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Yann Decorzant (University of Geneva), Juan H. Flores (University of Geneva, Figuerola Institute)

Market access during bad times: The League of Nations Loans revisited

Abstract

This paper reassesses the importance of the League of Nations loans of the 1920s. These long-term loans were an essential part of the League's strategy to restore the productive basis of countries in Central and Eastern Europe. Whereas the literature is not conclusive as to the final result of this experience, we argue that the League Loans were successful because they accomplished the task for which they were conceived, namely, to allow countries in financial distress to access capital markets. This success rested on the sustained efforts of the League of Nations to gather support from creditor countries' governments and financial intermediaries and to develop credible plans for economic reform for borrowing countries. We provide quantitative and qualitative evidence to show that the League provided market access in a difficult and hostile environment and did so by building its own reputation. Through the success of the placement of the initial issues, the League became capable of influencing borrowing costs (in the primary market), even if they continued to be predominately determined by the market and remained high as a result of the risk involved. Much of the confusion in the literature is explained by the fact that the League lacked from its own capital, which impeded it to act as a lender of last resort once the great depression hit in Europe.