Rui Pedro Esteves (Graduate Institute Geneva) & Marc Flandreau (Pennsylvania)
'The value of a quote: Stock market listing for sovereign bonds, 1872-1911'

In this paper, we study the listing strategies of sovereign nations in the main capital markets of the world prior to 1914. The question of where sovereigns issued their bonds has been extensively covered in the literature on gatekeepers in the sovereign debt market (Flandreau and Flores 2009, Flandreau et al. 2010). This paper stems out of that research but with a different angle. Rather than emphasizing the pricing of risk, we aim to quantify the gains in terms of liquidity for sovereigns who listed their bonds in the main stock markets. Because not all European markets were equally perceived, we ask what were the advantages of listing in the highest-ranking market (London) and how did these advantages evolve, as other European markets became more competitive platforms for sovereign issues. To answer these questions, we construct a database of the 531 bonds listed in the three main markets of the time (London, Paris and Berlin) between 1872 and 1911. We then use a careful matching algorithm and treatment effects regressions to estimate the counterfactual yields of bonds that were not listed in London to infer the value of gaining a listing there relative to Paris or Berlin. We find that the premium from listing in London was initially very large, but later settled in the region of 50 basis points. We also show how countries selected into the markets that offered them greater advantages. Since the 1890s, London was no longer the prime market for many nations, as Paris and then Berlin created the conditions to compete successfully for the listing of foreign bonds. We finally discuss how this liquidity premium was controlled by issuing banks in the three main European capital markets in an effort to protect their local market power while cooperating simultaneously by forming international syndicates for the placement of emerging nations bonds.