Gardner, Leigh A. *Sovereignty without Power: Liberia in the Age of Empires, 1822–1980.* Cambridge University Press, 2022.
https://doi.org/10.1017/9781009181082.

6 The Costs of Foreign Capital

> They will tell you in Anchuria, that President Miraflores, of that volatile republic, died by his own hand in the coast town of Coralio; that he had reached thus far in flight from the inconveniences of an imminent revolution; and that one hundred thousand dollars, government funds, which he carried with him in an American leather valise as a souvenir of his tempestuous administration, was never afterward recovered.
>
> O'Henry, *Cabbages and Kings* (1904)

> This instance of the Liberian seven per cent loan is not unique – similar cases occur with other nations – the smaller states. And the same principle, or rather non-principle, underlies them all: the money is squandered or consumed by the so-called foreign friends of these smaller states under the pretense of developing their alleged untold and inexhaustible resources.
>
> Annual Message of President Hilary R. W. Johnson, December 15, 1890

On August 15, 1871, a garden in Kent was decked out in the red, white, and blue of the Liberian flag to celebrate the successful issue of the Republic of Liberia's first public loan. The guests of honor were William Anderson, Speaker of the Liberian House of Representatives, Secretary of the Interior Henry Johnson, and a British merchant named David Chinery, who also acted as the Liberian charge d'affaires in London. These three had formed a commission appointed by President Edward Roye to negotiate the loan. The account of the party published in the *Daily News* the next day noted that "the majority of the company were said to be subscribers to the loan." Also in attendance were Joseph Jenkins Roberts, Liberia's first president, the Consul General of the United States, and members of Holderness, Nott and Company, which underwrote the loan. The group "drank with equal enthusiasm the healths of the Presidents (Grant and E. J. Roy[sic]) of the United States of America and of Liberia, coupling with the latter, 'Prosperity to Monrovia, the capital of Liberia'."[1]

In Monrovia itself, just over two months later, a group of self-described "leading citizens" voted in a public meeting to depose President Roye. One of the reasons they gave for overthrowing him was the loan celebrated at the Kent garden party. The manifesto adopted by the meeting declared: "he has contracted a foreign loan, contrary to the law made and provided; and without an act of appropriation by the Legislature he has, with his officers, been receiving the proceeds of that loan."[2] By the end of the year, Roberts had resumed his former role as president of the Republic, and the disgraced President Roye had died trying to escape from prison. One account claimed that he drowned trying to reach a merchant ship while carrying a bag of gold sovereigns. The circumstances of his death bear a strange and striking resemblance to the end met by President Miraflores in O'Henry's novel *Cabbages and Kings*, published more than thirty years later. Anderson, Johnson, and Chinery were among a number of defendants named in a lawsuit in the Court of Chancery in London filed by the Government of Liberia over the disposition of the loan proceeds. When the first coupon came due in 1874, the Liberian government defaulted and remained in default for more than twenty-five years.

Roye's intentions in raising the loan were the subject of mixed opinions by later Liberian politicians. Hilary R. W. Johnson, quoted at the beginning of this chapter, ridiculed the project in an 1882 address on "The independence of Liberia: the causes that contributed to it, the dangers that threaten it, and some of the means to be employed for perpetuating it." He argued that the loan's ostensible purpose "was to set on foot about five times as many enterprises as that amount would legitimately support."[3] However, under William V. S. Tubman's administration, famous for its enthusiasm for foreign capital, Roye's tenure was viewed more charitably. In 1954, Tubman renamed the headquarters of the True Whig Party in Roye's honor. In his speech opening the building, Tubman proclaimed that Roye "pursued liberal policies with the intent to develop trade, expand commerce and improve the economic conditions of our people and country, for which purposes he negotiated a loan with British businessmen." He was overthrown, Tubman said, by "old Republican die-hards."[4]

[1] "The Republic of Liberia," *Daily News*, August 16, 1871, 3.
[2] "Affairs in Liberia," *African Repository* 1872, 45.
[3] Extract in Box 54, IULC, Svend Holsoe Collection.
[4] "On the Occasion of the Laying of the Cornerstone of the Edward T. Roye Memorial Headquarters of the True Whig Party," January 8, 1964, in IULC, Svend Holsoe Collection, Box 56.

Almost a century and a half later, at the time of writing, the 1871 loan is still discussed by both Liberian government officials and private citizens as one source of the country's later financial and economic troubles. The loan and its successors were not repaid until 1951. In an unpublished biography of Roye, historian Svend Holsoe writes that, because of the loan, "Roye had left a legacy."[5] This legacy went beyond financial liabilities to include debates about the need for foreign capital and the price Liberians were willing to pay – in money, land, and concessions of their sovereignty – to get it.

In promoting economic growth, the Liberian government had to cope with the same "catch-22" that faced other governments of poor countries at the time. David Sunderland describes this as follows: "funds were required to build infrastructure, but the very lack of transportation networks and economic activity reduced the likelihood that they would be forthcoming" at an affordable price.[6] Sunderland wrote this in reference to colonies in the British Empire, but the same challenges faced independent governments. In addition, they had to contend with the fact that creditors lending to poor countries tended to demand some sacrifice of sovereignty, from the hypothecation of certain revenue sources to outright control over important areas of policy.[7] This made the choice to access capital a difficult one for governments that saw nation-building as closely linked to economic development, which in turn depended on foreign capital. Siam (later Thailand), for example, "was wary of borrowing from abroad because debt to foreign powers – Britain and France in particular – may have put it at risk of outright colonization."[8] This chapter focuses on the Liberian government's efforts to access foreign capital from the 1871 loan through 1951, when the obligations created by the 1871 loan were repaid. Throughout this period, the Liberian government struggled to find a balance between internal and external threats, between the demands of lenders and the tolerance of the people it governed.

[5] Box 56, Svend Holsoe Collection, IULC.

[6] David Sunderland, *Managing the British Empire: the Crown Agents, 1833–1914* (Woodbridge: Royal Historical Society, 2004), 149.

[7] Adam Tooze and Martin Ivanov, "Disciplining the 'Black Sheep of the Balkans': Financial Supervision and Sovereignty in Bulgaria, 1902–1938," *Economic History Review* 64, no. 1 (2011): 32. See also Kris James Mitchener and Marc D. Weidenmier, "Supersanctions and Sovereign Debt Repayment," *Journal of International Money and Finance* 29, no. 1 (2010): 19–36.

[8] Christopher Paik and Jessica Vechbanyongratana, "Path to Centralization and Development: Evidence from Siam," *World Politics* 71, no. 2 (2019): 301.

The 1871 Loan: Liberia's Original Sin?

In January 1870, one of Roye's first tasks after his election was signing into law legislation authorizing a loan of "not more than $500,000 in gold and silver coin, for which shall be issued Liberian government bonds, bearing interest, payable in gold at a rate not exceeding seven per cent per annum."[9] The proceeds of the loan were to serve several purposes related to the economic progress of Liberia. First, the loan was intended to consolidate internal floating debt and stabilize Liberia's currency system. The legislation specified that "not less than $100,000 of the loan be solely applied to the purpose of purchasing at auction by the Secretary of the Treasury at the lowest bid (and canceling) all the checks, scrip, currency, debentures and government paper of whatever denomination." A further $100,000 would act as reserve fund for a new issue of paper currency. The remaining funds were to be deposited for use in emergencies as well as to "further develop the agricultural and other rich resources of Liberia."

The loan was a centerpiece of the policy agenda that Roye laid out at his inauguration, which linked economic development to a wider project of nation-building. He called for the establishment of a national bank to manage Liberia's depreciated currency, and legislation to encourage the investment of foreign capital in a railway.

> I do not deem it necessary to demonstrate to you the utility of railroads. We have numerous examples of their beneficial effects all over the civilized world. And we should endeavor to follow such examples as far as they can be adopted, in our circumstances, to promote intercourse between distant portions of the country, and to facilitate the interchange of commodities, commercial rarities, and indigenous productions, between Liberia and foreign countries.[10]

The need for development was not just for Liberia itself, according to Roye. He saw it as a wider project of demonstrating racial equality to a skeptical world. "It is our duty," he said, "to prove that the mental and other disabilities under which the Negro labors as a result of his servile antecedents are not inherent, as our adversaries would say, but that they are solely the result of circumstances, to be altogether removed when those circumstances are altered, or their influence counteracted." The "odious and damaging epithets" under which the race suffered, he claimed, would be undermined "if we assiduously devote ourselves to

[9] "An Act Authorizing the Negotiation of a Loan," January 26, 1870, Acts of the Legislature, 1867–1870, IULC.

[10] Edward J. Roye Inaugural Address, January 3, 1870, reprinted in Joseph Saye Guannu, ed. *The Inaugural Addresses of the Presidents of Liberia: From Joseph Jenkins Roberts to William Richard Tolbert Jr., 1848 to 1976* (Hicksville, NY: Exposition Press, 1980), 76–85.

this work of reconstructing the reputation of the race by successfully prosecuting the work before us in this land." It would be "a great dishonor" if they were unable to develop Liberia.

Roye's statements about race had a double meaning in Liberia at that time. In a community intended to remove the barriers of racial prejudice, racial divisions had still crept into the political landscape. Through the nineteenth-century political tensions grew between an elite group of largely mixed-race Americo-Liberians, who had been among the earliest migrants, and the majority of later migrants who had been born into slavery. Roye's election was a victory for the latter, many of whom harbored deep suspicions about the loyalties of the mulatto elite.[11]

There was thus a lot riding on the success of the 1871 loan, for both the Liberian government and for Roye personally. How to ensure that it achieved its goals was an uncertain prospect. At this point few African countries had raised loans on the growing London market: only the Cape Colony, Natal, Egypt, and Tunisia had done so previously, but most of these were British colonies and Tunisia had defaulted in 1868.[12] Neighboring Sierra Leone raised a small loan of £50,000 in the same year, albeit with assistance from colonial institutions to be discussed later in this chapter. Investors also had little knowledge of African countries. In 1871, the *Statesman's Yearbook*, a key reference for investors, recorded with regard to Liberia that "there are no statistics regarding the extent of the commercial relations of the republic with the United Kingdom," and used a figure for "Western Africa" instead.

This level of ignorance was not necessarily unusual in this period of financial globalization, when investors were sending increasing amounts of money to ever-more-distant destinations. Financial intermediaries played a potentially important role in providing a stamp of credibility on bond issues and overcoming information asymmetries.[13] In the financial history literature on sovereign debt in the period, most of the focus is on the impact of effective intermediaries; little work has been done on the price paid for employing incompetent ones. One explanation for the outcome of the loan issue was that the Liberian government had been forced to make use of financial institutions described later as "not perhaps of the first rank."[14]

[11] Charles S. Johnson, *Bitter Canaan: The Story of the Negro Republic* (London: Transaction Publishers, 1992), 97–98; James Ciment, *Another America: The Story of Liberia and the Former Slaves Who Ruled It* (New York: Hill and Wang, 2013), ch. 5.

[12] Ali Coskun Tuncer, *Sovereign Debt and International Financial Control: The Middle East and the Balkans, 1870–1914* (Basingstoke: Palgrave Macmillan, 2015), 2.

[13] See Marc Flandreau and Juan H. Flores, "'Bonds and Brands': Foundations of Sovereign Debt Markets, 1820–1830," *Journal of Economic History* 69, no. 3 (2009): 646–84.

[14] H. H. Johnston, *Liberia* (London: Hutchinson, 1906), 259.

This was particularly the case with regard to Chinery, whose competence was later questioned by the Liberian government after Roye's overthrow. Chinery became the Liberian Consul General at the recommendation of his predecessor, an abolitionist named Gerard Ralston. Ralston was a financial backer of the ACS and an honorary Board member, who was appointed as Consul General when Liberia declared independence in 1847.[15] Chinery was a merchant who in 1864 published a pamphlet on the importance of commerce in suppressing the slave trade which claimed he had "twelve years' intimate connection" with Africa.[16] From what can be reconstructed about his career in business, the connection does not appear to have been a successful one for him. He was sued for bankruptcy in 1859 by creditors from West African centers including Sierra Leone, Cape Coast, and Badagry as well as Liverpool, Manchester, and London.[17] In 1863, he became one of the founders of the London and African Trading Company.[18] Less than four years later, however, the company was being wound up after it had "endeavored to transfer its business to a new undertaking, which did not succeed and has since succumbed through total want of capital."[19] His own financial future was not far from his mind in making the loan arrangements. At the time the loan was issued, he had set up a new venture called the African Barter Company. Apparently, he hoped that organizing the loan would generate Liberian government support for the new company. In a letter to Roye in June 1871, he wrote that "another matter of grand importance to Liberia is the success of the African Barter Company and we recommend the Government of Liberia to invest £5000 or say £7500 in the company with the undertaking that we open trade at once in Liberia."[20]

In April, Chinery had written to Roye that "some first-class firms will have to be appointed in London to issue the loan," and that "having a personal knowledge of these matters it is only feasible that I should be the better judge of the parties most desirable with whom to negotiate."[21] According to the bill of complaint filed in the Court of Chancery by the Liberian government, the parties he chose turned out to be "Edward

[15] "Gerard Ralston (c. 1800-ca. 1880)," in *Encyclopedia of Emancipation and Abolition in the Transatlantic World*, edited by Junius P. Rodriguez (London: Routledge, 2007), 446.
[16] David Chinery, *The African Slave Trade and the Real and Practicable Means for Its Suppression* (London: M. Lownds, 1864).
[17] David Chinery, African Merchant, filing in the Court of Bankruptcy, 1859, in TNA B9/230.
[18] *The Times*, July 6, 1863, 7. [19] *The Times*, January 9, 1867, 5.
[20] Chinery to Roye, June 17, 1871, in TNA C/16/731/L168.
[21] Bill of Complaint in the Court of Chancery between the Republic of Liberia and David Chinery, July 11, 1872, in TNA C/16/731/L168.

Williams (a wine merchant and personal friend . . .) and Henry Stavely King (a medical gentlemen) to the intent and understanding that a commission should be paid" to Stavely and King and shared with Chinery. Williams and King were willing to pay only £70,000 for £100,000 in 7 percent bonds. Williams and King sold the bonds to Holderness, Nott and Company, who marketed them at 85 percent and paid part of the proceeds to Chinery. Three years' interest was deducted from this amount, leaving less than half of the £100,000 that the Liberian government had anticipated raising.

The interest rate and the size of the discount were the subject of bitter lament by the Liberian government, but these terms were not necessarily unusual for independent borrowers during this period. A number of countries issuing loans in 1871 had similar (or sometimes even higher) discount rates, including Costa Rica, Egypt, Mexico, Paraguay, Peru, and the Ottoman Empire. Liberia did not have £7,000 per year to spend on servicing the debt, let alone repaying the principal across the comparatively short term of the loan. In 1870 nominal revenue was approximately £28,000, meaning that interest payments alone would have absorbed a quarter of the total. As trade and revenue declined during the 1870s, this percentage rose to close to half of total government revenue. The high costs of debt service, along with the lack of a revenue return from the proceeds, almost guaranteed that Liberia would default on the loan during the great depression of the 1870s. It was not alone. By 1876 some fourteen countries were in default, including the Ottoman Empire, Egypt, and Spain, along with Liberia.

Creditors could do little to prevent the default, or to force Liberia and other defaulters to come to the table. The Corporation of Foreign Bondholders, which represented holders of the Liberian bonds, was the most effective of the various creditor organizations which emerged during the late nineteenth and early twentieth centuries. As a permanent body representing creditor interests, it was able to obtain better terms for creditors after default than other, more ad hoc groups.[22] However, its annual reports on the Liberian loan showed that its efforts had little effect in this case. In 1894, a letter from the CFB chairman to the Liberian president stated with some exasperation that "this is the twentieth year during which the loan has remained in absolute default," and referenced letters sent in 1874, 1875, 1877, 1878, and 1890. In 1881, the Council

[22] Rui Esteves, "The Bondholder, the Sovereign, and the Banker: Sovereign Debt and Bondholders' Protections before 1914," *European Review of Economic History* 17, no. 4 (2013): 389–407; Paulo Mauro, Nathan Sussman and Yishay Yafeh, *Emerging Markets and Financial Globalization: Sovereign Bond Spreads in 1870–1913 and Today* (Oxford: Oxford University Press, 2006).

concluded that "the absence of a resident representative of Great Britain in that Republic, and the brief and infrequent sojourns in this country of a Minister from its government, render remonstrance difficult, if not impossible, against the determination of Liberia to ignore the engagement of the state."[23]

Financial constraints were not the only explanation for Liberia's protracted default. The overthrow of Roye gave some political legitimacy to later claims that the loan itself was illegitimate. On taking over the office of the president, Joseph Jenkins Roberts said to the Legislature that "it becomes our painful duty to inform you that we have abundant evidence in our possession to show that there has been an unwarrantable interference on the part of the deposed President and the heads of his departments." In 1874, the year of the default, Roberts referred to the "great fraud and peculation" with regard to the loan. In fairness, Roberts still asserted that Liberia needed to meet its obligations, and even negotiated a compromise with Holderness, Nott and Company, during a trip to England in 1873. However, the deal failed to be ratified by the Legislature, partly because, as Holsoe writes, popular attitudes in Liberia "had shifted from an earlier one of honoring the debt to one of little concern, since so little of the funds had been received."[24]

Liberia remained in default for nearly a quarter of a century after missing its first payment in 1874. This was by no means record setting; Honduras was in default for 91 of the 118 years between independence and World War II.[25] Still, it was long enough that the accumulation of interest arrears added considerably to Liberia's overall debt burden. Investor confidence, or lack thereof, in the Liberian government was reflected in the spreads over British consols (see Figure 6.1). This is a standard measure in financial history which gives the difference between interest rates on the safest possible instrument – in this period, long-term British government debt – and those of the country in question. Figure 6.1 shows that the spreads on Liberia's bonds were broadly in line with other independent countries which had a similar history of default, but much higher than those of British colonies, which appear in panel B.

The Liberian government finally agreed to renegotiate terms with the Corporation in 1898, by which point interest arrears had accumulated to a point far exceeding the principal of the loan. The new agreement reduced the interest rate to 3 percent for three years, rising half a percent every three years to a maximum of 5 percent. Certificates were issued for

[23] Corporation of Foreign Bondholders, *Annual Report* (London: CFB, 1881).
[24] Svend Holsoe, "Roye," in IULC Holsoe Collection Box 56.
[25] Christian Suter, *Debt Cycles in the World-Economy: Foreign Loans, Financial Crises and Debt Settlements, 1820–1990* (Boulder: Westview Press, 1992), 2.

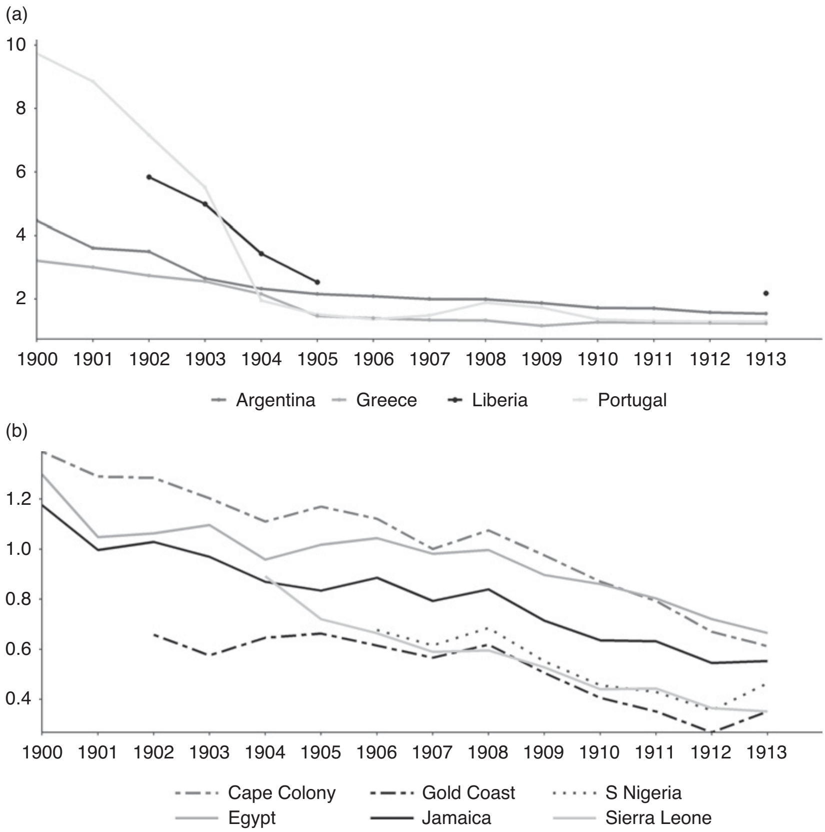

Figure 6.1 Liberian bond spreads in comparative view
A. Liberia in comparison
B. Colonies
Source: Gardner, "Colonialism or Supersanctions."

the interest arrears, increasing Liberia's overall debt burden.[26] Given this heavy cost, it is worth asking why the Liberian government did not simply remain in default. The prevailing political context in the region provides some clues. The final decades of the nineteenth century saw the carving up of much of Africa by European colonial conquest, including in territories neighboring Liberia. Correspondence between ACS officials at the time makes clear that the Liberian government's greatest fear from the default may have been that the British government, or perhaps even the French or German governments, would use the debt as an excuse to take

[26] Corporation of Foreign Bondholders, *Annual Report* (London: CFB, 1899), 239.

over Liberian territory or make Liberia a protectorate. As early as 1876, an article in the *African Repository*, the newsletter of the ACS, remarked that Liberia "lies at the mercy of her bondholders. England, with her lion's paw on the trade of the world, would, and perhaps will eventually, assume the debt for the trifling consideration of possession."[27] The ACS continued to articulate these fears when the Liberian government approached the ACS for guidance on how the loan question could be resolved. One letter from John Latrobe, a prominent member of the Maryland Colonization Society, to William Coppinger, secretary of the ACS, speculated that "England would be willing, I have no doubt, to assume the debt *for consideration* – and the only question would be as to the amount to be paid to her in the only article that Liberia has to pay with – land." He added that "if Liberia did not apply for aid to England, English creditors, I am very sure will, before long ask their government to do what she has done, again and again, in the enforcement of the claims of her subjects on foreign nations."[28] Such a move would not have been unprecedented; as Noel Maurer documents with regard to US policy, imperial interventions were often motivated by efforts to protect the property rights of metropolitan actors.[29]

Gunboats, by Invitation

How real were the fears articulated by the ACS? Histories of sovereign debt once argued that compulsion was a relatively unusual method of bringing defaulters to the table. However, more recent work has stressed that "super-sanctions," or instances in which "default was met with gunboat diplomacy or a loss of fiscal sovereignty" were commonly used in the period from 1870 to 1913, and could be effective in reducing perceived default risk among borrowers.[30] Such interventions were not always imposed by force but were often presented as conditions for negotiating settlements with creditors or returning to the market. This section reviews the introduction of super-sanctions in Liberia, at the invitation of the Liberian government.

During the twenty-four years of Liberia's default, there were various proposals for ways of disposing of the debt. As predicted by Latrobe, most involved concessions of one kind or another to foreign interests. Several proposed concessions failed to be ratified by the Legislature in the 1880s

[27] "Liberia and the American Flag," *African Repository* 1876, 109.
[28] John H. B. Latrobe to William Coppinger, June 28, 1884, in IULC, Holsoe Roye Materials, box 135.
[29] Noel Maurer, *The Empire Trap: The Rise and Fall of US Intervention to Protect American Property Overseas, 1893–2013* (Princeton: Princeton University Press, 2013).
[30] Mitchener and Weidenmier, "Supersanctions."

because they viewed the terms – usually monopoly rights over particular exports – as too onerous. In 1890, a proposal was made by a group of bondholders aiming to export rubber from Liberia. One was granted to Ellis Parr and associates from London, doing business as Liberian Concessions and Explorations Company, which was sold to a new company called the India Rubber Estates Company, of which a number of 1871 bondholders held shares. However, the concession failed to raise enough capital and the company ceased trading in 1894.[31]

Despite the failure of the 1890 deal, rubber was the vehicle by which the Liberian government returned to the capital market in 1906, when Liberia raised another loan of £100,000 at 6 percent interest. In this instance, the 1906 bonds were purchased by Emile Erlanger & Co., who advanced the money. The loan was secured by the revenue from customs tariffs and an export duty on rubber.[32] Enforcement of the terms of the loan was made by means of two British officials placed in charge of customs collection.[33]

Erlanger was acting at the behest of a concession company, the Liberian Development Company (LDC), which was placed in charge of spending the loan proceeds. The LDC was managed by the same Sir Harry Johnston quoted earlier as writing disparagingly of the financial agents who managed the 1871 issue.[34] After the repayment of the domestic floating debt, most of the remaining funds were handed over to Johnston's company, which was to use them for road construction and the establishment of a national bank.[35] The scheme unfortunately ended in failure. After two years and $200,000, the Company had funded what a later observer described as "fifteen miles of dirt road, a small launch and two automobiles" before announcing that "all the funds were exhausted."[36] The proposed bank, meanwhile, existed only on paper. The relationship between the LDC and the Liberian government was terminated in 1908, and the latter took control of the roughly $150,000 that remained of the loan proceeds.[37]

31 Holsoe, "Roy," IULC, Holsoe Roye Materials, Box 56.
32 Corporation of Foreign Bondholders, *Annual Report* (London: CFB, 1911), 211.
33 George W. Brown, *The Economic History of Liberia* (Washington, DC: The Associated Publishers, 1941), 164.
34 He had been the first commissioner of British Nyasaland in the 1890s and was a widely published naturalist and explorer. Just before the loan was issued, Johnston published what remained for many years a widely cited study of the country. See J. M. Lyon, "The Education of Sir Harry Johnston in Liberia, 1900–1910," *The Historian* 51 (1989): 627–43; Johnston, *Liberia*.
35 Brown, *Economic History of Liberia*, 165–66. 36 Johnson, *Bitter Canaan,* 103.
37 "Plan of Settlement for the Liberian Development Company, 1907," in IULC, Holsoe Papers, Box 2.

Liberia's forays in the British capital market had left it with nothing except, as George Brown put it, "more debts and humiliation."[38] The fear that its unpaid debts would trigger invasion by Britain or France prompted the Liberian government to turn next to the United States for support.[39] In 1909, the American government appointed a commission to investigate conditions in Liberia. One recommendation of this commission was "the establishment of some system of collection and control of the revenues of the country for the benefit alike of the Government and its creditors, modeled in some respect upon the plan which has been of such practical success in Santo Domingo."[40] This diagnosis was standard orthodoxy for the early twentieth century, when American officials, at least, believed that "political instability, insecure property rights, poor infrastructure, and what today would be called 'underdevelopment' all stemmed from a single, common root: poor revenue collection caused by internal corruption."[41] The report also noted, however, the potentially tricky international politics of the Liberian situation. Liberia could not, it reported, "call to her aid either Great Britain, France or Germany. Two of these powers she deeply distrusts, and each of them distrusts the other two."[42]

Two years later, bonds up to a value of $1,700,000 at 5 percent, maturing in forty years, were authorized. A total of $1,400,000 in bonds were issued and the proceeds were used to repay existing debt, including the 1871 and 1906 bonds as well as the interest arrears from the former, and domestic debt. The distribution of the bonds was as follows: $225,000 in Germany, $460,000 in Amsterdam, $715,000 in London, and $158,000 in New York.[43] Reflecting this distribution, the customs receivership included one official each from Britain, France, and Germany under the leadership of an American Receiver General.[44]

The loan agreement also placed an American army officer as an adviser to the Frontier Force.[45] The initial appointee to this position, Benjamin

[38] Brown, *Economic History of Liberia*, 166.

[39] Emily S. Rosenberg, *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy 1900–1930* (Chapel Hill: Duke University Press, 2007), 70.

[40] US Senate, *Affairs in Liberia* (Washington, DC: Government Printing Office, 1910), 11.

[41] Maurer, *The Empire Trap,* 5. [42] US Senate, *Affairs in Liberia*, 28.

[43] National City Bank to the Secretary of State, November 30, 1917, in US Department of State, *Papers Relating to the Foreign Relations of the United States* (Washington, DC: Government Printing Office, 1917), 896–900.

[44] There remained disputes about the placement and relative influence of European members of the receivership. See correspondence in US Department of State, *Papers Relating to the Foreign Relations of the United States* (Washington, DC: Government Printing Office, 1912), 672–91.

[45] Rosenberg, *Financial Missionaries*, 86; Corporation of Foreign Bondholders, *Annual Report* (London: CFB, 1913), 221.

Davis, would later become the first African-American general in the US armed forces. With his appointment in 1910 he had joined a small group of black officers serving as attaches in Liberia and Haiti before World War I.[46] However, his role was merely advisory, rather than any kind of command position, and neither the Liberian nor the American governments seem to have taken it very seriously.[47] Davis, with his wife and daughter, spent around a year and a half in Liberia before he requested reassignment due to both health problems linked to the tropical climate and his frustration with the unwillingness of both governments to invest in improving the efficiency of the Frontier Force.[48] This in many ways reflected the limited goals of such "supersanction" regimes.

The involvement of Germany and the other two European countries in the receivership effectively ended with the outbreak of World War I. Owing to its financial links to the United States and Britain, Liberia was forced to declare war on Germany, which had devastating consequences for Liberian trade and government revenue, discussed in the next chapter. By the end of the war, both the US State Department and US Treasury concurred that it was in the interests of the US government to provide further assistance to Liberia to avoid the expansion of British interests in the region. President Wilson approved a credit of $5,000,000 at the end of August 1918. This was authorized under the Liberty Bond Acts during the war, and some Liberian officials proposed in particular that African-American subscribers could support the loan.[49] However, the agreement faced a number of obstacles in both Washington and Monrovia. One problem was the proposed terms of the loan agreement which, according to one US government assessment, "would establish American control by American officers in practically every important department of the Liberian Government – a control which is more extensive and intimate than the control of the United States in Caribbean countries."[50] This raised the objections of the British and French governments, both of which argued that the agreement amounted to the establishment of a protectorate over Liberia. As a result, a number of American officials argued that as a treaty was unlikely to be approved by Congress, it would

[46] Marvin E. Fletcher, *America's First Black General: Benjamin O. Davis, R., 1880–1970* (Lawrence, KS: University of Kansas Press, 1989), 40.

[47] Ciment, *Another America*, 144. [48] Fletcher, *America's First Black General*, 43–44.

[49] Liberian Consul to Secretary of State, March 31, 1918, *Papers Relating to the Foreign Relations of the United States* (Washington, DC: Government Printing Office, 1918), 514–16.

[50] Acting Secretary of State to the Commission to Negotiate Peace, April 24, 1919, in *Papers Relating to the Foreign Relations of the United States* (Washington, DC: Government Printing Office, 1919), 473–74.

be better to proceed without a formal treaty at all. In the end, Congress refused to ratify the loan in 1922.[51]

Enter Firestone

The State Department then turned to the Firestone Rubber Company, and a new loan became part of the concession agreement of 1926. Much as it had twenty years earlier, a rubber concession provided access to foreign capital. However, the presence of Firestone would be much more extensive and durable than that of Harry Johnston's LDC. Accordingly, the conditions imposed by Firestone were also more onerous, making the agreement a source of lasting controversy both within and outside Liberia.

The year 1922 was fortuitous timing in terms of attracting the interest of Firestone. In the same year a British government committee published a report, known as the Stevenson Plan, on rubber production in the British Empire in the context of falling prices after the end of the postwar boom, recommending export quotas in Malaya and Ceylon. Coming after a British embargo on rubber exports during World War I, the report exacerbated fears in the United States that Britain and other imperial powers would adopt policies that would restrict American access to raw materials from their colonial territories.[52] Harvey Firestone saw the Stevenson plan as "a threat to the industry's supply of rubber," and took steps to secure alternative supplies.[53] In 1925, the Liberian government concluded an agreement with Firestone which gave the company a ninety-nine-year lease on an experimental rubber plantation near Monrovia, and on a million acres to be used for rubber production.

The Firestone concession was linked to an agreement with the Finance Corporation of America, a subsidiary of Firestone, for a new loan of $5,000,000 to be managed by the National City Bank of New York. Ultimately, the conditions of the loan agreement followed those of the proposed US government loan from 1922, but this outcome was not reached without considerable debate. Both the concession and the loan agreement were controversial in Liberia. A 1925 editorial in the *Liberian News* described the agreement as "the handing over of the country to a commercial group, whose officials operating the loan would be immune

[51] Rosenberg, *Financial Missionaries*, 120; Maurer, *Empire Trap*, 153.
[52] Michael J. French, "The Emergence of US Multinational Enterprise: The Goodyear Tire and Rubber Company, 1910–1939," *Economic History Review* XL (1987): 66–67.
[53] Frank Chalk, "The Anatomy of an Investment: Firestone's 1927 Loan to Liberia," *Canadian Journal of African Studies* 1, no. 1 (1967): 14–6.

to Liberian law no matter what they did. Does not this indicate the bartering away of our sovereign rights for 'a mess of potage'?"[54]

Such controversies were only enhanced by the fact that the agreements were, at least initially, negotiated away from the gaze of the public so that "even the Legislature knew nothing of the loan proposal prior to January."[55] Unhappiness about this lack of transparency was expressed in a local newspaper in 1930 when the full text of a revision to the loan agreement was also kept under wraps. "The Loan agreement should be the property of the public. It is no longer a diplomatic question to be hid from the people. If it is a loan, it is the people that will have to pay it through their taxes; why then keep them in ignorance concerning the terms?" The main questions asked related to the concessions in sovereignty. "Does the loan effect in any way the autonomy of the country? Are the powers of our President limited to any extent by this agreement? Is the office of the Secretary of the Treasury only on honorary one now? Is the Financial Adviser Secretary of the Treasury de facto under the terms of the Agreement?"[56]

The scope of this "bartering away" was the subject of disagreements which nearly scuppered the whole agreement. After signing an initial set of agreements with Firestone during a rushed trip to New York, the Liberian government then tried to amend them in ways that would preserve some of the sovereign rights initially granted away. A key objection was the share of government revenue hypothecated for loan payments. In one letter to the Secretary of State in Washington, the American representative in Liberia noted that

> for the Department's information it should be known that the President had made no secret of his position with reference to the loan agreement which was that he could not be in favor of a loan for $2,500,000 or even $5,000,000 which pledged all the revenues of the country. He at all times has considered the customs revenues alone sufficient security but would be willing to make provision should the customs be insufficient.[57]

Other points of disagreement included the right of the Liberian government to raise further loans and jurisdiction over disagreements between the company and the government.

[54] "The Firestone Deadlock," *Liberian News*, May 1925, Holsoe Collection, Liberian Newspapers, Box 49, IULC.
[55] Wharton to Secretary of State, February 24, 1926, *Papers Relating to the Foreign Relations of the United States* (Washington, DC: Government Printing Office, 1926), 531.
[56] "Loan agreement not yet made public," *Crozierville Observer*, February 1930, from Daily Observer Library.
[57] Wharton to Secretary of State, February 24, 1926, *Foreign Relations of the United States 1926*, 531.

Harvey Firestone's initial response to these changes was to threaten to withdraw from Liberia entirely. In February 1926, he wrote a testy letter to the Chief of Division of Western European Affairs in the State Department, stating that he had ordered all equipment then en route to Liberia to be returned. "I note tenor of your cables. I am not in humor to negotiate as we did before. They must accept agreements without single change if we go into Liberia, and that they probably will not do; therefore, our only alternative is to withdraw with exception of agreement number 1, Mount Barclay, with as little embarrassment and expense as possible."[58]

The two parties eventually reached a compromise on all of these points. On arbitration, initial jurisdiction was granted to Liberian courts but with a clause allowing for external intervention. On revenue, however, the concession made by Firestone was more cosmetic than real. Formally, only customs revenue and headmoneys were officially claimed for loan repayments. However, the agreement stated that if these were insufficient, other revenues could be claimed. Furthermore, the financial adviser was to manage all central government revenue collections. This was billed as part of an effort to "modernize" Liberian revenue collections, improving their efficiency and transparency.

One of the conditions of the loan agreement was that the Liberian government pay the salaries of a growing number of American officials. This included a financial adviser, to be designated by the US president, five officials to organize the customs and internal revenue departments, and four American army officers to advise the Liberian Frontier Force. A foreign auditor had the right to monitor government expenditures, and the government budget was to be prepared in consultation with the financial adviser.[59] The salaries of these officials added considerably to the already high costs of servicing the loan, and were one of the more controversial parts of the agreement with Firestone. In 1930, an article in the *Crozierville Observer* recounted that "the first thing that happened after the loan agreement became effective was to raise the salary of the President, not because the cost of living was so high as to necessitate this, but so as to make it a trifle higher than the salary of the Financial Adviser, the highest salaried financial officer under the loan."[60] Beyond the salaries which were stipulated in the loan agreement there were additional costs imposed by the high turnover amongst the foreign advisers, many of whom struggled in Liberia's tropical climate. Illness, alcoholism, and nervous breakdowns all contributed to their lack of

[58] Letter from H. S. Firestone, February 18, 1926, in *Foreign Relations of the United States 1926*, 530.
[59] Chalk, "The Anatomy of an Investment," 30. [60] *Crozierville Observer*, 1930.

effectiveness. Rosenberg writes that "the succession of US advisers who came and went, all at the Liberian government's expense, hardly could have convinced the Liberians of the usefulness of such supervision."[61]

As shown in Chapter 1, it took a long time for the Firestone plantation to improve Liberia's financial position owing to both the slow growth of rubber trees and to the volatile price of rubber in the interwar period. Eventually, renegotiations in the 1930s reduced the financial burden of the loan, and it was repaid some fifteen years later.[62] However, controversies about the scope of foreign intervention and the impacts on Liberia's fiscal system remained, and are the subject of Chapter 7. The final section of this chapter compares Liberia's experience under foreign financial control to that of formally colonized West African territories.

Not Sovereign, but Not a Colony?

Did investors view the imposition of ever-expanding foreign control over Liberia's finances as equivalent to colonial status? Parallels are frequently drawn between financial control and colonial rule. Sevket Pamuk describes European financial control of the Ottoman Empire as "one of the most striking forms of imperialist penetration short of de jure colonialism."[63] In his history of Liberia, Azikiwe similarly argues that "the control of the finance of one nation by another is one of the latest phases of imperialism."

The evidence from West African bond spreads, although fragmentary, suggests that investors did not see financial control and colonialism as equivalents.[64] Figure 6.1 shows that while Liberia's bond spread began to converge on those of colonized territories, they were still considerably higher. Furthermore, anecdotal evidence suggests wariness even after the establishment of the customs receivership. Of the 1912 loan, the *Financial Times* stated that "under the international control now established the bonds seem fairly well secured, though they can hardly be described as a gilt-edged investment."[65] The verdict of the *Economist* was even less enthusiastic, noting that "the revenue depends very largely on Customs duties and the conditions of trade and the stability of the State administration are not satisfactory enough to make the present offer attractive."[66]

[61] Rosenberg, *Financial Missionaries*, 227. [62] Suter, *Debt Cycles*, 151–52.
[63] Sevket Pamuk, *The Ottoman Empire and European capitalism, 1820–1913* (Cambridge: Cambridge University Press, 1987), 56.
[64] This section derived from Leigh Gardner, "Colonialism or Supersanctions: Sovereignty and Debt in West Africa, 1871–1914," *European Review of Economic History* 21 (2017): 236–57.
[65] "Liberia Five Per Cent Bonds," *The Financial Times*, January 4, 1913, 6.
[66] "New capital issues," *The Economist*, January 4, 1913, 28.

https://doi.org/10.1017/9781009181082.007 Published online by Cambridge University Press

Why was control over Liberia's finances and military insufficient to replicate the "empire effect" visible in the low spreads on bonds issued by West African colonies? To answer this requires looking more closely at how the process of raising loans differed between Liberia and its colonized neighbors. While both issued bonds in the same market, the intermediaries differed considerably. From the 1860s, the Crown Agents for the Colonies were responsible for approving, advertising, and issuing colonial loans.[67] The Crown Agents were a semi-autonomous body which acted as a general commissary service for colonial administrations, managing their finances as well as government purchasing.[68] They had an interest in protecting the creditworthiness of all colonies, and were therefore active in trying to ensure the marketability of colonial loan issues, particularly those for which there was likely to be limited demand. Owing to this encompassing interest in all colonial bond issues, they shared many features with the prestige underwriters described earlier.

The archival records surrounding African colonial loan issues suggest that the Agents faced a challenge in overcoming investor prejudice against the bond issues of little-known colonies in West Africa.[69] A letter from Scrimgoers, which underwrote many colonial bond issues for the Crown Agents, noted in regards to an issue of Nigerian bonds in 1911 that "many of the general public regard the West African colonies on their own merits alone, and for this reason they have never been a popular investment amongst the outside public."[70] Even after the passage of the Colonial Stock Act of 1900, West African issues were met with skepticism. The first of the West African colonies to borrow under the new system was the Gold Coast, which issued £1,035,000 in 3 percent bonds in 1902. In response to the loan's announcement, the *Financial Times* pronounced: "how times have changed of late is well exemplified by the appearance of a new Trustee stock in the form of Gold Coast Government Three per cents. A few years ago investors would have thrown up their hands in horror at the suggestion." Though the bonds were priced at ninety-one

[67] Before 1883, the Crown Agents commissioned loan issues for all colonies. After that date, they no longer handled the loans of territories with responsible government. They continued, however, to manage loan issues for the crown colonies such as the three West African territories. See T. Suzuki, *Japanese Government Loan Issues on the London Market, 1870–1913* (London: Athlone Press, 1994), 32 and Sunderland, *Managing the British Empire*, 152–53.

[68] A. W. Abbott, *A Short History of the Crown Agents and Their Office* (Portsmouth: The Grosvenor Press, 1971), 2; R. M. Kesner, *Economic Control and Colonial Development: Crown Colony Financial Management in the Age of Joseph Chamberlain* (Oxford: Clio Press, 1981), 61; Sunderland, *Managing the British Empire*, 284.

[69] This discussion relies primarily on the papers of the Crown Agents for the Colonies held in the UK National Archives, as well as the records of the Colonial Office and Treasury.

[70] A Scrimgoer to Crown Agents, November 16, 1911, TNA CAOG 9/37.

rather than at par, the *Financial Times* writer argued that "in view of the whole circumstances we should have thought a lower price would have been fixed for this first appearance on the loan market."[71] Faced with such responses, the Agents employed a range of methods to make African bond issues more attractive both in primary and secondary markets, often in coordination with private sector actors and other parts of the British government.

One obstacle to be overcome was the state of the finances of the West African colonies in the early years of colonial rule. Figure 6.2 gives the budget balance of Liberia next to that of the British colonies. Liberia was not unique, and colonial administrations were similarly in deficit more often than not, especially during the period when they raised their first loans. Fiscal stability was elusive in the early years of colonial administration, owing to both the volatility in revenue and the military and political uncertainties of colonial conquest.

At the same time, the most important initial criterion used by the Agents to determine whether a colony could borrow was whether the state of the colony's finances would allow it to service the loan – a test the Liberian government surely would have failed in regards to the 1871 loan. In Sierra Leone's 1871 issue, the timing was driven by "the improved and yearly improving condition of the revenue."[72] Fiscal solvency was also a key factor in the marketing of loans. The announcement in the *Financial Times* of a Sierra Leone issue in 1904 noted that the revenue had increased considerably between 1898 and 1902, from £117,700 to £205,800.[73] In a letter from the Colonial Office to the Crown Agents ahead of the 1911 Nigeria issue, they wrote: "the governor desires that in the advertisement of the contemplated issue of £2,000,000 stock you will give prominence to the large revenue and surplus in 1910, and also to satisfactory railway returns for the same period."[74]

Despite these positive headlines, West African colonies remained vulnerable to fiscal crises. In Sierra Leone, the revenue declined in 1873 and 1874. The effects of this decline were compounded by unrest at Sherbro, which demanded new expenditure on military excursions. As a result, the amount that Sierra Leone could borrow was limited to £50,000 instead of the £60,000 which had initially been authorized, and the program of expenditure was cut.[75] In future years, the imperial government often

71 "The Gold Coast Loan," *Financial Times*, March 29, 1902, 8.
72 Sierra Leone Ordinance 1 of 1871.
73 "A Sierra Leone Issue," *Financial Times* June 3, 1904.
74 Colonial Office to Crown Agents, May 10, 1911, in TNA CAOG 9/37.
75 House of Commons, *Correspondence Respecting the Financial Condition of the Colonies of Sierra Leone, Gambia and St Helena* (London: HMSO, 1877), 16.

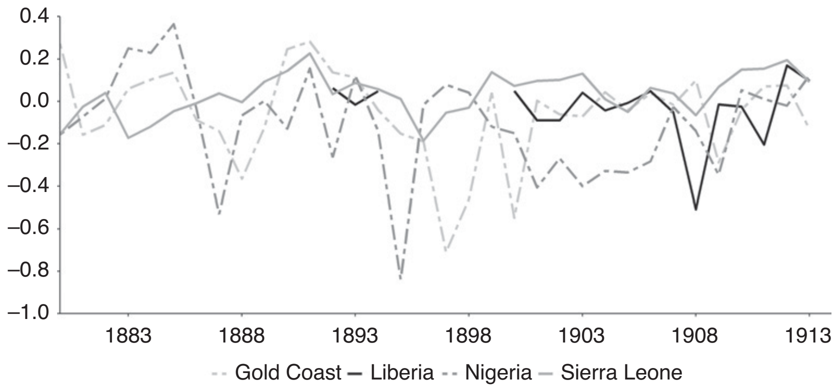

Figure 6.2 Budget balance of West African governments, 1880–1913
Source: Gardner, "Colonialism or supersanctions," p. 240.

intervened to mitigate the effects of such crises by offering contingency financing of various kinds, usually on concessionary terms. Loans from the British Treasury and advances from the Crown Agents were granted to compensate for severe revenue shortfalls or when emergencies required increased spending, and prevented the colonies from accumulating a domestic floating debt the way Liberia had. The colonial administration of Lagos, for example, received an interest-free loan of £20,000 in 1873 to repay several loans advanced from local merchants to "meet the current expenses of the government."[76] In 1879, Sierra Leone received a loan of £38,000 at zero interest from the imperial government "in aid of the local revenue of the settlement."[77] This was repaid in uneven installments by 1890. A further concessionary loan was issued to assist with the costs of the 1898 Hut Tax War, an uprising against the extension of British Authority over the interior.[78] These funds – a total of £45,000 – were advanced from the Treasury Chest, described as "a fund of several hundred thousand pounds spread through the Empire for public services and emergencies."[79] The colonial administration of the Gold Coast received several concessionary loans through the 1890s to cope with the

[76] Lagos, *Blue Book* (Lagos: Government Printer, 1873).
[77] Sierra Leone, *Blue Book* (Freetown: Government Printer, 1879).
[78] John Hargreaves, "The Establishment of the Sierra Leone Protectorate and the Insurrection of 1898," *Cambridge Historical Journal* 12 (1956): 56–80.
[79] L. Davis and R. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism, 1860–1912* (Cambridge: Cambridge University Press, 1986), 149.

costs of the Ashanti Wars.[80] As a share of total British spending, these loans and grants were very small, but relative to the much smaller budgets of individual colonies they could be substantial. In terms of the primary market for colonial bond issues, such interventions also had the effect of making colonial finances appear perhaps more stable than was actually the case. It also meant that colonies would not have to resort to higher cost methods of budget support like Liberia did.

Another form of financial assistance provided by imperial institutions was advances for the construction of the infrastructure to be funded by the loan proceeds. Though the first railway loan issued by a West African colony was not until 1902, when the Gold Coast 3 percent bonds described earlier were issued, railway construction had actually begun in the 1890s. Over the next decade, it proceeded sporadically, with frequent interruptions due to conflicts with the African population, the difficulty of continuing surveys and construction during the wet season, insufficient labor supplies, and high turnover amongst the European staff.[81] In some cases, for example Sierra Leone, the advances came from the Crown Agents, who later recovered the money with the proceeds of the loan issue.[82] In Lagos, £725,000 of the £2,000,000 raised through the issue of 3.5 percent inscribed stock in 1906 was used to repay the Treasury for earlier railway loans.[83]

These means of financing infrastructure construction had several advantages. They ensured that loan proceeds would not be diverted to other purposes, as had been the case in Sierra Leone in 1871, when half of the proceeds of the loan were used to support the "general service" of the colony, instead of expanding Freetown Harbour.[84] They also ensured that the revenue returns of spending on railways would at the very least follow the issue of the loan without much delay, if not perhaps even precede it. The system of advances also allowed the Crown Agents some flexibility in terms of the timing of loan issues, meaning they could delay an issue if market conditions were not favorable.[85] In the case of the West African loans, the Sierra Leone issue in particular was postponed until the end of the South African War. A Crown Agents memorandum on the loan noted that

[80] Kesner, *Economic Control*; Gold Coast, *Blue Book 1901*.
[81] House of Commons, *Papers Relating to the Construction of Railways in Sierra Leone, Lagos and the Gold Coast* (London: HMSO, 1904).
[82] Sierra Leone, *Blue Book* (Freetown: Government Printer, 1903).
[83] Lagos, *Blue Book* (Lagos: Government Printer, 1905).
[84] House of Commons, *Correspondence Respecting the Financial Condition of the Colonies of Sierra Leone, Gambia and St Helena*, 16.
[85] Sunderland, *Managing the British Empire*, 156.

preliminary consideration of the prospects of raising a loan began in 1901. . . . Some time elapsed while these points were settled, during which time the program was financed by temporary advances. Before the market had returned to normal (after the South African War) it became necessary to liquidate the advances and a short-term issue of 4 percent 10-year convertible debentures was made in 1904 at 98.[86]

Even with these measures to make bonds more attractive to investors, further intervention was necessary to maintain high prices after the bonds were sold. Several West African bond issues were poorly received among investors. An article in the *Financial Times* on the 1908 Southern Nigeria issue of £3,000,000 observed that "80 per cent of the Southern Nigeria scrip has been left in the hands of the underwriters."[87] To avoid this, the Crown Agents and their affiliates negotiated with other financial institutions to arrange the informal underwriting of the bonds. For the 1911 Nigeria issue, for example, Scrimgoers noted that half of the bonds were purchased by "certain of the larger underwriters with our active cooperation, in order to strengthen the position."[88] They particularly approached Leslie Couper of the Bank of British West Africa. In response, he wrote to the Crown Agents that "we are taking at least £100,000."[89] Finally, the Crown Agents themselves also purchased West African bonds, using the reserve funds which they held on behalf of other colonies. In their 1911 letter, Scrimgoers also noted that, "as you are doubtless aware in ordinary times there is very little market in the stocks of Southern Nigeria, Gold Coast and Sierra Leone, and it is only the heavy purchases made from time to time by your good selves which has kept the prices of these stocks at their comparatively high levels."

In terms of public borrowing, colonial status was not merely a matter of external control over government finance and other functions. Investor discrimination against the bond issues of West African colonies, as well as their reactions to Liberian bonds after the imposition of foreign financial control, suggests that this was not enough to bring the terms of lending in line with other borrowers. Nevertheless, British colonies in Africa were able to borrow on terms close to those of older, larger colonies with more stable fiscal systems. They were able to do so because of a linked system of intermediaries with an interest in maintaining access to capital at low cost for colonial governments. This interest was not at all philanthropic. Colonies faced the same development "catch-22" as Liberia. In order for colonial governments to achieve financial self-sufficiency, they needed

[86] Undated. TNA CAOG 9/63.
[87] "Stock Markets and Money," *Financial Times*, May 7, 1908.
[88] A Scrimgoer to Crown Agents, November 16, 1911, TNA CAOG 9/37.
[89] Couper to Antrobus, November 7, 1911, in TNA COAG 9/37.

https://doi.org/10.1017/9781009181082.007 Published online by Cambridge University Press

to access foreign capital to invest in infrastructure. The Crown Agents, colonial banks, and export companies all had their own interests in the promotion of export production. For Liberia, foreign financial control failed to replicate this network of support. Perhaps the central irony of Liberia's history of public debt in comparison to that of its neighbors was that strategic concessions of sovereignty, intended to prevent a full takeover, were actually worse for borrowing than the full takeover would have been. In the end, however, the Liberian government deemed that too high a price.

Sovereignty and Debt in Liberia

The era of financial globalization during the late nineteenth and early twentieth centuries offered both opportunities and risks for countries like Liberia. On the one hand, easier and cheaper access to capital from Britain and other industrialized countries made it possible to overcome the constraints of local capital markets, which were often underdeveloped. Almost a century after Roye made his speech in favor of the 1871 loan, Walt Rostow would argue that the transfer of capital and technology from rich countries to poor ones could speed the process of economic development.[90] Chapter 8 illustrates the ways in which these ideas influenced the use of foreign aid after 1945. It was similar logic which motivated Roye to look abroad for the resources that would allow what was then still a relatively new state to cement its place on the world stage, not only economically but also politically. On the other hand, even in a rapidly expanding market, capital was not available to everyone on the same terms. For governments which lacked resources and access to the right networks, the price of that capital went beyond higher interest rates to include existential threats to their sovereignty.

Whether to borrow or not was therefore a finely balanced decision across much of the world. Few governments took the view of Siam and avoided it entirely. Like Roye's government, many were overly optimistic about what capital borrowed from abroad could accomplish, particularly in contexts of limited state capacity as existed in Liberia and other places. While there is a robust literature on how features of borrowing states influenced investor attitudes and the terms on which they could borrow, understanding of what shaped the use of borrowed funds is more limited. Countries which had issued loans in the hopes that economic growth would enable them to service the debt were frequently disappointed and

[90] Walt Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

wound up in default. They then faced many of the same dilemmas that the Liberian government did about how best to escape from default without losing control of the state entirely, as elites and government officials feared would happen in Liberia and as did happen in countries like Egypt, for example.[91] International financial control (IFC) regimes like the Customs Receivership provided something of a middle ground. By parceling out specific areas of sovereign control between lenders, they allowed borrowing governments to retain at least their formal recognition as sovereign states while at the same time reassuring investors, at least to some extent.

Such arrangements had their own costs – financial and otherwise. Paying foreign officials associated with IFCs could add considerably to the fiscal burden of foreign debt, and as in Liberia the number of these officials tended to increase over time. Beyond that, however, the histories of Liberia and other borrowing countries suggest that foreign control had sometimes unpredictable political consequences. In the short term, such arrangements were often controversial and could result in political upheaval. Adam Tooze and Martin Ivanov document the political upheaval that accompanied the imposition of IFCs in Bulgaria, concluding that this case "suggests the need for a more complex understanding of the relationship between foreign debt and national sovereignty."[92]

The same argument could be made with regard to Liberia. The overthrow of Roye was the most immediate sign of "nationalist rejection," but it was not the only one. Objections to the Firestone loan and its successors, discussed further in Chapter 9, helped motivate opposition to the Liberian government through the interwar period and beyond. In his study of Liberian debt, Suter links Liberia's next coup d'état, in 1980, at least partly to conditions agreed on by William Tolbert in his negotiations with the IMF.[93] It is possible to draw wider parallels to controversies around the conditional loans by international financial institutions later in the twentieth century, and in many ways, Liberia's history foreshadowed later challenges faced by African governments with the politics of structural adjustment.[94] The next chapter examines the impact of foreign financial controls on domestic governance, and the subsequent strategies adopted by the Liberian government to sustain its authority.

[91] Tuncer, *Sovereign Debt*, ch. 3.
[92] Tooze and Ivanov, "Disciplining the 'Black Sheep of the Balkans'," 49.
[93] Suter, *Debt Cycles in the World-Economy*, 155.
[94] See, for example, Jeffrey Herbst, "The Structural Adjustment of Politics in Africa," *World Development* 18, no. 7 (1990): 949–958.