focus on politics, see also Holland/Markides (2006).

60 See also Kaser (2002); Born/Lemmen (2014); Brehl (2016).

61 On the term 'West', see also Bavaj/Steber (2016).

62 Voyage de M. Guicciardi en Grèce, 1891, CL 62 AH 78, Grèce Affaires industrielles 1876–1891. Similar lists about business partners were made by the house of Oppenheim; see Pohle-Fraser (1999, 281).

Part II

FOREIGN INVESTMENT IN GREECE IN THE NINETEENTH CENTURY – NINE CASE STUDIES

1

PHILANTHROPY AS A MARKETING STRATEGY

Loans for Greece during her struggle for independence in 1824/1825

Greece in her struggle for independence

In 1821, the Greeks began to fight for their independence from the Ottoman Empire (Vlachopoulou 2017). The Serbs had revolted against the Ottoman rule in 1804–1813 (Jelavich/Jelavich 1986, 26–37), making the Greek rebellion the second attempt by Balkan people to free themselves from the Ottoman Empire. Preparations for the revolution had been going on among the Greek diaspora for at least three decades (Turczynski 2003, 34–82; St. Clair 2008; Koliopoulos/Veremis 2010, 16). In 1814, the so-called Philiki Heteria was founded in Odessa, a 'Society of Friends' that took up the cause of Greek independence and aimed to trigger a general Balkan revolution, supported by Russia (Jelavich/Jelavich 1986, 39f.).[1] The 1821 uprising began in Moldavia and Wallachia, where it was quickly suppressed. The independence fighters had more success on the Peloponnese and in January 1822, the revolutionaries drew up the first Greek constitution in Epidaurus, based on liberal Western models, and formed a provisional government (Jelavich/Jelavich 1986, 45). Despite a massive internal conflict, at times resembling civil war, the Greeks managed to hold their position until 1825 when the Sultan entrusted the Pasha of Egypt, Mohammed Ali, to lead a campaign against them.

The Greek revolution was greatly welcomed in many parts of Europe (Ruge/Konstantinou 1994). Intellectuals from all countries wrote newspaper articles and books (Gunnar 1994) about the repression of the Greeks and the atrocities conducted by the Turks; Philhellenic committees and associations were formed in innumerable cities all over the continent and even in North America, and collected considerable sums of money for the struggle for independence. Governments were put under pressure to support the Greeks, and volunteers were equipped to fight alongside the 'heroes'. The classical humanist education enjoyed by many of the middle classes stimulated enthusiasm for Ancient Greece and played an important role in this Philhellene movement (Konstantinou 1998). Many intellectuals and politicians saw 'in the modern Greeks the direct descendants of their schoolbook heroes' (Jelavich/Jelavich 1986, 48), and the appropriation and construction of Greek antiquity as a reference culture were highly relevant for the further development of personal identity. In Victorian England, for instance, enthusiasm for Ancient Greece equalled or even exceeded that for Ancient Rome (Turner 1989). In many parts of Europe, Philhellenism was also a protected space in which liberal opinions could be freely formulated and networks of liberal clubs and societies developed. In this way, enthusiasm for Greek matters spread beyond classically educated circles to include members of the lower classes (Hauser 1990). The Philhellene movement thus had a genuine political character. In England, for example, it was associated with the liberal Whigs and radicals, who used the activities related to Greece to enhance their position vis-à-vis the conservative Tory government (Potter 2004; Barau 2009, 168ff.; Klein 2009). In France and in Switzerland, members of the association tended similarly to be moderate liberals, active in the opposition (Klein 2009, 182–209).[2] In the German countries, the political implications also played an important role (Quack-Eustathiades 1984; Spaenle 1990; Institute for Balkan Studies, Thessaloniki 1986). Many Philhellenes were prepared to support the Greeks in their struggle for independence, usually by financing the rebels. This outside assistance was warmly welcomed.

The first London loan of 1824

While the Greek freedom fighters initially attempted to fund their struggle by drawing on their own resources, voluntary donations[3] and the local capital market, it soon became clear that additional finance would be necessary and that an internal loan was insufficient (Kofas 1981, 1). The provisional government was forced to recognise 'that it was almost impossible to achieve their goal without foreign support'.[4] Offers of loans arrived quickly from abroad, although they were mostly of dubious and fairly untrustworthy origin and with such poor conditions that even the desperate freedom fighters were unwilling to accept them. Nonetheless, the first foreign loan of 102,000 Augsburg guilders (153,000 francs) was obtained as early as November 1821 on the basis of a guarantee from rich Greek merchants in the diaspora (Ανδρεάδης [Andreadis] 1904, 11). However, when the revolutionaries wanted to borrow more money abroad in the spring of 1822, difficulties arose: within the Austrian sphere of influence, restorative tendencies under Metternich made it impossible to find support for the unpredictable Greek revolution (Levandis 1944, 2ff.). An offer came from the Knights of Malta, who had been driven from that island in 1798, but this was linked to territorial claims in case of Greek success.[5] However, these negotiations were abandoned once it became clear that the Knights were unable to find any suitable bankers to support the loan in France, allied as the country was with Greece's enemy Egypt (Ibid., 7f.). Others were interested though. Greek sympathisers in Darmstadt believed the prospects for a loan in Germany to be positive, and the Zurich committee also saw opportunities in Switzerland.[6] In the meantime, however, attempts elsewhere met with success. Having gained independence from the colonial powers of Spain and Portugal and been recognised as independent states by Great Britain, the new states of Latin America were in great need of money, a situation that triggered a huge speculative bubble on the London Stock Exchange (Dawson 1990, 6f.).[7] In the following years, over 150 million British pounds were invested in South America, particularly in mining (Haupert 1997, 511). The overheating of the London market so encouraged risk taking that fraudsters were even able to market bogus securities, for instance, for the country of Poyais, which actually never came into existence (Dawson 1990, 60f.; Clavel 2018).

This was the situation when, at the beginning of 1823, the provisional Greek government sent a Greek merchant from Livorno, Andreas Louriotis (Λιγνάδης [Lignadis] 1970),[8] to raise money in the European financial centres. Initially, Louriotis had no success in London, Paris and Rome, but – perhaps in Spain – he made contact with a supporter of the Spanish revolution, Edward Blaquiere,[9] who was also enthusiastic about the Greek struggle and was instrumental in the founding of a Philhellene committee in London in March 1823 (Kofas 1981, 4). Blaquiere introduced Louriotis to John Bowring,[10] a merchant and literary scholar who had helped found a Philhellene committee in Madrid in 1821[11] and now became Secretary of the London Greek Committee (LGC). Many prominent Whig parliamentarians were among the founding members of the committee, e.g. Francis Burdett (Baer 2004), John Cam Hobhouse[12] and Joseph Hume,[13] to name but a few. The philosophers Jeremy Bentham and Lord Byron were also involved. For them, Philhellenism was one way of realising their broadly based liberal aims, which ranged from the abolition of slavery to penal reform (Klein 2009, 177f.). Contributions were also received from Tory supporters, although they kept their distance from the committee, which thus consisted only of members of the opposition, although this seems to have been unintentional (Rosen 2004b).[14] Shortly after its establishment, the committee sent Blaquiere to Greece to investigate the situation there. The journey was successful: not only could Blaquiere persuade the provisional Greek government to authorise a loan in London, his enthusiastic report on the economic opportunities in the country led to Greece being seen as a promising market for financial transactions in London circles, despite spirited contradiction from pro-Turkish voices (Blaquiere 1823).[15] In response to an invitation from the Philhellene committee in 1824, the Greek government sent Andreas Louriotis, Ioannis Orlandos[16] and John Zaimes[17] to London to finalise a loan. To the annoyance of the British king, who was anxious to maintain a neutral position, the foreign minister George Canning was present to receive the deputies (Levandis 1944, 14ff.).[18] Thanks to the good offices of the LGC, particularly those of its secretary John Bowring, the deal was then closed on 21 February 1824 with the relatively insignificant banking house of Loughnan Son and O'Brien (ibid.).[19] Alternative offers from Goldschmidt et Cie, Rougemont, Behrendos & Cie and John Smith were declined with full confidence in the advice of the Philhellenes.[20] The Greeks were initially very grateful to the Philhellenes as they were not convinced it would have been possible to gain the trust of the bankers without their help.[21] And the Philhellenes were relieved that the deal was concluded, even if the deputies 'carried on their discussions with our capitalists as if they were trading for old clothes with the Jews of Mayfair'.[22] Clearly, the Philhellenes acted as brokers here and contributed to the creation of the necessary basis of trust. The sources in this case do not, however, allow detailed insights into the risk perception of the bankers.

The nominal value of the loan totalled £800,000, floated at a rate of 59 of the face value and an interest rate of 5%.[23] In comparison with some of the Latin American loans of the same year, this was a rather small sum: £1.68 million (5%) went to Brazil, 1 million (6%) to Argentina, 4.75 million (6%) to Columbia, 3.2 (5%) to Mexico and 750,000 (6%) to Peru. The issuing rate for Greece was much poorer than for South America:[24] In cooperation with Thomas Wilson & Co., the house of Rothschild issued the loan for Brazil at a rate of 75, while a loan for Naples of £2.5 million was even issued at 91.5. With a rate of 59, Greece was almost at the bottom of the list, followed only by Mexico with 58.[25]

Investors at this time could choose between 624 joint-stock companies on the London Stock Exchange (Chatziioannou 2013, 40). Despite this strong competition, the Greek loan, promoted in flowery prose,[26] was oversubscribed within a few days; the rate rose briefly from 59 to 63 (Bartle 1962, 62ff.). But the Greek deputies were still bitterly disappointed by the result. They clearly had failed to realise exactly what a rate of 59 meant: of the nominal value of £800,000, only £472,000 was realised. After deducting all other costs,[27] the Greek government was actually left with only £336,000 at their disposal. From 1826, they were supposed to repurchase the bonds at current market prices, but not above 100, and to continue to do so as long as bonds were in circulation.[28] This sinking fund should have required 1% of the loan sum annually. The 'discretionary' repurchase of the bonds would thus have depended on their price: the cheaper they were, the more quickly the government could have repurchased them. If a par value price had been sustained (i.e. 100), then a repurchase according to these modalities would have taken 98 years.[29] The low rate made sense: if the revolution ended in victory, then the speculators could make a large profit, and this imagined future was of key significance. Greece guaranteed the loan repayments with her national estates,[30] customs revenues, and fishing and salt rights, but the speculative nature of the loan was undeniable. There was no fixed repurchase price for the end of the loan period, as was otherwise usual for loans at the time. Accordingly, the British ambassador in Patras judged that this loan was not an opportunity for serious capital investment but rather for speculation.[31]

Another problem also bothered the Greeks considerably. Not unusually in such a case, the money was not paid directly to the Greek deputies or to the provisional government, which was not internationally recognised (Levandis 1944, 19f.). The Greeks had clearly recognised this difficulty in advance as they attempted to replace the term 'for the use of the Greek government'[32] in the contract with the expression 'at the direction of the Greek government'.[33] The bankers, for their part, were keen to minimise their risks by involving three British commissioners to administer the payments: the two liberal parliamentarians and Philhellenes Edward Ellice[34] and Joseph Hume, and the father of the banker, Andrew Loughnan senior.[35] The Greek deputies firmly believed that Ellice and Hume were 'parties with no other interests other than the well-being of Greece'.[36] However, tensions soon emerged between the Greek deputies, who had no access to the money, and the commissioners, who repeatedly delayed the payments.[37] The commissioners felt that the Greek government was insufficiently prepared and were not convinced that the Greeks would ever be able to pay the interest.[38]

The situation worsened when in March the price fell to 54 (Bartle 1962, 64).[39] After the death of Lord Byron in Mesolonghi in May 1824, the bonds dropped still further, and Leicester Stanhope's pessimistic reports from Greece[40] later led to a further slump.[41] The Greek deputies believed that the Philhellenes had a moral obligation to intervene to support the price and complained bitterly that they failed to do so. The deputies clearly did not realise that the low price was actually an advantage for Greece because the bonds had to be repurchased at current market rates. This was not the only part of the terms and conditions which the two merchants obviously misjudged; perhaps the complicated English hindered their understanding of the various clauses of the agreement. They were also concerned about the risk carried by the bank, which had guaranteed the investors a price of 59, and were troubled by the notion that the Loughnan Bank could collapse as a consequence of the slump in prices.[42] However, the bank had actually passed on the entire risk of falling prices to the investors: they only guaranteed that the rate would not be below 59 *on the first day* of the issue; no other guarantee was given in the convention, and would in any case have been economically nonsensical.[43] The bank risked 'only' its reputation as an issuing house. The Greek deputies either misunderstood key points of the convention, thus suffering under information asymmetries typical of principal-agent relations,[44] or they deliberately played the fool.

Two completely contradictory images of Greece as an investment market collided here: while the deputies interpreted the loan primarily as philanthropic help for Greece, the bankers and Philhellenes were chiefly motivated by the prospect of profit. They wanted to earn money from the new market, which was rendered so promising by the enthusiasm for Greece displayed by the public, and were keen to externalise the risk as far as possible. Even in April 1824, Orlando and Louriotis noted disappointedly '"all that glitters is not gold"; self-interest seems to know how to hide under a cloak of philanthropic principles, liberalism and the protection of Greece and the Hellenes'.[45] They accused their business partners of instrumentalising a very real Philhellenism to disguise economic interests. Where both aims collided, the profit interest took priority. The Greeks communicated their disappointment:

> Yes, your Eminence, there are hidden motives behind all that and these motives are not at all of the sort to simply contribute and exclusively serve honour to contribute towards the well-being of our country; it is more a matter of enriching oneself at others' expense, but under honourable colours.[46]

The Greek deputies complained not only about the lack of intervention by the bankers to support the price of the bonds. They also had the impression that the commissioners repeatedly constructed new arguments to delay the payments. They linked this behaviour to the personal interests of the financiers:

> Would not the reputation of the Englishmen in England suffer if it were to be read that the cold calculations of four or five men, possessors of Greek state bonds, plunged into nothing and, even worse, into more barbaric slavery, a people who had risen up and prepared to constitute a free nation?[47]

The Greeks were so annoyed that they considered annulling the contract.[48] John Bowring, the Secretary of the Greek Committee, was particularly vehemently criticised, especially after he admitted at a committee meeting that his Philhellene tendencies were of little significance to him: 'where there is a question of interest, neither philanthropy nor patriotism nor independence play a role'.[49] Bowring and Ellice had invested large amounts in the Greek bonds and began to panic as the price fell. As investors, they carried the entire risk of the sinking prices. In June 1824, the Greeks accused Bowring of intriguing to prevent further payments because he was afraid of a Greek defeat.[50] Bowring was a protégé of the philosopher and friend of Greece Jeremy Bentham, who thus also became involved in the dispute (Bartle 1962, 62f.).[51] The London Philhellene committee soon judged the loan and its subsequent development to be a failure, and consequently dissolved in 1824, despite its successes with collecting donations (Klein 2009, 64f.).[52] The disappointment was mutual. It appeared that both parties had held misleading notions about the motivation of the other.[53] The Loughnan Bank was scarcely involved in these controversies and seems to have complied strictly with the instructions of the commissioners. No information concerning the subsequent history of the bank can be ascertained.

It should be added that even the limited amount of money that finally arrived in Greece did little to support the Greeks in their struggle for independence against the Ottomans. Despite this powerful enemy, the country had entered a phase of civil war. It seems likely that the finance provided was invested in the violent conflicts between the various Greek parties: the elite property owners and village chiefs from the Peloponnesus, the so-called Kotzampasides, the military elite of irregular soldiers on the continent, and the sea merchants on the Aegean islands, who shared the enlightened ideas of Western Europe.[54] Although the figures provided vary, the research makes clear that only very small sums were utilised for their original purpose (Kofas 1981, 10).[55]

The second London loan of 1825

It was only 1825 when the Greeks decided to attempt to cover their growing financial requirements with another foreign loan. The provisional Greek government – made up of the party of island Greeks under Kondouriotis – again sent Orlando, Zaimes and Louriotis to negotiate. Orlando and Zaimis travelled to London once more, which is somewhat surprising after the Greeks' sobering experiences in Great Britain. Indeed, when the possibility of a second loan was first discussed, the deputies implied that the Philhellenes and Bowring in particular were only interested in organising money to support the bonds from the first loan in the hope that this time the Greek government would send more amenable deputies to London.[56] However, the provisional government decided in favour of the experienced negotiators. Perhaps the Greeks assumed that the ever-growing speculation bubble on the London Stock Exchange would create a lower level of risk awareness there than, for instance, in Paris.[57] The desire to further Great Britain's involvement in Greek affairs also played a role (Levandis 1944, 16). And even though the LGC no longer existed (Klein 2009, 64f.),[58] several of its members continued to work for the Greek cause: Leicester Stanhope, the radical Parliamentarian John Cam Hobhouse and Edward Ellice were still in contact with the Greeks (Bartle 1962, 68). Furthermore, the deputies were now familiar with the rules of the game in London. However, this time the Greeks simultaneously investigated opportunities in France: the third deputy Louriotis did not join the delegation to London, but went to Paris.[59]

In the end though, it was the negotiations in London that were again successful. On 7 February 1825, the contract with the prominent London bank Jacob and Samson Ricardo was signed. The nominal value of the loan was £2 million. The issue rate was even lower than that of the year before, 55.1 (the Greek government had not authorised the deputies to go below 55), i.e. the capital expected to be raised from the loan amounted to only £1,110,000. In the first two years, an annual interest payment of 5% was due, thus totalling a dividend of 10%. £200,000 was thus reserved as interest and £20,000 (i.e. 1%) for the amortisation. From the following year, like with the first loan, the Greek government was to make 1%, i.e. £20,000, available annually for the repurchase of the bonds at current market prices. 'The whole of the National Property of Greece [...] until the whole amount of capital, which such Obligations represent, shall be discharged' guaranteed the loan prospectus (see Figure II.1.1). This vague guarantee shows that this was once again a highly speculative bond where the investor and not the banker carried the risk of future price trends. The bankers' commission was £60,000 (a relatively modest 3%), with another 2% to pay on the dividends, i.e. on the costs of the investors. According to these stipulations in the convention, a sum of £830,000 was to be made available to the provisional Greek government (Λουριώτης [Louriotis]/Ορλάνδος [Orlandos], 1839, 121–130, here 123).[60]

The floating of the loan was initially a great success: it was four and a half times oversubscribed (Levandis 1944, 18). As far as the administration of the money was concerned, the Greek deputies had learnt from their earlier experience: this time, the convention stated that the money was to be 'at the disposal and subject to the order of the said Ioannis Orlandos, Ioannis Zaimis and Andreas Louriotis or any two of them on account of the Greek Government'.[61] The money was to be paid out to the provisional government in nine monthly rates between February and October 1825.[62] To this end, a commission was immediately formed, consisting of Hobhouse, Ellice and Burdett, Philhellenes with whom the Greeks had not yet had negative experiences (Ibid., 19). This commission sent three deputies to Zante[63] to undertake the payments. The bankers also pursued other strategies to minimise their risks: the convention recorded their right 'to put an end to this contract at any time after the payment of the three first instalments and the payments then made by them on account of this Loan shall be thereupon considered as forfeited'.[64]

Despite these attempts at advanced risk management, a conflict quickly arose surrounding the question of intervention in support of the bond price. The convention recorded that the bankers should reserve £250,000 from the instalments to the issuers in order to repurchase bonds from the first loan at market rates, although not at a higher price than 60. If possible, the entire stock should be repurchased in this way within a year – given the low market price a perfectly realistic option, which would have been most advantageous for the Greek government (Λουριώτης [Louriotis]/Ορλάνδος [Orlandos] 1839, 124f.). However, the news of the fall of the long besieged Greek city of Mesolonghi, which developed into a European media event, then led to a rapid drop in the value of the bonds of the second loan: in April 1825, they fell to 15.[65] Suddenly, the deputies were under pressure from all sides not to send the money from the second loan to Greece, but to use it for more intervention purchases. Louriotis even claimed that the bankers had extorted him and his colleagues only to send more money to Greece if they also released large sums to repurchase bonds (Louriotis 1827, 12f., FN). Although the