

# Financial Crises, 1880-1913: The Role of Foreign Currency Debt\*

First draft. Comments welcome.

November 10, 2004

Michael D. Bordo  
Rutgers University and NBER

Christopher M. Meissner  
University of Cambridge, King's College and NBER

## Abstract

What is the role of foreign currency debt in precipitating financial crises? In this paper we assemble data for nearly 30 countries between 1880 and 1913 and examine debt crises, currency crises, banking crises and twin crises. We pay special attention to the role of foreign currency and gold clause debt, currency mismatches and debt intolerance. We find fairly robust evidence that more foreign currency debt leads to a higher chance of having a debt crisis or a banking crisis. However, a key finding is that countries with noticeably different backgrounds, and strong institutions such as Australia, Canada, New Zealand, Norway, and the US deftly managed their exposure to hard currency debt, generally avoided having too many crises and never had severe financial meltdowns. Moreover, a strong reserve position seems to be correlated with a lower likelihood of a debt crisis, currency crisis or a banking crisis. This strengthens the hypothesis that foreign currency debt is dangerous when mis-managed. We also see that countries with previous default histories seem prone to debt crises even at seemingly low debt to revenue ratios. Finally we discuss the robustness of these results to local idiosyncrasies and endogeneity by briefly exploring the origins and evolution of hard currency debt levels.

## 1. Introduction

The period from 1870-1914 was a period of globalization in both goods and financial markets comparable to the present era of globalization. Also it was a period rife with emerging market financial crises with great resonance for the experience that we have observed in the past decade. In both eras many emerging countries faced frequent currency crises, banking crises and twin crises. They also faced a number of debt crises. In the terminology of Eichengreen and Hausmann (1999) many of these countries suffered from “original sin.” The external debt that they accumulated to finance their development was almost strictly denominated in foreign currency or in

---

\* We thank Antonio David and Wagner Dada for excellent research assistance. Comments from Marc Flandreau, Kim Oosterlinck, Anna Schwartz and participants at a conference at Humboldt University Berlin are also appreciated. Errors remain our responsibility. The financial assistance from ESRC grant RES 000-22-0001 is gratefully acknowledged.

terms of gold (or had gold clauses) before 1914, just as emerging market debt today is almost entirely denominated in dollars, euros or yen. When the exchange rate depreciates, debt service in gold or foreign currency becomes very difficult leading to default, the consequent drying up of external funding and economic collapse.

The emerging country experience was in contrast to that of the advanced core countries which were financially mature, had credibility and could issue bonds denominated in terms of their own currency. There were few crises in these countries. This leads us to ask whether these very different debt structures might have played a role in explaining the difference in crisis incidence. We also wonder if debt management policies that created or alleviated balance sheet mismatches as discussed in Goldstein and Turner (2004) mattered. Finally we examine whether poor reputation and accumulated default experience was a problem as hypothesized by Carmen Reinhart, Kenneth Rogoff and Miguel Savastano (2003) in their work on *debt intolerance*.

We have developed a database to allow us to identify and distinguish “original sin” and balance sheet crises from more traditional currency and banking crises for roughly 30 countries (both advanced and emerging) from 1880-1914. We have data both on type of crisis incidence and on the fundamentals that economists believe are determinants of crises.

Our results do not find unambiguous support for the idea that hard currency debt for emerging markets is always associated with more financial turbulence. In fact, we find evidence that the emerging markets of the day that had significant amounts of original sin can be divided into two sub-groups. One group includes countries such as Argentina, Brazil, Chile, Italy and Portugal each of which suffered a financial catastrophe between 1880 and 1913. The other group, including Australia, Canada, New Zealand, Norway, and the US, had relatively little trouble with financial crises in terms of frequency and virulence. We ascribe this to special country characteristics that other independent peripheral countries did not possess.

Other results suggest that many countries matched their hard currency liabilities with hard currency reserves. This helped reduce exposure to currency and banking crises and kept banking and currency crises that did occur from becoming too severe. Nevertheless, even after controlling for the mismatch position, original sin still appears to be associated with crises. Finally there is a possibility that countries with

better international repayment records were able to avoid debt crises despite high levels of debt.

## **2. History, Financial Crises, Balance Sheets and Hard Currency Debt**

In this paper we view banking trouble, currency crises and debt crises as inter-related phenomena. This is different from first generation models that viewed currency crises as events arising from unsustainable fiscal policy under a pegged exchange rate. It is also different from a strand of the literature which views banking crises as arising uniquely from poor supervision, weak structure or stochastic liquidity runs. Our framework for thinking about financial crises is very much parallel to that enunciated in Mishkin (2003) which in turn is inspired by an open-economy approach to the credit channel transmission mechanism of monetary policy. Balance sheets, net worth and informational asymmetries are key ingredients in this type of a model.

In our view, initial trouble can arise in the banking sector for a number of reasons. One possibility is that international interest rates rise. This worsens the balance sheets of non-financial firms and banks alike. As the number of non-performing loans rises and net worth falls, a decline in lending can occur contributing further to output losses. At this point, internationally mobile capital may take a decidedly pessimistic view of returns in the debtor country and either stop coming in (a sudden stop) or reverse itself leaving significant short-term financing gaps. This reversal leads to more trouble in the financial sector and obviously increased stress for non-financial firms which are forced to cut investment because of the lack of financing. Governments may have trouble making interest payments on debt coming due as capital markets become unwilling to continue rolling debt over. The capital flow reversal, if large enough, could also force the abandonment of an exchange rate peg and a large change in the nominal exchange rate. Floating regimes could also see large depreciation occur under such a scenario.

A contemporary view of the impact of such exchange rate changes is that they could may be contractionary.<sup>1</sup> This is where original sin enters the picture. Since the

---

<sup>1</sup> Theoretical work by Céspedes, Chang and Velasco (2002) demonstrates how under certain very plausible circumstances original sin can lead to contractionary depreciations.

majority of obligations for nearly all countries are in foreign currency or, in the late nineteenth century, denominated in terms of a fixed amount of gold, depreciation vis-à-vis creditor countries or breaking the link between gold and the domestic currency could lead to increases in the real value of debt. This is a redistribution of wealth from domestic borrowers to their creditors who are expecting a certain amount of gold or foreign currency.<sup>2</sup> When net worth matters for lending decisions, this decline in the net worth of creditors can lead to another round of “disintermediation” causing widespread bankruptcies due to liquidity problems. All else equal, the deterioration to debtors’ balance sheets would be more severe the greater the amount of fixed interest rate hard currency debt outstanding.

There is some contention in the literature as to whether all is in fact equal. Goldstein and Turner (2003) have argued that often countries insure themselves against exchange rate movements. Hard currency debt can be, and often is, backed up by hard currency assets. To gauge the actual effect of original sin one must take account of the mismatch position or the entire balance sheet position of an economy. We describe how we do this below. Moreover, Reinhart, Rogoff and Savastano (2003) have argued that original sin is a proxy for a weak financial system and poor fiscal control. As we describe below, we control for some of these fundamentals too allowing for a test of this hypothesis.

## **2.1 The Role of Original Sin**

It has been the case since at least the 18<sup>th</sup> century that debt issued on international capital markets has been denominated in the currency of the market of issue and not the currency of the issuing country. It has also long been noted that such debt can become more onerous to repay in the face of depreciations, and that since emerging markets often face rapid exchange rate depreciations associated with sudden stops and reversals of capital inflows or very loose monetary policy, these countries are more often the victims of such a volatile combination.

---

<sup>2</sup> Eichengreen, Hausmann and Panizza (2003) argue that what matters is the aggregate external mismatch and if all debt is domestic that one sector’s losses are the others’ gains. Our view however is that net worth matters. When a debtor’s net worth deteriorates, borrowing capacity falls, and the capital markets seize up. This is one reason why we focus on domestic and external hard currency debt rather than just foreign holdings (or issues) of hard currency debt.

Over the last ten years, these phenomena have started to be addressed in the economic literature. Eichengreen and Hausmann (1997) argued that the danger of exchange rate fluctuations in the face of foreign currency borrowing might oblige many countries to adopt hard currency pegs. They coined the term “original sin” because they argued foreign currency denominated debt was imposed by international capital markets. Nations with poor reputations, and *even nations with good reputations or solid fundamentals*, are obliged to issue debt in key international currencies. In other words, domestic policies or problems were not the only reason countries could not borrow in their own currencies. Because of “original sin” and the problems that could be generated in the face of a devaluation, Eichengreen and Hausmann (1999) argued that exchange rate policy was of the utmost importance even for those countries where fundamentals and fiscal policies were sound but which might fall victim to a liquidity run.

While we have a bit more to say about the origins of original sin in Section 4.4, one key controversy remains. Exactly how harmful is original sin? Early work by Eichengreen and Hausman used mainly anecdotal evidence both on the incidence of original sin and its effects. Very recent work by the same authors along with Hugo Panizza (Eichengreen, Hausmann and Panizza 2004) has shown that countries with higher original sin have higher exchange rate volatility and higher macroeconomic volatility. Flandreau (2003) argues that depreciation increased the debt burden because of original sin in the nineteenth century which led to sovereign debt crises. He illustrates this with reference to several cases. But we are unaware of any work which has attempted to find a systematic empirical association between original sin and financial crises.<sup>3</sup>

We collected data from various national sources on hard currency debt and augmented and compared this with data made available by Flandreau and Zúmer (2004). What we refer to as hard currency debt is debt that carried a gold clause or

---

<sup>3</sup> Our conclusions differ from Flandreau’s as we take on a wider set of hypotheses and cases. Empirical work by Flandreau and Zúmer (2004) which regresses sovereign bond yields on a ratio of interest service to government revenues and a number of variables also argues that hard currency or gold debt was dangerous. Their tests are quite different from ours since our dependent variables are debt crises, banking crises, currency crises or twin crises. Frankel and Rose (1996) examined “currency crashes,” external debt and exchange rate fluctuations but their approach to measuring original sin, its impact and the type of crises considered is different than ours.

was made payable at a fixed rate in a foreign currency.<sup>4</sup> Our measure of original sin is the ratio of this quantity to total public debt outstanding.

This measure is different from, but related to, the measures of original sin defined in Eichengreen Hausmann, and Panizza (2003). One of their measures of international original sin for country  $i$  based on securities issued by residents and non-residents internationally is  $OS_i = \max\left(1 - \frac{\text{Securities issued in currency } i}{\text{Securities issued by country } i}, 0\right)$ .

One key difference between markets today and in our period is that recently debt has been issued in quite a few small country currencies by agents from leading countries allowing opportunities for debt swaps. For some countries, the first term in parentheses above could be less than zero. That is, for some countries, the numerator and the denominator in the difference term differ substantially because many other countries issue debt in their currency. In our period, this happened only for countries such as Great Britain, France and Germany between 1880 and 1913.<sup>5</sup> To the best of our knowledge it does not appear that foreigners pre 1914 were issuing debt in other exotic currencies. In the pre 1914 case, original sin was not be reduced through swaps (Flandreau 2003 p. 20) hence we can restrict attention in the numerator of this expression to securities issued in local currency (without gold clauses) only by residents.

The other key difference between our measure and the workhorse in Eichengreen, Hausmann and Panizza (2004) is that we look at debt issued in domestic and international markets instead of looking only at international issues. One reason we view this as important is because many domestic issues of the day carried gold clauses. As described above, in the case that monetary authorities devalued the local currency in terms of gold this would have a similar effect to a depreciation when a country had foreign currency debt. In either event, real debt repayments for local

---

<sup>4</sup> Our data appendix has more to say about the structure of this debt. Flandreau and Zúmer (2004) highlight just some of the difficulties in defining this type of debt. Italian bonds for example had de facto gold clauses for foreigners but not for residents, but de jure gold clauses for both classes of creditors for a certain proportion of the debt. Likewise, Spain arbitrarily implemented a residency distinction for manner of repayment around 1900. US debt was sometimes vague ex ante about the terms of repayment and often repayment was promised “in specie”. Mostly this was meant to be gold but could have meant silver which secularly depreciated against gold after 1873. Still our measure is at least a good proxy for the variable of interest.

<sup>5</sup> However as can be seen in Figures 1 and 2, Belgium, The Netherlands and Switzerland also fall in this category. For further evidence see Bordo and Flandreau (2003).

currency gold clause debt and for foreign currency debt would both increase.<sup>6</sup> Hence, we do not classify debt as “debt issued in currency  $i$ ” if it contained a “gold clause” stipulating a fixed quantity of gold per unit of local currency payable. Only debt payable in local paper currency without mention of the gold-local currency exchange rate upon payment of coupons and principal is included in the ratio above.

Figure 1 shows the ratio of hard currency government debt to total government debt by country between 1880 and 1913. Our time series plots reveal most countries’ measure of original sin was constant over time. Some countries’ situations “worsened”. Japan became more exposed to foreign currency debt as it entered global capital markets from the late 1890s. Argentina and Brazil converted local currency paper debt into gold clause debt in the 1890s. Only Spain and Italy appear to have decidedly decreased their reliance on hard currency debt relative to internal currency debt. These nations often had floating currencies throughout the period. As noted by Flandreau and Sussman (2004), their situations appear similar to those of Russia and Austria-Hungary, countries which had relatively low degrees of original sin and which also had floating currencies over most of the period we cover. These are the counter-examples to those who believe that poor fiscal history, a shaky exchange rate policy and economic backwardness are causes of original sin. Nearly all of these countries had previous episodes of debt default and chronically poor fiscal situations. We return to this story below.

The long-run averages of our original sin measure in Figure 2 also reveal a counterintuitive ranking, but are consistent with previous findings by Flandreau and Sussman (2004) and Eichengreen, Hausmann and Panizza (2004). Financial centers have less original sin. Small peripheral countries have a lot of original sin. Countries with ostensibly rotten fiscal institutions and poor international track records have intermediate levels of original sin. Notice that Spain, Russia, Austria-Hungary, Italy and Argentina are all towards the lower middle of the spectrum. However, some countries with sound fiscal, financial and monetary records, like Denmark and Sweden also fall into this range. These countries, like others in western Europe, had financial institutions that were evolving in the same direction as the core. The question then becomes: are these fundamentals along with the historical and current

---

<sup>6</sup> We are finessing the question of what happens to the real exchange rate and prices in general. We assume here that nominal depreciations are equivalent to real depreciations in the short-run perhaps

fiscal positions more important for explaining crisis incidence than the actual level of hard currency debt?

## **2.2 Currency Mismatches**

Goldstein and Turner (2004) have argued that currency “mismatches” are the main problem with foreign currency debt. Countries that have foreign currency liabilities which are not offset by foreign currency assets may be more likely than countries with more foreign assets to find it difficult to repay their foreign currency debts in the event of a depreciation. On the margin, changes in the exchange rate can become a problem the greater the mismatch as local currency assets lose value in terms of the foreign liabilities. Goldstein and Turner have three key ingredients to their overall measure of a nation’s mismatch. They first use the difference between all reported foreign assets and foreign currency liabilities outstanding. They then divide this measure by exports (or imports if the difference is positive) to account for openness to trade.<sup>7</sup> Finally they pre-multiply this ratio by the ratio of all reported foreign currency liabilities to all reported liabilities outstanding.

Data on bank and non-bank foreign assets is difficult to assemble today and probably impossible for the pre-World War I era. We focus on the government’s mismatch and believe this is a relatively good proxy for the economy-wide mismatch. The functional form we choose is different from Goldstein and Turner and slightly closer to that found in Eichengreen, Hausmann and Panizza (2003).<sup>8</sup> For country  $i$  we have

---

because of sticky prices. On the domestic side we assume going off gold or a depreciation implies a depreciation of the local currency versus gold and domestic prices are constant over the short run.

<sup>7</sup> Goldstein and Turner choose a functional form so that the boost to exports from a depreciation improves a nation’s balance sheet. Though the Goldstein and Turner (and our version of theirs) is one measure of the balance sheet position, it is not the ideal measure of a nation’s balance sheet. There are omitted ingredients that could make a difference to the balance sheet. For example, for this period, one could theoretically refine this measure by including foreign currency and gold revenues collected through tariffs, exports to gold standard countries, imports from such countries as a measure of hard currency earnings and liabilities, and foreign assets held in banks. Most of these data would be impossible to collect. Also in Section 4 we discuss how the omission in our mismatch measure of certain types of assets could explain the fact that some countries with high original sin seem less crisis prone.

<sup>8</sup> Eichengreen Hausmann and Panizza report that the correlation between their measure of mismatch and the Goldstein and Turner measure is 0.82.



$$\text{Mismatch}_i = \frac{\text{international reserves} - \text{total hard currency debt outstanding}_i}{\text{exports}_i}$$

Our measure of reserves usually only includes gold reserves held at the central bank, in the banking system or held by the government treasury. The sources are listed in the appendix. Total hard currency debt (domestic and international issues) is calculated directly if the data is available or by multiplying the total debt outstanding by the percentage of total debt that is payable in gold or foreign currencies. A higher mismatch measure should be correlated with fewer financial crises. As such it compares with the Goldstein and Turner measure. Nevertheless, it does take a different functional form and potentially does leave out a significant fraction of total assets and liabilities in the economy. One should also note that as the mismatch measure increases damage inflicted by a depreciation on the net worth of a country is smaller.<sup>9</sup>

The mismatch measure above risks combining flow measures (exports) with stock measures. As an alternative measure of mismatch, we substitute the amount of total hard currency debt outstanding by the total amount of interest payments due in gold or foreign currency. This is estimated as the product of the ratio of hard currency debt outstanding to the total interest payments on all types of debt.<sup>10</sup> Interest payments come from Flandreau and Zúmer (2004) and are only available for a smaller set of countries.

### **2.3 Debt Intolerance**

A new literature on sovereign financial difficulties has emphasized the role of past defaults in creating current difficulties. Reinhart, Rogoff and Savastano (2003) (RRS) have coined the term *debt intolerance*. This line of research tries to explain why some countries are able to sustain very high debt to GDP ratios while other

---

<sup>9</sup> Goldstein and Turner note that net worth increases with depreciation for net creditors. To get around the fact that an increase in the denominator of mismatch would decrease the mismatch measure for net creditors they divide by imports when assets exceed liabilities. For all of the results we present we divide by exports. We also tried dividing by imports when appropriate. The two measures have a correlation of 0.999. Our results do not change significantly when we divide by imports for those observations with positive numerators.

<sup>10</sup> Of course different face values interest rates for paper and gold debts will affect how accurate this measure is for the countries that have original sin measures between 0 and 1. The actual difference

emerging market countries run into debt problems with comparatively low debt to GDP ratios. Their evidence suggests that past defaults generate poor sovereign ratings. Countries with worse track records in international capital markets suffer greater financial fragility due to increased borrowing costs at a given level of debt to GDP. An alternative view might be that default history or sovereign ratings are proxies for other underlying structural or institutional problems. Hence we would also like to control for such fundamentals, as far as possible, to allow for the possibility of graduation from debt intolerance.

Given these hypotheses, we would like our tests to include a measure of default history. Accordingly we take two routes to control for this. First we interact a public debt to government revenue ratio with an indicator variable that equals one if a country had at least one default episode between 1800 and 1880. Alternatively we interact the debt to revenue ratio with an indicator equal to one if the country is in the periphery.<sup>11</sup> If the increase in the probability of a financial crisis for a marginal increase in the debt to revenue ratio is larger for a peripheral country or a past defaulter, we would argue there is evidence in support of the debt intolerance hypothesis.

#### **2.4 Other Data and Hypotheses**

The literature on predicting financial crises with econometric techniques is abundant. Our approach is inspired by the pared down methodology of Frankel and Rose (1996) who looked at currency crashes at the annual level. Many subsequent papers have made modifications to this early attempt and have largely been equally unsuccessful at accurately predicting any type of financial crisis.<sup>12</sup> However, some approaches and explanatory variables have done reasonably well in predicting crises or at least being correlated with crises in a way consonant with priors based on economic theory.

We attempt to control for the union of the variables from the extant literature that are applicable to the time period at hand. The list includes total outstanding

---

between the face value interest rate for a gold and paper debt was one percentage point for Brazil in the 1890s.

<sup>11</sup> The periphery indicator comes from Obstfeld and Taylor (2003). The periphery countries are Argentina, Austria-Hungary, Brazil, Chile, Egypt, Finland, Greece, India, Italy, Japan, Mexico, Portugal, Russia, Spain, Turkey, Uruguay.

<sup>12</sup> See Berg and Patillo (1999) for a broad comparison of some important papers in this literature.

government debt divided by government revenue, growth in the terms of trade, the deviation of the real exchange rate from the period average, the current account balance divided by nominal GDP, the yield spread between British consols and long-term government bonds, an indicator for whether the country maintained a gold standard, growth of the money supply, the ratio of gold reserves in the banking system to notes in circulation, and the GDP-weighted average spread on British consols for long-term bonds. The variables used depend on which type of crisis we are examining and are well indicated in the respective tables. Our sources, and definitions of these variables are located in the data appendix.

Our sample includes the 21 countries examined in Bordo, Eichengreen, Klingebiel, and Martínez-Peria (2001). We have also added information on crises and macro data for nine other countries. These new additions include Austria-Hungary, Egypt, India, Mexico, New Zealand, Russia, South Africa, Turkey, and Uruguay. To the best of our knowledge, this is the most comprehensive macro-historical data set ever constructed to analyze the determinants of various types of financial crises.

## **2.5 Crises, 1880-1913**

In Figure 3 we present the frequency of various types of crises (banking, currency, twin, debt and any type of crisis).<sup>13</sup> This is the number of years a country was in crisis divided by total possible years of observation. We use the country-year as the unit of observation, and eliminate all country-years that witness ongoing crises from the denominator to come up with a total number for years of observation. We see the pattern found in Bordo et. al. in terms of the relative frequency of types of crises (i.e., that the predominant form of crises before 1914 were banking crises, followed by currency crises and twin and debt crises).<sup>14</sup> Nevertheless the absolute magnitude of the probability for each type of crisis increases slightly compared to their figure with our addition of another ten countries.

---

<sup>13</sup> Our crisis dates and the methodology we use to classify years of crisis are listed in the appendix.

<sup>14</sup> Debt crises were not demarcated by Bordo et al.

Figures 4 and 5 present scatter plots of the percentage of time a country was in a crisis episode versus our measure of original sin and our mismatch variables.<sup>15</sup> There appears to be a quadratic relationship between debt crises and original sin. Countries with intermediate ranges of original sin seem to take longer to resolve their debt crises than those at either end of the spectrum.

It seems intuitive that the financial centers which were more economically developed had fewer crises than nations like Russia, Argentina and Italy. But what about the countries with high measures of original sin but fewer crises? These data points include primarily the British offshoots like Australia, Canada, New Zealand and the US but also small European countries like Norway and Finland. Perhaps this hump-shaped relationship is some evidence that original sin is not always related to more financial fragility. Perhaps these countries avoided crises because of their strong financial systems and fiscal institutions especially when compared to the southern European periphery and the Latin American countries which make up most of the observations in the middle ground. The next section controls for a host of other plausible factors that might be omitted from this bivariate scatter plot, but we conclude that for debt crises and banking crises this quadratic relationship is still visible.

### **3. Historical Evidence**

How well does the over-arching framework of financial crises discussed above match up to the historical record? What role did contemporaries assign to hard currency debt and fiscal mismanagement as causes of the numerous financial crises that occurred between 1880 and 1913? We discuss the cases of Argentina, Brazil, Australia and the US to address these questions. These places shared the distinction of being peripheral capital importing countries, and so in these, and many respects, make for good comparisons in a case study.<sup>16</sup> Figures 6 through 9 plot the levels of our

---

<sup>15</sup> Our measure of the percentage of time spent in a crisis is the ratio of the number of years in which a crisis first occurred or was ongoing divided by the number of years in the sample which is 34. For debt crises, the numerator is the number of years in which there was no resolution or international agreement on debt repayment.

<sup>16</sup> It is debatable whether the U.S. qualifies as a peripheral country in this period since its real income in both total and per capita terms was as high as the advanced countries of western Europe that comprised the core countries. It was also similar in overall economic development. However before 1900 it was, like the other emergers, a major capital importer. See Bordo and Schwartz (1996) and Flandreau and Jobst (2004).

original sin measure, the mismatch variable (measured using total debt outstanding) and the gold reserve ratio for them. The original sin and mismatch variables look fairly similar in levels. They also take the same paths in the run up to their crises. The notable exception to this pattern is the evolutions of the ratios of gold to bank notes in circulation. These are rather high and fairly level for Australia and the US, but they are low and decreasing for Brazil and Argentina. This highlights the division of the periphery into the two sub-groups we mentioned above. All four of these places had a financial crisis in the 1890s. Brazil and Argentina had near total financial meltdowns and sovereign debt defaults. Australia and the US had escaped with relatively minor banking problems and without massive currency depreciations. The robustness of the financial systems and the government's fiscal position along with a few other factors make the difference between the outcomes.

Perhaps the most notorious of the late nineteenth century crises is the Baring crisis that hit London and Argentina in late 1890.<sup>17</sup> In Argentina, this crisis was a triple crisis involving a banking meltdown, a currency crisis and a suspension of payments on national debt. The 1880s witnessed a "fiesta financiera". Fiscal excess and a dubious banking situation reigned. Government spending also took off in the 1880s. Much of the spending was financed by local and foreign borrowing, and it was unaccompanied by short-term revenue increases. Bank lending to the national and state governments increased at a harried pace. Foreign purchases of the large amount of (paper peso) bonds issued by local mortgage banks rose throughout the 1880s. Note issues by banks in excess of statutory levels also made the Argentine position even more precarious. There was also a lack of political will to increase tax revenues from import duties in the late 1880s.

Borrowing became harder and harder for Argentina in the late 1880s. As foreign lending started to dry up, the government propped up the mortgage banks through the mortgage bond (*cedulas*) market by *guaranteeing payment of these bonds in gold which were originally issued in paper*. This move increased Argentina's hard currency liabilities as a percentage of the total at a time when reserves were being used (unsuccessfully) to prop up the paper peso. Figure 6 shows how this simultaneously raised the original sin measure and decreased the mismatch indicator.

---

<sup>17</sup> See Eichengreen (1997) for an in depth discussion of this event and a comparison between it and the Mexican crisis of 1994.

When the Bank of England raised its discount rate from 2.5 to 6 percent in 1889, the disaster exploded. Baring's, overextended because of Argentina's insolvency, was bailed out by a consortium of British banks in a lifeboat operation arranged by the Bank of England (Bordo 2003). The government of Argentina suspended payments on its debts. The two major banks of Buenos Aires were liquidated in 1890. The most notable facets of this crisis are its near textbook sequence of events and the striking move by Argentine authorities to "dollarize" its debts when in such a precarious position. The ease with which this occurred suggests that decreasing currency risk made the debt seem more attractive for foreign investors. But of course this would only be true as long as these investors neglected the possibility that depreciation itself would cause the debt burden to become unsustainable.

It is also extremely interesting that Brazil (also under a floating exchange rate regime) undertook a local currency to hard currency debt conversion in 1890 similar in effect to Argentina's. The government converted 5 percent paper bonds to 4 percent gold bonds and instituted collection of tariffs in gold in order to help pay these obligations. Levy (1995) argues that authorities viewed gold bonds as a less expensive way to fund deficits. The conversion itself helped change Brazil's original sin measure from less than 0.5 to nearly 0.7 (see figure 7). According to our data, the Brazilian mismatch using total debt service worsened from  $-1.26$  to  $-1.38$  while the mismatch measure using interest service improved from  $-0.058$  to  $-0.049$ . Neither move seems extremely large in comparison with the increase in the original sin measure we have seen. But this conversion surely contributed to Brazil's fragility culminating in the banking crisis of 1897 and the currency and debt crisis of 1898.

Like in Argentina, the run up to the Brazilian crisis witnessed fairly heavy depreciation of the real and heavy government spending due to military campaigns. The price of coffee, an important export, also tumbled. The depreciation of the real was caused by excessive note issues, weak bank regulation and continual government pressure for advances. Moreover, the gold tariff was eliminated in 1891 further damaging the government's balance sheet. The government re-assumed the monopoly over note issues from the domestic banks of issue in 1895.

All was not bleak in the 1890s. London markets accepted new issues from Brazil, and these funds were used to continue servicing the external debt. Moreover, coffee prices recovered somewhat and rubber exports began to take off. If the

government had not embarked upon a number of new military operations and continued with the construction of military installations up to 1898, the fiscal position might not have looked so grim. As it happened, the banking crisis of 1897 and heavy depreciation in 1897 conspired to create a currency crash and finally a suspension on debt payments in 1898.

For the US and Australia, the 1890s were also a turbulent decade. Australia had a banking crisis in 1893. The US Treasury suffered heavy gold losses in 1891 (see Figure 8). In 1893 the US was hit by a short-lived banking panic coupled with more gold reserve losses. Despite the turbulence, neither country ended up with a debt crisis, the exchange rates were not allowed to depreciate and the banking systems withstood the pressure. Moreover it is worthwhile to note that, by our measures, Australia at this time had a debt to revenue ratio of roughly nine which is in the 90<sup>th</sup> percentile of our sample, and a slightly worse mismatch position than Brazil had in the 1890s.

The story of the crisis in Australia (see Figure 9) is that land speculation had reached a frenzied pace by the early 1890s. Banks were lending for long-term projects. Historians have cited them as being quite illiquid at this point. A tariff rise in 1892 contributed to falling government revenues probably weakening market confidence at the same time. London markets also tightened up in response to global financial turmoil in the early 1890s. Banks formed an association to protect themselves in 1892, but public depositor confidence was shattered in 1893 when an important bank was allowed to fail. Finally export prices fell making debt servicing all the more difficult.

Some observers have noted that the crisis was not all that severe and recovery had begun by 1893 (Dowd 1992). Policy measures that surely helped alleviate the severity of the crisis include: a five day bank holiday, the government allowing for a slight increase in the legal maximum note issue, and paper money being declared legal tender in New South Wales. Finally Dowd suggests that no balance sheet problems or disintermediation occurred since there is no evidence that advances declined during the period. Moreover, he observes that the biggest banks had prudently prepared for the worst by 1890 by divesting themselves of “speculative assets”.

In the United States a combination of luck and a strong financial system averted a total meltdown in the 1890s. The main characteristic of the currency

turbulence in 1891 and in 1893 was the heavy loss of the Treasury's reserves. Open market purchases of securities by the Treasury, a tax of 40 cents per \$1,000 on gold exports, the McKinley tariff, a bumper crop in the US which was swiftly exported to Europe where there was a major crop failure all combined to avert massive disaster and bring calm to markets by late 1891.

In 1893 international markets once again doubted the US commitment to the gold standard thinking the country might yet move to a de facto silver standard. The closure of the mint to silver in June 1893 in India created expectations of continued depreciation of silver in terms of gold. This would have meant continuing depreciation against gold currencies of a silver-based dollar, and so provided a possible speculative opportunity. In fact, a self-fulfilling attack on the dollar was nearly successful. The Treasury's gold reserves dropped quickly and obligations to repay debt in gold stood at a high level. Markets speculated that gold reserves would continue to diminish. This contributed to further gold outflows. In June of 1893 the clearing house syndicate of New York met, but many banks were still pushed to the limit of their legal reserve requirements. Nevertheless prominent political defeats for pro-silver activists including the repeal of the Sherman Silver Purchase Act (a sop to pro-silver forces passed in 1890) helped assuage market fears. A rescue package engineered by Belmont and Morgan, who purchased \$62 million in bonds yielding nearly \$35 million in gold for the treasury, also helped suppress the attack.

The strength of the US financial system and the Australian system in comparison to the South American cases above is evident here.<sup>18</sup> We think that the outbreak of crisis in these examples follows a fairly systematic pattern very similar in nature to the framework laid out above. This is so especially as it relates to credit expansion, over-indebtedness, and vulnerability induced by foreign rises in interest rates. But there is a major divergence at the point when we try to understand how hard currency debt matters. For the two southern cone countries, hard currency debt proved dangerous and default ensued. For Australia and the US, two places where all debt was denominated in gold or foreign currency, balance sheet effects did not overcome the economies. Exchange rate commitments did not fail. Most importantly, the financial systems were robust. We think that this could be the key difference. These

---

<sup>18</sup> Caballero, Cowan and Kearns (2004) look at the success of dealing with capital market shocks over the last 100 years and make an interesting comparison between Australia and Chile.



cases illustrate why original sin is not always dangerous. The statistical work we turn to now provides more support for these assertions.

#### **4. Statistical Findings**

Our statistical approach is fairly primitive in many ways. It seeks mainly to find a multivariate way to summarize the data by correlating crisis probabilities with a set of explanatory variables.<sup>19</sup> We use probit specifications, and the dependent variable is the first year of a debt crisis, currency crisis, banking crisis or twin crisis. Our data set is an unbalanced panel, and the observational unit is the country year. We omit country years that include ongoing crisis. Throughout, we control for the lack of statistical independence between country observations by using heteroscedasticity robust, country clustered standard errors.<sup>20</sup> We first present specifications with as many variables as is feasible and then as one robustness check we drop the most statistically insignificant variables so as to avoid possible collinearity problems and include more observations.<sup>21</sup>

One thing we find consistently, even when conditioning on other variables, is a quadratic relationship between the ratio of hard currency debt to total debt and the frequency of debt and banking crises. This suggests that original sin may contribute to more financial crises but that sometimes the damage can be limited by other means.

Holding the mismatch constant, no direct relationship between original sin and currency crises is apparent. We view most currency crises as a symptom of capital flight from a crumbling financial sector and liquidity problems, and think that *indirectly* original sin is associated with currency crises. As the framework provided above would predict, we see that initial problems in the banking sector (proxied by one-year ahead indicators of debt crises and banking crises) are strongly associated with currency crises. Hence one possibility is that original sin affects debt

---

<sup>19</sup> Endogeneity of the regressors as well as usual specification problems may be present in our specifications. We attempted to mitigate endogeneity biases in un-reported specifications by using lagged values of the explanatory variables. Results in these cases did not change drastically in qualitative terms. Of course this route is likely to be sensitive to how persistent these variables are over time.

<sup>20</sup> We estimated random effects probit models as well but found them to perform weakly. The estimated correlation between within country observations was poorly estimated.

<sup>21</sup> The appendix lists the key variables and their availability for each country so the reader can see what the various samples look like. The issue of model specification is of course not trivial. We are taking a decidedly reduced form approach, and we use the econometrics as supplements to the qualitative theoretical conclusions and historical record.

sustainability or the sanctity of the banking sector, and then these problems with debt and in the banking system can create a currency run which further contributes to balance sheet trouble and possibly financial implosion.

Moreover, we document a link between currency crises and mismatches or weak reserve positions. This is evidence supportive of the idea that the outbreak of currency crises is the symptom of liquidity problems or perhaps deeper solvency troubles in the economy which contribute to speculative capital outflows and sudden stops. Some weak evidence shows that mismatches are associated with debt crises too. Finally some inconclusive evidence points also to debt intolerance as a factor in debt crises without ruling out a role for original sin or mismatches.

#### **4.1 Debt Crises**

Table 1 presents results from various specifications where the initial year of a debt crisis is the dependent variable. Column one presents a comprehensive specification that includes a variable set as large as possible and which also allows for controls for original sin and currency mismatches. We see that there is a quadratic in original sin, in mismatches (as measured using interest payments rather than total debt outstanding), and there is evidence of debt intolerance. These variables are statistically significant (at better than the 90 percent level) at the means for each of these controls.<sup>22</sup> The size of the estimated coefficients is symptomatic of the low predicted incidence of debt crises. Since the incidence in the sample is barely two percent, this is understandable.

We interpret the quadratic in original sin as saying that more original sin is associated with a higher likelihood of a debt crisis, but those observations with very high levels of original sin face a lower likelihood. Again, these are the countries in the areas of recent settlement like Canada, the US Australia and New Zealand which had

---

<sup>22</sup> As usual in a probit model, the actual marginal effect, the standard error and statistical significance depend on the levels of the covariates in a nonlinear way. We calculated these effects for each observation for particular specifications and found that magnitudes and significance varied quite a lot. On the whole, we often find that the coefficients of interest are statistically significant and have the most impact at the extremes of the empirical distributions. Moreover the statistical significance of the interaction effect must be approached with caution. We are interested in the significance of the partial derivative of the probability with respect to say hard currency debt at various values (e.g., the average) but do not always report the p-values here. For simplicity we focus mainly on this first partial derivative.

strong financial systems, good fiscal institutions intent and which borrowed largely for productive investments.

In terms of mismatch, there is evidence that past a certain level a better mismatch position leads to a lower likelihood of a debt crisis.<sup>23</sup> But the quadratic pattern suggests that in the neighborhood of an intermediate level of mismatch a marginally better mismatch is associated with a higher chance of a default. The reason is likely to be because those countries that have in fact recently defaulted on their debt, but still have the fundamentals that strongly suggest a default, have cut their interest payments and thereby have drastically improved their mismatch position. This makes it appear as if intermediate mismatch positions are associated with fewer crises when in fact the opposite is the case. We think that the data show that better mismatches are intuitively associated with a lower chance of a debt debacle.

Most other variables have signs that fit our priors. Improvements in the terms of trade, real depreciations, more gold reserves relative to notes outstanding, slower growth of monetary aggregates, and a calmer international environment in capital markets are all associated with lower probabilities of crises. The statistical significance of the coefficients on these variables varies however. Meanwhile, lower local bond spreads (statistically insignificant) and adherence to the gold standard (statistically significant) imply a higher propensity to have a crisis. The positive coefficient on the gold standard does not disappear if we include it in the other specifications but the coefficient is not statistically indistinguishable from zero.<sup>24</sup>

Column 2 of Table 1 pares down the number of variables in the specification and looks more closely at the relationship between original sin and debt crises. The quadratic is still evident. The point where the partial derivative of the predicted probability with respect to a change in the hard currency debt ratio is located around 0.35—the point where over a third of all debt becomes payable in hard currency. At the average ratio of hard currency debt to total debt of 0.45, the marginal effect of an increase in the hard currency to total debt ratio is not statistically distinguishable from zero. It is also interesting to note that observations where the gold cover ratio is high

---

<sup>23</sup> Recall that our mismatch variable increases as the mismatch decreases.

<sup>24</sup> Unreported, likelihood ratio tests between the shorter and longer models cannot reject their equivalence. Perhaps the positive coefficient on the gold standard variable is compatible with theories that argue rigid exchange rates amplify negative external shocks more than flexible rates. But since the statistical significance varies a lot by specification we do not see overwhelming evidence for any hypothesis suggesting a positive or negative coefficient here. See Edwards (2003) for a wide-ranging discussion of exchange rate regimes and crises.

and the level of hard currency debt is very low or very high provide excellent predictors for the outcome “no debt crisis”. For column 1 the statistical software (Stata) reports that over 140 of such outcomes are completely determined. We believe this is the reason why the statistical significance of these factors is so high, and we are reassured that these findings are consistent with priors based on the theoretical framework outlined above.<sup>25</sup>

Column 3 shows that mismatches between *interest payments* in hard currency and available reserves can also contribute to crises.<sup>26</sup> Mismatch ratios extend from -0.45 to 1.7, while the marginal effects, evaluated at each observation’s covariates and defined as a function of the actual mismatch, extend from about -1 to 2.7. For mismatch ratios from -0.45 to about 0.2 the marginal effects are zero or positive. For mismatch ratios between 0.2 and 0.5, a marginally better mismatch position decreases the predicted likelihood of a debt crisis (i.e., there is a negative coefficient). After a mismatch ratio of around 0.5 is attained, the marginal effect returns to zero. This is to say that there appears to be a point where additions to the reserve base relative to foreign currency interest payments have a limited effect on crisis probability. Our discussion above is one reason why improvements in the mismatch ratio are associated with more crises at low/intermediate levels of the variable.

Column 4 addresses the relationship between debt intolerance and debt crises in a slightly larger sample than in column 1. Like in column 1, an increase in the debt to revenue ratio is negatively associated with crisis incidence when a country has no previous default history. However, when a country had a default prior to 1880, higher debt to revenue ratios increase the chance of having a debt crisis (p-value 0.06). This would appear to be evidence in favor of the debt intolerance hypothesis, but it does not come at the expense of a role for original sin or other debt management policies. Moreover, there still appears to be a quadratic in original sin in this specification.

---

<sup>25</sup> The hard currency debt ratio is not a perfect predictor of debt crises.

<sup>26</sup> We found no evidence that mismatches measured using total debt outstanding (instead of interest payments due) were statistically significant. If we use the mismatch variable with debt outstanding in column 1 instead of current interest payments, we find a statistically insignificant quadratic with nearly the same shape as the reported regressions. If we enter the mismatch variable by itself without the square term then there is a statistically significant and positive relationship between (better) mismatches and debt crises. Our discussion of why there is a quadratic in mismatches probably explains the counter-intuitive positive relationship and the insignificance of the quadratic of the mismatch could be due to errors in trying to capture the actual mismatch position.

## 4.2 Currency Crises

Column 1 of Table 2 presents an inclusive specification where the dependent variable is the probability of having a currency crisis. There are 17 events to be predicted in this sample. Few variables are statistically significant except for the market portfolio spread and two indicator variables that indicate if a debt crisis or a banking crisis occurred in the next year.

The practical reason we include these *leads* for debt crises and banking crises is because they are good proxies for initial troubles in the banking sector or unsustainable debt levels.<sup>27</sup> The theoretical reason is that we view a financial crisis unfolding in three stages: First, problems in the banking sector and deterioration in bank, firm and government balance sheets arise; this generates a currency crisis; finally, this makes for a more widespread crisis resulting in a full-blown banking crisis and/or debt default. The results in Table 2 are consistent with this story.

In terms of signs on the coefficients, we see still see a quadratic in original sin (though of opposite shape to that found in Table 1), a negative relationship between our mismatch variable and no sign of debt intolerance. Some incidental parameters in the other variables have the expected signs while others do not. However, nothing in column 1 besides the crisis leads and the market spread is statistically significant.<sup>28</sup>

We pare down the specification in column 2 and find an intuitive negative relationship between the mismatch variable (measured using total debt outstanding rather than interest payments) which is significant only at the 81 percent level of confidence. This is some very weak evidence that liquidity problems are at play in a currency crisis. The trade balance has a positive sign as it did in the Frankel and Rose

---

<sup>27</sup> Better indicators for early trouble in the banking sector might include growth rates of non-performing assets or bank insolvencies in the year of the currency crisis. None of these are available in a systematic way. In terms of debt, various ratios could be used to judge sustainability. Another reason we use this variable is to show how currency crises precede debt crises and hence indirectly feed through to balance sheet problems associated with original sin.

<sup>28</sup> As Flandreau and Zúmer (2004) have emphasized, the debt revenue ratio and the original sin variables can increase when the nominal exchange rate changes and when there is hard currency debt. To the extent that this supports the argument that a banking crisis or a debt crisis is more likely with a depreciation then there is no problem here. One problem could arise if we predict currency crises with variables that are functions of the nominal exchange rate. To avoid this issue we tried lagging such variables in the currency crisis specifications. Our results regarding such variables in the currency crisis

(1996) study of the late twentieth century. Lagging this variable causes the magnitude of the coefficient and its statistical significance to fall suggesting some endogeneity problems.

We give mismatches a second chance in column 3. Mismatches (or lower available reserves) are associated with a higher probability of a currency crash (p-value of 0.09). This finding does not suggest that original sin is innocuous, but rather suggests that countries that have original sin may be able to avoid currency crises if they manage to collect adequate reserves. Moreover it backs up the argument in Eichengreen, Hausmann and Panizza (2004) that original sin is a second best outcome. If countries cannot issue own-currency debt and then are forced by market discipline to hold costly reserves to insure themselves against currency speculation this may not be socially optimal. Finally we note that a higher gold cover ratio is associated with a lower probability of a crisis although it is not statistically significant, and a greater trade surplus relative to GDP is associated with a higher chance of a currency crisis.<sup>29</sup>

In column 4 we drop some of the least significant variables and focus on debt intolerance. This makes for a slightly larger sample. There is no sign that a spotty record on debt combines with the debt burden to generate an increased chance of currency crises. The interaction of the debt ratio with the periphery dummy is negative and larger in absolute terms than the un-interacted coefficient. But all coefficients are far from statistically significant. Though we do not report it, using the pre-1880 default indicator only makes this negative result stronger. It also makes the positive relationship between less mismatch and a lower probability of a crisis become highly statistically significant when evaluated at the mean.

### **4.3 Banking Crises**

Banking crises also seem to be associated with original sin and currency mismatches, but not with debt intolerance. The latter might be expected as international perceptions of sovereign debt management and fiscal constraints might

---

regressions are similar when we use one or two lags of mismatch, external to total debt and the debt to revenue ratio. We find our results from Table 2 are mostly unchanged in qualitative terms.

<sup>29</sup> The seemingly counter-intuitive result that net exporters have a higher chance of a crisis seems to arise from the fact that the small peripheral countries in our sample tend to be net exporters while GB,

not necessarily have an effect on the liquidity or solvency of the banking system. On the other hand, banking trouble associated with currency mismatches and hard currency liabilities might be expected. We have already seen that currency crises are likely to be followed by incipient banking crises.

When the exchange rate changes precipitously, bank balance sheets could be at risk for various reasons. In countries with bond based banking systems if governments neglected to redeem their bonds in gold terms or had to default because of the increased burden placed by gold debt, bank balance sheets could suffer. For similar reasons, if loans are made by international banks or through domestic banks that have international liabilities, currency depreciation could easily impair the net worth of the banking sector. International lending through correspondent banks was prevalent in South America e.g., through the Rothschilds (Brazil) and the House of Baring (in Argentina). Moreover, our results suggest that when countries have a stronger gold reserve position that the danger of hard currency debt is lower.

Column 1 of Table 3 shows again the quadratic relationship between hard currency debt and banking crises. It also shows a significant and negative relationship between our mismatch variable and the probability of a crisis. The existence of a central bank, adherence to the gold standard, lower growth of the money supply (or of the note circulation), appreciation of the real exchange rate, lower gold cover ratios, higher trade deficits and improvement in the terms of trade are associated with lower chances of a crisis. The square of original sin, mismatch, the trade balance and the gold standard variable are significant at better than the 10 percent level.<sup>30</sup> Little else is statistically significant here and the signs on the gold cover ratio and the trade balance are opposite to what one might expect.

Column 2 of Table 3 shows how the coefficients on the two controls for original sin provide a quadratic fit, but both are statistically insignificant. Nevertheless, the mismatch control has a negative sign and is significant at the 86 percent level of confidence. Column 3 drops the mismatch variable and provides some more support for a link between original sin and banking crises as the standard errors on the original sin variables shrink in relation to their point estimates making them both significant at about the 90 percent level. Finally column 4 provides no

---

France and Switzerland, for example, have highly negative ratios for this variable and had of course very few crises.

evidence of debt intolerance. However mismatches are again significant as is the negative relationship between the gold standard and banking crises.

Table 4 shows that finding determinants of twin crises is more difficult. In the comprehensive specification of column 1, no controls are significant at conventional levels. Nevertheless the quadratic relationship between original sin and such crises is evident and each coefficient is significant at better than the 90 percent level. In column 2 we control for mismatches with an interaction between original sin and the reserve to import ratio. We find that the debt revenue ratio is positively associated with twin crises (p-value 0.118) and that higher gold cover ratios and a more tranquil international environment (p-value 0.053) are associated with fewer twin crises.<sup>31</sup> The interaction terms suggest that more reserves decrease the chances of having a twin crisis, but this effect is not statistically significant. The specification in column 2 also suggests that a higher ratio of reserves to imports is associated with a greater chance of a twin crisis. Perhaps this is because crisis prone countries stock up on reserves prior to a crisis. Column 3 eliminates some of the variables and still finds a hump-shaped relationship (positive below a ratio of about 0.5 and negative below) between original sin and twin crises with each coefficient significant when evaluated at the means. Further specifications revealed no particular relationships between our other measure of mismatches, default history and twin crises.

#### **4.4 Some Reflections**

Our results suggest that the contemporary theoretical framework that views balance sheets as important determinants of financial crises are just as valid during the late nineteenth century. Like the late twentieth century, this period was one of freely flowing cross-border capital flows that met with various levels of financial sophistication and fiscal rigor in its global reach for yield. As financial weaknesses became apparent, the markets reacted in ways reminiscent of the financial crises of the 1990s.

---

<sup>30</sup> The gold standard coefficient may be contradictory to the positive coefficient we found in Table 1. Again, the results are fragile to the particular specification so there is little we can say definitively.

<sup>31</sup> Throughout the paper we have used the gdp-weighted spread on consols as a time-specific measure of international capital market turbulence. It is also a fact that this measure declines strongly over time and could be picking up other factors such as increased liquidity in international capital markets, a more tranquil political environment, the shift from deflation after 1896 as Flandreau, Le Cacheux, and Zümer (1998) argue, and other environmental factors that change over time in step.



We also believe we have found some interesting features in the data that have not previously been systematically addressed in either the contemporary or the historical literatures. Most importantly we find that hard currency debt may not always generate financial crises. Some countries with very high levels of original sin were apparently less prone to debt crises than those with intermediate levels. Aside from these extreme cases where original sin seems less dangerous, there appears to be a positive relationship between original sin and the incidence of debt crises.

It is interesting that we find that holding mismatch constant more original sin makes countries more crisis prone up to a certain point and then less vulnerable. One plausible explanation is that countries with high levels of original sin also had natural hedges, better balance sheets or better ways of dealing with financial stress which we cannot observe. This is compelling because anecdotally we know that the dominions had large sterling balances and that they had good fiscal institutions. A question for further research is whether it was the structure of their financial systems or the actual level of sterling bank assets which we cannot pick up. We tend to think it is the former rather than the latter as we discuss below.

Holding original sin levels constant we also find that mismatches matter. When countries have hard currency obligations they seem less prone to debt, banking or currency crises when they offset these liabilities with gold reserves. This obviously does not negate the idea that original sin could be responsible for currency and banking trouble. Those countries that do not hold sufficient reserves in their banking sectors, which may be a reflection of either weak banking structure, and/or a lack of political will to take adequate insurance, face a higher chance of a crisis situation. The absence of original sin could be an improvement for such countries if the goal is to reduce crisis incidence.<sup>32</sup> At the same time, it also highlights our key finding that countries can and have found ways to avoid financial fragility when they have “dollarized” liabilities.

The results above also tend to confirm that it is difficult to find robust determinants of financial crises. This suggests that standard econometric approaches may not be resoundingly successful or that the theory is too abstract to deal with the

---

<sup>32</sup> This of course leaves open the question of social optimality. Perhaps hard currency debt is a disciplining device or asset holders would be worse off without hard currency debt. The question would deserve more research.

messy reality of crises. These complications are in addition to the other data problems we mentioned above. Still, as a means of summarizing the data, multivariate analysis can be useful.

## **5. Truth? Or the Consequences of Omitted Variables and Endogeneity?**

The ostensible quadratic relationship between hard currency debt relative to total debt and debt crises is the most novel. Why is it there? We believe that this quadratic is obscuring a positive relationship between hard currency debt and debt crises that exists for the average small, independent emerging market type of country. Here we take a stand on whether our finding is a good estimate of the true relationship, or if it might be due to omitted variables or the endogeneity of original sin. Our bottom line is that adequate fiscal institutions and a robust financial system can stave off the worst effects of original sin. The ultimate problem then for emerging markets may be their lack of such institutions.<sup>33</sup>

### **5.1 Omitted Variables?**

In part, omitted factors from our regressions may be playing a role in suggesting a hump-shaped relationship between crisis probability and hard currency debt.<sup>34</sup> They probably explain why the positive marginal effect of original sin becomes negative at high levels of original sin. Predicted values of having a debt crisis from the regression in column 2 of Table 1 and the actual values of original sin

---

<sup>33</sup> Eichengreen, Hausmann and Panizza (p.15 2003) agree: “In particular, countries with strong institutions, capable of running strong policies, are in the best position to cope with the potential mismatch problem.” To solve the problem of original sin policy makers must then decide whether it is easier to take steps to eliminate original sin or to fortify the financial system and live with original sin in the medium run.

<sup>34</sup> We also looked for proxies for good institutions and financial development. We tried including the ratio of the money stock to GDP, a British Empire indicator, a central bank indicator and a branch banking indicator in other un-reported specifications. None of these variables eliminated the quadratic pattern or gave rise to a conditionally positive relationship between original sin and debt crises, currency crises or banking crises. In the debt crisis specifications it is not feasible to estimate the equations with an empire dummy simply because no dominion, colony or other member of the British Commonwealth ever had a debt default in this period. This indicator would be a perfect predictor of not having a debt crisis. So we are left clinging to the notion that the small countries with lots of original sin like the US, Canada, Australia and New Zealand and perhaps the Scandinavian countries were different along other dimensions than those captured by these proxy variables. Caballero, Cowan and Kearns (2004) talk about currency-trust and country-trust which could be factors at play here but which are not easily captured with any one explanatory variable.

are shown in Figure 10. The countries at the far right end of the Figure (the US, Canada and Australia) with heavy foreign currency debt were special cases.<sup>35</sup> They may have had other means of protecting themselves from reversals and long drawn out crises. The US was lucky to have had a deep and relatively well-functioning financial system allowing it to resolve crises rapidly. Public debt levels were fairly low, were well-managed since Alexander Hamilton's funding plan in 1790, and from a long term perspective it had sound economic fundamentals. Canada, Australia and New Zealand, had branch banking. The short maturities at which intermediaries lent their funds allowed for more prudent risk-taking by borrowers. The dominions and the US then shared the fundamentals, the fiscal institutions and the creditor protections necessary to maintain good borrowing practices.

The British dominions and colonies were also sterlingized with the principal exception of Canada which introduced its own dollar in 1857. The commitment to their pegs was stronger and more durable than in the independent countries with sovereign governments and national monetary systems. New Zealand banks held large sterling asset positions in London and had an incentive in maintaining the peg against sterling. Creditors to the dominions often felt that repayment was a certainty because many issues carried the guarantee of the British government. Debt was also given trustee status. This channelled Trustee Saving Banks funds into colonial securities, raising bond prices and making investors feel that such securities were less risky than they probably were. In such a case, this debt was less likely to give rise to self-fulfilling crises.

All of this suggests that without special relationships and the other idiosyncrasies unique to these British offshoots, as well as the presence of sound financial and fiscal institutions in the U.S.(and others such as the Scandinavian countries), original sin is positively associated with the frequency of crises. All else equal, countries with more original sin seem to have faced a higher chance of crisis.

## **5.2 Endogeneity Bias?**

---

<sup>35</sup> Two data points, Argentina in 1893 and 1894 just after the Baring Crisis, are notable exceptions to the rest of the scatter. The fact that the crisis had not yet fully been resolved explains why the predicted values are so high, and because of this we do not believe this negates the quadratic relationship we have identified.

Could the positive relationship between original sin and crises be the product of an endogeneity bias? Suppose it were the case that the most vulnerable amongst these countries actively tried to decrease their hard currency exposure. This should tend to bias downward a true positive relationship between original sin and crises. But, amongst this other set of countries, we see a fairly strong positive relationship between original sin and crises for the independent, peripheral countries in Latin America, Asia and Europe. On the other hand, we have seen that countries like Argentina and Brazil actually chose to take on more gold debt in the 1890s in hopes of lowering their borrowing costs. They were countries that were probably more crisis prone as measured by fundamentals. If so then there may be a bit of a “selection on observables” problem, and there would be a chance that we are overstating how dangerous original sin was for the average country.

Even so, the evidence is mixed on how easily a country can avoid hard currency debt when they must issue debt on international markets. Eichengreen, Hausmann and Panizza (2003, 2004), and Flandreau and Sussman (2004) take the view that country size is inversely related to original sin. Having a financial center also decreases original sin. Being large and/or having a financial center makes for liquid markets in the domestic currency and increases the demand for such assets in the portfolio of international investors. Because of this, “endogeneity” may be less of an issue than one might conjecture at the outset.

For example, the newly settled areas with large stocks of hard currency debt like Australia, Canada and New Zealand did not have the size, the accumulated domestic savings, extensive trade relations or the experience with shocks like wars with their consequent funding needs that helped catalyse the creation of local domestic currency debt markets (Bordo, Meissner and Redish 2004). The US had the size but most of its extensive trade linkages were internal. Still, by the end of the nineteenth century the dollar began to be recognized as a key currency (Lindert 1969). Russia, Italy, Spain and Austria did have many of the attributes conducive to creating a domestic debt market. Many of the countries in the middle of Figure 10 had immature but budding financial systems. Austria-Hungary possibly being a leader in financial innovations (see Komlos and Flandreau 2002). Many of these countries were quite open both financially and commercially because of their size, their level of development and their endowments.

When borrowing on international markets, as most had to do to attain the surplus funds necessary, most countries had to rely on issues in hard currency debt as illustrated in Flandreau and Sussman (2004). There was no possibility of offering domestic currency debt in London, Paris or Berlin. The small peripheral countries in Europe, Latin America and Asia fell into such a category. With the important exception of Russia and Austria-Hungary and possibly to some small degree Argentina and Brazil, there was little that countries could do about this. Their situation left them exposed to capital flow reversals and sudden stops leading to sudden increases in the burden of their debts. Unfortunately for these countries, history and geography conspired to make their situations precarious by eventually forcing these countries into international markets in which they had to borrow in foreign currency.

But some countries tried to minimize the damage international issues could cause. Countries with sound fundamentals might issue hard currency denominated debt abroad so that enough capital was furnished only in times of need. Moreover, this debt was often expected to become domestically-owned and possibly payable in local paper currency (Leroy-Beaulieu 1883 p. 229). The available evidence for the United States, Canada, Austria-Hungary and Italy suggests that this is the case.<sup>36</sup> Countries in Europe pioneered the art of exclusive domestic default by paying domestic holders of gold coupons in local currency and paying foreign holders (or those swearing to be non-residents) coupons in gold or the equivalent.<sup>37</sup> Italy in the 1870s and Spain circa 1900 tried this. But evidence from Tattara (2003) suggests that many Italians received gold payments in Paris. The leverage the government had to refuse payment in gold was actually quite limited.

Another possible route was to establish local debt markets and to issue directly in local currency without gold clauses.<sup>38</sup> How did countries manage this?<sup>39</sup> Looking

---

<sup>36</sup> See Myra Wilkins (1989) for the US case, and Bordo, Meissner and Redish for the Canadian case.

<sup>37</sup> This was the *affidavit* system. It was called the affidavit system since coupon holders had to take an oath declaring their residency status before receiving payment. Leroy-Beaulieu (1883) argued that the affidavit system was effective because few Italians tried to avoid the system by lying and cashing their titles in Paris for gold during. On the other hand, Tattara (2003) presents evidence that the system failed in Italy (more below).

<sup>38</sup> If avoiding original sin means that countries avoid tapping international markets where surplus funds are available then the risk-sharing benefits foreign capital market access confers would be lost. This could also be costly.

<sup>39</sup> A comprehensive explanation of why some countries were more successful than others at generating local domestic currency debt markets is beyond the scope of this paper but remains an interesting question. Evidence from Australia, New Zealand and the US in Bordo, Meissner and Redish suggests

at the time series plots in Figure 1 suggests that Austria-Hungary, Italy, Portugal and Spain took on less hard currency debt as time went on in part by following such a strategy.<sup>40</sup> However, the southern cone countries (along with Japan and Denmark) in fact ended up with more hard currency debt over time as they took on more foreign debt and more gold-clause domestic debt. At first glance this would not suggest a strong systematic endogeneity between hard currency exposure and crisis probabilities. Spain and Portugal were crisis prone and Portugal ended up with a default episode in 1892. Similar experiences characterized Argentina, Brazil and Chile.

In Austria-Hungary the ability to establish a local debt market was probably due to much improved fundamentals. Komlos and Flandreau (2002) talk of fiscal retrenchment in the early 1890s. Komlos (1987) notes increasing financial sophistication over the period. Becker (1913) observes that Austria established a permanent commission to serve as a watchdog for contractual disputes in the payment of debt and to intervene in important matters concerning the debt. It also increased transparency by regularly publishing a report on the status and current operations of the debt. There was also legislation to ease debt workouts in April 1875 (Austria) and March 1876 (Hungary).<sup>41</sup> So perhaps improved fundamentals and better institutions were contributing to a decreased reliance on international capital markets, but this would negate the danger of hard currency debt.

Finally, what about the countries with low levels of original sin on the left hand side of figure 10? These were financial centers and surplus countries. They had little problem containing financial turmoil in the rare event that it broke out. Markets must also have been reassured that outstanding debt was denominated in local currency and would not give rise to a vicious cycle of depreciation, increased debt burden and more depreciation and inflation.

In sum our take on this quadratic pattern is that countries in the middle were unable to completely escape from original sin because of demographic or other

---

that wars and large shocks that closed international markets and forced governments into the domestic markets catalyzed the process. Still other factors are obviously necessary for these factors to be viable explanations.

<sup>40</sup> Our reading of events suggests that Portugal was forced to take more gold clause debt in the run up to the debt crisis of 1892. During the crisis, Portugal repudiated a substantial amount of foreign debt thus making the percentage of total hard currency fall.

<sup>41</sup> These laws specified that a "curator" would be appointed to represent bond holders in the case of non-payment. In addition, the law gave authority to the curator to negotiate on behalf of all creditors disallowing individual stakeholders from intervening to defend individual interests.

historical factors that were not systematically related to fiscal policies or economic fundamentals. Sometimes better policies led to lower levels of original sin (Austria-Hungary) but other evidence suggests that better policies were not necessary (e.g., the case of Russia). When countries escaped from hard currency debt, they did so mainly by developing local debt markets for domestic currency debt rather than by changing the way they issued internationally. This was a slow process and did not happen in all countries that might have liked to consider the option.

We have also controlled for easily identifiable policy variables like debt to revenue ratios, macroeconomic imbalances and debt default histories. Still we find a positive relationship between original sin, mismatches and debt crises although problems with hard currency could be mitigated by attaining better reserve positions.

Finally we have also found that a handful of countries like the dominions, the US and the Scandinavians were probably cases apart where original sin did not cause undue difficulties. Absent special colonial relationships and or the development of sound institutions they may have fared even worse.

Our bottom line thus is that original sin seems to make debt crises more likely and makes avoiding currency and banking crises more difficult. The lesson from history for today's emergers is that at the very least more careful debt management policies and the development of sound fiscal and financial institutions become necessary to make it possible for governments and firms to navigate the choppy waters of global financial markets.

## References

Annuaire Statistique de la Belgique. Bruxelles: Institut national de statistique, Ministère des affaires économiques, Various Issues.

Annuaire Statistique pour la Finlande. Various Issues.

Annuaire Statistique des Pays-Bas Gravenhage: Centrale Commissie voor de Statistiek, Various Issues.

Anuario estatístico do Reino de Portugal. Lisboa. Various Issues.

Anuario Estadístico de Chile. Santiago: Instituto Nacional de Estadísticas. Various Issues.

Anuario Estatístico do Brasil. Rio de Janeiro: Instituto Brasileiro de Geografia e Estatística, Various Issues.

Anuario estadístico de la Republica Oriental del Uruguay Montevideo.Uruguay. Direccion General de Estadística. Various Issues.

Barbieri, Katherine (2000) *The Liberal Illusion: Does Trade Promote Peace?*  
Ann Arbor: University of Michigan Press.

Bazant, Jan (1968) *Historia de la deuda exterior de México (1823-1946)* Nueva serie Colegio de Mexico. Centro de Estudios Históricos México : El Colegio de México.

Beim, David O. & Calomiris, C.W. (2001) *Emerging Financial Markets* New York: MacGraw-Hill, 2001.

Berg, Andrew and Catherine Patillo (1999) “Are Currency Crises Predictable? A Test. IMF Staff papers, vol. 46, no. 2 June.

Bordo, Michael D. (2003) Market Discipline and Financial Crises Policy; An Historical Perspective.” *Research in Financial Services: Private and Public Policy.* vol 15, pp154-182.

Bordo, Michael D., Barry Eichengreen, Daniela Klingebiel, and Maria Soledad Martinez-Peria (2001) “Is the Crisis Problem Growing More Severe?” *Economic Policy* vol. 32 pp 51-75.

Bordo, Michael D. and Marc Flandreau (2003) “Core Periphery, Exchange Rate Regimes and Globalization” in Michael D. Bordo, Alan M. Taylor and Jeffrey G. Williamson eds. *Globalization in Historical Perspective.* Chicago: University of Chicago Press.

Bordo, Michael D., and Jonung, L. (1996). ‘Monetary regimes, inflation, and monetary reform: An essay in honor of Axel Leijonhufvud.’ in *Inflation, Institutions,*



- and Information: Essays in Honor of Axel Leijonhufvud (D. Vaz and K. Velupillai, eds.). London: Macmillan.
- Bordo, Michael D., Christopher M. Meissner and Angela Redish (2004) "How 'Original Sin' was overcome: the evolution of external debt denominated in domestic currencies in the United States and the British Dominions 1800-2000." in Barry Eichengreen and Ricardo Hausmann (eds.), *Other People's Money* Chicago: University of Chicago Press
- Bordo, Michael D. and Anna Schwartz (1996) "The Operation of the Specie standard-Evidence for Core and Peripheral Countries" in de Macedo, Jorge, Eichengreen, B and Reis, J (eds.) *Currency Convertibility: The Gold Standard and Beyond*, Routledge, London.
- Caballero, Ricardo, Cowan Kevin and Jonathan Kearns (2004) "Fear of Sudden Stops: Lessons from Australia and Chile" NBER working paper 10519.
- Céspedes, Luis Felipe, Roberto Chang and Andrés Velasco (2004) "IS-LM-BP in the Pampas" mimeo. Harvard University.
- Condliffe, J.B. (1925 ) *A short history of New Zealand*. Christchurch.
- Crouchley, Arthur Edwin, (1938 )*The economic development of modern Egypt* London ; New York [etc.] : Longmans, Green and co..
- Crouchley, (1977) Arthur Edwin *Investment of foreign capital in Egyptian companies and public debt* New York : Arno Press.
- De Kock, Gerhard (1954) *A history of the South African Reserve Bank (1920-52* Pretoria: J.L. van Schaik.
- Dowd, Kevin (1992) "Free Banking in Australia," in Dowd, Kevin ed. *The Experience of Free Banking*. Routledge: New York.
- Du Velay, A. *Essai sur l'histoire financière de la Turquie depuis le règne du Sultan Mahmoud II jusqu'à nos jours* . Paris : A. Rousseau, 1903
- Edwards, Sebastian (2003) "Exchange Rate Regimes, Capital Flows and Crisis Prevention" in Martin Feldstein ed. *Economic and Financial Crises in Emerging Markets*. Chicago: University of Chicago Press.
- Eichengreen, Barry (1997) "The Baring Crisis in a Mexican Mirror" mimeo. UC Berkeley.
- Eichengreen, Barry and Ricardo Hausmann (1999), "Exchange Rates and Financial Fragility" Federal Reserve Bank of Kansas City. *New Challenges for Monetary Policy* pp. 329-368.

Eichengreen, Barry, Ricardo Hausmann and Ugo Panizza (2003) "Currency Mismatches, Debt Intolerance, and Original Sin: Why they are not the Same and Why it Matters." NBER working paper 10036.

Eichengreen, Barry, Ricardo Hausmann and Ugo Panizza (2004), "The Pain of Original Sin," in Barry Eichengreen and Ricardo Hausmann (eds.), *Other People's Money* Chicago: University of Chicago Press

Flandreau, Marc (2003) "Crises and punishment: moral hazard and the pre-1914 international financial architecture" in Marc Flandreau ed. *Money Doctors: The Experience of International Financial Advising, 1850-2000*. London: Routledge.

Flandreau, Marc and John Komlos (2002) Core of Periphery? The Credibility of the Austro-Hungarian Currency, 1867-1913, mimeo. University of Munich.

Flandreau, Marc Le Cacheux, Jacques and Frederic Zúmer (1998) Stability Without a Pact: Lessons from the European Gold Standard, 1880-1914. *Economic Policy: A European Forum*. 0 (26) pp. 115-149.

Flandreau, Marc and Nathan Sussman (2004), "Old Sins," in Barry Eichengreen and Ricardo Hausmann (eds.), *Other People's Money*, Chicago: University of Chicago Press.

Flandreau, Marc and Clemens Jobst (2004) "The Ties that Divide: A Network Analysis of the International Monetary System, 1890-1910" mimeo. Institut d'Etudes Politiques, Paris.

Flandreau, Marc and F. Zúmer (2004) *The Making of Global Finance*. OECD: Paris. Data from <http://www.eh.net/databases/finance/>

Ferguson, Niall and Mortiz Schularick (2004) "The Empire Effect: The Determinants of Country Risk in the First Age of Globalization, 1880-1913." mimeo New York University.

Frankel, Jeff and Andrew K. Rose (1996) "Currency Crashes in Emerging Markets: An Empirical Treatment" (with Jeffrey Frankel), *The Journal of International Economics*.

Furuya, S.Y. *Japan's Foreign Exchange and Her Balance of International Payments*. NY: Columbia University Press. 1928.

Goldstein, Morris and Philip Turner (2004), "Controlling Currency Mismatches in Emerging Market Economies" Washington: Institute of International Economics.

Hawke, G. R., *The making of New Zealand: an economic history* Cambridge: Cambridge University Press, 1985

Jones, M. T., and M. Obstfeld (2000): *Savings and Investment Data for 13 Countries*: Available on-line at <http://www.nber.org/databases/jones-obstfeld/>, National Bureau of Economic Research.

Kahan, Arcadius. *Russian economic history : the nineteenth century* Chicago: University of Chicago Press, 1989.

Kikuchi, Gunzo *Das Staatsschuldenwesen seit der Restauration Japans* Kaemmerer, CA, Halle1904.

Komlos, John (1987) "Financial Innovation and the Demand for Money in Austria-Hungary, 1867-1913, *Journal of European Economic History* (16)3, pp.587-605

Goldsmith Raymond W. (1983) *The financial development of India, 1860-1977* New Haven London : Yale University Press.

Kostelenos, George C. "Money and Output in Modern Greece: 1858-1938. Center for Planning and Economic Research: Athens: 1995.

Leroy-Beaulieu, Paul (1883) *Traité de la science des finances*, 3. ed.. Paris, Guillaumin et cie, Paris.

Levy, M.B. "The Brazilian Public Debt Domestic and Foreign 1824-1913" in Reinhard Liehr (ed.) *La deuda pública en América Latina en perspectiva histórica* Series: Bibliotheca Ibero-Americana; vol. 58 Publisher: Frankfurt am Main: Vervuert..

Lindert, Peter (1969) "Key Currencies and Gold, 1900-1913" Princeton Studies in International Finance 24. International Finance Section, Department of Economics, Princeton University, Princeton, NJ.

Ludlow, Leonor and Carlos Marichal (coordinadores) *Un siglo de deuda pública en México*. Lecturas de historia económica mexicana 1a ed México, D.F. : Instituto Mora : Colegio de Michoacán : Colegio de México : Instituto de Investigaciones Históricas-UNAM, 1998

Masayoshi Matsukata, M. (1899). *Report on the Adoption of the Gold Standard in Japan*. Tokyo: Government Press.

Mavor, James *An economic history of Russia Part: Vol.2* 2nd. ed. rev. and enl. London ; New York : Dent : E.P. Dutton, 1925

Meissner, Christopher M. (forthcoming) "New World Order: Explaining the International Diffusion of the Gold Standard, 1870-1913" *Journal of International Economics*.

Mishkin, Frederic S. (2003) "Financial Policies and the Prevention of Financial Crises in Emerging Market Countries" in Martin Feldstein ed. *Economic and Financial Crises in Emerging Markets*. Chicago: University of Chicago Press.

Molino, Evaristo (1898) *Bosquejo de la hacienda pública de Chile, desde la independencia hasta la fecha*. Imprenta nacional, Santiago de Chile.

Mitchell, B. R. *International historical statistics: Europe, 1750-1988*. 3<sup>rd</sup> ed Basingstoke: Macmillan, 1992

Mitchell, B. R. *International historical statistics: the Americas, 1750-1988* 2nd ed Basingstoke: Macmillan, 1993

Mitchell, B. R. *International historical statistics: Africa, Asia, Oceania, 1750-1988* 2nd ed Basingstoke: Macmillan, 1993

Mülinen, Johann Friedrich Rudolph comte de (1875) *Les finances de l'Autriche : étude historique et statistique sur les finances de l'Autriche-Cisleithanienne comparées avec celles de la France : d'après des publications officielles de l'Administration impériale et royale des finances*. Guillaumin et cie. Paris.

Obstfeld, Maurice and Alan M. Taylor (2003) "Sovereign Risk ,Credibility and the Gold Standard, 1870-1913 versus 1925-1931" *Economic Journal* vol. 113 (487) pp 1-35

Pasvolsky, Leo and Moulton Harold (1924) *Russian debts and Russian reconstruction: a study of the relation of Russia's foreign debts to her economic recovery* New York: McGraw-Hill, 1924

Perez Siller, J. (1995) "La deuda y Consolidacion del Poder en Mexico, 1867-1896: bases para la modernidad porfirista" in Reinhard Liehr (ed.) *La deuda pública en América Latina en perspectiva histórica* Series: Bibliotheca Ibero-Americana ; vol. 58 Publisher: Frankfurt am Main : Vervuert ; Madrid : Iberoamericana.

Reinhart, Carmen, Kenneth Rogoff and Miguel Savastano (2003), "Debt Intolerance," *Brookings Papers on Economic Activity* 1, pp.1-74.

Reserve Bank of India *Banking and monetary statistics of India* Bombay : Reserve Bank of India., [1954]

Schumann, Christian Gustav Waldemar *Structural changes and business cycles in South Africa, 1806-1936/* London: P.S. King, 1938

Shaw, Stanford. "The 19th Century Ottoman Tax Reforms and Revenue System" *International Journal of Middle East Studies*, 1975.

Smits, J., E. Horlings, and J. van Zanden (1999): *The Measurement of Gross National Product and its Components: The Netherlands, 1800-1913*, Discussion paper, N.W Posthumus Institute, Utrecht University.

Tattara, G (2003) "Paper Money but a Gold Debt: Italy on the gold Standard", *Explorations in Economic History*, 40: 2 April, pp. 122-142.

Vázquez-Presedo, Vicente (1988) *Estadísticas históricas argentinas (comparadas)* Buenos Aires: Ediciones Macchi.

Wilkins, Myra (1989) *The History of Foreign Investment in the United States to 1914*  
Cambridge, Mass: Harvard University Press.

Zamagni V. “Il debito pubblico Italiano 1861-1946: ricostruzione della serie storica”, *Rivista di storia economica*, 3, XIV, dec. pp. 207-242, 1998.

Zamagni V. “Una rettifica” *Rivista di storia economica*, 3, xv, dec pp.339-342(1999).

Zubillaga, Carlos. *El reto financiero: deuda externa y desarrollo en Uruguay (1903-1933)* Colección El Pasado inminente Montevideo: Editorial Arca: CLAEH, 1982

## Data Appendix

### General notes:

**Debt:** In general we have defined external debt or hard currency debt as the amount outstanding of long-term debt issued abroad plus the amount outstanding of domestic gold (or silver) debt. Internal debt refers to the outstanding stock of domestic paper debt. However in a few cases listed below we have not been able to discern from the sources if what how much of the “domestic” or internal debt was payable in gold. More work will have to put into these cases. However, one will note that for these cases the total amount of domestic debt is rather small.

**Real Exchange Rates:** The real exchange rate is defined as the UK price level divided by the local price level times the exchange rate (price of local currency per pound). Price levels come from Obstfeld and Taylor ( 2003). We use the percentage deviation from the within country average to obviate problems with levels. The average is taken over the entire period 1880-1913.

**Market portfolio spread:** We use a GDP-weighted average spread of long-term bonds against the British consol constructed by Obstfeld and Taylor (2003) to control for time-specific international changes in capital markets.

**Exchange rate regimes:** Data on gold standard adherence comes from Meissner (forthcoming) augmented with data from Obstfeld and Taylor (2003)

**Default Indicator:** Our default indicator was created if there were one or more defaults prior to 1880. This data is taken from a spreadsheet underlying Reinhart, Rogoff and Savastano (2003).

**Crisis Dating:** As in Bordo et. al ( 2001). we date currency and banking crises using both qualitative and quantitative evidence. For all countries besides Austria-Hungary, Russia, New Zealand, South Africa, Mexico, Turkey, Egypt, Uruguay and India we have relied on the dates of Bordo et. al. We have tried to date currency crises, when

possible, by using an approach based on the exchange market pressure methodology which looks at changes in reserves, the exchange rate and the interest rate.

Debt crisis dates were based on Beim and Calomiris (2001). Only private lending to sovereign nations is considered when building those default dates. Not every instance of technical default is included in the chronology, the authors identified periods (six months or more) where all or part of interest/principal payments were suspended, reduced or rescheduled. Some of those episodes are outright debt repudiations, while others were reschedulings agreed upon mutually by lenders and borrowers. Also data is taken from a spreadsheet underlying Reinhart, Rogoff and Savastano (2003).

**Table A.1 Crisis Dates, 1880-1913**

Year	Argentina	Australia	Austria	Belgium	Brazil	Canada	Chile	Denmark	Egypt	Finland	France	Germany	Greece	India	Italy
1880							DC								
1881															
1882			BC												
1883															
1884															
1885	CC							BC					CC		
1886															
1887							CC								
1888											CC				
1889					BC, CC						BC				
1890	BC, CC, DC				BC										
1891	BC					CC								CC	BC
1892															
1893		BC				CC					CC				BC
1894													DC		CC
1895															
1896															
1897					BC										
1898					CC, DC		BC, CC								
1899															
1900					BC				CC	BC					
1901					BC							BC			
1902															
1903															
1904															
1905															
1906															
1907							BC	BC	BC		BC	CC			BC
1908	CC					CC		BC							CC
1909															
1910															
1911															
1912															
1913															

Note: CC represents currency crises, BC represents banking crises, DC represents debt crises.



**Table A.1 (continued) Crisis Dates, 1880-1913**

Year	Japan	Mexico	Netherlands	New Zealand	Norway	Portugal	Russia	South Africa	Spain	Sweden	Switzerland	Turkey	UK	USA	Uruguay
1880		DC										DC			
1881								BC							
1882									DC						
1883															
1884		BC												BC	
1885							DC								
1886															
1887															
1888															
1889								BC							
1890													BC	CC	
1891						BC,CC	CC							CC	DC
1892						DC									
1893				BC										BC,CC	
1894															
1895															
1896															
1897			BC							BC					
1898															
1899															
1900	CC														
1901	BC														
1902															
1903				CC				BC							
1904	CC														
1905															
1906															
1907	BC	BC								BC				BC	
1908	CC														
1909															
1910															
1911															
1912															
1913															BC

Note: CC represents currency crises, BC represents banking crises, DC represents debt crises.

**Table A.2 Data Availability for Countries and Years**

Variable	Argentina	Australia	Austria	Belgium	Brazil	Canada	Chile	Denmark	Egypt	Finland	France	Germany	Greece	India	Italy
Original Sin	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	---	1881, 1891	1880-1913	1880-1913	1885-1913	1880-1913	1880-1913
Debt/Revenue	1880-1913	1880-1913	1880-1912	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	---	1880-1913	1880-1913	1881-1882, 1884-1913	1880-1913	1880-1913
Mismatch (debt)	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1887-1895	1880-1913	---	1881, 1891	1880-1913	1880-1913	1881, 1885-1913	---	1880-1913
Mismatch (interest)	1880-1913	---	1880-1912	1880-1913	1881-1913	---	---	1880-1913	---	---	1880-1913	1880-1913	1881, 1885-1913	---	1880-1913
Terms of Trade	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913
Real Exchange Rate	1885-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	---	1880-1913	1886-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913
Trade Balance	1884-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1886-1913	1880-1913	1880-1913	1880-1913	1880-1912	1880-1913	1880-1913
Bond Spread	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1911-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913
Gold Standard	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913
Growth of the Money Supply	1885-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	---	1886-1913	1902-1913	1880-1902, 1912-1913	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913
Ratio of Gold Reserves to Notes	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1887-1895	1880-1913	---	1880-1913	1880-1913	1880-1913	1880-1913	---	1880-1913
Central Bank Indicator	1880-1913	1880-1913	---	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	---	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913

Note: --- means no data is available for this variable and country

**Table A.2 (continued) Data Availability for Countries and Years**

Variable	Japan	Mexico	Netherlands	New Zealand	Norway	Portugal	Russia	South Africa	Spain	Sweden	Switzerland	Turkey	UK	USA	Uruguay
Original Sin	1880-1913	1880-1881, 1883, 85-86, 1890-1912	1880-1913	1880-1913	1880-1913	1880-1913	1880, 1884-1913	1880-1913	1880-1913	1880, 1887, 1891, 1913	1880-1913	---	1880-1913	1880-1913	1880-1913
Debt/Revenue	1880-1913	1880-1881, 1883, 85-86, 89-1912	1880-1913	1880-1913	1881-1913	1880-1912	1880-1912	1910-1913	1880-1913	1881-1912	1880-1913	---	1880-1913	1880-1913	1880, 1884-1913
Mismatch (debt)	1882, 1887, 1892-1897, 1903-1913	---	1880-1913	---	1880-1913	1880-1912	1880, 1884-1913	---	1880-1913	1880, 1887, 1891, 1913	1885-1913	---	1880-1913	1880-1913	---
Mismatch (interest)	1881-1913	---	1880-1913	---	1880-1913	1880-1913	1880, 1884-1912	---	1880-1913	1880, 1887, 1891	1885-1913	---	1880-1913	---	---
Terms of Trade	1881-1913	1881-1913	---	1881-1913	1881-1913	1881-1913	1881-1913	---	1881-1913	1881-1913	---	1881-1913	1881-1913	1881-1913	1881-1913
Real Exchange Rate	1885-1913	1886-1913	1880-1913	1880-1913	1880-1913	1880-1913	1885-1913	---	1880-1913	1880-1913	1880-1913	---	1880-1913	1880-1913	1900-1913
Trade Balance	1880-1913	---	1880-1913	1880-1913	1880-1913	1880-1913	1880-1897	---	1880-1913	1880-1913	1885-1913	---	1880-1913	1880-1913	1900-1913
Bond Spread	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	---	1880-1913	1880-1913	1893-1912	1880-1913	1880-1913	1880-1913	1880-1913
Gold Standard	1881-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	---	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1885-1913
Growth of the Money Supply	1881-1913	1902-1911	1880-1913	1881-1913	1881-1913	1880-1911	1881-1913	1881-1913	1881-1913	1881-1913	1881-1913	---	1881-1913	1881-1913	1901-1913
Ratio of Gold Reserves to Notes	1880-1897	---	1880-1913	---	1880-1913	1880-1913	1880-1913	---	1880-1913	1880-1913	1883-1913	---	1880-1913	1880-1913	---
Central Bank Indicator	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	---	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913	1880-1913

Note: --- means no data is available for this variable and country

## Argentina

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Total funded debt from 1880 to 1913 from Vázquez-Preedo (1988).

The external debt data from 1880 to 1891 comes from Conde (1995). The percentage of debt serviced in gold was taken from Flandreau and Zúmer.

**Government revenue:** Flandreau and Zúmer

**Terms of trade:** Obstfeld and Taylor.

**Interest service on debt:** Flandreau and Zúmer

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Barbieri

**Nominal GDP:** Obstfeld and Taylor

**Yield spread between British consols:** Obstfeld and Taylor (2003)

**Growth of the money supply:** Data underlying Bordo et. al.

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Flandreau and Zúmer

## Australia

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Total debt: Ferguson and Schularick; Percentage of debt payable in gold or foreign currency, Bordo, Meissner, Redish (2004)

**Government revenue:** Mitchell

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Mitchell

**Imports:** Mitchell

**Nominal GDP:** Bordo et. al.

**Yield spread between British consols:** Obstfeld and Taylor (2003)

**Growth of the money supply:** Data underlying Bordo et. al.

**Gold reserves:** Mitchell

**Notes in circulation:** Mitchell

**GDP-weighted average spread on British consol:** Obstfeld and Taylor (2003)

## Austria-Hungary

**Total outstanding government debt, external hard currency debt and domestic paper debt:** The source is the statistical yearbooks for both countries. External debt consists of domestic gold debt and foreign currency debt. Internal debt is domestic paper debt. Data for 1880 is from Flandreau and Zúmer

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer.

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Mitchell

**Nominal GDP:** Obstfeld and Taylor

**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Belgium

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Total Public debt from *Annuaire Statistique* and *Fenn's Compendium*. Level of debt payable in gold is from Flandreau and Zúmer  
**Interest service on debt:** Flandreau and Zúmer  
**Government revenue:** Flandreau and Zúmer.  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Obstfeld and Taylor  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Brazil

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Debt in Foreign Currency (1880-1914), Domestic Paper and Gold Debt 1880-1912 from *Statistical Yearbook* and Levy (1995). For 1913 and 1914 The data given in the sources for external debt only included foreign currency debt and was denominated in sterling.  
**Interest service on debt:** Flandreau and Zúmer  
**Government revenue:** Flandreau and Zúmer.  
**Terms of trade:** Clemens and Williamson  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Taylor and Obstfeld and Bordo et. al.  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Canada

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Bordo, Meissner and Redish  
**Government revenue:** Mitchell  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Mitchell  
**Imports:** Mitchell

**Nominal GDP:** Bordo et al.  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Data underlying Bordo et. al.  
**Gold reserves:** Mitchell  
**Notes in circulation:** Mitchell

### Chile

**Total outstanding government debt, external hard currency debt and domestic paper debt:** External and Domestic Debt from 1880 to 1897 from Molino (no information about domestic gold debt). From 1898 onwards the source is the statistical yearbook for Chile for internal gold, external and domestic paper debt. 1911-1912, total and foreign debt come from Ferguson and Schularick  
**Government revenue:** Mitchell  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Barbieri  
**Imports:** Barbieri  
**Nominal GDP:** Obstfeld and Taylor  
**Growth of the money supply:** Data underlying Bordo et. al.  
**Gold reserves:** 1887-1895, Molino  
**Notes in circulation:** Mitchell

### Denmark

**Total outstanding government debt, external hard currency debt and domestic paper debt:** For 1880, 1886 and 1890 the source is Fenn's Compendium. No information about domestic gold debt was available but our numbers are highly consistent with Flandreau and Zúmer's for the total debt payable in gold. Total debt: 1881, 1882, 1884, 1885, 1887-1889, 1891-1893 Ferguson and Schularick. 1894-1913, Statistical Yearbook Debt payable in gold 1881-1885, 1887-1889, 1891-1893 Flandreau and Zúmer; 1894-1913 Statistical Yearbook.  
**Interest service on debt:** Flandreau and Zúmer  
**Government revenue:** Flandreau and Zúmer  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Bordo et al.,  
**Yield spread between British consols:** Clemens and Williamson  
**Growth of the money supply:** Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Egypt

**Total outstanding government debt, external hard currency debt and domestic paper debt:** 1880 to 1915 total public debt, Government revenues and government expenditures from Crouchley (1938). Consumer Price indexes 1913 to 1915, Money supply 1901-1915 (includes Currency and Bank notes in circulation and deposits in

savings banks), are from Mitchell and Crouchley. For foreign trade aggregates and crisis dates the source is Crouchley.

**Government revenue:** Mitchell

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Barbieri

**Imports:** Barbieri

**Nominal GDP:** Obstfeld and Taylor

**Yield spread between British consols:** Obstfeld and Taylor

**Growth of the money supply:** Bordo et. al.

**Gold reserves:** Not available

**Notes in circulation:** Not available

### Finland

**Total outstanding government debt, external hard currency debt and domestic paper debt:** 1880-1915 public debt in marks from statistical yearbook. 1881, 1891 foreign and domestic debt from Fenn's Compendium. It appears that the entire debt was external before 1915. Yearbook presents total debt from 1880 to 1901 and then only foreign debt from 1901 to 1915, but the values for external and total debt in 1901 are the same. If we consider the data from Fenn's ratio of external to total was 88% in 1881 and 92% in 1891!

**Government revenue:** not available

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Mitchell

**Imports:** Mitchell

**Nominal GDP:** Bordo et al.

**Yield spread between British consols:** Obstfeld and Taylor

**Growth of the money supply:** Data generously made available by Alan M. Taylor, UC Davis.

**Gold reserves:** Obstfeld and Jones

**Notes in circulation:** Mitchell

### France

Total outstanding government debt, external hard currency debt and domestic paper debt: **Flandreau and Zúmer**

**Government revenue:** Flandreau and Zúmer.

**Interest service on debt:** Flandreau and Zúmer

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Barbieri

**Nominal GDP:** Bordo et al.,

**Yield spread between British consols:** Obstfeld and Taylor

**Growth of the money supply:** Bordo et. al.

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Flandreau and Zúmer

## Germany

Total outstanding government debt, external hard currency debt and domestic paper debt: **State debt is excluded Flandreau and Zúmer**

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer.

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Barbieri

**Nominal GDP:** Bordo et al.

**Yield spread between British consols:** Clemens and Williamson

**Growth of the money supply:** Data underlying Bordo et. al.

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Flandreau and Zúmer

## Greece

**Total outstanding government debt, external hard currency debt and domestic paper debt:** 1881, External and Total debt from Fenn's. 1885-1913 Flandreau and Zúmer

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer.

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Prices from Flandreau and Zúmer, exchange rates, Bordo and Jonung

**Exports:** Flandreau and Zúmer

**Imports:** Barbieri

**Nominal GDP:** Kostelenos

**Yield spread between British consols:** Obstfeld and Taylor

**Growth of the money supply:** Data underlying Bordo et. al.

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Flandreau and Zúmer

## India

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Funded rupee debt and funded sterling debt from Reserve Bank of Australia *Banking and Monetary Statistics of India*. No information about domestic gold debt. Money supply data from Goldsmith (1983).

**Government revenue:** Mitchell

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Mitchell

**Imports:** Mitchell

**Nominal GDP:** Obstfeld and Taylor

**Yield spread between British consols:** Obstfeld and Taylor

**Growth of the money supply:** Data underlying Bordo et. al.

**Gold reserves:** Not available

**Notes in circulation:** Mitchell



**Population:** Clemens and Williamson

### Italy

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Total and foreign debt from Zamagni (1998 and 1999). Foreign debt includes only *rendita* interest paid abroad in foreign currency or gold. See Flandreau and Zúmer for a short discussion on this point.

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer.

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Barbieri

**Nominal GDP:** Bordo et al.

**Yield spread between British consols:** Obstfeld and Taylor (2003)

**Growth of the money supply:** Bordo et. al.

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Flandreau and Zúmer

### Japan

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Internal and external debt from 1892 to 1913, *Statistical Yearbook of Japan*, no information was given about domestic gold debt. 1882 and 1887 foreign and total debt from Fenn's (no information about domestic gold debt). Total debt 1880 to 1891 from Kikuchi (1904). 1897 foreign debt source is Furuya (1928) includes government foreign bonds, domestic bonds sold abroad, domestic bonds shipped abroad and corporation bonds. This series hence may contain some paper bond issues held abroad which would contaminate our measure of original sin. The amounts would not be large we conjecture.

**Government revenue:** Mitchell

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Mitchell

**Imports:** Barbieri

**Nominal GDP:** Bordo et al.,

**Yield spread between British consols:** Obstfeld and Taylor (2003)

**Growth of the money supply:** Data underlying Bordo et. al.

**Gold reserves:** Obstfeld and Jones

**Notes in circulation:** Masayoshi, M.

### Mexico

**Total outstanding government debt, external hard currency debt and domestic paper debt:** External and Internal debt from Barzant (1968), Ludlow & Marichal (1998) and Perez-Siller(1995). Only Includes federal debt, no information about domestic gold or silver debt. Total debt and "foreign debt" 1881, 1883, 1885, 1891, 1892, 1895, 1897-1904, 1906-1910, Ferguson and Schularick

**Government revenue:** Mitchell

**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Barbieri  
**Imports:** Barbieri  
**Nominal GDP:** Not available  
**Yield spread between British consols:** Obstfeld and Taylor (2003)  
**Growth of the money supply:** Mitchell. Money supply includes deposits in commercial banks and currency and bank notes in circulation.  
**Gold reserves:** not available  
**Notes in circulation:** Mitchell  
**Population:** Clemens and Williamson

### Netherlands

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Total consolidated debt sources are statistical yearbook and Fenn's. Except 1882-1885 Flandreau and Zúmer. Following Flandreau and Sussman, Netherlands had no hard currency debt.  
**Interest service on debt:** Flandreau and Zúmer  
**Government revenue:** Flandreau and Zúmer.  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports and Imports:** Smits, Horlings and van Zanden  
**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Taylor and Obstfeld  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** 1880-1899 measured as the growth of M3. 1901-1913 Growth of money supply is the growth of M2. Data generously made available by Alan M. Taylor.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### New Zealand

Total outstanding government debt, external hard currency debt and domestic paper debt: **Bordo, Meissner and Redish**  
**Government revenue:** Mitchell  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Imports:** Mitchell  
**Exports:** Mitchell  
**Nominal GDP:** Bordo et al. Taylor and Obstfeld and.  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Data underlying Bordo et. al.  
**Gold reserves:** Not available  
**Notes in circulation:** Mitchell

### Norway

**Total outstanding government debt, external hard currency debt and domestic paper debt:** External and domestic debt from statistical yearbook\*\*. No information about domestic gold debt. It is possible that the domestic debt actually had gold clauses, and we will have to look into this further. Still, the amount of domestic debt as a part of the total is very small.

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Mitchell

**Nominal GDP:** Bordo et al.

**Yield spread between British consols:** Obstfeld and Taylor (2003)

**Growth of the money supply:** Data underlying Bordo and Jonung

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Flandreau and Zúmer

### Peru

Total outstanding government debt, external hard currency debt and domestic paper debt: **Not available**

**Government revenue:** Mitchell.

**Terms of trade:** Clemens and Williamson

**Real exchange rate:** Not available

**Current account surplus** Not available

**Nominal GDP:** Not available

**Yield spread between British consols:** Clemens and Williamson

**Growth of the money supply:** Not available

**Gold reserves:** Not available

**Notes in circulation:** Not available

**Population:** Clemens and Williamson

### Portugal

Total outstanding government debt, external hard currency debt and domestic paper debt: **Total debt, 1880-1913, Flandreau and Zúmer; Percentage of debt serviced in gold, Flandreau and Zúmer**

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer.

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Barbieri

**Nominal GDP:** Bordo et al.

**Yield spread between British consols:** Obstfeld and Taylor

**Growth of the money supply:** 1880-1890 Growth of circulation in hands of public and commercial bank deposits. Data from Alan M. Taylor. 1891-1913, Bordo et. al.

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Mitchell

## Russia

**Total outstanding government debt, external hard currency debt and domestic paper debt:** 1880, 1887, 1891 total debt from Fenn's. 1880 hard currency debt from Fenn's. Foreign debt is reported as including domestic gold debt and internal debt. Total debt: 1881-1884, 1885-1886, 1888-1890, 1893, 1894, Ferguson and Schularick. 1885 total debt Moulton and Pasvolsky (1924) 1895 to 1913, total debt. Percentage of debt serviced in gold, 1884-1913, Flandreau and Zúmer

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer.

**Terms of trade:** Clemens and Williamson

**Real exchange rate:** Obstfeld and Taylor

**Current account surplus:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer

**Imports:** Barbieri

**Nominal GDP:** Bordo et al., Taylor and Obstfeld and..

**Yield spread between British consols:** Obstfeld and Taylor

**Growth of the money supply:** Data underlying Bordo et. al.

**Gold reserves:** Flandreau and Zúmer

**Notes in circulation:** Flandreau and Zúmer

## South Africa

Before union the data is constructed as aggregate from available data from Cape of Good Hope, Natal, Orange Free State and Transvaal.

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Bordo, Meissner, Redish

**Government revenue:** Mitchell

**Terms of trade:** Not available

**Real exchange rate:**

**Exports:** Global Financial Database

**Imports:** Global Financial Database

**Nominal GDP:** 1911-1913, Mitchell

**Yield spread between British consols:** Not available

**Growth of the money supply:** Bordo et al.

**Gold reserves:** Not available

**Notes in circulation:** Not available

**Population:** Schuman.

## Spain

**Total outstanding government debt, external hard currency debt and domestic paper debt:** External and internal debt from *Datos basicos para la historia financiera de Espana*. No information about gold debt.

**Interest service on debt:** Flandreau and Zúmer

**Government revenue:** Flandreau and Zúmer.

**Terms of trade:** Obstfeld and Taylor

**Real exchange rate:** Obstfeld and Taylor

**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Bordo et al.  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Data underlying Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Sweden

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Total debt (dette publique en obligations) and internal debt 1913 Statistical Yearbook of Sweden. Foreign debt 1880, 1887, 1891 from Fenn's. No information about domestic gold debts.  
**Government revenue:** Flandreau and Zúmer.  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Bordo et al.  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Switzerland

**Total outstanding government debt, external hard currency debt and domestic paper debt:** 1880-1913 Flandreau and Zúmer  
**Interest service on debt:** Flandreau and Zúmer  
**Government revenue:** Flandreau and Zúmer.  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Bordo et al  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Turkey

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Not Available  
**Government revenue:** 1884-1900 Du Velay (1903) for 1880, 1901-1903, 1908-1910 Shaw (1975)  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Not Available

**Exports:** Global Financial Database  
**Imports:** Barbieri  
**Nominal GDP:** Okyar (no citation available\*\*\*)  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** Not available.  
**Gold reserves:** Not available.  
**Notes in circulation:** Not available.  
**Population:** Clemens and Williamson

### Great Britain

**Total outstanding government debt, external hard currency debt and domestic paper debt:** 1880-1913 total debt Flandreau and Zúmer. Great Britain had no hard currency debt in this period to our knowledge.  
**Government revenue:** Flandreau and Zúmer.  
**Interest service on debt:** Flandreau and Zúmer  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Flandreau and Zúmer  
**Imports:** Barbieri  
**Nominal GDP:** Bordo et al.  
**Growth of the money supply:** Bordo et. al.  
**Gold reserves:** Flandreau and Zúmer  
**Notes in circulation:** Flandreau and Zúmer

### Uruguay

**Total outstanding government debt, external hard currency debt and domestic paper debt:** Internal and External debt from Statistical Yearbook, no information about domestic gold debt.  
**Government revenue:** Mitchell  
Terms of trade: **Not Available**  
**Real exchange rate:** 1900-1913 Obstfeld and Taylor  
**Exports:** Barbieri  
**Imports:** Barbieri  
**Nominal GDP:** Clemens and Williamson  
**Yield spread between British consols:** Obstfeld and Taylor  
**Growth of the money supply:** 1901-1913 Bordo et. al.  
**Gold reserves:** Not available.  
**Notes in circulation:** Mitchell  
**Population:** Clemens and Williamson

### USA

Total outstanding government debt, external hard currency debt and domestic paper debt: Total Debt, 1880-1913: Ferguson and Schularick. All debt is payable in gold following Bordo, Meissner and Redish.  
**Government revenue:** Mitchell  
**Terms of trade:** Obstfeld and Taylor  
**Real exchange rate:** Obstfeld and Taylor  
**Exports:** Barbieri

**Imports:** Barbieri

**Nominal GDP:** Bordo et al., Taylor and Obstfeld and..

**Yield spread between British consols:** Obstfeld and Taylor (2003)

**Growth of the money supply:** Bordo et. al.

**Gold reserves:** Obstfeld and Jones

**Notes in circulation:** Mitchell

**Table 1 Determinants of Debt Crises**

<i>Regressors</i>	(1)	(2)	(3)	(4)
Hard currency debt as a percentage of total debt	6.13 (2.24)**	2.32 (0.92)*	---	3.44 (1.07)**
Square of hard currency debt ratio	-4.73 (2.14)*	-3.46 (0.61)**	---	-4.33 (0.82)**
Debt/Revenue	-0.42 (0.14)**	0.16 (0.07)*	0.23 (0.08)**	-0.05 (0.12)
Debt/Revenue*Pre-1880 Default	1.05 (0.26)**	---	---	0.28 (0.15)
Pre-1880 Default	-8.78 (2.81)**	---	---	-2.74 (1.18)*
Mismatch	7.09 (4.52)	---	4.16 (1.67)*	---
Square of mismatch	-26.51 (13.67)	---	-11.40 (6.61)	---
Growth of terms of trade	-30.95 (18.88)	-13.98 (11.42)	-13.22 (9.86)	-16.56 (14.24)
ln (deviation of real exchange rate from period average)	-6.09 (4.42)	-2.39 (1.72)	-2.46 (1.77)	-3.22 (2.06)
Trade balance/GDP	-5.15 (6.13)	---	---	---
Spread on UK consol	-0.18 (0.18)	---	---	---
Gold standard dummy	1.65 (0.69)*	---	---	---
Growth of the money supply	-1.52 (3.25)	---	---	---
Gold reserves/notes in circulation	-11.63 (3.59)**	-3.76 (2.11)	-5.69 (1.41)**	-4.32 (1.19)**
Market portfolio spread	3.37 (1.71)*	1.92 (0.77)*	2.40 (1.15)*	1.77 (0.86)*
constant	-3.53 (4.14)	-5.72 (1.31)**	-6.30 (2.24)**	-3.80 (1.31)**
Number of obs	338	533	427	533
Pseudo R-squared	0.59	0.45	0.45	0.48
log-likelihood value	-12.11	-17.9	-17.21	-17.04

Notes: Dependent variable is a binary indicator for a debt crisis. "Robust" clustered standard errors are in parentheses. See the text for precise definitions of variables. \* significant at 5%; \*\* significant at 1%



**Table 2 Determinants of Currency Crises**

<i>Regressors</i>	(1)	(2)	(3)	(4)
Hard currency debt as a percentage of total debt	-0.71 (0.77)	-0.46 (0.74)	---	---
Square of hard currency debt ratio	0.34 (0.78)	0.11 (0.77)	---	---
Debt/Revenue	-0.02 (0.03)	-0.02 (0.03)	-0.06 (0.04)	-0.04 (0.04)
Debt/Revenue*Periphery indicator	-0.11 (0.10)	-0.13 (0.10)	---	-0.09 (0.09)
Periphery indicator	0.68 (0.46)	0.55 (0.53)	---	0.47 (0.46)
Mismatch	-0.09 (0.10)	-0.13 (0.10)	-0.07 (0.04)	-0.12 (0.08)
Growth of terms of trade	8.84 (6.32)	7.55 (6.77)	---	---
ln (deviation of real exchange rate from period average)	0.05 (0.66)	-0.22 (0.80)	0.02 (0.78)	0.06 (0.75)
Trade balance/GDP	-0.19 (1.82)	0.65 (1.92)	3.25 (1.45)*	2.65 (1.26)*
Spread on UK consol	-0.04 (0.08)	-0.06 (0.08)	---	---
Gold standard dummy	0.50 (0.53)	---	---	---
Growth of the money supply	-0.94 (1.09)	---	---	---
Gold reserves/notes in circulation	-0.66 (0.49)	-0.40 (0.48)	-0.19 (0.27)	-0.13 (0.40)
Market portfolio spread	0.76 (0.18)**	0.76 (0.20)**	0.47 (0.16)**	0.48 (0.16)**
Debt Crisis in $t+1$	0.85 (0.33)*	0.69 (0.33)*	0.42 (0.33)	0.50 (0.38)
Banking Crisis in $t+1$	0.70 (0.30)*	0.64 (0.27)*	0.71 (0.30)*	0.70 (0.30)*
constant	-2.75 (0.76)**	-2.45 (0.56)	-2.24 (0.29)**	-2.48 (0.47)**
Number of obs	466	472	613	613
Pseudo R-squared	0.12	0.10	0.10	0.11
log-likelihood value	-63.8	-65.3	-69.6	-68.57

Notes: Dependent variable is a binary indicator for a currency crisis. "Robust" clustered standard errors are in parentheses. See the text for precise definitions of variables. \* significant at 5%; \*\* significant at 1%

**Table 3 Determinants of Banking Crises**

<i>Regressors</i>	(1)	(2)	(3)	(4)
Hard currency debt as a percentage of total debt	1.32 (0.71)	0.62 (0.92)	1.10 (0.67)	---
Square of hard currency debt ratio	-2.36 (0.70)**	-0.90 (0.84)	-1.20 (0.71)	---
Debt/Revenue	-0.05 (0.05)	-0.05 (0.04)	-0.01 (0.02)	-0.05 (0.05)
Debt/Revenue*Periphery indicator	-0.04 (0.08)	---	---	---
Periphery indicator	-1.15 (0.92)	---	---	---
Debt/Revenue*Pre-1880 Default	---	---	---	-0.10 (0.07)
Pre-1880 Default	---	---	---	0.02 (0.52)
Mismatch	-0.17 (0.07)*	-0.07 (0.05)	---	-0.16 (0.08)*
Growth of terms of trade	-7.01 (5.47)	---	---	-6.67 (5.52)
ln (deviation of real exchange rate from period average)	-0.81 (0.85)	-0.24 (0.72)	-0.21 (0.70)	-0.33 (0.29)
Trade balance/GDP	6.50 (2.11)**	4.93 (1.98)*	4.17 (1.83)*	4.60 (2.41)
Central bank indicator	-0.54 (0.43)	-0.12 (0.28)	-0.02 (0.23)	0.07 (0.32)
Gold standard dummy	-0.87 (0.42)*	-0.33 (0.33)	-0.23 (0.28)	-0.65 (0.35)
Growth of the money supply	1.03 (1.11)	0.67 (0.87)	0.65 (0.88)	---
Gold reserves/notes in circulation	0.82 (0.47)	0.99 (0.40)**	0.65 (0.25)**	0.78 (0.48)
Market portfolio spread	0.38 (0.30)	0.41 (0.27)	0.39 (0.25)	0.42 (0.25)
constant	-0.82 (0.84)	-2.26 (0.39)**	-2.43 (0.34)**	-1.95 (0.53)**
Number of obs	485	549	549	491
Pseudo R-squared	0.11	0.07	0.06	0.08
log-likelihood value	-68.46	-76.9	-77.8	-74.1

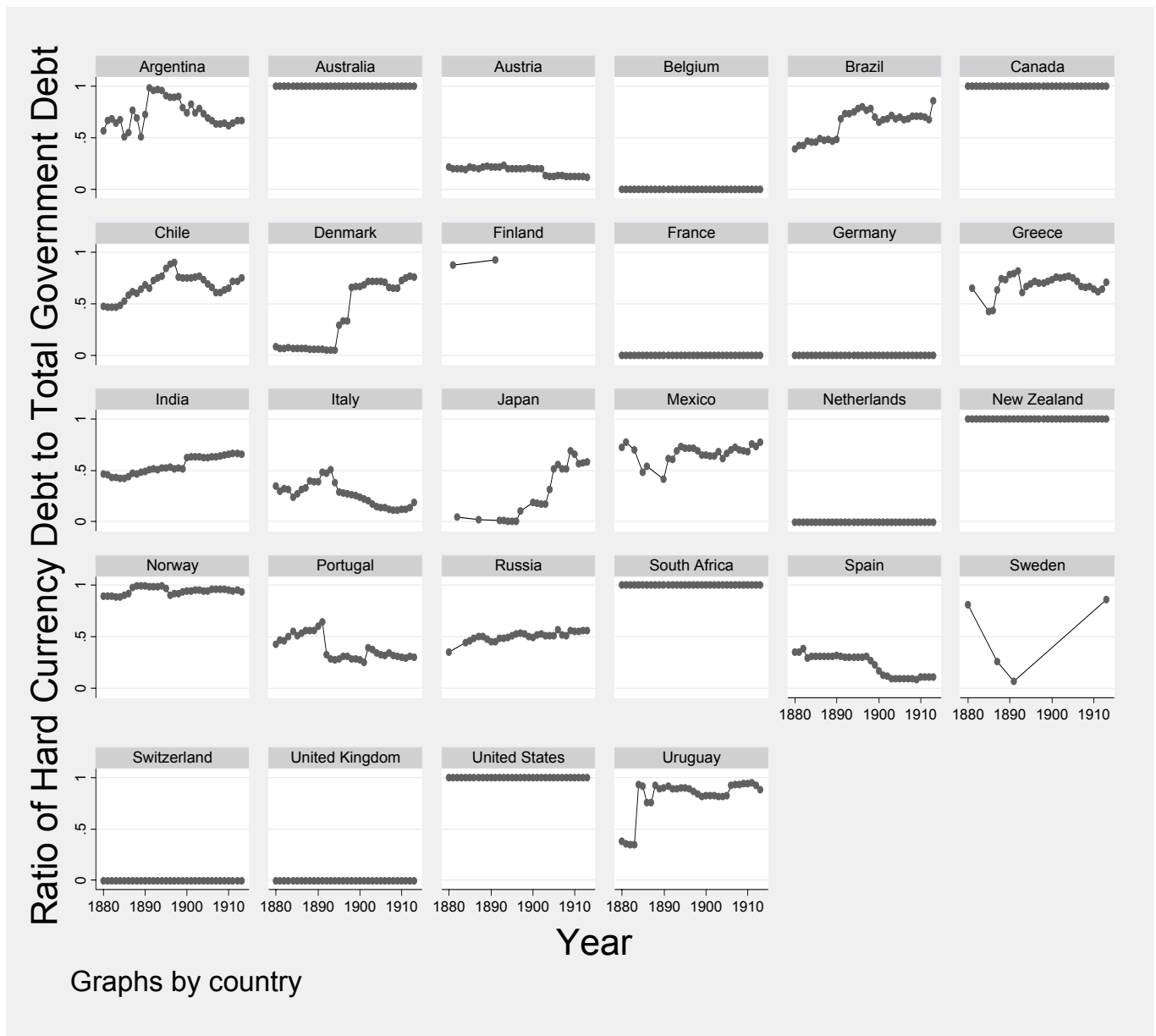
Notes: Dependent variable is a binary indicator for a banking crisis. "Robust" clustered standard errors are in parentheses. See the text for precise definitions of variables. \* significant at 5%; \*\* significant at 1%

**Table 4 Determinants of Twin Crises**

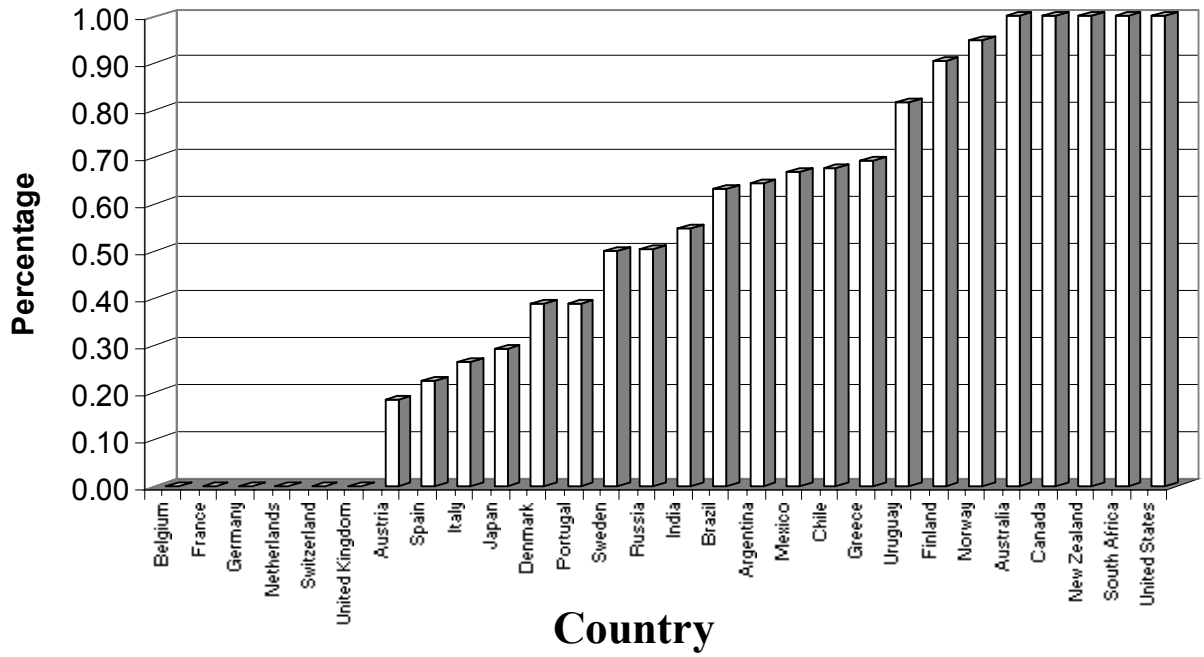
<i>Regressors</i>	(1)	(2)	(3)
Hard currency debt as a percentage of total debt	1.21 (0.74)	0.39 (0.47)	1.51 (0.61)*
Square of hard currency debt ratio	-1.87 (0.99)	---	-1.46 (0.72)*
Hard currency ratio*(reserves/imports)	---	-1.21 (0.89)	---
Reserves/Imports	---	1.42 (0.66)*	---
Debt/Revenue	0.01 (0.08)	0.04 (0.03)	0.03 (0.02)
Debt/Revenue*Periphery indicator	-0.06 (0.13)	---	---
Periphery indicator	-0.49 (0.68)	---	---
Mismatch	-0.10 (0.09)	---	---
Growth of terms of trade	-11.22 (8.31)	---	---
ln (deviation of real exchange rate from period average)	0.08 (0.49)	-0.13 (0.37)	0.09 (0.33)
Trade balance/GDP	4.72 (2.73)	---	3.11 (1.80)
Spread on UK consol	0.07 (0.06)	---	---
Gold reserves/notes in circulation	-0.73 (0.69)	-1.57 (0.53)**	-0.56 (0.41)
Market portfolio spread	0.15 (0.22)	0.25 (0.13)	0.16 (0.15)
constant	-1.86 (0.57)**	-2.68 (0.45)**	-2.58 (0.25)**
Number of obs	464	625	605
Pseudo R-squared	0.13	0.10	0.11
log-likelihood value	-35.4	-38.3	-37.9

Notes: Dependent variable is a binary indicator for a twin crisis. "Robust" clustered standard errors are in parentheses. See the text for precise definitions of variables. \* significant at 5%; \*\* significant at 1%

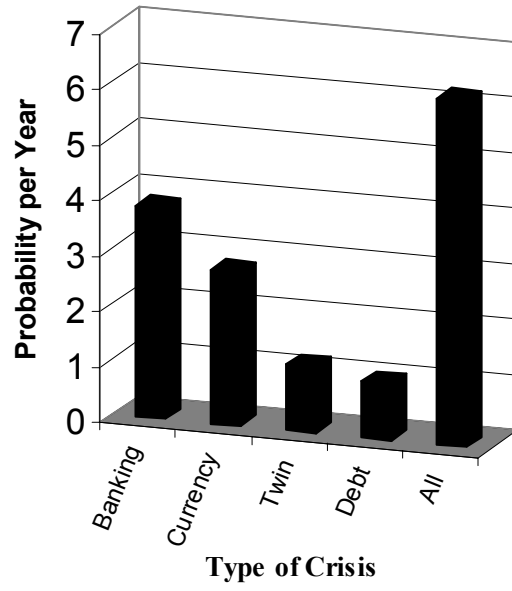
**Figure 1 Hard Currency Debt as a Percentage of Total Public Debt, 1880-1913**



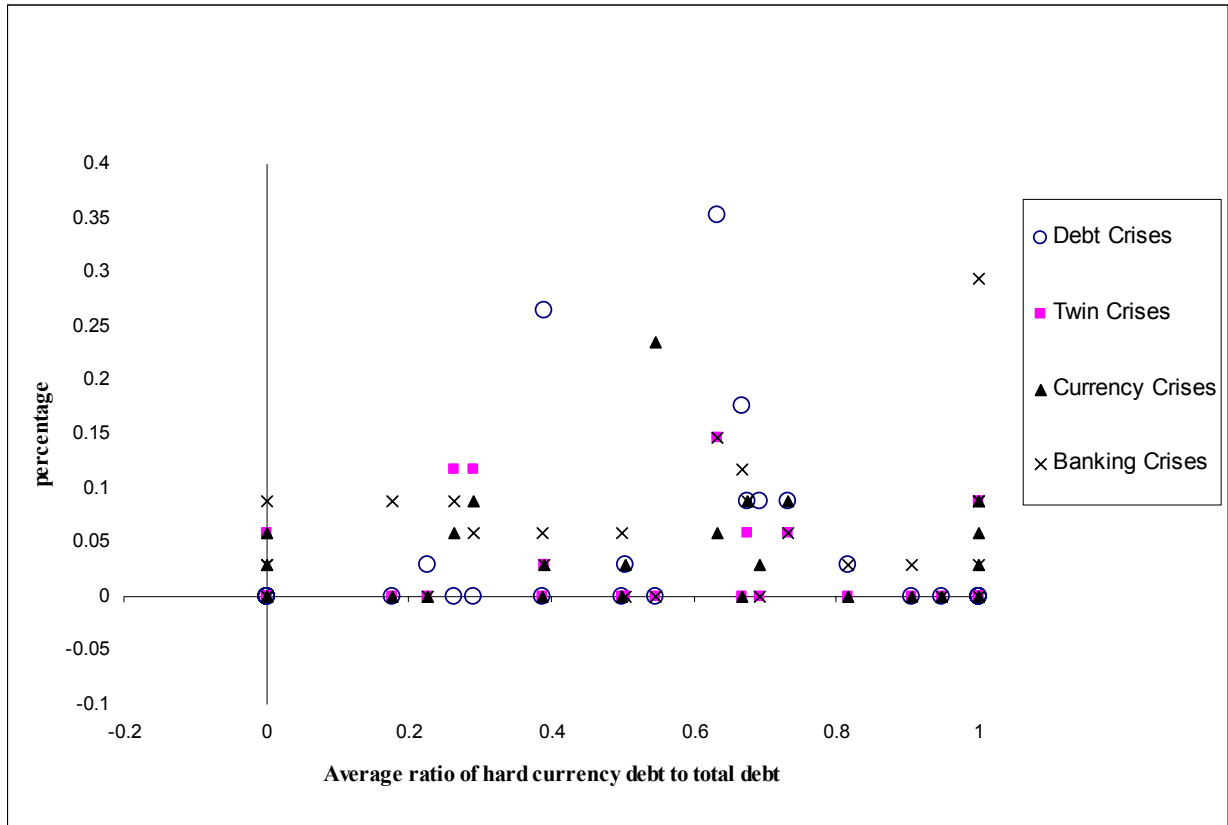
**Figure 2 Average Ratio of Hard Currency Public Debt to Total Public Debt, 1880-1913**



**Figure 3 Crisis Frequency in Percent Probability per Year, 1880-1913.**



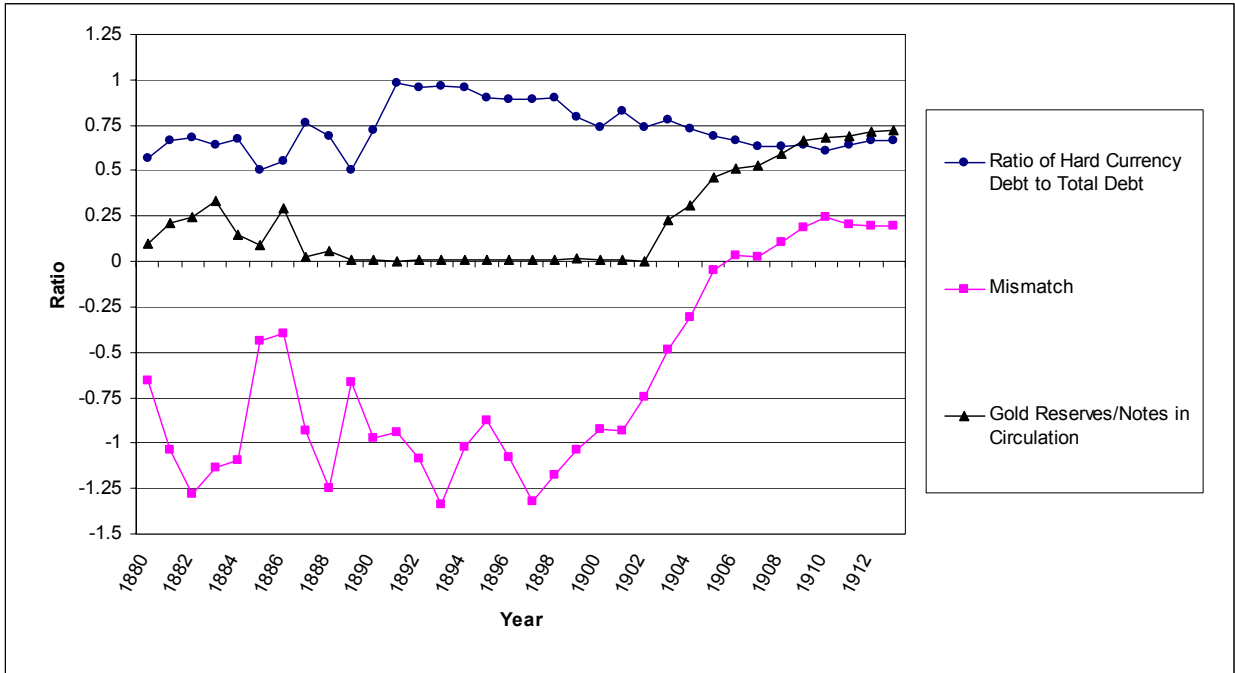
**Figure 4 Crisis Frequencies By Country versus the Average Level of Hard Currency Public Debt to Total Public Debt, 1880-1913**



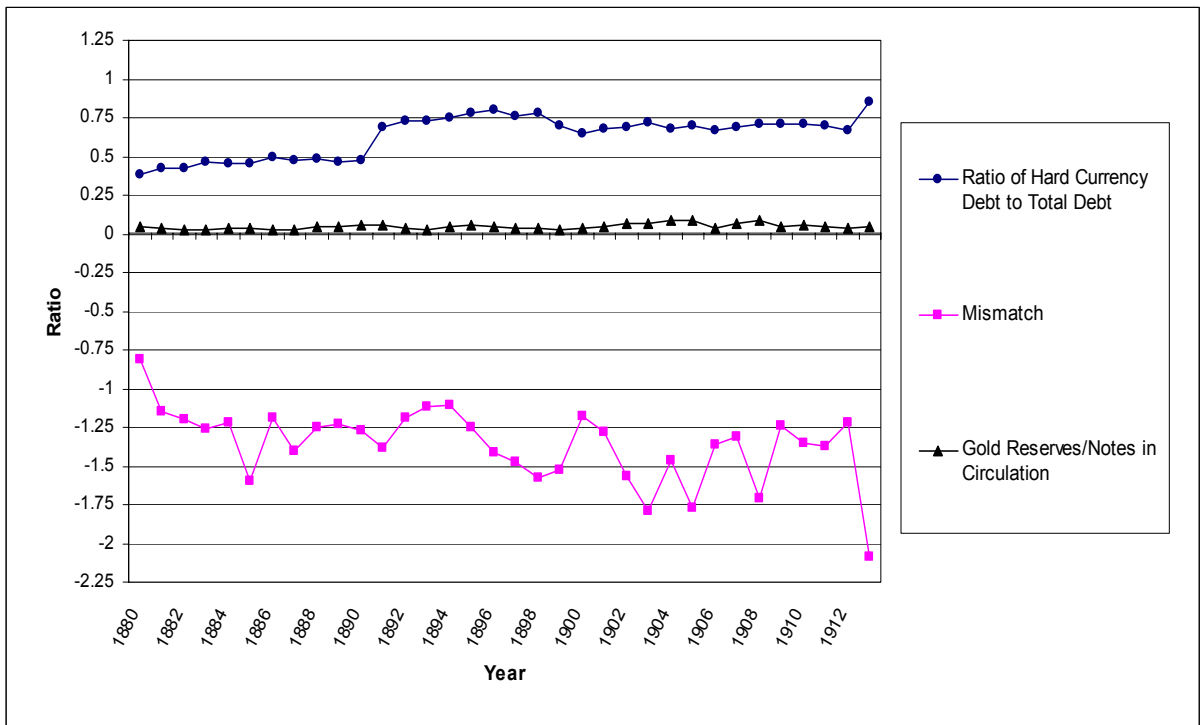




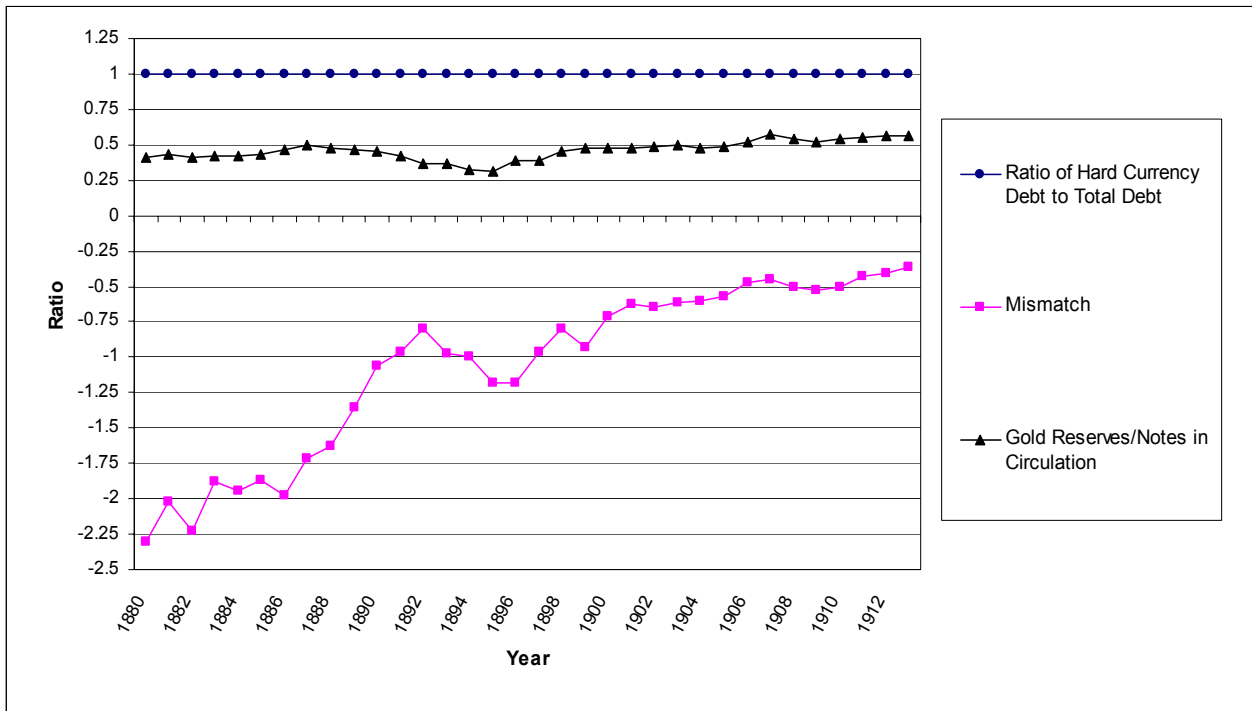
**Figure 6 Original Sin, Mismatch and Gold Cover Ratio for Argentina, 1880-1913**



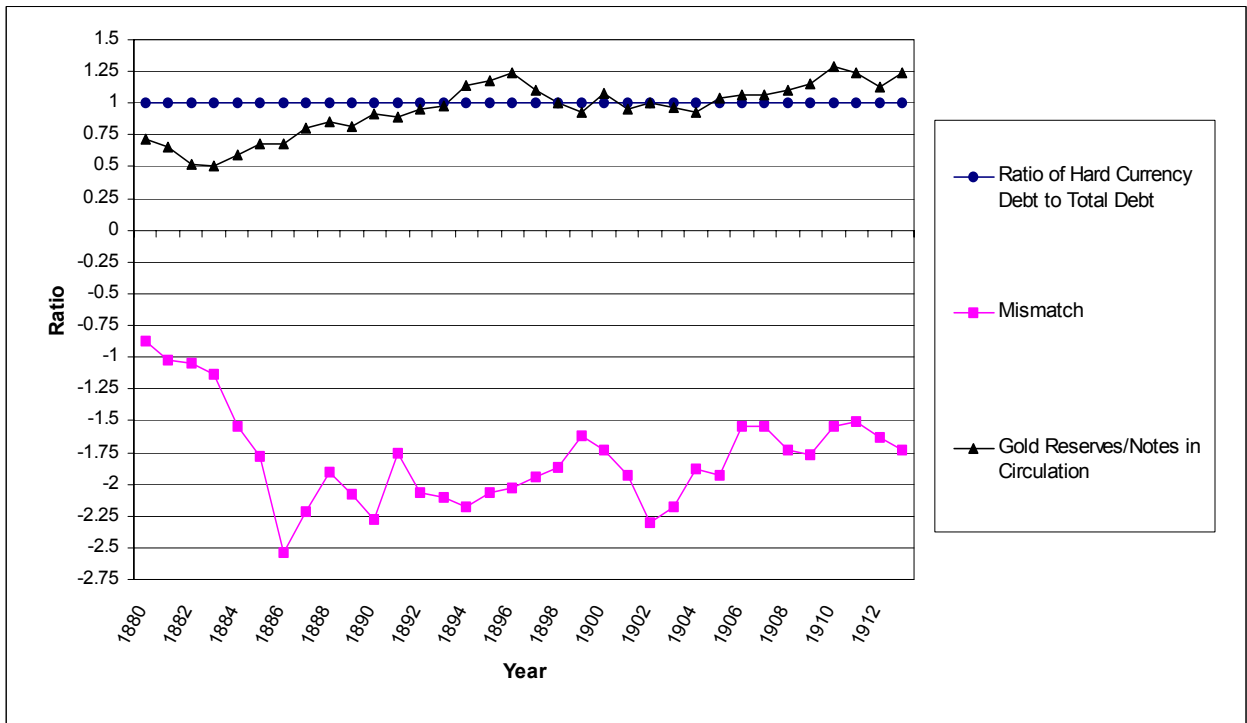
**Figure 7 Original Sin, Mismatch and Gold Cover Ratio for Brazil, 1880-1913**



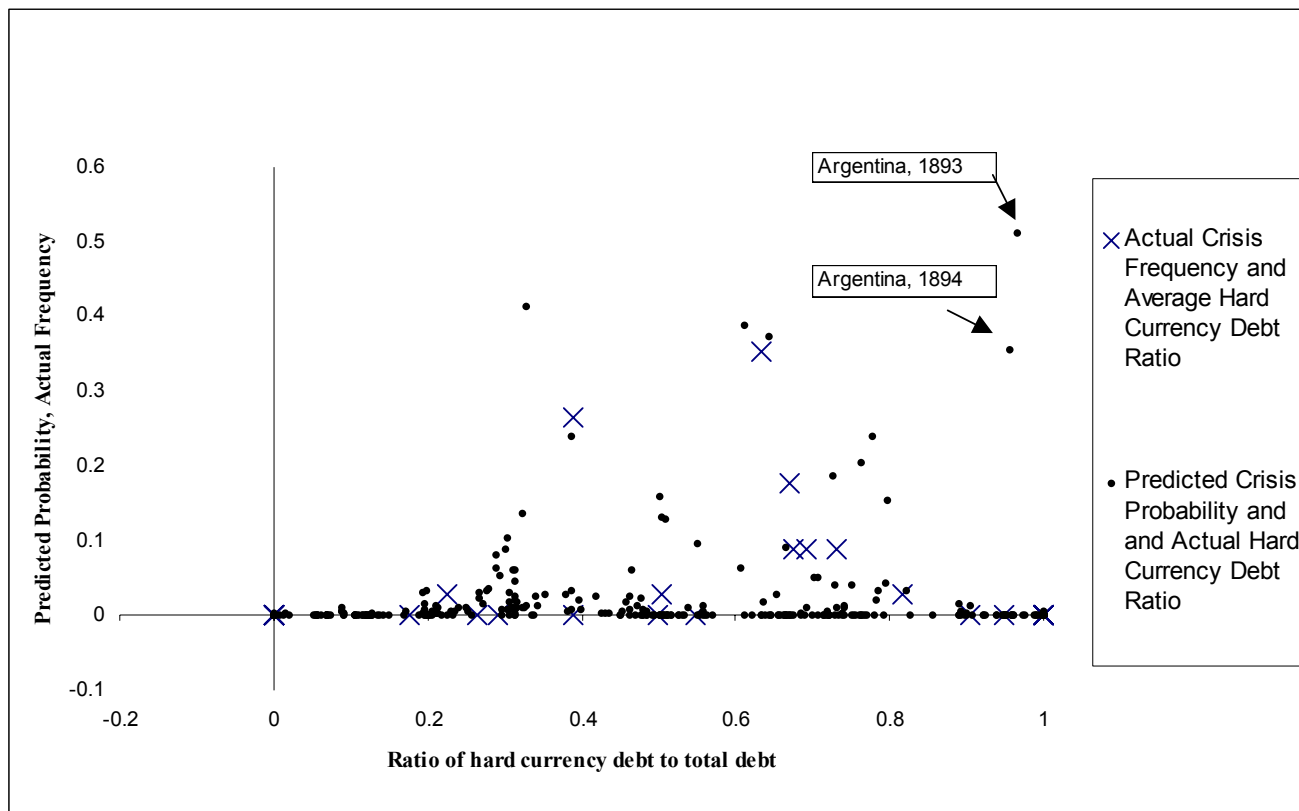
**Figure 8 Original Sin, Mismatch and Gold Cover Ratio for the United States 1880-1913**



**Figure 9 Original Sin, Mismatch and Gold Cover Ratio for Australia, 1880-1913**



**Figure 10 Actual and Predicted Debt Crisis Frequencies by Country versus the Ratio of Average or Actual Hard Currency Public Debt to Total Public Debt, 1880-1913**



Notes: Predicted values come from the probit "regression" in column 2 of Table 1. See text for other definitions.