North and Weingast Revisited: Credible Commitments and Public Borrowing in The Pampas

Sebastian M. Saiegh
Department of Political Science
University of California, San Diego
9500 Gilman Drive - 0521
La Jolla, CA 92093-0521
ssaiegh@ucsd.edu
(858) 534-7237

Abstract

The notion that governments bound by the rule of law are less likely to expropriate private wealth has been a prominent idea since the publication of North and Weingast's seminal article on public borrowing in seventeenth-century England. This view has been challenged recently; however one of the main shortcomings of these contributions is that they have tried to settle the debate by looking at evidence on sovereign borrowing from the same pair of countries (England and France). This article seeks to overcome such limitation by focusing on the link between representative government and public borrowing in Argentina. I present an *analytic* narrative of the country's rags-to-riches story in the nineteenth century. First, I use historical evidence to document the relationship between absolute government, the absence of long-term borrowing, and the use of money creation to finance public deficits in the period between 1820 and 1859. Next, I examine public finance in the period between 1860 and 1913, when constitutional checks and balances were finally set up. I complement the historical narrative with an econometric analysis using time-series data on monetary policies and public borrowing as well as Argentine presidents' electoral support and their ability to control the legislative agenda. The Argentine experience suggests that constitutional checks and balances were a necessary but not a sufficient condition to create a credible commitment. More importantly, the findings in this paper underscore how political fragmentation and multiple sovereignty are correlated with the cost of borrowing. In particular, I show that agenda control rather than partisan compromises allowed Argentine presidents to carry out the necessary reforms to enhance the country's creditworthiness.

JEL: O43, H11, N46, N16, O54.

Introduction

Why do some countries develop and not others? Providing a definitive answer to this question has proven to be an "elusive quest" for political economists since Adam Smith onwards. In the past two decades, a host of researchers have turned to non-economic factors to explain variations in wealth across countries. Economic theory suggests that institutions affect decisions about labor supply, saving, investment, production and exchange. Therefore, according to the *institutionalist* view, laws and regulations that enforce contracts, guarantee property rights and promote well-developed financial markets can foster economic growth by encouraging investment in human and physical capital, and development of technological innovations.

The emphasis on the institutional causes of material well-being is well established in the literature. For example, North (1997) states that institutions are the *primary* cause of economic development. In turn, Djankov et. al. (2003) consider the concern with institutional design at the core of the field of comparative economics. But, despite immense scholarly input and much econometric analysis, the impact of political institutions on economic growth has been difficult to substantiate empirically. Cross-country studies have documented a set of correlations between measures of various non-technological factors, such as constitutional structures or security of property rights, and economic growth. However, most of these findings are not robust (Aron 2000). Therefore, the scholarly debate about the importance of institutions still rages on (see Przeworski 2004 and Acemoglu and Robinson 2004).

The inconclusiveness of the empirical findings reflects two important problems facing this research agenda (Przeworski 2004). The first relates to the difficulty of identifying the effect of institutions in the presence of endogeneity. The basic complication is that many features of a country's institutions are likely to be determined by factors that also have a direct impact on its economic outcomes (Przeworski 2004; Acemoglu 2005). The second difficulty lies in determining which institutions really matter for development. Security of property rights and protection against the risk of expropriation will likely have a direct effect on investment allocation decisions. However, these *economic* institutions are usually established and changed through the political process. Hence, broader political institutions may be of utmost importance (Przeworski 2004; Keefer 2004). An additional complication is that many institutional elements that may have an effect on the security of property rights and that vary systematically across societies are hard to observe. Dismissing such unobservable institutional elements introduces an omitted variable problem that would bias any attempt at measurement that does not account for them explicitly (Greif 2006). Indeed, as Alston (2005) notes, in order to properly ascertain the impact of the rule on economic performance we may need quite a lot of information, generally qualitative, about the norms in society that build and sustain the rule of law. In his words, understanding the causal mechanism behind the relationship between the rule of law and economic performance requires going beyond identifying correlations between them, and answering such questions as "...how do countries acquire the rule of law or in some cases lose it?..." (Alston 2005: 8).

Responding to these challenges, this paper focuses on a particular institutional mechanism by which secure property rights are said to promote growth: checks and balances. The notion that governments bound by the rule of law are less likely to expropriate private wealth has been a prominent idea since the publication of North and Weingast's seminal article on public borrowing in seventeenth-century England. However, this view has been challenged recently (Clark 1996; Carruthers 1996; Epstein 2000; Stasavage 2003). For example, Epstein (2000) contends that the interest rates paid by pre-modern European states reflected technical rather than political disparities (i.e. formal constitutional arrangements). Sussman and Yafeh (2000) and Mauro, Sussman and Yafeh (2006) argue that investor-friendly institutional changes rarely elicit and *immediate* response by investors and financial markets. They suggest that peace and stability are more likely to affect the cost of borrowing. Likewise, Stasavage argues that constitutional checks and balances are "... neither a necessary nor a sufficient condition..." to create a credible commitment to secure property rights (Stasavage 2003: 2). [1]

One of the main shortcomings of this literature is that it has tried to settle the debate by looking at evidence on sovereign borrowing from a limited set of countries (Epstein relies upon medieval Italy, Sussman and Yafeh (2000) examine Japan in the Meiji era, and both North and Weingast and Stasavage use England and France). This article seeks to fill this gap in the literature by focusing on the link between representative government and public borrowing in nineteenth-century Argentina. [2] More specifically, I address the following implications derived from the debate on credible commitment and sovereign borrowing: did the evolution of Argentine government debt respond to the rise of liberal, representative institutions and the creation of a credible, limited government under the rule of law? or, rather, did the perceived likelihood that the Argentine government would honor debt contracts depend on alternative institutions or practices besides checks and balances? And, in connection to the latter question, how did political fragmentation and multiple sovereignty shape creditworthiness under limited government?

I contend that constitutional checks and balances were a necessary but not a sufficient condition to to create a credible commitment in the Pampas. My main conclusion is that strong macroeconomic fundamentals were crucial prerequisites for Argentine rulers seeking to borrow at reasonable cost. Moreover, I contend that agenda control rather than partisan compromises allowed Argentine presidents to carry out the necessary reforms to enhance the country's creditworthiness.

Argentina presents an ideal case to study the institutional foundations of sovereign borrowing for two reasons: (1) during this period, the country experienced a unique and pronounced rise in its long-run economic status; (2) the constitutional factors underpinning the country's economic growth were very similar to those of seventeenth-century England. However, the two countries took rather divergent paths in terms of their partisan configurations, overall institutional stability, and the honoring of public debts. More importantly, along the lines suggested by Alston (2005), a detailed historical case study enables me to address the conditions under which governments have the ability to make credible commitments to uphold property rights.

This paper presents an *analytic* narrative of Argentina's rags-to-riches story in the nineteenth century. First, I use historical evidence to document the relationship between absolute government, the absence of long-term borrowing, and the use of money creation to finance public deficits in the period between 1820 and 1859. Next, I examine public finance in the period between 1860 and 1913, when constitutional checks and balances were finally established. I complement the historical narrative with econometric analysis using time-series data on monetary policies and public borrowing as well as Argentine presidents' electoral support and their ability to control the legislative agenda. The Argentine experience suggests that while constitutional checks and balances can improve possibilities for credible commitment, they are a necessary but not a sufficient condition for this to occur. More importantly, the findings in this paper underscore how political fragmentation and multiple sovereignty shape creditworthiness under limited government.

These findings have important implications for our understanding of both the determinants and consequences of institutions and institutional change. In particular, it contributes to two related literatures in political economy. The first is the aforementioned debate on the effect of institutions on economic development. The second pertains to the work on the "democratic advantage" (Schultz and Weingast 2003, Saiegh 2005, Jensen 2005). This paper also makes an ancillary contribution. Examining the Argentine case nicely aligns with the recent analyses of the role of institutions in explaining the country's economic performance in both its nineteenth century success (della Paolera and Taylor 2001 & 2003), as well as its twentieth century debacle (Alston and Gallo 2005; Spiller and Tommasi 2007).

I present my argument and evidence in the following order. In the next section I discuss the relevant literature regarding the effects of credible commitments on public borrowing. In section two, I provide a narrative of the Argentine case by discussing the nature of Rosas' regime, and the emergence of a constitutional agreement in the second half of the nineteenth century. In section three, I focus on the institutional and political factors behind the country's economic success, including the effect of checks and balances on public borrowing. The final section presents my conclusions.

1 Credible Commitments and Sovereign Borrowing

Governments are, in principle, good candidates to take over the protection and enforcement of property rights because they can do it at a lower cost than private volunteer groups. However, endowing governments with this prerogative poses the following dilemma: a government with sufficient coercive power to uphold property rights also has the power to withhold protection or confiscate the wealth of its citizens (North 1981; Weingast 1997). Therefore, the security of property rights depends critically on imposing limits on the government's arbitrary powers. In other words, the crucial factor is the degree to which a given ruler is committed to or bound by the rule of law.

This concern with limited government and its importance for economic development has also been stressed in the literature. For example, Rosenberg and Birdzell (1986) identify a series of institutional innovations that reduced the political risks of trade. Among them, they single out the transition from a governmental revenue system based on discretionary expropriation to systematic taxation schemes. In turn, Root (1989) suggests that constitutional limitations of power tend to enhance a government's borrowing ability by "... making it easier for those with a stake in the repayment of debt to punish the sovereign in the event of default ..." (Root 1989: 243). Similarly, North and Weingast (1989) argue that capital markets are more likely to emerge in those places where constitutional guarantees are honored and the government credibly commits itself to upholding property rights, protecting the individual's wealth and eliminating confiscatory measures. Indeed, the notion that governments bound by the rule of law will be more likely to repay public debts has been a prominent idea since the publication of their seminal article on public borrowing in seventeenth century England (North and Weingast 1989).

However, a lively debate still exists in the literature with regards to the link between constitutional checks and balances, access to credit, and debt repayment. In particular, a number of scholars argue that the domestic constellation of political forces rather than the government's constitutional structure is the key factors that determines whether rulers will act on the lenders' behalf or not. For example, Sussman and Yafeh (2000) dispute the claim that movements in interest rates and the evolution of the volume of British government debt can be traced to the effects of the Glorious Revolution. Stasavage (2003), argues that constitutional checks and balances are neither a necessary nor a sufficient condition to create a credible commitment to public debt repayment. He stresses the role of parties and makes a compelling argument linking the ability of governments to credibly commit to debt repayment to the existence of cross-issue coalitions. In particular, Stasavage argues that in societies where there are multiple dimensions of political conflict, even if government creditors are a small minority, other groups have incentives to support timely repayment of debts. The reason is that by doing so, they can gain the support of government creditors on issues such as religion, foreign policy or constitutional questions (Stasavage 2003).

Stasavage's argument suffers from going straight from party control to agenda control. As Cox (1987) notes, the establishment of a party-dominated legislative process in England owed much to the centralization of legislative authority in the Cabinet. Yet, from the Restoration (1660) through to the early decades of the nineteenth century, the British king was constantly trying to control the House of Commons by influencing legislative elections and by "buying" support in the assembly with offers of employment and other favors. Moreover, the king was not the only one actively seeking to redress the balance of the Constitution in his favor. Ministers increasingly parlayed their obligation to countersign all royal acts into political dominance (Cox and Morgenstern 2002). And it was only in the nineteenth century that the Cabinet achieved a virtual monopoly of legislative initiative. In spite of this criticism, the line of argument advanced by Stasavage has two important implications for the debate on credible commitments and sovereign borrowing. The first one is that some political configurations may provide commitment even in the absence of constitutional checks and balances. The second implication points in the direction of alternative institutions or practices that may reduce the risk of default besides checks and balances. Specifically, if policy makers have an interest in preserving the country's creditworthiness, then bureaucratic delegation can also reduce default risk.

These implications are somewhat at odds with the traditional account proposed by North and Weingast. Yet, as Stasavage notes, these alternative propositions can be evaluated empirically. For example, if his argument is valid then trends in partisan control of government should be correlated with trends in credibility, measured by fluctuations in interest rates on government debt. Stasavage (2003) conducts such empirical tests, but his analysis is not quite convincing for two reasons. First, as noted above he tends to conflate partisan with agenda control. Second, he attempts to settle the debate by looking at evidence on sovereign borrowing from the same pair of countries as North and Weingast (England and France).

In this paper, I examine these implications by correlating various political events in nineteenth century Argentina with the cost of sovereign borrowing. Argentina's erratic pattern of economic development has sparked the interest of many scholars over the years. Traditional studies focused almost exclusively on factor endowments (land, labor, population, technology) to explain Argentina's economic performance in the nineteenth century. Most of these analyses, thus faced serious difficulties to address the country's economic decline in the twentieth century. [3] Alternatively, neo-structuralist economic historians stressed the role of external factors to explain Argentina's development and underdevelopment: the changes in the international trade and the world economy. However, even when the process of Argentina's economic expansion in the second half of the nineteenth century would be unintelligible without reference to external factors, this approach, as a full explanation of *how* growth occurred in also insufficient. Indeed, under both perspectives, the evolution of the economic variables is seen as somewhat independent from the nature of political institutions.

In order to overcome these limitations, recent studies of the Argentine economy have incorporated non-economic factors role in the analysis (Adelman 1999; Irigoin 2000; della Paolera and Taylor 2001 & 2003 Alston & Gallo 2005). These contributions have led to a better understanding of the interplay between factor endowments, institutions and economic growth. Nonetheless, they do not explicitly consider the relationship between credible commitment and sovereign borrowing.

2 Public Finance under Absolute Power, 1829-1852

The early years after Argentina established its independence from Spain in 1810 brought chaotic struggles and deep political instability to the former Viceroyalty of Rio de la Plata as different interests and perspectives between the regions unfolded into the foremost of political problems. The principal schism was a debate between centralists (unitarios) and autonomists (federales). The former group consisted of advocates of strong central government, while the latter comprised the supporters of a loose confederation of provinces (Scobie 1971).

The Unitarians (often represented by the Buenos Aires elite holding radical Jacobinist ideas) argued that if the country was to resist the assaults of the Spanish forces, and subsequently, to achieve political stability, it was essential to establish a strong and centralized national government. [4] The federalists rejected the Unitarians' argument that the nation had neither the necessary resources nor the experience for an elaborate system of overlapping authorities. They stood for the autonomy and self-government for each of the provinces, claiming not only that the country's vast territory and regional differences made it necessary, but also, that it was deeply rooted in the traditions of the Argentine people. In the following years, the centralist unitarios' attempts to constitute a national political order clashed with the provincial *caudillos*' intents on carving out separate domains for themselves.

The last vestige of national authority expired in 1820, and successive efforts to recreate a national government in 1825-27 proved unsuccessful. From 1821 to 1827 a program of reforms was adopted in Buenos Aires. The man behind them was Bernardino Rivadavia. Representative of the Creole liberal thought, Rivadavia believed in a unitary liberal state. His project was to create a European state in the Southern Hemisphere, by means of imitation and transplant of the institutions prevailing in the "civilized world." He attempted to define more clearly the limits of the executive, legislative and the judiciary to achieve credibility among European observers. Nonetheless, this recreation was condemned to be just a matter of decrees and imitations, a facade. By early 1827, Rivadavia's government was on the brink of dissolution. Four provinces – Cordoba, La Rioja, Catamarca and Santiago del Estero – formed a military alliance to resist the 1826 constitutional proposal. [5] In July 1827, barely six months after being designated president by the 1826 constitution, Rivadavia resigned. His resignation and subsequent departure into voluntary exile also signaled the abandonment, for the following 25 years, of any attempt to create a national government.

2.1 The Rosas' Regime

Following Rivadavia's overthrow, and in the midst of a new civil war, Juan Manuel de Rosas was elected to the governorship of Buenos Aires with the support of the federales. Under these circumstances, Rosas clothed himself with dictatorial powers. He took the title of "Restorer of the Laws" (Restaurador de las Leyes), and five days after his installation as governor, he was voted extraordinary faculties to"restore" the order. In March 1835, he received from the Junta de Representatntes the "Plenitude of Public Power" (Suma del Poder Público). A a result, his government was characterized by a very personalistic and centralized type of rule; one that discouraged any kind of institutionalization.

The Rosas years also had serious effects on Argentina's economic performance. His regime imposed a degree of order and unity on the scattered towns of Argentina. Yet, the threat to liberty and property did not cease; rather the damaging consequences of the preceding anarchic era were replaced by the discretionary rule of a central authority.

To be clear, the economic conditions in Buenos Aires were far from being prosperous by the time Rosas took power. He had to cope not only with very adverse economic conditions but also with an enormous deficit and a large public debt inherited from his predecessors. By means of strict and careful accounting, Rosas closed the first year of his administration with a surplus of nearly 1,800,000 pesos. However, in each of the four following years revenues were again short of expenditures. In the course of these years, from 1830 to 1833, the treasury had accumulated a deficit of nearly 5,000,000 pesos (Burgin 1946:166-169; Irigoin 2000). Under these circumstances, Rosas attempted to put in practice a program of financial rehabilitation based on a strict economy in expenditures, efficiency in the administration, and collection of revenues. Nevertheless, in spite of all these efforts, he never succeeded in covering expenditures with ordinary revenues.

Moreover, the province's expenditures rose year after year. By far, the largest proportion of the government's expenditures originated in the Ministry of War (Ministerio de Guerra). This was perhaps inevitable, given the uncompromising and absolutist character of the regime established by Rosas. As a result of the needs of periodic terror and constant repression, Rosas maintained a large standing army, of 20,000 men, and a militia of around 15,000. These military demands on the budget rarely dropped below half total expenditures (Burgin 1946; Rock 1985).[6] As the regime's permanent military expenses grew, Rosas was constantly forced into measures to increase revenues. Invested with dictatorial powers, he thus had ample and discretionary authority to conduct the financial affairs of the province without consulting the provincial assembly.

The revenues from ordinary taxation were scant, so Rosas decided to use the government power in different ways to raise income. In 1831, under his influence, the legislature approved the issue of 6,000,000 pesos in bonds of the Fondo Público for budgetary purposes. Again, in 1832, 4,000,000 pesos in bonds at 50 per cent par were distributed among merchants, landowners, and cattle breeders by the Tribunal de Comercio on behalf of the provincial government. As Burgin observes, "the bonds were fully subscribed, although not without considerable pressure on the part of the government" (Burgin 1946: 169). Nonetheless, the loan brought only temporary relief and the provincial government was once again forced to borrow. [7]

The financial market of Buenos Aires was rapidly approaching its point of saturation. Moreover, as the public debt grew in volume, interest charges and amortization service consumed an increasing portion of the province's revenues. It was becoming increasingly evident that short-term borrowing could not offer a permanent solution to the financial difficulties of Buenos Aires. Still, Rosas argued that the money market was far from saturated, and in 1837 the government issued 17,000,000 pesos in bonds, the largest operation in the history of the Fondos Públicos. On March 28, 1840, the last bond issued under Rosas (to the amount of 10,000,000 pesos) took place (Burgin 1946: 204-205).

Lacking bond sales as a resource for revenue, the Rosas administration turned to other, more distortionary mechanisms of finance. As a result of its uncontested authority, the government had at its disposal a much less constraining method of finance: the issue of paper money (Irigoin 2000). At this stage, Rosas concluded that inflation was preferable to borrowing, and thus, the government resorted to the printing press. In March 1837 – with the justification that it was a temporary measure intended to tide the treasury over until the market for Fondos Públicos improved – 4,200,000 pesos in currency were issued. In December 1838, the Argentine Mint (*Casa de la Moneda*) turned over to the treasury 8,000,000 pesos in new notes. An additional issue of seven monthly installments of 1,225,000 pesos each was made available in the subsequent months. Yet, by August of 1839 these funds were exhausted, and revenues were still far below expenditures. (Burgin 1946: 208).

It is worth noting that even when the money market showed increasing resistance to new issues of bonds, and the creation of more money was not enough to cover the deficits, the government never turn to long term borrowing. Capital was chronically scarce in Buenos Aires, and thus, had to be sought overseas. As Ferns indicates, the dominant classes of Argentina were a class of poor rich, “rich in land but poor in capital” (Ferns 1977: 144). However, foreign credit was even more difficult to obtain for Rosas. He was not a very attractive borrower: his recurrent episodes of fiscal irresponsibility, property confiscation, currency devaluation, etc. were not ignored overseas. Depreciation of the peso was a strong obstacle to international long term borrowing operations, but most important was the regime's reputation. Argentina's poor track record as a debtor also complicated its search for external sources of credit. The default of the Baring loan, obtained by Rivadavia in 1824, forestalled prospects of renewed British and other foreign capitals' investment.

Deprived from long-term borrowing, Rosas turn to currency issue as a means of financing deficits. He realized that currency expansion imposed no additional burden upon the treasury in the form of interests and amortization (in contrast to the public bonds issue). Furthermore, *fiat* money made it possible for his administration to reduce the public indebtedness of the province at a rate which would have been impossible under conditions of stable money (Burgin 1946; Adelman 1999; Irigoin 2000; Bordo & Vegh 2002).

Overall, this mechanism of debt finance had disastrous consequences for the economy, fostering the eventual collapse of the regime. Rosas granted merchants the adjudication of their own disputes. He also provided greater protection to property rights in land and cattle than was previously granted. However, as Adelman (1999) notes, in the absence of a constitutional framework and a reliable justice system, the actual enforcement of private contracts was constantly at risk. Moreover, as many authors point out, the damaging effects that inflationary policies had on economic activities led to an increasing public disaffection with autocratic policy-making towards the mid-century (Adelman 1999; Irigoin 2000; Irigoin and Salazar 2000). In a world of business conducted mostly at a personal level, the government's discretionary financing had serious effects on both domestic and international commercial practices. Indeed, the sharp fluctuations in the value of money created by the regime of *fiat* money was a great source of instability to the export economy. Therefore, there were major economic incentives for the institutional reorganization of the country. In fact, as Irigoin and Salazar have documented, the fall of Rosas was actually welcomed or at least discounted by the market a year beforehand (Irigoin and Salazar 2000).

2.2 The Rosas Aftermath

The biggest irony of the 1829-1852 period is that the authoritarian character of the Rosas regime unwittingly prepared the ground for the eventual unification of Argentina. On February 3 1852, the *caudillo* of Entre Rios, Justo Jose de Urquiza, with the support of military forces from Brazil and Uruguay and the liberal unitarios in exile, defeated Rosas's men in the battle of Monte Caseros. Rosas' defeat opened the door for a political program "based on the principles of order, fraternity, and a forgetting of the past", in Urquiza's words. Three months later, the provincial governors signed the *San Nicolás* agreement, which called for a constitutional assembly. The goal was to adopt a constitution that would both erect a strong central government and eradicate internal restraints on trade (Rock 1985).

The majority opinion in Buenos Aires, however, opposed this idea. The refusal to join the other provinces had little to do with political differences, but was based on economic motives. As Rock notes, Buenos Aires' acquiescence in the fall of Rosas did not imply a willingness to jettison the privileges he had given the province (Rock 1985). The agreement, thus, broke down with the formation of three groups: the federal Urquiza group that favored national union. The followers of the Buenos Aires' politician Valentin Alsina, who insisted on an independent Buenos Aires province; and a group led by Bartolomé Mitre, that favored national organization, but only under the recognized leadership of Buenos Aires.

In 1854 Urquiza became president of a new Argentine Confederation with its capital in

Entre Ríos. For the next eight years, the two governments co-existed resorting to token wars and, more often to blockades and discriminating tariffs. The country was finally unified in 1862 after a series of battles. [8] Economically, as a consequence of the North American Civil War, the Argentine littoral witnessed an unexpected boom led by wool exports. Still, to profit from the boom, the littoral provinces needed an accord with Buenos Aires. As for Mitre, although he wished to revive the constitutional notions of Rivadavia, he understood that this plan would only lead to further war.

Following the battle of Pavon, Urquiza announced his retirement from politics and the Confederation's president Derqui resigned the Presidency. The Federal Congress dissolved itself, and new elections were held in May 1862. A few months later, an electoral college of delegates from the provinces voted Mitre the first president of a united Argentine Republic.With Mitre's inauguration, the basic compromise of the Argentine community was finally expressed in a social form. The conflictual relationship between the interior provinces and Buenos Aires, though, had severe economic consequences. In order to cope with increasing military expenditures inflationary financing had reached new levels. Between 1859 and 1861 alone, the government of Buenos Aires issued 185,000,000 pesos (Cuccorese 1966).

3 Public Borrowing in The Pampas, 1860-1913

The fall of Rosas and the country re-unification led to the emergence of a consensus inspired by the liberal principles of limited government and the federal claims of provincial autonomy. This was not fortuitous. After the recent and traumatic Rosas experience, the public was still very sensitive to the adversities of arbitrary and confiscatory government. As a consequence, when the 1853/60 federal constitution was finally adopted, its main features reflected the aspiration to solve the problems experienced in those decades of political and economic turmoil. First and foremost, the national constitution (CN) enacted a well-defined structure of horizontal and vertical accountability modeled after that of the United States constitution.It provided for a federal system of representative government (CN: art.1) based on a division of power between the central government and the provinces (CN: art.5) and on the separation of executive, legislative and judicial powers. These were vested, respectively, in a President (CN: art.74), a Bicameral Congress (CN: art.36), and a hierarchy of Federal Courts headed by a Supreme Court (CN: art.94). The three powers were interconnected by a system of checks and balances (CN: arts.67, 69, 70, 86, 91, 95, 96, 100).

Moreover, to ensure that the institutions of limited government were credible, a number of specific institutional structures were also established in the constitution. These clauses provided explicit limits on the government's behavior. For example, the executive power was explicitly constrained in financial matters by the legislative branch (CN: art.67). The constitution also had among its specific terms a comprehensive list of individual rights and guarantees, including the explicit protection of private property (CN: art. 17). Finally, a whole set of principles of economic liberalism – the promotion of free trade, foreign investment, immigration and education – was also included in the constitutional text.

Bartolomé Mitre's presidential inauguration in 1862, under the 1853/60 constitution, marked the beginning of a new era in Argentina. During the three following constitutional periods (1862-1880), under the presidencies of Mitre, Domingo F. Sarmiento, and Nicolas Avellaneda, a firm process of creating institutions paved the way for the economic success of the subsequent 60 years. In these years the country's fundamental legal and public institutions were established.[9] And, an astonishing rate of growth, with an annual average of at least 5 per cent, made Argentina one of the richest nations in the world by the beginning of the twentieth century.

A substantial share of the economic expansion of these years came from foreign investment. Foreign capitals, especially British, responded to Argentina's stimuli.[10] Interestingly, a large amount of these British funds came from small individual investors who bought Argentine bonds even when they had little knowledge about the country.[11] Compared to the financial scenario of the previous years, this acute change in the willingness of the lenders to supply funds to Argentina seems to reflect a substantial increase in the perceived commitment by the government to honor its agreements.

In 1864, Mitre's second year in office, government expenditures were about 7,119,931 pesos and debt was extremely limited. In 1884, just twenty years later, government expenditures had grown by eight times to 56,440,137 pesos, and the public debt to 122,503,000 pesos. This level of debt was previously unachievable. Between 1880 and 1890 the external public debt grew 828 per cent, while the aggregate public debt (domestic and external) increased by 312 per cent (Cortés Conde 1979). It is also worth noting that at the same time that the scope of governmental borrowing increased, the rate the market charged the government fell. The initial yield of the 1863 *Fondo Público National* bond was around 14.96 per cent in 1864. By 1884, the rate was less than half, at roughly 6.73 per cent.

This evidence shows, first, that the amount of capital available to the Argentine government expanded enormously by this time. Second, at the same time that the government borrowing increased, the rate the market charged fell. A cursory review of these data would suggest that an explanation similar to the one proposed by North and Weingast for the case of seventeenth-century England could also be applied to Argentina. However, in light of the debate presented in section 1, the next section explicitly focuses on the handling of monetary policy in the post-1862 period. I do so in order to evaluate the merits of the "checks and balances" explanation.

3.1 Public Finance under Constitutional Government

The historical evidence presented in the previous section suggests that the establishment of the 1853/60 constitution changed the way Argentina was was perceived by foreign investors, thus lowering the cost of borrowing, facilitating capital inflow and thereby fostering growth. In this section I present a more systematic test of this relationship by evaluating the effect of constitutional government on the risk premium associated with Argentine public debt traded in London. In particular, the credibility of the Argentine government can be gauged by the yield differential between Argentine government bonds and British Consols.

Data on the prices and yields of Argentine government bonds have been obtained from the Global Financial Data website (<http://www.globalfindata.com>), Mauro, Sussman and Yafeh (2006), della Paolera (1988), della Paolera and Ortiz (1995), and Cortes Conde (1997 & 1998). The rates on U.K. bonds are the ones reported by Mitchell (1971).[12] In all these calculations, yields equals the ratio of the coupon to the price, as if all bonds were perpetuities. This a reasonable approximation for long-term bonds such as these, which carried a maturity of 20 years. Also, as Mauro, Sussman and Yafeh (2006) note, these calculations emulate the way contemporary investors regarded the bonds they invested in. Because coupons on these bonds were payable in sterling in London, no exchange-rate risk was attached to their yields.

Figure 1 presents the yields of Argentine bonds between 1859 and 1913. I also shows the yield on the international benchmark of that era (the British Consol) and a group of "emerging markets" (Turkey, Portugal, and Brazil). Clearly a steady decline in the interest rates paid by the Argentine government can be seen. Notice, though, a significant variability in yields following1864. In particular, between 1877 and 1880, the Argentine government found itself paying interest rates that were higher than those that had prevailed in the previous five years. It is also worth noting that the spread between yields on Argentine government debt and British government debt only narrowed by the end of the period, more than fifty years after the adoption of the 1853/60 constitution.

< Figure 1 >

The impression conveyed by Figure 1 is that there is a relationship between Argentina's cost of capital and the international trend (caused, perhaps by a "supply effect," namely the increase in the outflow of capital from the UK). However, Figure 1 also clearly shows that the yield of Argentine bonds displayed some remarkably idiosyncratic fluctuations. This can be seen more clearly in Figure 2.

< Figure 2 >

Several economic and political factors account for the variation observed in the Argentine government yields. An important source of variation relates to how the different administrations handled the honoring of public debts, and monetary policies more generally. In fact, the crucial step to restore foreign investors' confidence was taken before the re-unification. In 1857 the government of the province of Buenos Aires decided to commence the repayment on the defaulted loan of 1824. Repaying this English loan was an important measure to removed one of the major obstacles to new investments. After the re-unification, when

Mitre came to power, the undertaking to honor the debts became the chore of the Argentine national government.

In October 1862, the federal government undertook the debts of the Confederation. These were bonds issued in 1850 and 1860, when the country was not yet reunited (Cortés Conde 1989). A year later, in November 1863, a general law governing the public debt was passed. [13] A Caja de Amortización was set up, and all debts were declared to be a charge on all revenues of the state. Unless otherwise stated, public debts were sanctioned payable in London at the rate of 651/2 shillings per ounce of gold (Ferns, 1977: 326). Finally, the Law 206 of October 1866 declared the nation in charge of a series of provincial debts (Cortés Conde 1989). [14] As Figure 1 shows, the refunding of accumulated public debts had a remarkable effect on the value of Argentina's public debt.

The other main factor affecting the value of public debt was the successive efforts to create a sound monetary regime and a stable currency (Adelman 1999; della Paolera and Taylor 2001). In particular, interest rates reflect Argentina's repeated attempts to adhere to the Gold Standard, and the extent to which the different administrations approached this task by means of bureaucratic delegation (Kiewiet and McCubbins 1991; Huber and Shipan 2002).

The Mitre administration laid the foundations of monetary stability in Argentina. Efforts to implement monetary reforms were made even before the country's reunification. In February 1855, Norberto de la Riestra took over the Finance Ministry of Buenos Aires. His economic strategy consisted on replacing short-term deficit financing with longer-term public credit –a reversal of Rosas' policies, and on pegging the peso to gold. The Minister, himself a former commercial agent for the firm of Nicholson & Green in London and Buenos Aires, enlisted the collaboration of the financial and mercantile sectors (Adelman 1999: 259). However, the conflict between Buenos Aires and the Confederation stood on the way of these efforts.

In December 1862, Riestra presented to Mitre his eight-year-old proposal of currency reform. Following his recommendations, the government made the paper peso national legal tender and banned all future unbacked emissions. Furthermore, between 1863 and 1865 there was a large monetary contraction. The Banco de la Provincia de Buenos Aires began a policy of retiring paper notes by literally burning piles of money in public (Cuccorese 1966). These bonfires of pesos were meant to invest confidence in the peso. However, the combination of a contractionary monetary policy with a floating exchange rate regime led to an unintended appreciation of paper money (della Paolera and Taylor 2001).

Therefore, additional efforts were made to establish a national currency based on a gold standard. In 1863 the national government passed a law establishing a unit of account for the whole nation, the "peso fuerte" of 17$f the ounce of gold (25 grams of silver), and stated that it would pay its obligations in notes of the Banco de la Provincia de Buenos Aires at the gold exchange rate of the day of payment (Cortés Conde 1989: 22). However, the government's efforts to establish the Banco de la Provincia de Buenos Aires and the Banco Nación as the principal institutions issuing paper money soon failed.[15]

It was now recognized that a system based on gold or silver, or a combination of both, was not feasible under such circumstances. This experience led authorities into the direction of semi-private or private institutions. The belief was that a credible system could evolve only by separating banks from government as much as possible (Ferns 1977). Consequently, a system of free banking came into being. It became open to private individuals not only to create banks but also to issue paper money. The government, at this point, vehemently encouraged the development of this system as a way of "tying its hands".[16]

In 1867, the government of the province of Buenos Aires established an Exchange Office (*Oficina de Cambios*), where gold and paper were freely given at 25 “pesos” to the hard dollar. (Mulhall and Mulhal 1869; Cortés Conde 1989). This mechanism instituting the free convertibility of the peso, proved to be extremely successful in keeping a stable currency. It also played a very important role in creating confidence in the Argentine economy. As Figure 1 shows, this was reflected in the evolution of the Argentine government debt. Interest rates were clearly very sensitive to these changes in monetary policy. By 1872 the yield on Argentine government issues fell to almost half of that of 1864. However, when the government decreed the suspension of convertibility of the Banco de la Provincia de Buenos Aires's notes in May 1876, interest rates climbed back, only to fall in 1880/81.

In 1883, President Roca established a bimetallic system with a fixed ratio of 25:1.6129 between silver and gold. The law No. 1130 of 5th. November 1881, created the “peso oro”, divided into 100 “centavos”, and established that only 5 and 21/2 pesos oro coins, denominated “Argentino”, and “half Argentino” respectively, could be coined (Ford 1966: 162). However, the period of convertibility lasted only until January 1885, at a time of financial crisis in Europe and following a period of expansionary monetary and fiscal policy (Bordo and Vegh 2002). Many provincial leaders discovered during these years how to circumvent their budget constraints by resorting to public debt. After 1886, provincial banks became the chief source of note issues, trebling the amount of paper money in circulation. Moreover, these issues often exceeded the banks' gold deposits; yet, the provinces turned into heavy gold borrowers abroad. By 1890, provincial banks and sub-national governments held some 35 percent of the country's foreign debt (della Paolera and Taylor 2001).

This scheme appeared to work so long as foreign creditors cooperated. But by the late 1880s capital flows began to reverse, and as conditions tightened in early 1889, the Argentine government decided to pay off in paper money part of the internal debt denominated in gold. As della Paolera and Taylor (2001) note, this decision was "tantamount to a partial default," and both foreign and domestic investors became reluctant to absorb more Argentine government debt (della Paolera and Taylor 2001: 25).

An additional confidence shock hit the Argentine economy when the world's largest merchant bank, Baring Brothers & Co. (commonly known as Barings of London) failed to attract subscribers for a loan underwritten to reorganize Buenos Aires' water supply. This event signaled a shortage in the supply of foreign capital for Argentina, and was followed by a run on the financial system. In particular, deposits in the two official banks, the Banco Nacional and the Banco de la Provincia de Buenos Aires fell dramatically. The national government intervened on behalf of the two banks, authorizing an issue of paper notes to meet the withdrawal of deposits. This rescue operation, though, entailed the risk of open inflation and external default. In fact, by 1891 almost all municipal and provincial foreign debts were technically in default (della Paolera and Taylor 2001). Nonetheless, the administation of Carlos Pellegrini avoided an across-the-board default on the national government's foreign debt by receiving a loan from the Bank of England in January of 1891.

Following the Baring crisis, the government adopted a rigid commitment device; namely, a "hard" gold standard rule (della Paolera and Taylor 2001). But fluctuations in the value of the money in circulation continued until 1899, when convertibility was finally restored with the creation of a Conversion Office (*Caja de Conversión*. The law No. 3871 of 1899, established that the nation should convert the whole of the then existing fiduciary issue of $ 293,018,258.44 legal tender into national gold currency at the fixed rate of one legal tender peso for 44 cents gold (Tornquist & Co. 1919: 313). This institutional mechanism proved to be very successful; convertibility, which lasted from 1899 until the outbreak of the First World War, ushered an era of rapid economic growth for the country, with large inflows of capital and labor from overseas.

3.2 Negative Agenda Control and the Cost of Capital

As the narrative presented above shows, the patterns of public borrowing in nineteenth century Argentina correlate with the emergence of a system of check and balances. However, the country's overall creditworthiness also depended heavily on the actions and choices made by the Argentine governing elite. In line with the arguments presented by Stasavage (2003) for the British case, it seems plausible to conclude that constitutional checks and balances were a necessary but not a sufficient condition to to create a credible commitment in the Pampas. However, in contrast to Stasavage's view, I argue that *negative* agenda control rather than partisan compromises allowed Argentine presidents to carry out the reforms described in the previous section.[17]

To substantiate this claim, I examine how trends in government's control of the legislative process correlate with yields on Argentine government debt. I ask whether (1) the changing electoral fortunes of Argentine presidents were associated with changes in government yields; and (2) I explore whether different degrees of negative agenda control are correlated with the cost of borrowing.[18]

This period of Argentina's history has been generally described as one of tight governmental control by an *oligarchical* clique. However, while it is true that the system was 'government by a few', not always the same few – as David Rock cleverly points out – were in power.

Instead, power rotated among different factions, which represented different interests within the elite. Occasionally such differences were regionally based, at other times they were associated with specialized activities, for example, commerce (Rock 1987: 25). Moreover, none of these factions achieved continuous predominance; the political environment was rather characterized by constant realignments between these factions. Temporary alliances were constantly made and broken as circumstance and advantage dictated (Alonso 2000).

This situation was reflected in the national legislature. The social composition of the parties represented in Congress was relatively uniform. Members of Congress included merchants, financiers, and property owners. These politicians usually identified themselves with some political current, such as *Blancos* or *Colorados*. However, no modern-day party organizations existed until the beginning of the twentieth century (Alonso 2000). Instead, political loyalties were mostly based on networks of personal relationships, and the distribution of positions and sinecures in the national and provincial bureaucracies. Therefore, it would be misleading to use the distribution of seats held in Congress by these political factions to identify the main fault-lines in Argentine politics during this period.

The lack of programmatic parties was reinforced by the persistence of personalism and *caudillismo* in Argentine politics. To be sure, this old political tradition did not disappear with the 1853/60 constitution. In fact, the presidential nature of the Argentine exacerbated the personalistic nature of political competition. The president and vice-president were elected for a six-year term on a single ticket and could not be reelected for consecutive periods. They were chosen in indirect elections by an Electoral College composed of representatives of the provinces and the federal capital. The combination of these particular dispositions had the effect of bolstering the tendencies described above. The constitutional restriction on successive presidential terms, respected throughout the period, ensured the constant realignment of political factions. In addition, the indirect election of the president by electoral college provided local *caudillos* with a powerful bargaining tool. As Alonso (2000) notes, a presidential candidate needed the support of a certain number of governors to win a presidential election. Therefore, presidential candidates would typically begin their electoral campaigns some three years before each presidential election. This usually required active negotiations (and betrayals) to succesfully build networks of support up in the provinces (Alonso 2000).

As a consequence of these dynamics, in most presidential contests, there were at least two or more candidates and in some cases as many as five competing (for example, in 1868 and 1904). Moreover, participants cared deeply about the electoral results. In fact, all presidential elections until 1886 concluded with revolt by the defeated candidate (Alonso 2000).

Therefore, to gauge actual the electoral support of Argentine presidents, and their control of government, I use the percentage of electoral votes that each one of them received in the Electoral College as reported by Molinelli (1991). Given the discussion presented above, I believe that this is a very good indicator of the size of the national coalition that carried these presidents into office.

As an alternative measure, I calculate an additional political variable. This measure seeks to establish the extent to which the government is able to exercise negative agenda powers (Cox and McCubbins 2005). Presidents usually need the support of the Congress to govern, and given the nature of the legislative parties discussed above, they knew that their support was not a given. Members of Congress were erratic in their behavior, which resulted in inconsistent voting patterns (Alonso 2000). Moreover, under the 1853/60 constitution, the Argentine congress enjoyed powers similar to those of its U.S. counterpart. In particular, among other things, it could call all cabinet ministers to be questioned on particular policies. Therefore, the legislative body operated during these years as a source of accountability of the national executive.

Members of Congress did not possess veto powers over the ministers or any capacity to sanction the policies undertaken. However, "... an *interpellation* (as the procedure was known) was a common device used by opposition members to raise public attention over a particular issue..." (Alonso 2000: 173). These procedures were not to be taken lightly, as witnessed by the *Quintana* fiasco. In 1894, the Minister of Interior, Manuel Quintana, was requested to appear before the Congress. After a series of disappointing interventions in the floor of the Argentine Senate, the minister presented his resignation on 17 January 1895. This led to a ministerial crisis of such proportions, that five days later the president Saenz Peña himself tendered his resignation (Alonso 2000: 176).

A president who has negative agenda control should be able to prevent the incidence of such events (Cox and McCubbins 2005). Therefore, my measure of negative agenda power is the average number of interpellations per year suffered by cabinet members during a given presidential term (Molinelli 1989). This variable indicates the proportion of times the president is unable to prevent one of his ministers from appearing before Congress.[19]

Figure 3 plots Argentine yields against my two political variables. For comparability, I transformed all the variables to have a mean 0 and a standard deviation of 1. The yield and votes series have a good fit. Overall, a negative correlation exists between the size of a president's electoral coalition and the interest rates. The fit is even better between the yield and interpellations series, as lack of agenda control (i.e. more interpellations) is associated with a higher cost of borrowing.

< Figure 3 >

To examine in a more systematic manner whether the factors listed above provide a good explanation for the variation in Argentine yields during the nineteenth century, I estimate two simple time-series regressions. For comparability, I use the yield estimates in della Paolera and Taylor (2001). I include the nominal exchange rate to account for the monetary instability discussed above. The exchange rate, as reported by Taylor (1998), is defined as pesos per U.S. dollar. An increase in the exchange rate corresponds to a depreciation, and a decrease to an appreciation. This variable is also a very good indicator of the economy's business cycles. Throughout this period, recessions came with depreciated exchange rates and expansions were periods of stable exchange rates. Price levels exhibited the same behavior, as devaluations tended to be contemporaneous with the more inflationary periods. Therefore, I do not need to include an additional variable for inflation. I also include a dummy variable *gold* that takes the value of 1 for those years in which the Argentine economy was effectively under a gold standard using data in della Paolera and Taylor (2001). In addition, I include a linear time trend to control for the effect of long-run changes that might have led to a decline in interest rates. Alternatively, I include the evolution of Argentina's gross domestic product over time. The country's output, as reported by Cortes Conde (1997 & 1998), is an index that takes the year 1900 as its base (1900=100). This index thus is as good as a time trend to control for long-run effects.

Table 1 provides descriptive statistics for these variables. Note that on average, Argentine presidents could not stop the legislature from questioning their ministers at a rate of two and a half times per year. Notice also the variation in their electoral support. It ranges from a minimum of 52 percent to a maximum of 99 percent.

< *Table 1* >

Tables 2 and 3 report the results of two different specifications, each using a different sample of years. Table 2 includes the 1864-1913 period and the linear time trend. It also includes a dummy variable for the Mitre administration, given its foundational and thus, exceptional character. Table 3 displays the results from a sample covering the 1884-1913 period and includes the data on GDP.

< *Tables 2 & 3* >

Recall that Figure 2 presented the relationship between political control and the Argentine yields. The results from Tables 2 and 3 demonstrate that the effects of these political variables on interest rates are robust to the inclusion of the economic controls and the time trend. The main finding is that the larger the size of the president's coalition, the lower is the estimated interest rate. Substantively, based on the results in Table 2, a one-standard deviation increase in the president's electoral support translates in a drop in the average interest rate on government debt by 7 percent. Using the results in Table 3, the drop in the yield amounts to roughly 5 percent. The results also corroborate the effect of agenda control after controlling for both the set of economic variables as well as the time trend. Periods in which the president does not have a firm control on the legislative agenda are associated with higher yields. In particular, based on the results in Tables 2 and 3, a one-standard deviation increase in the number of ministerial interpellations raises the average interest rate on government debt by 6 and 3 percent, respectively.

These effects are quantitatively large and, in some cases, roughly of the same order of magnitude as those resulting from purely economic factors. For example, a one-standard deviation increase in the nominal exchange rate is associated with a 9-10 percent rise in the interest rate. The largest negative effect on yields, as expected, is due to the adherence to the gold standard. For periods in which the country was under convertibility, interest rates tend to be between 10-20 percent lower.

As a robustness check, I also conducted the analysis excluding from the interpellations count those instances in which the finance minister was questioned (to avoid potential enogeneity problems). The results are quite similar both in terms of the effect and magnitude of the interpelations and votes variables. The temporal nature of the data inevitably raises concerns regarding time effects. In particular, if the variables are nonstationary, the results may be misleading. In fact, this is to be expected given the significance of the time trend and the GDP coefficients in the regressions. To account for possible problems caused by nonstationary data, I estimated both regressions using data that has been detrended by regressing each variable on a time trend and then saving the residuals. The results are virtually unchanged, and thus corroborate the robustness of the effect of electoral support and agenda control on interest rates. I also conducted a series of unit root tests and different analysis seeking to identify structural breaks using the monthly data. These tests indicate that temporal autocorrelation disappears after a 16-month period. They also suggest that except for two unusual periods, the 1876 financial panic and the 1890 crisis, the average annual interest rate was around 7 percent for the whole period. In sum, these robustness tests indicate that the results presented in Tables 2 and 3 are not an artifact of an underlying time trend of permanent shocks to the Argentine economy.

Conclusions

These findings square well with the notion that both institutions and policies matter for economic development. I find that during the period between 1820 and 1862, the absence of constitutional limitations was associated with short-trem borrowing and the use of money creation to finance public deficits. While constitutional checks and balances were finally established in the 1860s, the credibility of government debt was by no means guaranteed, as there were significant oscillations in its yields. The evidence presented here suggests that an important degree of variation in interest rates on Argentine government debt in the second half of the nineteenth century is explained by the existence of alternative institutions and practices aside from checks and balances. In particular, interest rates on government debt were lower under the gold standard, during periods when presidents had a tighter control over the legislature, and when presidents came to power with the support of a broad coalition.

This research fills a gap in the literature by examining the link between representative government and public borrowing in nineteenth-century Argentina. This study has an important implication for the debate on credible commitments and sovereign borrowing. As I show in this paper, the patterns of public borrowing in nineteenth century Argentina correlate with the emergence of a system of check and balances. However, the country's overall creditworthiness also depended heavily on the actions and choices made by the Argentine governing elite. This is consistent with the British case (Stasavage 2003); thus its appears that constitutional checks and balances are a necessary but not a sufficient condition to to create a credible commitment. But my findings depart from Stasavage by demonstrating that agenda control rather than partisan compromises allowed Argentine presidents to carry out the necessary reforms to enhance the country's creditworthiness.

More broadly, my findings contribute to the debate on the role of institutions in fostering economic development. Existing research demonstrates that laws and regulations that enforce contracts and guarantee property rights can encourage investment in human and physical capital. However, this research agenda has failed to establish which institutions are the ones that really matter for development. My findings validate and support the view that constitutional checks and balances are a necessary but not a sufficient condition for sound public finance.

Notes

[1]Weymouth and Broz (2007) examine firm-level, quasi-experimental evidence on the determinants of property rights protections and conclude that firm owners' beliefs about the security of property rights are highly responsive to changes in government partisanship.

[2]A notable exception is the book by Sussman, Yafeh and Mauro (2006), which comprises a cross-section of countries, including Argentina. However, they analysis of the Argentine case does not cover the pre-constitutional stage and thus is insufficient to draw conclusions about the role these constitutional constraints on sovereign borrowing.

[3]The experience of Argentina, with similar – if not less favorable – factor endowments than the United States and Canada, but yet very different economic performance, suggests that non-economic factors play an important role

[4]From the Unitarians' point of view, the sacrifice of provincial autonomy was justified on the ground that the political unit should be "one and indivisible", and thus, internal political fractions should be eliminated (Burgin 1946: 79-80).

[5]For example, General Bustos of Cordoba declared that his province refused to recognize the law of the National Congress which had established the National Executive and had allowed the election of Rivadavia to the presidency.

[6]Military expenses absorbed three-quarters of the budget of Buenos Aires in 1841.

[7]In March 1834, the Junta de Representantes authorized a loan of 3,000,000 pesos. Seven months later, in November, the legislature sanctioned another issue of 5,000,000 pesos in Fondos Públicos (Burgin 1946: 170-171).

[8]The most prominent one took place at Pavon in September of 1860. Bartolomé Mitre, the governor of Buenos Aires, led a city militia, equipped with new imported rifles and cannons. While he managed to withstand Urquiza's cavalry, the engagement was inconclusive. Nonetheless, Urquiza elected to retreat. Militarily, Urquiza had shown repeatedly that he could defeat Buenos Aires. However, he knew he would not be able to maintain his position for any length of time in the face of local resistance.

[9]These included a national legal system, an integrated judicial system, a professional army, a bureaucracy, a national bank, a taxation system, a national treasury, a national customs office, a national voting law, a system of public schooling, public libraries, an academy of science, and other technical institutions.

[10] By 1865, British investors had established banks and railway companies operating in Argentina. These investments were followed shortly by new ones in public utilities, gas-works, water-works, and sewage systems (Ferns 1977).

[11]From a total estimate of £23,060,000 of British capital investment in Argentina in 1875, £12,970,000 went to government loans. Thus, 56.2 per cent of the funds invested by British capitalist or through the agency of the London money market was given to the Argentine government (Ferns 1977).

[12]The main difference among these alternative sources is their coverage. For example, the Global Financial Data series are based on the use of Buenos Aires 6s from 1859 through July 1867, the Argentina Public Work 6s from August 1867 through April 1888, and the Argentina External Gold 5s of 1886-1887 through June 1928. Mauro, Sussman and Yafeh (2006) only use Argentina's 6s issued in 1866, the Public Works 6s issued in 1871, and the Argentina External Gold 5s of 1886. The other three sources do not include the latter emission.

[13]The law established a public record of all debts of the state entitled *Del Gran Libro de Rentas y Fondos Públicos.*

[14]These included the English loan of 1824 and the "diferidos" of 1857; 20 million \$m/c in Fondos Públicos Provinciales bonds issued by the law of 5 May 1859; and 24 million \$m/c of Fondos Públicos bonds issued by the law of 8 June 1861.

[15]As Ferns notes, the only money that anyone trusted seriously was hard money: silver coins of the old Spanish Empire, which still circulated; silver minted in Bolivia; and various European coins (Ferns 1977).

[16] Leaving the emission of paper money to the private sector was another way to avoid the state's monetary manipulation and its use of currency expansion as a financial resource to renege debts and obligations (Cortés Conde 1989). Another objective pursued by the free banking law was to eventually replace the much depreciated paper money in circulation by bank notes issued by the banks. As a result of this, from 1865 to 1887, the issuing banks undertook the creation of money.

[17]Here I use the term negative agenda control as defined by Cox and McCubbins (2005). A legislative majority exercises its negative agenda control if it uses its near-monopoly of formal agenda power in order to keep bills off the floor agenda that would, if passed, displease majorities of its membership (Cox and McCubbins 2005: 37).

[18]Mauro, Sussman and Yafeh (2006) pursue a somewhat similar strategy. However, they do not identify political events directly but rather rely on their coverage in the British press. As such, they do not find a strong correlation between these incidents and changes in the risk premium of Argentine bonds.

[19]This measure is analogous to the one used by Cox and McCubbins, the *roll rate.*

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Table 1: Descriptive Statistics

	Mean	St. Dev.	Min.	Max.	Obs.
Yield	8.42	2.47	5.11	15.06	50
Exchange Rate	1.89	0.86	0.90	3.90	50
Gold Standard	0.62	0.49	0	1	50
Gross Domestic Product	110.49	60.62	33.75	231.01	31
Electoral Votes	76.5	14.47	52	99	50
Interpellations	2.55	1.41	0.30	6.6	50

Table 2: Yields on Argentine Debt, 1864-1913

Variable	**Coefficient** (Std. Err.)
Time Trend	-0.112**
	(0.021)
Exchange Rate	0.980**
	(0.206)
Gold Standard	-1.620**
	(0.408)
Electoral Votes	-0.048**
	(0.017)
Interpellations	0.433**
	(0.128)
Mitre	4.828**
	(0.652)
Intercept	12.524**
	(1.058)
N	50
R^2	0.912
$F_{(6,49)}$	132.421

∗ indicates significance at a 5% level; ∗∗ indicates significance at a 1% level.

Table 3: Yields on Argentine Debt, 1884-1913

Variable	**Coefficient** (Std. Err.)
Gross Domestic Product	-0.017**
	(0.003)
Exchange Rate	1.029**
	(0.137)
Gold Standard	-0.810*
	(0.295)
Electoral Votes	-0.037*
	(0.014)
Interpellations	0.226**
	(0.078)
Intercept	9.613**
	(0.880)
N	31
R^2	0.928
$F_{(5,30)}$	100.793

∗ indicates significance at a 5% level; ∗∗ indicates significance at a 1% level.

Figure 1: Bond Yields: Argentina versus UK and Emerging Markets

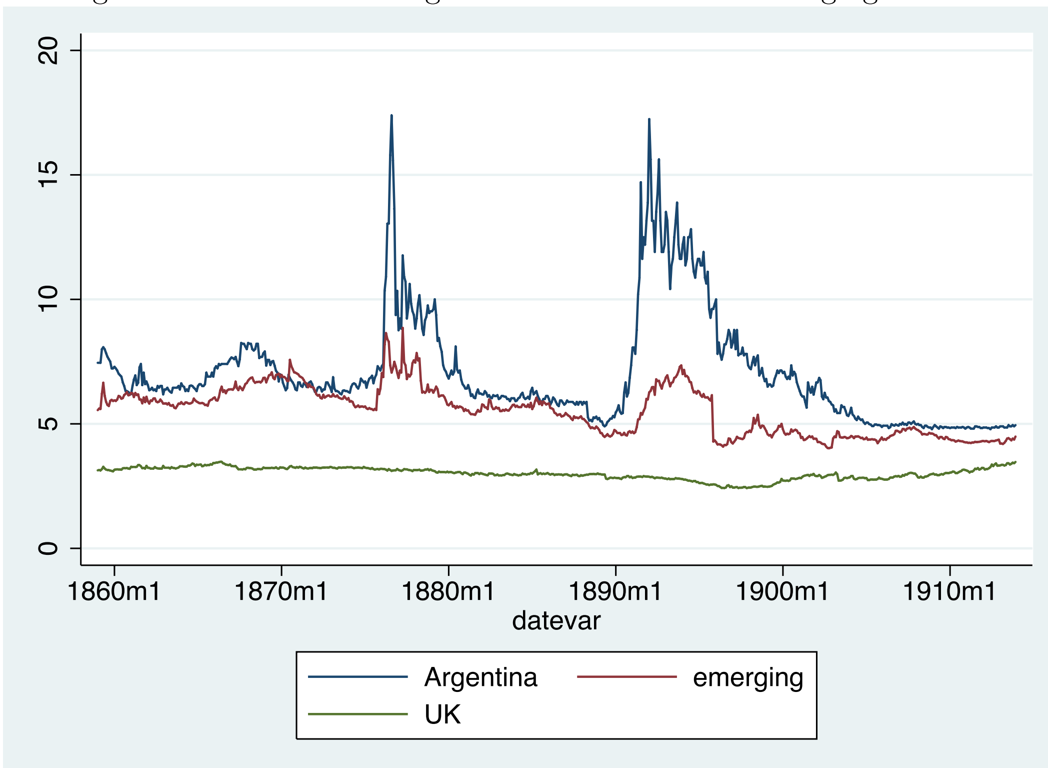

Figure 2: Bond Yields: Argentina versus Emerging Markets

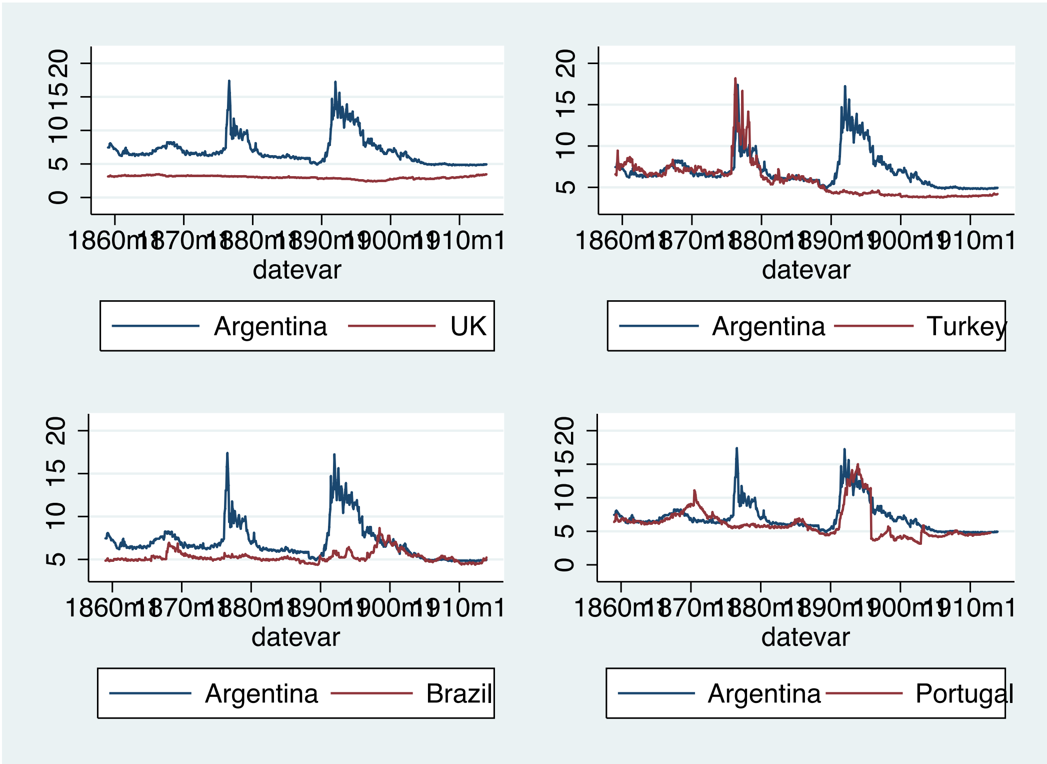

Figure 3: Bond Yields and Political Factors