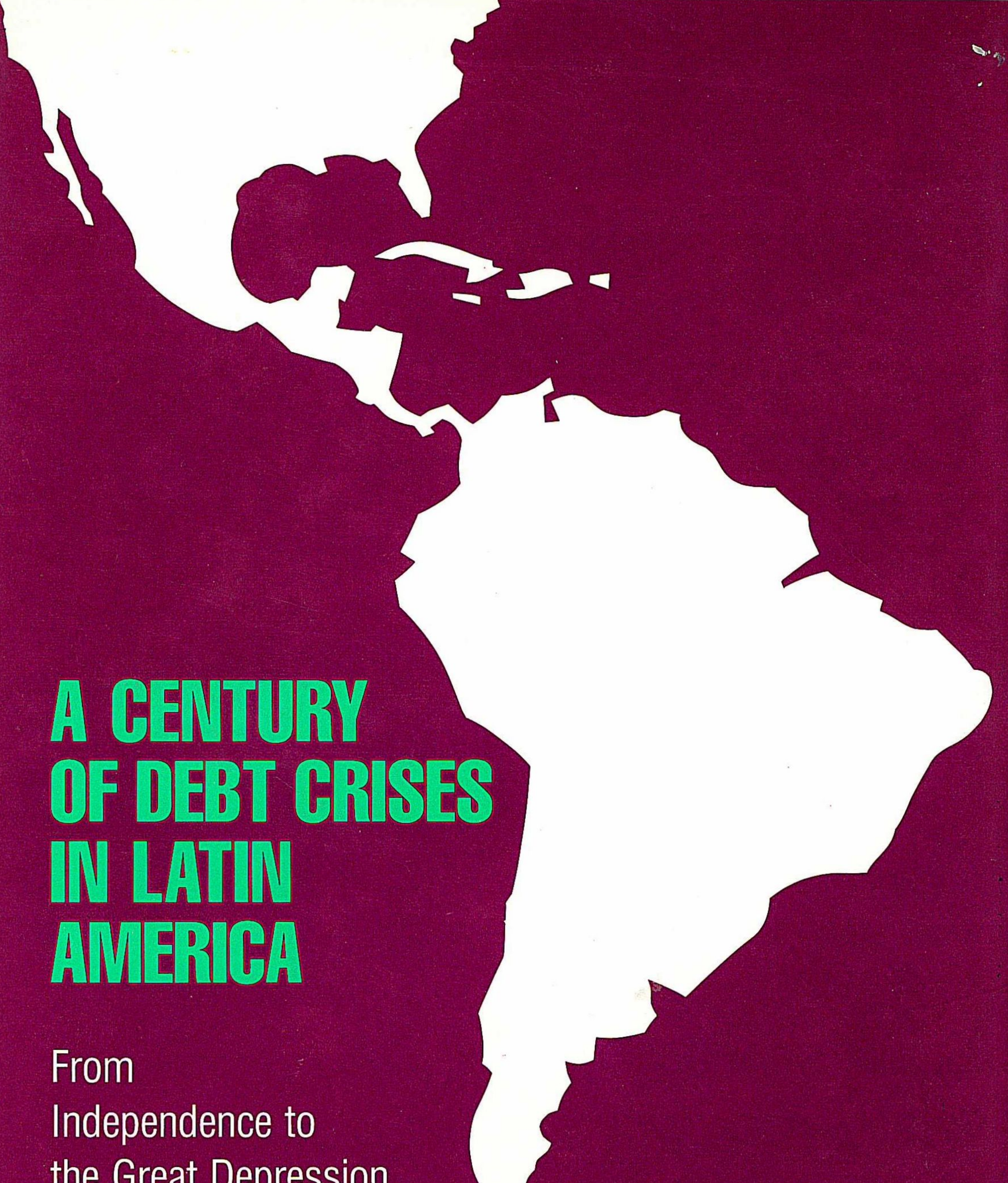

A CENTURY OF DEBT CRISES IN LATIN AMERICA

From Independence to the Great Depression, 1820-1930

Carlos Marichal

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To Juan and Solita

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INTRODUCTION

The world debt crisis began in the early 1980's but its end is still not in sight. The enormous financial burden which weighs upon the less-developed nations of the globe has already had such a devastating impact that it is illusory to think that a sustained economic recovery is possible in the near future. The dramatic rise in unemployment levels in most Asian, African and Latin American countries in the last few years has been accompanied by an equally striking fall in the per/capita income of the majority of the population and has provoked hardship and discontent. The financial debacle has therefore sown the seeds of increasingly widespread social and political protests.

Nowhere has the impact of the debt crisis been felt more harshly than in Latin America which struggles to free itself of an oppressive load of 350 billion dollars in foreign debts. Much attention has been directed to the analysis of the plight of the big debtors, Brazil, Mexico, Argentina and Venezuela, but it should be underlined that the smaller countries are beset with a similar dilemma. The external debts of Bolivia, Ecuador, Peru and the Central American and Caribbean nations have disrupted their economies and immeasurably intensified the suffering of the poorest peoples of the Western Hemisphere.

The debt crisis initially caught bankers, politicians and economists--as well as practically everyone else--off guard. Why did this happen? In part, no doubt, because the swings of the international economy have become increasingly acute during the last decade. None of the participants in the great loan boom of the late 1970's expected that it would end in the debt crisis of the 1980's. The euphoria of prosperity mesmerized all those engaged in these financial negotiations and obscured the signs of increasing instability in the world capitalist economy. But it may also be suggested that the lack of a historical perspective made it difficult to comprehend the cyclical nature of the loan flows and the inevitability of a financial upheaval.

The present debt crisis is, in fact, not an unprecedented event but part of a chain of recurrent crises throughout the history of Latin America. During more than a century and a half the Latin American nations have been buffeted repeatedly by international financial storms that have wreaked enormous damage upon their economies and strapped them into an apparently irrevocable succession of boom and bust cycles that reinforce underdevelopment. The debt cataclysm of the 1980's is on a greater scale than those of the past because of the huge volume of financial resources now at stake and because of the increasingly complex structure of the economies of modern Latin America. However, the dimensions of the current dilemma do not imply that nothing can be learnt from similar past experience. The evolution of the diverse societies of Latin America has been molded by a complex set of historical factors that are not merely a legacy but a continuing reality.

From the early nineteenth century Latin American elites looked abroad for loan capital to build and modernize their states and economies. The inflow of funds stimulated growth for relatively short time-periods. Invariably, international commercial and financial crises cut short the flow of funds from abroad and drove the debtor nations to bankruptcy.

The outcome was a series of debt crises that accentuated the economic contradictions and the political conflicts with the powerful creditor nations of Western Europe and, later, with the United States.

It was in the 1820's, when the Latin American peoples were fighting for independence, that foreign loans first came to play an important role in the history of the region. All the most distinguished patriot leaders, Bolivar, San Martin, O' Higgins, Rivadavia, sought loans from Europe to consolidate independence and to promote trade. The illusions of prosperity were shattered by the European financial crisis of 1825/26 which was followed shortly by the defaults of most Latin American governments. This was the first Latin American debt crisis. Subsequently, there came a succession of new loan booms, followed by debt crises in 1873, 1890 and 1931.

The aim of the present study is to offer a general survey of the most important Latin American debt crises from independence to the depression of the 1930's. In order to understand the dynamics of each crisis it is necessary to explore both its causes and its consequences. For this reason I have chosen to focus on the broader concept of the "loan cycle" which includes two stages: that of the loan boom and that of the debt crisis. Each loan cycle is characterized by an upswing, a period of prosperity during which Latin American states contracted a large number of loans abroad, and a downswing, which was usually the result of an international financial crisis that caused economic distress in Latin America and frequently led to a string of defaults.

The chapters of this work are divided into a sequence of pairs which follow this two-stage outline. Chapters one and two deal with the first Latin American loan boom of 1822-25 and with the first regional debt crisis that followed. Chapters three and four focus on the loan expansion of the 1860's and early 1870's, which was cut short by the world depression of 1873. Chapters five and six concentrate on the loan frenzy of the 1880's, when Argentina became the largest Latin American debtor, and on the Anglo/Argentine financial panic of 1890. Finally, chapters seven and eight analyze the loan boom of the 1920's and the effects of the Great Depression of the 1930's upon Latin American finances.

To deal with such a broad historical canvas necessarily requires the adoption of a comparative approach which goes beyond the boundaries of "national" financial histories. Moreover, it is one of the central tenets of the present study that the Latin American debt crises of the past cannot be understood solely in the light of the experience of an individual country but as the expression of trends common to many nations of the subcontinent.

In order to identify these trends it is essential first to collect and compare the facts. In which decades were the largest number of loans issued by the Latin American states? What was their value and purpose? Which were the principal banking houses involved in placing the bonds in foreign capital markets? How did the loans fit into the economic strategies of the governments contracting the loans? The present study addresses itself to these questions by reviewing a large body of information to be found in the secondary literature, complementing it with data from primary sources, financial journals, government documents and bondholder reports. Since the amount of information is so considerable, it has been impossible to deal in detail with all the foreign financial transactions of the diverse Latin American nations in each chapter. Preference has necessarily been given to the states which were the largest debtors in the different periods under review. Nonetheless, a complete synopsis of Latin American debt statistics can be found in the tables included in the text and in the appendix.

But to go beyond the formal and empirical problems, it may be argued that a comparative study of the major Latin American loan cycles during the nineteenth and early twentieth centuries also offers an opportunity to explore a series of important theoretical questions and propositions. These questions and hypotheses thread their way through each of the chapters. It may therefore prove useful to comment briefly upon them in order to provide some idea of the general thrust of the arguments to be presented.

That loan booms and subsequent debt crises have been a permanent feature of Latin American history since independence suggests that there are deep-rooted structural causes which explain their dynamics. A fundamental hypothesis of this study is that the pattern of the loan cycles was not circumstantial but rather the result of the interaction between the economic cycles of the more advanced capitalist nations and the processes of economic change in Latin America.

The nature and duration of the long, medium and short "waves" of capitalist economies are much-debated issues in the literature on "business cycles" in the history of the United States and Europe. Among economic historians of Latin America, on the other hand, the discussion of these questions has been more limited insofar as it has focused principally on trade cycles and, in particular, on the cycles of specific export commodities. In the present study an attempt is made to broaden this perspective by combining the available information on the trends of Latin American foreign trade with the data on international loan flows. The resulting analysis provides a new (if tentative) outline of the impact of the major waves of economic expansion and depression as well as of the key financial crises in the different Latin American nations which can help improve upon the rather imprecise economic periodization offered, for example, by the exponents of the so-called "dependency school" such as Cardoso and Faletto. The latter have emphasized the importance of the crisis of 1929 as a major turning-point in the history of Latin America, but they have paid less attention to the effects of international economic cycles and crises upon the economies of the region in previous decades.

A global analysis of the historical pattern of foreign trade and loans confirms that to the extent that capitalism did advance in Latin America, it was subject, in great measure, to the dynamics of the economies of the industrial nations of the North Atlantic. The successive foreign loan booms of the nineteenth and early twentieth centuries generally took place during periods of international economic expansion during which funds from the leading money markets began to flow outwards towards Latin America as well as other regions. The explanation of the forces which impelled capital exports has been the subject of a long-standing debate among economists and historians. The discussion was initiated at the turn of the century by Marxist theoreticians who focused on the analysis of imperialism, and their views continue to be highly influential as well as polemical. Lenin, for example, placed particular emphasis on the accumulation of surplus capital in the imperial nations which required profitable outlets for investment. Rosa Luxemburg, on the other hand, argued that it was the need to finance the export of surplus production which led the industrial nations to extend credit to the less developed lands. In any event, these financial flows both stimulated trade and increased the resources available for economic growth on a worldwide scale.

The loans injected capital into Latin America but also led to a reverse flow of funds in the shape of interest and amortization payments. This outward flow weighed more heavily on some nations than others, depending on the size of their external debt as well as on their resources. In the long-run all the debtor nations were committed to pay back a much larger sum than that which they had originally received. Such circumstances made the debtors easy prey for an ever growing circle of foreign financiers who urged them to take more loans with which to pay off previous debts. At the apogee of this loan frenzy dozens of rival banking firms stoked the cauldron of speculation with so much financial fuel that an explosion became virtually inevitable.

The debt crises which followed the boom were usually triggered by a stock market crash at London or some other financial center, by the collapse of one or more leading international banks and/or by the news of the imminent default of a given Latin American government. Regardless of the specific origin, the financial panic intensified both the international and the local economic crises.

Curiously enough, for contemporary observers in the creditor nations, the causes of the debt crises were not ascribed to the turmoil in the money markets of the nations of the center but rather to the wayward actions of the debtor nations of the periphery. As early as the 1830's, the respected British economist, Thomas Tooke, argued that the Latin American loans of 1822-25 had been responsible for the outbreak of the crash of 1825 in London. Likewise, in the 1870's, the British Parliament carried out a major inquiry on foreign loans, the object of which was to demonstrate that the Latin American debts were a major factor in unleashing the great crisis of 1873. And sixty years later in 1931, in the midst of the worst banking crisis in the history of North America, the United States Senate launched an official investigation into the Latin American loans issued during the 1920's with the ostensible aim of proving that these transactions were one of the chief causes of the financial pandemonium of the early 1930's.

In point of fact--and as will be argued in the chapters that follow--the debt crises were not the cause but the consequence of international economic crises. Following the breakdown of the financial and industrial machinery in the creditor nations, the flow of loans to Latin America would be abruptly frozen. Frequently there would be numerous defaults, although in most instances a few states were able to continue paying interest and amortization payments. There followed a complex phase of debt crisis resolution. Negotiations between bankers and politicians became enmeshed in a web of contradictions that seldom permitted short-term solutions. Thus, the effects of the crisis continued to weigh heavily upon the debt-ridden Latin American societies, often for decades.

Most foreign loan booms ended in debt crises but not all did so. There was one important exception which does not fit into the pattern previously described. Between 1900 and 1914 there took place a great loan frenzy throughout Latin America that did not conclude as a result of an international economic depression but as a direct consequence of the outbreak of the First World War. The effects of the war on Latin America were quite different from those of the major economic crises of the past. In the first place, while capital flows from abroad were frozen after 1914, only one state--Mexico--actually defaulted. The other Latin American nations continued to make regular payments to the foreign bondholders. That this was so may be attributed to the war-time export boom which allowed most of the Latin American economies to accumulate large monetary reserves. The result was unexpected: in the midst of a period of tremendous commercial expansion (1915-1920), the Latin American governments did not take any new (long-term) foreign loans but rather proceeded to liquidate a substantial part of their debts.

During the war years, therefore, Latin America became a net capital exporter, rather than a capital importer as it had been before 1914. The reasons for this development pose a number of difficult questions. While some of them are touched upon in chapter 7, it may be suggested that they require additional research to clarify the singular nature of the impact of the war upon the Latin American economies. Quite different was the situation during the 1920's. In that decade, despite a substantial drop in regional exports, most of the Latin American states sharply increased their foreign loan activity. Here again, care must be taken to recognize the particular characteristics of each economic cycle and its influence on the degree of loan activity.

The negotiation of foreign loans, however, was not affected solely by international conditions. Local political, economic and social circumstance played an equally decisive role. It should be noted, in this respect, that all the loans dealt with in the present work were government bond issues. In other words, the fundamental objective is to analyze the historical evolution of public rather than private debts. In short, the technicalities of the foreign credit transactions ought not to obscure the fact that the loans were *political instruments* intended to accomplish a varied set of economic, military and/or social goals.

Such a viewpoint leads one to ask whether traditional theories--in particular the classic Marxist analyses of imperialism--provide us with all the necessary instruments to explain the nature of the relationship between international economic forces and local power structures in the dependent nations. It is no secret that the early theoretical studies of imperialism, such as those of Lenin, Luxemburg and Bukharin, were concerned fundamentally with the study of the political and economic dynamics of the industrialized nations rather than with those of the countries of the periphery. Their interpretation of capital exports brilliantly explained the fundamental forces that lay behind the great rise in foreign investments in the last quarter of the nineteenth century. But they paid relatively little attention to the specific characteristics of government loans as one important form of capital exports. And they had even less to say about the way the loan proceeds were invested by the ruling elites of the less-developed nations, whether colonial territories or independent states. That this was so may be attributed to the fact that these early theoreticians looked at the phenomenon of imperialism from the center outwards, and not vice versa.

More recent theoretical works, such as those of Paul Baran and Samir Amin, and historico/economic studies, like those of Celso Furtado and Andre Gunder Frank, have opened new perspectives by exploring the different dynamics of capitalism in the center and in the periphery. This new focus suggests, furthermore, that additional attention must be devoted to certain key problems such as the role of state finances in the evolution of capitalism in the dependent countries.

A historical approach demonstrates that in all cases the loans were tools of government policy and as such cannot be separated from the study of the public finances of the different republics. Foreign credit was only one form (albeit a very important one) of obtaining resources for the national treasuries. The issue of bonds abroad depended not only on the availability of funds in the foreign money markets but also on the decisions taken by the Latin American elites to seek capital to implement their political and economic programs. The study of the foreign loans therefore implies analysis of the changing context of financial policies with respect to taxation, money supply and sources of local as well as external credit.

How Latin American governments raised money is a central question which must be analyzed in order to explain the nature and scope of their financial strategies. But it is equally important to ask how they spent their resources. How were the loan monies actually invested? Did the loans accelerate a local process of capitalist development? Or was the foreign gold used for non-productive purposes? The questions outnumber the answers. The appendixes at the end of this study provide information on the official objectives of each of the loans, although it should be noted that in many cases governments actually used the proceeds for other purposes. To ascertain the precise destiny of each and every loan is a task which requires much future research and clearly goes beyond the scope of the present study. Nonetheless, the statistical data that I have collected from a broad range of sources can provide general guidance. As will be seen in the pages that follow, the Latin American experience with foreign loans was varied. In the 1820's the bulk of the money came in the form of war loans. During the 1860's and early 1870's much loan capital was invested in railway construction. In the 1880's railway and port loans were also important. Later in the 1920's most foreign funds were destined to urban modernization projects. Yet throughout, there were also many instances of other types of loans, some of them for refinancing of old debts, others of a highly speculative character.

To understand the nature of the loan strategies of the different states requires an examination of the ideologies and programs of the Latin American elites engaged in issuing bonds abroad as well as of the designs of the bankers who provided the money. Economic and social historians of Latin America have dealt with such questions by analyzing the alliances forged between foreign capitalists and national elites, between bankers and politicians. The importance of these alliances is emphasized in each of the chapters that follow. Politicians, financiers, merchants, landowners and miners all favored foreign loans in periods of prosperity because they believed that the inflow of foreign gold would stimulate the economy and would benefit their own particular business enterprises. They used state loans as a means of directly or indirectly promoting private accumulation.

The negotiation of a foreign loan for the construction of a state-owned railway, for example, provided benefits to a broad array of native and foreign capitalists. The bankers profited by charging fees for the sale of the bonds. The railroad contractors earned large sums from the construction business. Native merchants made money by charging commissions on the import of equipment required for the railroad. Landowners benefited by the rise in prices of real estate properties near the new lines. And local politicians skimmed the cream off the top of both the loan and construction contracts.

The Latin American propertied classes and the foreign bankers were the principal protagonists and the main beneficiaries of the international loan business. They used state finances as a vehicle for the promotion of private interests, for personal enrichment and for the consolidation of power. But who was expected to pay for the foreign debts? Politicians preferred to avoid giving an explicit answer to this question because it was known that in the final analysis the entire population would have to carry the burden of repaying loans which had benefited only a minority. Such deception was built into the political system.

The loans were usually proposed by the executive branch of government and ratified by the national or provincial legislatures. Nevertheless, there was rarely any broad popular discussion of these important financial issues. This is a significant point because it meant that the loan negotiations rarely became public and could therefore be treated as private business transactions between local politicians and foreign financiers. Neither government officials nor bankers had an interest in public scrutiny of this high-level wheeling and dealing. They believed--with some reason--that the divulging of information might jeopardize the "delicate" negotiations between the powerbrokers taking the loans and the money brokers who provided the funds.

Indeed, no government of the nineteenth or, for that matter, of the twentieth century has been overly eager to provide its citizens with a straightforward and clear account of the international credit operations which it has undertaken. Secrecy is one of the prerogatives of power, and control over information related to public credit is an instrument of enormous usefulness for those in power.

The Latin American experience demonstrates that such secretive tactics had pernicious consequences. During the loan booms public opinion was led to believe that the inflow of foreign gold would continue indefinitely. Circumstances changed dramatically after the onset of major economic recessions. It then became clear that a huge financial mortgage had been placed upon the shoulders of the whole of the population, and that the inevitable result would be increased taxation. Not infrequently popular protests broke out against the administrations which had over-borrowed. During the initial stages of the Great Depression (1929-1933), for example, more than one Latin American government fell as a consequence of the mass demonstrations and strikes directed against the politicians who had contracted huge foreign debts and against the corruption that these had engendered. And in numerous instances such protests led to outright default.

The financial crises intensified the internal social and political conflicts in the various Latin American republics and accentuated the contradictions between the wealthy creditor nations and the less developed debtor countries. But were the loan booms and debt crises inevitable? Did there exist alternatives to an export model of growth predicated on the reception of a large number of loans from abroad? What were the underlying forces that impelled politicians and bankers to adopt strategies of economic development which led to ever greater financial dependency but also to ever more catastrophic economic crises? These are hotly-debated questions today. It is to be hoped that the present work can contribute to the discussion by placing them in historical perspective.

A final word, the style adopted in this study is narrative since the aim is to offer the reader some sense of the distinctive character of the periods under review as well as to provide an idea of the social and political context within which financial policies were formulated and implemented. But because this is essentially an economic history an effort has been made to accompany the narrative account with sufficient empirical evidence to document the successive loan booms and crises, all of which left an indelible imprint upon the economies and societies of the Latin American nations.

CHAPTER 1

Independence: Silver and Loans

"Every loan
is not merely a speculative hit
But sets a nation or upsets a Throne"

Byron, Don Juan (12.5.6)

"Great resources are required
to maintain the Navy and Army;
it is, therefore, of the utmost
importance to obtain the loan
under negotiation in London..."

Simon Bolivar (October, 1823)

As the sun rose over the towering Andes of central Peru on December 9, 1824, two armies prepared for a battle to decide the destiny of Spain's colonies in South America. The military action lasted scarcely an hour. At its conclusion, the patriot troops led by general Antonio Sucre had decisively routed the royalist army led by the Spanish viceroy, La Serna. The battle of Ayacucho marked the culmination of the struggle for Latin American independence.[1] Fifteen years of war and revolution had brought to an end three centuries of imperial rule over a vast territory stretching from Colorado and California to Tierra del Fuego. The great empires of Spain and Portugal were dismantled and in their places there arose a geographically complex mosaic of nations with a varied hue of political forms, including two confederations, five republics, two federal republics and one native empire.[2]

The winning of political independence, however, did not mean the achievement of economic autonomy. For while Latin America broke its ancient ties with the Iberian monarchies, it did not cut off links to the outside world. On the contrary, this vast, rich and sparsely populated subcontinent presently became the object of intense attention on the part of bankers, merchants and shippers from Europe and the United States. Within a remarkably short span of time, the new states of Central and South America became enmeshed in a complex web of commercial and financial relationships which progressively

[1] Perhaps the best description of the battle of Ayaucho is to be found in John Miller, *Memoirs of General Miller in the Service of the Republic of Peru* (London, 1829), 2, 192-208. For an excellent survey of the Latin American wars of independence see John Lynch, *The Spanish American Revolutions, 1808-1826* (New York, 1973).

[2] The two confederations were those of Argentina and Gran Colombia (including Colombia, Venezuela and Ecuador); the five republics, those of Chile, Peru, Bolivia, Paraguay and Haiti; the two federal republics, that of Mexico and that of the states of Central America; the native empire that of Brazil.

tied them to an expanding world economy and its consecutive cycles of expansion and recession, of prosperity and crisis.

The news of Ayacucho arrived at London in February of 1825, a propitious moment, for it was precisely then that a great speculative boom had gripped the Stock Exchange. Dozens of new companies came onto the market month by month as stock quotations soared. The financial fever intensified with the announcement that silver mining enterprises would be formed to exploit the legendary riches of Mexico, Peru, Colombia and Brazil. The bull market which had commenced in mid-1824, flourished for almost a year, allowing bold speculators as well as conservative bankers undreamt of opportunities to make money hand over fist.

The speculative mania coincided with a cyclical phase of prosperity of the British economy which was impelled by the expansion of the cotton textile industry, the backbone of the early industrial revolution.[3] Hopes for growth were also stimulated by the introduction of new technology in other fields: the 1820's were the era of the first passenger railways, steam navigation companies and gas lighting enterprises that the world had seen. Such innovations attracted the interest of small and large investors throughout England who poured their savings into new ventures, some of them solid, others clearly frauds.[4] So great a frenzy prompted the well-known banker, Alexander Baring, to exclaim: "It seemed as if all Bedlam had broken loose on the Royal Exchange."[5]

The impact of speculation in Latin American securities on the British financial frenzy of 1824/25 should not be underestimated. The number of companies launched on the London market to exploit the natural resources of the newly independent lands did not surpass forty-six, a fraction of the total 624 companies established during the boom, yet their nominal capital value was equal to almost 50% of all the rest.[6] More important, Latin American loans absorbed 17 million pounds sterling of a total 25 million pounds in foreign government securities sold during these years. In short, the allure of Latin American riches--whether real or imaginary--constituted a major factor in one of the earliest stock and bond crazes of modern capitalism.

In 1822 the government of Gran Colombia became the first in Latin America to sign a foreign loan contract with London bankers. It was soon followed by Chile and Peru, and

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[3] Statistical data on the economic boom of 1820-25 in Great Britain can be found in A. Gayer, W. Rostow and A. Schwartz, *The Growth and Fluctuation of the British Economy, 1790-1850* (Oxford, 1953), I, 171-210.

[4] Companies such as the Stockton and Darlington Railway, one of the first railroad firms in England, were destined to last. Others like the Equitable Loan Company, the aim of which was "to carry on the business of pawn broking on a large scale" were dupes for the ingenuous. Among the most extravagant ventures was an enterprise presided over by Lords Landsdowne and Liverpool, established with a capital of L 1,000,000 in order to cultivate mulberry trees and propagate silkworms in Great Britain and Ireland! For details on the stock exchange frenzy of 1823-25 see William Smart, *Economic Annals of the 19th Century* (London, 1917), chap.18; John Francis, *Chronicles and Characters of the Stock Exchange* (Boston, 1850), pp.96-108; Leland Jenks, *The Migration of British Captial to 1875* (New York, 1927), chap.2.

[5] W. Smart, *Economic Annals*, p.296.

[6] Based on data in Gayer et al., *The Growth and Fluctuation*, pp.187-189; and James Fred. Rippy, *British Investments in Latin America, 1822-1949* (Minneapolis, 1959), pp. 23-24.

by 1825 most of the other newly independent states had accumulated substantial foreign debts. The bonds of the governments of Argentina, Brazil, the Federation of Central America, Chile, Gran Colombia, Mexico and Peru were bought and sold at high prices on the Royal Exchange, and the rage for these exotic but lucrative securities continued to run strong until the financial crash of December, 1825.

The first of Latin American loan booms was thus clearly tied to an expanding cycle of the international economy, a feature which would be repeated in all subsequent loan booms. But the lending and borrowing activity of the 1820's cannot be understood solely in terms of economic cycles. A broader political dimension was also implicit in these transatlantic financial transactions. For Great Britain as well as for the fledgling states of Latin America the loans were seen as instruments with which to reach a series of strategic goals.

British bankers, merchants and politicians believed that the loans could help to open doors in Latin America, to increase trade, to gain control of valuable gold and silver mines and to assure British naval predominance in both the Atlantic and the Pacific. Latin American politicians, for their part, negotiated loans to finance their armies--engaged in the last stages of the struggle for independence--as well as to consolidate the new nation/states which had begun to emerge from the ruins of the Spanish and Portuguese empires.

LATIN AMERICA AND THE GREAT POWERS

That the Latin American elites of the early 1820's sought the diplomatic and financial support of Great Britain did not imply that they were unaware of the dangers of forging close ties with a major European power. Three centuries of colonial rule had left a lasting imprint which would not be soon forgotten. But the leaders of the patriot armies who had fought, and were still fighting against Spanish troops knew that their victories were frail. If the Spanish Crown could obtain the backing of France and the coalition of European absolute monarchies known as the Holy Alliance, then there was a possibility that a new and more powerful military force could be sent across the Atlantic to reconquer the new republics.[7] The only great power which could counter such a threat was Great Britain. British collaboration, nonetheless, was not disinterested. As Simon Bolivar, liberator of Gran Colombia and Peru, observed in a letter written in May, 1823, the British were willing to supply the Latin American nations with military supplies and war loans for strategic reasons:

> England is the first to be interested in this transaction [a loan for Peru] because she desires to form a league with all the free nations of America and Europe against the Holy Alliance, in order to put herself at the head of all of these peoples and rule the world...It is not in England's interest

[7] A vivid idea of the degree to which such fears impressed themselves upon the minds of the liberators can be found in the correspondence between Bolivar and Sucre in January, 1824, shortly after they had received news of the reestablishment of absolutism in Spain. Simon Bolivar, *Cartas, 1823-1825*, ed. R. Blanco-Fombona (Madrid, 1921), pp.142-146.

that... Spain maintain a possession like Peru in America, and therefore prefers that she [Peru] be independent, albeit weak and with a fragile government...[8]

That this was so, however, did not mean that the British government had always favored Latin American independence.[9] During the French occupation of Spain (l808-l8l4) Great Britain did not openly oppose the Latin American rebel forces, but authorities at London remained lukewarm towards proposals designed to provoke the permanent separation of the colonies from the motherland. During the years 1815-1820, immediately following the downfall of Napoleon, the conservative Foreign Secretary, Castlereagh, attempted to reconciliate both France and Spain with the aim of strengthening England's position in the complex postwar constellation of European alliances. As a result, the rebel movements led by Bolivar and San Martin temporarily lost favor among British ruling circles. Nonetheless, liberal politicians, such as Lord Holland, were able to push legislation through Parliament authorizing the formation of a volunteer corps of English soldiers and officers to fight for the liberty of the Spanish colonies.[10] At the same time, dozens of British merchants supplied the insurgents with arms while London bankers provided the patriot armies with short-term credits to pay for muskets, cannon and warships.

This ambivalent policy was brought to an end by developments in the critical year of 1823. The decisive turning-point came with the invasion of Spain by over 100,00 French troops, who proceeded to dismantle the Liberal government in Madrid and to reestablish the absolute authority of Ferdinand VII. Liberal opinion in England interpreted the French intervention as a blatant example of the growing power of the Holy Alliance on the European continent. On the other hand, the invasion was also seen as affording an exceptional opportunity to consolidate British influence in the Americas. As the *Annual Register* noted: “The inglorious triumph of the French beyond the Pyrenees, though productive of present mischief and pregnant with the seeds of much future disorder, has not, however, been entirely without its benefits to the world. It has made the separation between Spain and her late colonies still more complete”[11]

Shortly thereafter, the new British Foreign Secretary, George Canning, a politician of liberal temperament, began to draft proposals for the formal recognition of the South American states. The urgency to act was accentuated by fears that rival powers might outpace the British. Already in mid-1822 the United States government had recognized Colombian independence and soon proceeded to draft and ratify the Monroe Doctrine (December, 1823). Canning moved swiftly and in October, 1823, named British consuls for Buenos Aires, Montevideo, Chile and Peru, instructing them to initiate negotiations aimed at ratifying commercial treaties with the infant republics. Not surprisingly, such

[8] Letter from Bolivar to Sucre dated May 26, 1823, in Ibid. p.18.
[9] For a classic analysis see Charles Webster, *Britain and the Independence of Latin America, 1812-1830*, 2 vols. (Oxford, 1938).
[10] For an interesting analysis of the British military contribubtion to Latin American independence see Eric Lambert, "Los legionarios britanicos", in Alberich, Lynch et al., *Bello y Londres* (Caracas, 1980), I, 355-376.
[11] *The Annual Register for the Year 1823* (London, 1823), p. iv.

measures raised the hopes of English merchants and bankers already engaged in promoting trade and loans throughout the vast subcontinent.[12]

BRITISH MERCHANTS AND LATIN AMERICAN TRADE

By sending consuls to the Latin American ports, the British government was "de facto" extending diplomatic recognition to the new states. In exchange, Canning pressured the leaders of the various nations of the region to ratify accords which would stimulate greater mercantile exchange with Great Britain. The Latin American political elites proved willing to reciprocate for a variety of reasons.

Virtually all the new Latin American leaders--Rivadavia in Argentina, O'Higgins in Chile, Bolivar in Colombia, Iturbide in Mexico--adopted free trade policies because they believed that rising trade would produce greater revenues. In this they were not mistaken for after independence there was a phenomenal rise in foreign commerce.

As a result, the majority of Latin American governments came to rely on import/export taxes as the main source of revenue. In most nations the colonial tax structures were radically restructured. The old taxes on mining production and the traditional tribute paid by the Indian communities were abolished. There were exceptions of course; in Peru and Bolivia the Indian tax continued to be of importance for several more decades. But, generally speaking, Latin American administrations had no alternative but to develop new revenue sources. The most feasible proved to be customs duties not only because they were easily collected but also because they were the least likely to provoke popular protest. In the case of Mexico, for instance, customs revenues brought approximately 50% of total government income during the 1820's. In Argentina their contribution was even more remarkable, reaching almost 80% of total public income during the same decade.[13]

A second and important factor which contributed to the establishment of free-trade policies was of a military character. The armies and navies of the new states required a large volume of supplies in the way of arms, munitions and warships, most of which came

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[12] *The Times* underlined the economic significance of the new policy stating: "The announcement of the new relations to spring up between Great Britain and Spanish America has been hailed by the manufacturing and commercial interest of this country with such a burst of satisfaction that Mr. Canning will have to exert himself to follow up a similar national policy whenever occasion may offer." Cited in *The American Monitor* (London, 1824), I, 513. For details see the classic volume by Humphreys, *British Consular Reports on the Trade and Politics of Latin America, 1824-1826* (London, 1940).

[13] On tax reforms and, in particular, the abolition of Indian tribute in this period, see Nicolas Sanchez Albornoz, "Tributo abolido, tributo repuesto. Invariantes socioecónomicos en la época republicana," in the book by the same author *Indios y tributos en el Alto Perú* (Lima, 1978), pp.187-194. For data on Mexican government revenue see Barbara Tenenbaum, The Politics of Penury: Debts and Taxes in Mexico, 1821-1856 (Albuquerque, University of New Mexico Press, 1986), chap.1, chart 3-5, pp. 24-27. For information on the income of the government of Buenos Aires in the 1820's see Tulio Halperín Donghi, *Guerra y finanzas en los orígenes del estado argentino*, *1791-1850* (Buenos Aires, 1983), pp.185-213.

from abroad. This demand naturally implied lucrative contracts for the foreign suppliers who won the bids on such business.[14]

Finally, there was a financial objective to be reached by means of the commercial treaties. The recognition of the independent status of the Latin American nations would allow them to participate freely and with confidence in transactions on the London money market since bankers and investors would now be assured of the legal and valid status of the external bonds which might be sold by the governments of Chile, Peru, Mexico or any of the other states of the region.

The adoption of free trade policies by the Latin American states provided golden opportunities to hundreds of British merchant firms.[15] These firms not only came to dominate an important part of the import/export business of the new republics but also soon came to play a critical role in stimulating investments in local gold and silver mines and in the negotiation of government loans. The enthusiasm of many traders, nonetheless, was also accompanied by imprudence as well as ignorance of the clients and markets they were serving. As D.C.M. Platt notes, many merchants had only the vaguest notion of what products would sell in the Latin American market:

> The shops and warehouses of Fleet Street and Cheapside had been ransacked for exports, the consideration being not what should be sent but how soon it could arrive. The wool blankets, warming pans and skates which reached tropical Brazil ultimately found employment, the blankets as screens for gold washings, the warming pans [with their lids knocked off] as skimmers for the boiling sugar in the sugar "engehos", the skates as a source of well-tempered steel for knives and as latches for doors in the Brazilian interior.[16]

Furthermore, by overstocking local warehouses with imported commodities, competing merchants created sudden gluts which caused abrupt declines in prices. The effects of this unbridled mercantile rivalry would later come home to roost during the crisis of 1825/26.

More reliable profits were gained from supplying war materiel to the armies of the patriot forces. In the case of Chile, for example, foreign traders developed a flourishing business by selling warships to the newly-established national navy. General William Miller, one of the most distinguished officers of both San Martin and Bolivar, noted in his memoirs that the Chilean government and people spared no effort to acquire 10 warships, 2 schooners and 7 gunboats from both the United States and Great Britain. The military equipment supplied, however, was often of low quality and the profits secured by unscrupulous foreign traders were exorbitant. As Miller observed:

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[14] During 1818-1824 Birmingham became the principal military supplier to Latin America. According to Lambert, "Birmingham had a field day disposing of surplus arms and uniforms from the Napoleonic Wars." Lambert, "Los legionarios," p.364.

[15] British exports to Latin America increased from an annual average of L 3.9 million in 1814-20 to 5.5 million in 1821-25. D. Porter, *The Progress of the Nation* (London, 1912, rev. ed.), p.479.

[16] D. C. M. Platt, *Latin America and British Trade, 1806-1914* (London, 1972), p.23.

The same ruinous charges were made for arms and stores. Muskets were sometimes bought at twenty dollars each, and seldom or never at less than ten. A corresponding price was given for military accoutrements, many of which had already been condemned as unserviceable at the Tower of London, and bought up at a low price, for the supply of the patriots or the royalists, whichever the consignees might consider the most eligible customers.[17]

To be sure, not all traders benefited equally from the war and postwar boom, yet the number of mercantile firms opening offices and warehouses in the key points of entry during the early 1820's was extraordinary. In Brazil sixty British commercial houses operated out of Rio de Janeiro, twenty more in Bahia and sixteen in Pernambuco. Another forty firms were in business at Buenos Aires, ten at Montevideo, twenty at Lima and fourteen at Mexico City and Veracruz.[18]

Generally speaking, the most successful houses were those able to build up a broad network of commercial and political alliances, both locally and abroad. The importance of such networks can be illustrated by the example of the Parish Robertson brothers who had begun a remarkable trading career at Buenos Aires in 1807 at the time of the British occupation of the port. For several years they were active in Asuncion, Paraguay and then later at the Argentine river port of Corrientes, trading in hides, yerba maté and tobacco. By 1817, having accumulated a considerable fortune, these enterprising merchants decided to expand operations further; they established a commercial house at Buenos Aires and simultaneously opened an agency in Liverpool, England.[19]

During the 1820's the Parish Robertson's combined trade with more ambitious financial transactions. They participated in the issue of foreign loans for the governments of both Buenos Aires and Peru, they promoted mining companies in western Argentina and in the highlands of Bolivia and they established ranching and colonization companies in the River Plate. Such a variety of transactions placed them in a special category among Anglo/Argentine merchants. The scope of their activities reflected the advantages of possessing special relationships with leading mercantile and banking firms in Great Britain and with political leaders in Latin America. Other trading houses operating from Buenos Aires, such as those of Thomas Armstrong, Thomas Gowland or James Britain, also shipped large volumes of goods, but the range of their business was more limited and their access to foreign credit restricted.[20]

Throughout Latin America a similar pattern emerged. A select number of wealthy and well-connected merchant companies stood out among the rest and, as a result, were best placed to secure war supply contracts as well as to serve governments as agents for

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[17] Miller, *Memoirs*, p.258.

[18] Platt, *Latin America*, p.42.

[19] For information on the Parish Robertson's see John and William Parish Robertson, *Letters on South America*, 3 vols. (London, 1843); and R. A. Humphreys, "British Merchants and South American Independence," in the volume of essays by the same author titled *Tradition and Revolt in Latin America* (London, 1972), pp.113-117.

[20] For information on the activities of British merchants in Argentina see Vera Reber, *British Merchant Houses in Buenos Aires,1810-1880* (Cambridge, Mass., 1979); also consult H. Ferns, *Britain and Argentina in the Nineteenth Century* (Oxford, l960), chaps.3-5.

the negotiation of foreign loans. In Colombia and Venezuela two houses were preeminent: M. W. Hylsops and their rivals Herring, Powles, Graham & Company. The Hylsops had established themselves shortly after the turn of the century at Kingston, Jamaica. They worked in tandem with their cousins' firm, W. and A. Maxwell & Company of Liverpool; the Maxwells exported butter, soap, earthenware, hams and cheese to the Jamaica agency in exchange for tropical commodities such as cocoa, sugar, pimento and indigo. After 1815 the Hylsops extended their activities to the South American mainland. Maxwell Hylsop became a friend of the liberator, Bolivar, and shortly thereafter was named agent for the Colombian government and contracted to supply arms. Branches of the company were opened at Cartagena and Maracaibo and carried on a flourishing trade, introducing not only war materiel but also British hardware, textiles and machinery.[21] The Hylsops's chief rivals, the house of Herring, Powles and Graham also played a major role in the arms trade of Gran Colombia and thence moved into other economic ventures in northern South America. In the early 1820's this merchant firm secured grants of land for mining companies and colonization schemes, arranged the first foreign loan for the Colombian government and maintained weekly newspapers at Bogotá and Caracas to support British interests.[22]

The critical importance of maintaining broadly-based commercial and political ties is also illustrated by the experience of leading British firms operating in Chile, Peru and Mexico. The prestigious house of Anthony Gibbs and Sons, for instance, which had long been involved in the Anglo/Spanish trade, extended its chain of offices to include two new branches at Lima, Peru and at Valparaiso, Chile in the 1820's.[23] Subsequently they would become one of the most influential and prosperous foreign firms engaged in the Pacific trade of South America. Somewhat less solid but equally far-ranging were the operations of Robert Staples & Company, with agents at Buenos Aires, Lima and Mexico City. Staples had begun his career in the River Plate as spokesman for the British mercantile community and as unofficial representative of the Foreign Office.[24] He later moved further a field and found a fertile terrain for his financial talents in Mexico in the early 1820's; Staples soon gained notoriety as one of the largest creditors of the Mexican government. By then he had associated himself with the London merchant banker, Thomas Kinder, and both were soon active in the promotion of new enterprises, particularly Mexican and Peruvian silver enterprises.

In summary, independence opened up new and dynamic channels of Latin American trade and rapidly tied the region into a web of international mercantile and credit transactions controlled from London, Glasgow and Liverpool. [See Figure I.] Nonetheless, the commercial boom also had a series of negative effects which were not contemplated by the ideologists of free trade. The massive imports of foreign textiles as well as of military materiel obliged merchants and Latin American government officials to ransack city and countryside in search of metallic currency with which to pay for these supplies.

[21] On the Hylsops see Humphreys, *Tradition and Revolt*, pp.117-121.
[22] On Herring, Powles and Graham, see Jenks, *Migration*, pp.46-47.
[23] "In 1826 the house (of Gibbs) had 86 clients in Spain, 26 elsewhere in Europe and 31 in the Americas." Robert Greenhill, "Merchants and the Latin American Trades: an Introduction," in *Business Imperialism, An Enquiry based upon British Experience in Latin America*, D.C.M. Platt, ed., (Oxford, 1977), p.162.
[24] On the early career of Staples see Ferns, *Britain and Argentina*, pp. 88-92.

Between 1819 and 1825, for example, Charles Ricketts, British consul at Lima, reported that British men-of-war had carried off 27 million pesos worth of gold and silver from Peru.[25] Precise statistics on bullion exports from other Latin American countries are not known but the net effect was the same everywhere, leading to a rapid depletion of capital stocks in virtually all regions. Thus, while the surge in trade brought riches to local and foreign merchants, it caused a severe drain of metallic currency as well as of precious metals held by other sectors of the propertied classes, by the church and by the state treasuries.

The Latin American elites therefore found that trade expansion was not sufficient to revitalize the economies of their new nations. The drain of capital caused by foreign trade could only be compensated by increasing local production of silver and gold. The regeneration of the silver mines, however, required both political/fiscal reforms and a large amount of new investment. Once again, Latin American politicians were obliged to look to Great Britain for assistance. British capitalists played a critical role in this process, promoting a wave of investment in silver mines throughout the subcontinent: in the Peruvian Andes, in the Brazilian highlands and in the sierras of central and northern Mexico. The silver mining boom reinforced the image of Latin American prosperity and, as we shall later see, went hand in hand with the loan boom.

THE LURE OF SILVER

The Latin American silver mining frenzy of the early 1820's was initiated by a remarkably small group of individuals. They included the partners of a score of merchant houses (several of which we have already mentioned), a handful of London bankers and a dozen Latin American politicians and diplomats. By virtue of their key position at the crossroads of international politics, trade and finance, these individuals were to play a dominant role in unleashing forces that shortly culminated in an extraordinary wave of financial speculation on the London Stock Exchange. Paradoxically, the most efficacious instrument at their disposal was not raw power, be it political or economic, but a persuasive psychological tool: the myth of El dorado.

For centuries the legendary gold and silver mines of Spanish America had beguilded the imagination of the world and had aroused the envy of the European rivals of the Spanish Crown. But now, as the great empire disintegrated, the once impenetrable gates to the mineral treasures of this vast, exotic continent appeared to open to foreign participation.

Despite the promising prospects--which were described in panegyric terms by the abundant contemporary pamphlet literature--there were serious obstacles. Silver production had declined precipitously with the onset of the wars of independence. In many cases mine tunnels and shafts had been flooded owing to the breakdown of drainage systems. The work force dwindled as large numbers of miners abandoned their homes to march off to war. At the same time, the collapse of the colonial credit system produced severe capital shortages, making it impossible to maintain the mining establishments in

[25] Humphreys, *British Consular Reports*, p.195.

proper operating conditions.[26] As the wars came to an end, some improvements were undertaken. Merchants and mine owners initiated drainage operations in a few silver districts and production there slowly recovered. Yet capital remained scarce. Without additional investment in new machinery there could be little hope of achieving yields equivalent to those of the late colonial era.

To attract foreign capital to the mines the political elites of most Latin American states introduced a series of fiscal reforms, eliminating the traditionally heavy taxes on silver and gold production. Furthermore, leading politicians personally took a stake in the early British mining companies. In late 1823 the head of the Argentine government, Rivadavia, approved legislation authorizing the formation of companies to exploit the nation's mineral resources. He wrote to his financial agents in London, the firm of Hullett Brothers, urging them to take advantage of the opportunity. He added that he would be interested in investing in such ventures. Similarly, the Foreign Secretary of the Mexican government, Lucas Alaman, accepted the honorary though influential position as chairman of the board of directors of the United Mexican Mining Association, the first of seven British mining companies established in Mexico in the brief span of one year. Not to be outdone, the diplomatic representatives of Chile, Colombia and Peru - Mariano Egana, Jose Maria Hurtado and Antonio de Irisarri, respectively, - also assumed posts as the heads of new enterprises formed to develop the mineral wealth of their lands.[27]

Latin Americans were not the only politicians involved in this fast-paced mining sweepstakes. The London promoters of these companies spared no efforts to enlist members of the British Parliament as directors. One of the largest firms launched in 1824, the New Brazilian Mining Company, placed eight M.P.'s on its twelve-member board of directors.[28] With such tangible political support, investors were unlikely to question the solidity or prospects of the new company at hand. And in order to convince those still undecided, eloquent pamphleteers, such as the young Benjamin Disraeli, were hired to

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[26] The best description of the mines and the mining crisis is found in the monumental work by George Ward, *Mexico in 1827*, 2 vols. (London, 1828), chaps.4-6; there is an excellent Spanish translation of this book published by Fondo de Cultura Economica (Mexico, 1981). For a brief but incisive discussion of the mining collapse in the years 1810-20 see Tulio Halperin Donghi, *The Aftermath of Revolution in Latin America* (New York, 1973), trans. Josephine de Bunsen, pp.61-64, 71-75.

[27] Hurtado was head of the Colombian Mining Association, Egana of the Chilean Mining Association and Irisarri of the Guatemala Mining Company and of the Potosi, La Paz and Peruvian Mining Association. Latin Americans were on the boards of at least ten of the mining companies. For additional details see Claudio Veliz, "Egana, Lambert and the Chilean Mining Association of 1825," *HAHR*, 55 (1975), pp.637-663; Robert Randall, *Real del Monte. A British Mining Venture in Mexico* (Austin, Texas, 1972); J. Fred Rippy, *British Investments in Latin America, 1822-1949* (Minneapolis, 1959), chap.2; R. A. Humphreys, *Liberation in South America: the Career of James Paroissien* (London, 1952), pp.122 ff. Contemporary sources of information on the mining companies are Henry English, *A Complete View of the Joint-Stock Companies Formed during the Years 1824 and 1825* (London, 1827), and J. Secretan, *Epitome of the Various Foreign Mining Companies* (London, 1824).

[28] According to Rippy, members of the British Parliament were on the boards of directors of 19 of the Latin American silver and gold mining companies. Rippy, *British Investments*, p.24. For a list of the directors of the New Brazilian Company see *The American Monitor* (1824), I, 512.

prepare detailed and tantalizing reports on the fabulous profits to be earned on the American mining projects.[29]

Contemporaries were struck by the intensity of the monetary passion which broke loose among the English propertied classes as a result of the silver mining speculation. The *Annual Register* of 1824 described the madness on the stock market:

All the gambling propensities of human nature were constantly solicited into action: and crowds of individuals of every description - the credulous and the suspicious - the crafty and the bold - the raw and the experienced - the intelligent and the ignorant - princes, nobles, placemen, patriots, lawyers, physicians, divines, philosophers, poets, intermingled with women of all ranks and degrees - spinsters, wives and widows - hastened to venture some portion of their property in schemes of which scarcely any thing was known except the name.[30]

By mid-1825, twenty-six different Latin American mining companies had been registered on the Royal Exchange, their shares selling for the most part at extraordinary premiums.[31] Seven companies were organized for Mexico; four for Brazil; three each for Peru, Chile and Colombia; two for Argentina; and one each for Bolivia, the United Provinces of Central America and Haiti.

The authorized capital of these firms surpassed 24 million pounds, but in practice barely three million sterling of their stock was paid in by subscribers. Thus, in spite of the initial enthusiasm, the new associations actually had rather scarce resources to work with. In most cases the London managers used this small pool of funds to hire mining engineers from England, France and Germany to carry out on-site surveys of the gold and silver fields to which the companies intended to lay stake. These experts, such as Sir Francis Head, captain Joseph Andrews, Robert Stephenson, Charles Lambert, general James Paroissien and James Vetch prepared detailed reports on the mines they had inspected. In several instances they also published personal accounts which are still among the most useful and colourful sources of information on the Latin American societies during the post-independence period.[32]

The initial exploration of the mines offered attractive prospects. But, as later became painfully evident, the success of the numerous silver companies depended less upon the support of influential politicians or the technical expertise of engineers than upon

[29] Disraeli apparently was himself engaged in speculation in the silver mine stocks. He was the anonymous author of the 135 page tract titled "An Enquiry into the Plans, Progress and Policy of the American Mining Companies" (London, 1825). See Véliz, "Egaña," p. 639.
[30] *Annual Register*, 1824, p. 3.
[31] According to Jenks, *Migration*, p. 54, the Real del Monte stock rose from a price of 70 to 1,200 in a matter of months.
[32] Among the most accounts are Francis B. Head, *Rough Notes of a Trip across the Pampas* (London, 1826); Joseph Andrews, *Journey from Buenos Aires through the Provinces of Cordova*. *Tucuman and Salta to Potosi*, 2 vols. (London, 1827); and John Miers, *Travels in Chile and La Plata* (London, 1826). On Robert Stephenson, consult J. C. Jeaffreson, *Life of Robert Stephenson*, vol. 1 (London, 1864), chaps. 5-6. On Paroissien, see Humpreys, *Liberation*, pp. 140-141 and passim. On Vetch, see Randall, *Real del Monte*, pp. 51-52 and passim.

the objectives of the wealthy merchants and bankers who were the architects of the mining mania of 1824/25. These money capitalists organized the joint-stock companies and furnished the original funds required to float them. Nonetheless, as financial promoters their objectives were not limited to the expectation of eventually recovering their investments from mines which would take several years to achieve high levels of production. They were just as anxious to recoup their money quickly by taking advantage of the bull market on the stock exchange, selling off their silver mining stocks at the highest prices possible.

The speculative and risky character of the early mining boom explains why only a handful of London firms dominated the market for the shares in the new Latin American companies. The principal houses dealing in these securities consisted of a group of aggressive mercantile and financial firms involved in Latin American trade, several of which we have already mentioned. In the case of the Rio de la Plata Mining Association (founded in 1824) the chief promoters were Hullett Brothers, a concern engaged in Argentine and Chilean commerce. Similarly, the rival Famatina Silver Company--which had claims to several districts in the province of La Rioja--was established by a group of Anglo/Argentine merchants including the ubiquitous Parish Robertson brothers and the firm of Robert Staples & Company, both working jointly with the London financier, Thomas Kinder. This group also had interests in the Pasco-Peruvian Mining Company and, at the same time, Kinder and Staples served as directors of the Real del Monte Company in Mexico, formerly the property of the enormously wealthy Counts of Regla.[33]

In Colombia and Venezuela three mining firms were established in 1824/25 by the previously mentioned merchant houses of Herring, Graham and Powles and M. & W. Hylsops. The former were more active; they hired the young engineer, Robert Stephenson, to take charge of its mines and, as early as 1825, Stephenson drew up blueprints for a railway from Caracas to the coast.[34]

Two additional London merchant banking firms immersed in the silver business were those of Barclay, Herring Richardson & Company and B. A. Goldschmidt & Company. The former became the main backers of the Chilean Mining Association and supplied loans to the Chilean, Mexican and Colombian governments.[35] The Goldschmidts, well-known in mercantile and financial circles throughout Northern Europe, became

[33] On the Real del Monte mine in Mexico, see the eyewitness report by Ward, *Mexico in 1827*, chap. 5, sec. 5. On the Argentine mining companies, see Hugo Raúl Galmarini, *Negocios y política en la época de Rivadavia: Braulio Costa y la burguesía comercial porteña, 1820-1830* (Buenos Aires, 1974), chap. 5; and Ferns, *Britain and Argentina*, pp. 134-135.

[34] The trading firm of Herring, Powles & Graham (in which T. Richardson, a backer of Overend, Gurney & Co., was a silent partner) became involved in numerous additional projects in the Caribbean region and even projected a canal across Nicaragua. For comments, see Jenks, *Migration*, pp. 55-56.

[35] The firm of Barclay, Herring, Richardson & Co. of Winchester House, Broad Street, London, apparently had no links with the more famous Barclay family of Birmingham, which founded and ran the powerful commercial bank now known as Barclay´s Bank, but they were linked to the firm of Herring, Powles & Graham through Charles Herring, one of their chief partners. On their role in Chilean mining and short-term loans, see Véliz, "Egaña," p. 649. Their role in Mexican and Colombian loans is detailed in Jaime Rodríguez O., *El nacimiento de Hispanoamérica: Vicente Rocafuerte y el hispanoamericanismo, 1808-1832* (México, 1980), chap. 5.

progressively involved in Latin American trade and in mining speculation; they promoted two Mexican silver mining enterprises, at Tlapujahua and at Real del Catorce, and the larger Colombian Mining Association.[36]

These audacious entrepreneurs, dedicated to peddling silver stocks, combined their interests in the transatlantic trade with financial ventures of increasing magnitude and profitability. Their great opportunity came with the London bull market of 1824/25. And it was neither strange nor surprising that this small circle of traders, bankers and brokers, who generously plied the stock exchange with shares of the silver mining companies should also have been dedicated to the much more ambitious and complex business of organizing foreign loans for the governments of the Latin American nations.

LATIN AMERICAN GOVERNMENTS AND THE LOAN BOOM

While investments in silver mines stimulated economic activity in some regions they did not solve the grave financial problems of the new-born Latin American states. The proceeds from the mines went into the pockets of private capitalists not to the government. The fundamental dilemma of the finance ministers therefore continued to be fiscal: rising expenditures rapidly outstripped income and generated large deficits. Moroever, as has already been suggested, the tax reforms of the 1820's produced contradictory results. The elimination of many old taxes, such as the important "quinto real", levied on the mines, aggravated the fiscal crisis by doing away with major sources of state income. The introduction of new taxes on imports and exports compensated in part, but were not sufficient to balance budgets. Inevitably, government officials were obliged to seek credit to cover their deficits, first in the form of forced loans exacted from local merchants, later in the shape of loans contracted with foreign bankers.[37]

That the Latin American governments should have looked abroad for financial assistance is not surprising. A decade and more of war and revolution had disrupted and weakened local networks of credit and loanable capital thus became scarce and expensive. On the other hand, abundant sources of relatively cheap capital were available outside Latin America as had been demonstrated by the ability of the silver mining companies to capital on the London Stock Exchange.

Latin American finance ministers were quick to learn from this experience and soon sent agents across the Atlantic to solicit long-term credits from European bankers. Nonetheless, the success they had in selling their bonds must be regarded as truly

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[36] According to Gille, Goldschmidts was one of the important merchant banking firms of London in the early 1820´s. It maintained widespread connections with commercial houses in Paris and in northern Germany. See Bertrand Gille, *Historie de la Maison Rothschild* (Geneva, 1965), 1: 159-160. Data on Goldschmidts´ investments in Gran Colombia is in David Bushnell, *The Santander Regime in Gran Colombia, 1819-1827* (Newark, Del., 1954), chaps. 7-8.

[37] There are relatively few historical studies of the finances of Latin American governments in the period immediately following independence. The outstanding published works are Miron Burgin, *The Economic of Argentine Federalism, 1820-1852* (New York, 1946); Halperín, *Guerra y finanzas*; and Bushell, *Santander Regime*, chaps. 6-8.

remarkable. Between 1822 and 1825 loans for the Latin American states absorbed the greater part of the foreign government securities sold on the London Stock Exchange. This was no mean feat, for it should be recalled that before 1822 almost all foreign loans at London had been destined for, and guaranteed by, one or another European monarchy or princedom. The Mexican, Argentine, Peruvian and Colombian loans, in contrast, were among the first to be supplied to nations outside of Europe. Equally significant, they were among the first to be granted to republics rather than monarchies.[38]

But what were the specific objectives of the Latin American loans, how were they negotiated, and who benefited from them ? Politicians, diplomats, unofficial agents, merchants, bankers and investors, all found themselves engaged in this complex financial drama which had its axis in the Royal Exchange. For each the loans had a different meaning and a different objective. The complex and contradictory web of political and financial forces, personalities and strategies suggests the importance of distinguishing between the distinct role that each of the principal actors was destined to play. It appears logical to begin with the political elites of the Latin American countries since they not only provided initial authorization for the loans but also were responsible for the spending of the funds as well as for supervising repayment.

Traditional historical interpretation suggests that at best Latin American political leaders of the 1820's had only vague notions of the objectives for which they contracted foreign loans and, at worst, were simply dupes of the London bankers. Although not wholly erroneous, such a view is misleading on several counts. To begin with, it should be stressed that the contemporary generation of heads of state in the new nations--Bolivar, San Martin, O'Higgins, Rivadavia, Santander and Sucre, among others--were not only renowned military strategists and political brokers but also imaginative administrative reformers who drafted constitutions, organized parliamentary bodies, built armies and navies and transformed the fiscal machinery of their states. In other words, they were practical men aware of the financial basis of political and military power. To consolidate both government and army they considered foreign loans indispensable.

The specific circumstances which led to the authorization and negotiation of the loans varied substantially in each case. It may prove useful therefore to select one particularly important case--that of Gran Colombia--which can serve as an exemplar of the complexity of contemporary loan politics. We shall begin with a comment on the historical origins of Gran Colombia and then proceed to an analysis of the financial situation of the new government in the early 1820's.

The formation of the government of Gran Colombia—which included the modern-day nations of Venezuela, Colombia and Ecuador-- was a complex process and one central to the entire independence movement in Spanish South America. The first revolutionary outbreaks had taken place in Venezuela in 1811. In later years insurgency spread to Colombia and by 1819 the Spanish troops in both states had been defeated, although not completely eliminated. It was at this time that Bolivar began to carry out his

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[38] On the foreign loans issued at London between 1793 and 1821, see “Loans Contracted on Account of Great Britain in Each Year since 1793,” in *Parliamentary Papers* (1822), vol. 20, no. 145.

plan to create a great new state to be called Gran Colombia. To do so, however, it was essential not only to convoke elections for a national congress, ratify a new constitution and establish a series of new governmental institutions--ministries of defence, foreign affairs, finance and interior--it was also indispensable to reform the colonial tax system. For, as in all the Latin American revolutions, one of the principal popular demands was the elimination of old and much-hated taxes.

At the Congress of Cucuta (1821) the representatives of Venezuela and Colombia debated and approved a great many fundamental laws, including several major fiscal reforms. The taxes on internal trade (*alcabalas*), the tribute paid by the Indian communities, and the state alcohol monopoly were abolished. At the same time, several new taxes were introduced, such as the property tax (*contribución directa*), and others expanded, such as the customs duties (*aduanas*). The latter became the most important source of government revenue after 1821, but it should also be emphasized that several important colonial income sources continued to be operative: the tobacco and salt monopolies, the mints, the tithes and the stamp tax. As a result, from a strictly fiscal point of view, the new state of Gran Colombia was actually in a better position than the viceregal government had ever been.[39]

While the income of the government of Gran Colombia appeared to be substantial on paper, there were several factors which made it impossible to avoid deficits. The first was the misappropriation of funds by high and low-ranking civilian and military officials. In his personal correspondence Simon Bolivar did not tire of insisting that the strictest measures should be implemented to reduce such practices.[40] But this was easier said than done. When most public employees as well as the troops and officers of the revolutionary armies were paid in devalued scrip, there was little likelihood that local state treasuries would remain untouched. Soldiers on the march had no qualms about ransacking local customs offices, plundering the coffers of the tobacco monopoly, forcing priests to deliver the silver ornaments of their churches, or expropriating horses, mules and cattle from large or small ranches.[41] The fiscal situation was aggravated, moreover, by the enormous contraband carried on by local and foreign merchants, who assiduously avoided the customs offices. As a result, the finance ministers of Gran Colombia rarely saw more than a fraction of what might be presumed to be the regular income of the state.

Apart from insufficient revenues it is necessary to underline the fact that there were structural reasons which made it impossible to balance budgets in the early 1820's. The most important was the enormous growth in military expenses. The maintenance of the armed forces required abundant financial resources. Until 1825 the Colombian army

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[39] Bushnell, *Santander Regime*, chap. 7.

[40] Bolívar wrote to the president of the Peruvian government council on July 22, 1825: “The greater part of the agents of the government are robbing its life-blood (the customs revenues) and this should be proclaimed in all the public papers and everywhere” (Simón Bolívar, *Doctrina del libertador*, ed. Manuel Pérez Vila (Caracas, 1979), p. 204.

[41] Bolívar explicitly commanded his fellow officers to collect funds in these diverse ways, as a review of his letters, many of them published by O´Leary, will confirm. An interesting but biased study of the finances of the independence wars could be constructed simply on the basis of the personal correspondence and memoirs of the principal officers of the liberation armies.

consisted of approximately 25,000 troops permanently on duty, a portion of them fighting in Ecuador, Peru and Bolivia.[42] A large number were cavalry--the famous "lanceros"--and their sustenance was more expensive than that of the regular infantry. In addition, Bolivar and Santander were intent upon creating a small but professional navy in order to impede Spanish blockades or full-scale invasions.

Some of the expenses involved in sustaining both army and navy could be covered inexpensively: food and animals could be obtained either by force or by means of war contracts with local merchants; salaries could be defrayed (at least in part) with scrip. But there were other critical supplies which had to be paid for with hard cash: muskets, munitions, uniforms, swords, cannon and warships. And most of these had to be imported.

From 1817 Bolivar and the other leaders of Venezuelan and Colombian patriot armies arranged contracts with a considerable number of British merchants to provide military supplies, part of which were paid for in specie and part by means of short-term credits. Delays in discharging these credits soon posed serious problems. In 1819 Bolivar's purchasing agent in London, Lopez Mendez, was thrown into debtor's prison as a result of claims by an irate merchant who demanded payment for the arms he had supplied to the insurgent forces.[43] And by 1820 the Colombian government had accumulated debts valued at over half a million pounds sterling with some 200 British manufacturers and merchants who had advanced arms, uniforms and munitions to the revolutionary army.

In order to overcome these difficulties Bolivar resolved to sound out the London merchant banking community on the possibility of raising a long-term loan with which to liquidate the outstanding debts as well as to raise additional funds for his army. The first major Latin American financial transaction to be negotiated abroad, therefore, was destined to be a war loan.

In June, 1820, the vice-president of Gran Colombia, Francisco Antonio Zea, arrived at London as minister plenipotenciary with powers to settle all existing debts. Although the British Foreign Secretary, Castlereagh, refused to receive him, Zea soon began negotiating with several financial houses. A year and a half later he signed the first Colombian foreign loan with the merchant/banking firm of Herring, Graham and Powles, representatives of a large body of dissatisfied Anglo/Colombian traders. The contractors took the bonds at 80%, a reasonably high price for a government which had not yet obtained diplomatic recognition. These terms were possible because most of the bonds were not sold on the open market but simply transferred to the legion of individual creditors. The two million sterling operation, nonetheless, was subsequently repudiated by the Colombian parliament and the old disputes were renewed in the London law courts.[44]

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[42] For a discussion of Colombian military expenses see Bushnell, *The Santander Regime*, in particular chap.7.

[43] For information on Lopez Mendez's activities see D.A.G. Waddell, "Las relaciones británicas con Venezuela, Nueva Granada y la Gran Colombia, 1810-1829," in Alberich, Lynch, et al., *Bello y Londres*, I, 53-123.

[44] The obstreperous conduct of Zea as well as the intense rivalries that developed between the firm of Herring, Powles and Graham anmd B.A.Goldschmit for the Colombian loans provoked a spate of pamphlet

Criticism of Zea and the 1822 loan continued in the Colombian press and legislature during early 1823. Alternative sources of financing were sought in order to avoid having to depend on foreign credit. The most ambitious measure was the ratification of a 500,000 peso internal loan, but the transaction proved a failure.[45]

By mid-1823, therefore, the Colombian Congress faced a difficult decision: either they requested a new loan and liquidated the accumulated debts abroad or they ran the risk of provoking a suspension of trading relationships with Great Britain and an end to all arms shipments precisely at the moment when Bolivar and Sucre were engaged in the most critical campaigns of the war in Peru. There appeared to be no alternative but to negotiate a second financial credit totalling 4.6 million pounds, one of the largest foreign loans issued in London during the 1820's. [See Table I.]

The bulk of the funds obtained through this second loan were also used for military objectives.[46] A considerable portion (one million pesos) was remitted to Bolivar's army in Peru. An equivalent sum was paid to the Colombian buying agent at London for cancellation of several large short-term debts and for new arms acquisitions. Over one million pesos were sent to the United States to pay for the purchase of twelve coastguard gunboats and two modern and well-armed frigates, the *Colombia* and the *Cundinamarca*. At the same time, local Colombian merchants—many of whom had sold provisions on credit to the army—also benefited; they were now able to exchange a huge stock in script ("vales") and promissory notes for 600,000 pounds sterling.

An additional percentage of the funds went for non-military purposes. A large sum was transferred to the tobacco monopoly, a state enterprise which had been sacked repeatedly by the army. Another 320,000 pesos were used for agricultural loans, albeit mostly for several important landowners who had close links to the government.

In summary, the two foreign loans of Gran Colombia were not merely speculative operations. Of course, the bankers' profits were considerable, as we shall see in the last section of this chapter, but it is important to note that a substantial part of the loan receipts was used for important strategic objectives namely, the prosecution of the wars of independence.

The Peruvian and Chilean governments soon followed the Colombian example, their needs and aims being almost identical. In 1822, under authorization from Bernardo O'Higgins, the president of Chile, the London merchant banking firm of Hullet Brothers sold one million pounds sterling of securities with the ostensible purpose of financing the

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literature in the early 1820's, most of it published at London. Three such works are indexed under "Colombian Loan" in the *General Catalogue of Printed Books of the British Museum* (New York, 1967), vol.5. For additional information see Anonymous, *Colombia, relación geográfica, topográfica, agrícola, comercial y política* (Bogotá, 1974, a Spanish translation of the English edition published in 1822), pp.lxxxiv-ciii.

[45] On the complex negotiations see Bushnell, *The Santander Regime*, chap.8.

[46] Ibid. Additional information on the history of this loan, as well as that of 1822, can be found in Vicente Olarte Camacho, *Resumen histórico sobre la deuda externa de Colombia* (Bogotá, 1914), and in J. Holguín, *Desde cerca: asuntos colombianos* (Paris, 1908), pp.1-103.

Chilean Navy, the main force defending the Pacific coast of South America against the Spanish fleet.[47]

The first Peruvian external bonds were issued in the same year by the firm of Thomas Kinder and sold in two instalments. The money was used to reimburse several dozen British merchants as well as to pay for munitions shipped to Peruvian ports. A second smaller loan issued in 1825 served to pay arrears of wages to troops, including "generous bonuses for those soldiers who had taken part in the final victorious engagement of the war at Ayacucho".[48] Nonetheless, the proceeds were insufficient to cover the considerable debts due to Gran Colombia on account of military aid supplied from 1823. In October, 1825, Bolivar wrote from the city of Potosi to the Peruvian minister of finance, Jose de Larrea, urging him to seek a new solution to the debt problem. He wrote:

As always I am thinking of Peru because of her debts, and I would recommend to the government that it should liquidate its national debt by selling all its mines and common lands, which are immense...The State Council should consider this plan, publish it and inform its agents in England...Colombia has already given as much as she can; and it is this very situation which has made me think of this plan. God save us from the debt and we shall be content.[49]

The news of the success of Gran Colombia, Chile and Peru in raising loans at London spread rapidly throughout Latin America. In 1822 the Mexican government, headed by the flamboyant general and self-appointed emperor, Agustin Iturbide, also opened negotiations with British bankers, although no Mexican bonds were actually sold until 1824 when the loan and silver mining craze billowed. The purpose of the Mexican loans was to stabilize state finances and promote economic development, but military requirements were equally important. Overall, a review of the loan disbursements indicates that 20% of the 2.5 million pounds received by the Mexican authorities was used to liquidate claims of British merchants such as Robert Staples who had provided credits to the government; approximately 15% to finance the state tobacco monopoly; and another 15% to pay for military and naval stores ordered from Great Britain. The remaining funds—nearly 50% of the total--went to meet arrears in the salaries and pensions of government employees the bulk of this sum being used to pay officers and soldiers, for in the mid-1820's the Mexican state was almost synonymous with the army.[50]

The Argentine authorities adopted a markedly different form of loan disbursement. The Buenos Aires government headed by Rivadavia, bore a lighter military burden than its

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[47] For the original text of the Chilean loan contract of 1822 and additional information see *Resumen de la Hacienda Pública de Chile* (Santiago de Chile, 1901).
[48] Quote from W. M. Mathew, "The First Anglo/Peurvian Debt and its Settlement, 1822-1849," *Journal of Latin American Studies*, 2, No.1 (1970), p.83.
[49] Bolívar, *Doctrina del Libertador*, pp.207-208.
[50] For information on the early Mexican loans see Jan Bazant, *Historia de la deuda exterior de México*) (Mexico, 1968) pp.24-40. For complementary details see Reinhard Liehr, "La deuda exterior de México y los merchant bankers británicos, 1821-1860," *Ibero-Amerikanisches Archiv*, N.F.,Jg. 9,H.3/4 (1983),415-439; and Rodríguez O., *El nacimiento*, chap.6.

sister republics and even enjoyed a fiscal surplus. In early 1824 the local parliament authorized a group of wealthy Anglo/Argentine merchants led by Braulio Costa, Felix Castro and William Parish Robertson to negotiate a one million pound loan in London in order to promote public works, including the construction of a modern port at Buenos Aires.[51] The agents signed a contract with the banking house of Baring Brothers and the bonds soon sold briskly. The proceeds, however, were not spent on the projected public works but were invested in the first Argentine bank of the nineteenth-century, the Banco de Buenos Aires. Additional sums bolstered local credit transactions since the foreign securities served to amortize outstanding government debts and to facilitate the issue of new internal bonds. In this fashion the Baring loan of 1824 provided a strong impetus to the development of the early Argentine financial system.[52] Unfortunately, the brief phase of prosperity was cut short by the outbreak of the Argentine-Brazilian war of 1826-28.

Last, but not least, a word should be said about the financial policies of two nations, Brazil and Haiti, which reached independence by different routes than those of their Spanish American brethren. The separation of Brazil from Portugal came peacefully with the proclamation of Don Pedro I (son of the Portuguese monarch) as constitutional emperor of the new Brazilian nation. Two large loans issued in London in 1824 and 1825 had the specific purpose of smoothing the way to Portuguese recognition of Brazilian independence by liquidating debts and providing generous monetary compensation to the former motherland.[53]

Similarly, in the case of the republic of Haiti, the objective of a 30 million franc loan (1.2 million pounds sterling) was to win French recognition of the independence of its former colony in exchange for indemnity payments to the several hundred plantation owners who had abandoned the island after the revolution of 1790's. Negotiations took place in June, 1824 between the Haitian president, Boyer, and the French admiral, Baron Mackau, in the course of which the former capitulated to the demands of the government of Louis XVIII. British merchants were incensed with the terms of the agreement since it called for an increase in import duties on English manufactured goods, placing them at a considerable disadvantage with respect to the French traders. Despite the protests, three Haitian agents set sail for France where they soon reached an agreement with several Paris banking firms for the issue of the bonds.[54]

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[51] According to one historian, "The 1824 loan was an attempt to take advantage of a favourable period on the London money market at a time when the Government of Buenos Aires could not raise money locally at less than 14%. D.C.M.Platt, "Foreign finance in Argentina for the first half-century of independence," *JLAS*, 15, No.1 (1983), 16.

[52] For a detailed analysis of the 1824 loan and its links to programs of financial reform see Samuel Amaral, "El empréstito de Londres de 1824," *Desarrollo económico* 23, No.92 (Buenos Aires, 1984), 559-588.

[53] N.M.Rothschild and Sons led the placement on the 1825 loan. According to the *The London Times*, it was the monarchical character of the Brazilian government which appeared to be the principal reason that induced Rothschilds to participate in the Brazilian loan. For additional information see Gustavo Barroso, *Brasil, colonia de banqueiros: historia dos emprestimos de 1824 a 1934*, 6th ed., (Rio de Janeiro, 1937).

[54] *The Annual Register* (1825), p.146, went so far as to affirm that: "It is impossible to doubt but that Boyer betrayed the trust reposed in him, and that henceforth he must be regarded as a French viceroy, rather than as the head of an independent nation." The 30 million franc loan was intended to be the first instalment on a total indemnity payment of 150 million francs (6 million pounds sterling), a truly fabulous sum for the age. On

In summary, the objectives of the first foreign loans of Latin America were varied because the political and military priorities of the nascent states differed substantially. This suggests that it would be unwise to evaluate all of them with exactly the same criteria. Only a case-by-case study (using the abundant but little-explored materials in the financial archives of each nation) could illustrate with precision whether the money was obtained on reasonable terms, whether it was invested as originally planned and whether repayment resulted inordinately expensive or not. Nonetheless, enough has been said here to suggest that while the loans did place a heavy burden on the respective national treasuries, Latin American leaders used a substantial portion of the foreign funds to further fundamental goals: the consolidation of independence and the construction of new states and armies.

FINANCIAL AGENTS AND BANKERS

Latin American politicians played a critical role in launching the loan boom of the early 1820's. But they were by no means the only actors involved in these complex transatlantic transactions. Diplomats, financial agents, contractors, bankers, brokers and investors all participated at different stages of what can be described as the life-cycle of each loan. Indeed, once authorization for the issue of the foreign bonds had been granted, the loan operation passed from the hands of the politicians into those of a heterogeneous collection of agents who served as intermediaries between the Latin American governments and the European bankers. At this point the loan proposals began to undergo a process of metamorphosis, changing from planks of local economic legislation into instruments of international financial diplomacy and, finally, into complex business transactions. After negotiations were under way, the borrowing government frequently found that it could no longer determine the trajectory of the financial proceedings. A broad range of external factors including the skill and honesty of the agents, the tactics of the bankers and the state of the stock markets could modify the expected results.

The gradual process of amalgamation of public goals and private aims is illustrated by the role of the financial agents. The Latin American envoys sent to Europe had an official mission to fulfil, but in numerous instances they also desired to make a personal profit. It goes without saying that the negotiation of international loans offered considerable opportunities to realize pecuniary gains in the way of fees, shares in bond sales and other mercantile advantages. But who precisely were these intermediaries? To begin with, it should be noted that in the early 1820's the Latin American governments had not yet developed stable diplomatic corps,[55] in some cases the first official representative was a high government functionary sent on a special mission, as was the case of vice-president Zea of Gran Colombia who negotiated the 1822 loan previously mentioned. In other instances, the agent could be a semi-official envoy charged with contacting various

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the Haitian loan see Benoit Joachim, *Les racines du sous-developpement en Haiti* (Port-au-Prince, 1979), p.181; and Pierre Benoit, *Cent cinquante ans du commerce exterieur (1804-1954)* (Port-au-Prince, 1954).

[55] The best case-study of the role of the early Latin American diplomats is found in the biography of Vicente Rocafuerte by Rodriguez O., *El nacimiento*, chaps.5-6.

banking houses. The Chilean leader, O'Higgins, for example, had the misfortune of relying upon the services of a notably unscrupulous individual, Antonio Jose de Irisarri who, after arranging a government loan with Hullet Brothers, used his contacts to further his speculations on the London Stock Exchange, including investments in a remarkable string of silver mining companies.[56]

The head of the Peruvian government in 1822, general San Martin, proved equally hapless in his choice of envoys. He selected two singular adventurers, Juan Garcia del Rio and James Paroissien, to serve as minister plenipotenciaries in London. As Pariossien's biographer notes: "They had been instructed to raise a loan on behalf of Peru, and in England in 1822, nothing could be easier."[57] The contract arranged at the "counting house" of Thomas Kinder in London provided for a loan of 1.2 million pounds sterling. Whether the two agents personally participated in the subsequent intense speculation in Peruvian bonds is not known, but it is established that they simultaneously joined the financier Kinder and his cronies, the merchant Robert Staples and the previously-mentioned Irisarri, in various Bolivian and Peruvian mining ventures.

An even more explicit instance of the private interests of the intermediaries in charge of the loan transactions can be seen in the arrangements made for the Argentine loan of 1824. The intermediaries were a small group of Anglo/Argentine merchants, led by the Parish Robertson brothers. Working together with the prestigious banking firm of Baring Brothers, they netted a profit of £150,000, equivalent to almost 20% of the net proceeds of obtained from the sale of the bonds. Later, they increased their gains by speculating in Argentine internal bonds and by selling bills on Baring Brothers, all business derived from the foreign loan.[58]

A more blatant case of fraud practiced by a loan agent is to be found in the analysis of the activities of Borja Mignoni, a merchant long resident at London, who handled the first Mexican foreign loan issued in 1824. Borja Mignoni established a secret pact with the banking firm of B.A.Goldschmidt & Company with the aim of manipulating the sale of the bonds for personal profit. Together they arranged a contract by which they paid the Mexican government only 50% of the nominal value of the bonds and later sold them off at 80% in the London Stock Exchange.[59]

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[56] "Though Guatemalan by birth, Antonio Jose de Irisarri (1786-1868) was Chile's second envoy to the Courth of Saint James. Following explicit but unsigned instructions drafted by Bernardo O'Higgins, Irisarri proceeded to raise a L 1,000,000 loan through the London firm of Hullett Brothers...When the news reached Chile, the government reacted strongly against it..But it was too late...the Chilean bonds had been selling briskly in the London market for several months. (Veliz, "Egana," pp.637-638).

[57] Humphreys, *Liberation*, p.121. Subsequently, the Parish Robertson brothers assumed the old contract (held by Kinder) and transferred it to the banking firm of Frys and Chapman, which issued £750,000 of Peruvian bonds in 1824 and another £616,000 in 1825.

[58] Argentine historians have devoted much attention to the 1824 Baring loan. See Armando O. Chiapella, *El destino del empréstito Baring* (Buenos Aires, 1975); Ernesto Fitte, *Historia de un empréstito: la emisión de Buenos Aires de 1824* (Buenos Aires, 1962); Juan Carlos Vedoya, *La verdad sobre el Empréstito Baring* (Buenos Aires, 1971), and Amaral, "El empréstito de 1824".

[59] The bonds were initially sold at 58, the lowest quotation of all Latin American bonds issued in the 1820's. After a variety of "expenses" charged by the bankers, the Mexican government received net proceeds equal to only 42.5% of the nominal value of the bonds. See Bazant, *Historia de la deuda*, p.27.

The most outlandish piece of extortion, however, was not carried out by any of the Latin American government agents but by an extraordinary English soldier-of-fortune named Gregor MacGregor. So great was the ignorance of the contemporary British investors with respect to Latin America that it was possible for MacGregor to present himself in London in 1822 as the representative of a fictitious kingdom in Central America called Poyais and to successfully market L 200,000 worth of the spurious bonds of the non-existent state. This Scottish adventurer had formerly been a general in Bolivar's army and later married his niece. Subsequently he had quarrelled with the South American liberator and began to operate as a self-styled privateer in the Caribbean. In 1821 he negotiated a treaty with the Miskito Indians of Nicaragua who ostensibly awarded him the honorary title of "Prince of Poyais". On his return to England, MacGregor began selling land in his non-existent kingdom to gullible Scotch farmers and artisans. At the same time, he proceeded to sell the Poyais bonds. But when news reached London that most of the colonists who had sailed for the Central American paradise had perished on the malaria-ridden coast of Nicaragua, MacGregor was forced to flee England.[60]

Despite scandals like that of the Poyais bonds, the rage to invest in foreign securities continued on the Royal Exchange, reaching a peak in the years 1824/25. By this time, the British and United States governments were in the process of extending diplomatic recognition to the majority of the Latin American states. As a result, the Latin American governments began to send envoys abroad who were men of a different stamp from the earlier financial agents. In the years 1823, 1824 and 1825 there arrived at London a number of distinguished diplomats who were not only well-known intellectual and political figures but also scrupulous guardians of their nation's financial patrimonies. Among them stood out Andres Bello and Jose Maria Hurtado, ambassadors for Colombia, Vicente Rocafuerte and Jose Michelena for Mexico and Mariano Egana for Chile.[61] Not surprisingly it was during their tenure that the loan operations conducted with the London bankers proved most productive for the borrowing nations.

The sale of the Latin American bonds, nonetheless, depended less upon the character of the government agents than upon the stock market cycles and the corresponding strategies adopted by the merchant bankers. The bankers were interested in the loans for three basic reasons. First, they stood to receive substantial commissions by assuming responsibility for the promotion, issue and sale of the bonds. Second, they could play the market by selling the securities as prices rose, buying them back as they fell. Third, they could extend their traditional merchant-banking business by using loan proceeds to finance the export of manufactured goods from Great Britain.[62]

Generally speaking, the bankers had an interest in selling as many bonds as possible since greater sales produced larger commissions. These ranged from 4 to 8% of

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[60] For details see Victor Allan, "The Prince of Poyais," *History Today*, (January, 1952), pp.53-58.
[61] Much information on these diplomats can be found in D. Waddell, "Las relaciones," in Alberich, Lynch, et al., *Bello y Londres*, as well as in other essays in the same volume.
[62] The firm of Barclay, Herring and Richardson, for example, used a part of the proceeds of the 1825 Mexican loan to finance a 1.3 million peso arms shipment for the Mexican army. Liehr, "La deuda exterior," p.426.

the nominal value of the loan, depending upon the contract clause. Such rates were not considered abnormally high in the 1820's because of the considerable risks involved in issuing bonds for foreign states at a time of marked political instability on both sides of the Atlantic. As far as the bankers were concerned, such financial quotas did not represent windfall profits but simply were intended to (generously) cover the risk and cost of promotion. In many instances, however, the rates were blatantly extortionate. B.A.Goldschmidt, for example, cleared over two hundred thousand pounds by charging an 8% commission on the first Mexican loan. Similarly, the firm of Herring Powles and Graham, together with that of Barclay, Herring and Richardson grossed almost half a million pounds on commissions and other charges on the two Colombian loans, an astonishing figure for the age.[63]

But commissions were only one kind of profit derived from the loans. In some cases speculation on price swings of the stock exchange brought equivalent or larger returns. The financial manipulation began as early as 1822, when the first Latin American bonds came on to the market. *The London Times* described the agitation that took place on the Royal Exhange when the first Peruvian loan was offered for sale. The crowd of brokers and investors protested against the contractor, Thomas Kinder, who attempted to fix the price of the securities.

All were indignant at the supposed backwardness of the contractor to take the offers made him; and pressing round him in still greater numbers, he and his agents were forced by the multitude to the opposite corner of the exchange where the Swedish merchants assemble. Here the brokers became so exasperated, being still unable to come to terms with the agents that they forced the whole party off the exchange, out at the north gate, opposite to Bartholomew lane...[64]

The rigging of bond prices was common in the case of the earliest Latin American loans, issued in 1822, but subsequently it tended to diminish. By the time of the bull market of 1824/25 relatively little manipulation was required by the bankers to obtain high quotations on the securities they wished to sell. In the case of the second Mexican loan, which was issued by the Barclay financial house at 86, there was no difficulty in finding buyers: the rival firm of B.A.Goldschmidt immediately subscribed the whole package of three million pounds of bonds and proceeded to unload them among investors at 89 and a fraction.[65]

The demand for Latin American bonds during this short-lived but intense period of speculation was stimulated by the abundance of surplus capital which flowed to the stock

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[63] It is not always possible to make a precise estimate of bankers' profits on bond sales, but there is sufficient published information to make some broad comparisons. On the Argentine loan of 1824 the contractors earned 15% of the nominal value of the bonds. On the Mexican loan of 1824 the profits approached 30%. In contrast the bankers' "spread" on the Brazilian loans of the period was only 3-5% of the nominal value of the securities.

[64] The text, from the *The London Times* is cited in *The Annual Register* (1822), pp.193-194.

[65] Contemporary English journals argued that the demand was closely related to the higher profits to be made on the Latin American loans. "We see that the positive amount of interest from the South American securities is more than double than that which is offered to the English capitalists in continental loans.." (*The American Monitor* (1825), II, part iv, 139. On the specifics of the bidding for the Mexican bonds of 1825 see *The London Times*, February 8, 1825, and Rodriguez O., *El nacimiento*, pp.155-156.

market. But it was also true that the mercantile and banking firms worked hard to create a market for the new securities. They had good reason to do so since they expected to reap benefits not only from the sale of the bonds but also from the positive effects the loans could have upon their extensive mining and mercantile ventures.

A brief review of the firms responsible for issuing the loans underscores the close-knit nature of this key group of cosmopolitan capitalists who played a decisive role in the restructuring of the international economic relations of Latin America in the years immediately following independence.

In the case of Argentina attention has already been drawn to the singular role of the Parish Robertson brothers in the River Plate trade, in the negotiation of the 1824 loan and in mining and agricultural ventures. Their close rapport with San Martin and later with Bolivar allowed them to further extend their activities to Peru where, in 1825, they became contractors for a foreign loan.[66] The success of the Parish Robertson's, in turn, was linked to their alliance with the powerful banking house of Baring Brothers. The latter were initially not enthusiastic about the Latin American ventures, but by 1824 they were not only selling Buenos Aires bonds in London but also taking shares in Mexican mining enterprises and ranching estates.[67]

Like Baring Brothers, the London firm of Hullett Brothers did not limit itself it to operating in one republic. It took responsibility for the Chilean foreign loan of 1822, but was also engaged in trade at Buenos Aires and in mining ventures in western Argentina. Equally diverse were the activities of the less well-known house of Thomas Kinder which sold Peruvian bonds, shares in Bolivian mining companies and stock in Mexican silver companies.

But the real banking bulls who worked the Latin American market most vigorously were the Goldschmidt's, Barclays, Herrings, Richardson's, Powles, and Grahams. While in principle rivals, they tended to collaborate in order to sustain the financial frenzy. The banking company of Barclay, Herring and Richardson issued loans for the governments of Mexico, the Federation of Central America and Gran Colombia, but did not therefore neglect its rousing business in war provisioning and in silver mines. Their rivals, Herring, Powles and Graham marketed Colombian bonds, supplied Bolivar's army with arms and invested in mines in South America. B. A. Goldschmidt, showed equal imagination and daring: they sold Mexican and Gran Colombian bonds on a grand scale during the years 1824 and 1825, financed much Latin American trade and helped launch several silver mining companies.[68]

The degree of monopolization of the Latin American business was striking. The last three merchant banking firms mentioned were directly responsible (in alliance with immediate associates and allies) for the sale of slightly over 60% of the total Latin

[66] According to the British consul at Lima, "In 1823 the house of J. and P. Robertson had eight ships en route for Lima with goods to the value of L 600,000..." Humphreys, *British Consular Reports*, p.116.
[67] On the Barings in Mexico see Liehr, "La deuda exterior," passim.
[68] For precise information see sources previously cited in notes 35,36,44,46.

American government bonds issued between 1822 and 1825. [See Table I.] And they did not hesitate to stoke the market until it had reached the bursting point. More cautious was the attitude of the premier banking firms of London, Baring Brothers and Rothschild and Sons, which limited themselves to taking relatively small commissions on the Argentine and Brazilian loans which they sold.

As later experience demonstrated, prudence in such financial ventures was no liability. Barings and Rothschilds made little money on the loan transactions of the early 1820's, but they survived and eventually became the foremost foreign bankers of Latin America. Other less judicious banking firms reaped greater short-term benefits from the bull market, yet were swallowed up by the financial panic which soon gripped the London money market.

Indeed, as the speculative frenzy subsided in the summer and fall of 1825, and as international trade weakened, the imminence of a major crisis--which threatened to flail the economies of both Great Britain and Latin America--could no longer be ignored. The brief postwar cycle of prosperity faded and with it the first Latin American loan boom drew to a close.

CHAPTER 2

THE CRASH OF 1825

> "Such a state of panic
> had scarcely ever before
> existed among us..."
>
> Alexander Baring (1826)

> "The history of loans in Mexico
> is the same as in all parts:
> a history of usury, of immorality,
> of fortunes suddenly improvised,
> and of certain ruin for the nation..."
>
> Manuel del Rivero [1842]

By the end of the decade of the 1820's the Latin American states were in the grip of a grave debt crisis. The first government to default had been the last to win its independence: Peru suspended payments in April, 1826, barely a year after the battle of Ayacucho. It was followed a few months later by Gran Colombia which, after a decade and a half of war, had exhausted its resources and found itself unable to pay its foreign creditors. The other republics continued to meet their obligations with the British bondholders during a year or two, but by mid-1828 all the Latin American nations had defaulted, with the sole exception of Brazil.

The deterioration of economic conditions was unexpected. The trade boom, the silver mining frenzy and the wave of foreign loans that took place during the early 1820's had activated the Latin American economies and lent credence to the belief that political liberty would bring economic prosperity in its train. Such illusions were soon shattered by economic crisis, social upheaval and the outbreak of civil and regional wars. But domestic conflicts were not alone in unloosing the tempest. External factors also contributed decisively, in particular, the European commercial and banking crisis of 1825/26 which abruptly reduced transatlantic trade and upset the money markets.

The first Latin American debt crisis was thus sparked by a European financial debacle which included the collapse of several important banking houses that had been engaged in the international loan business. As a result, the market for foreign bonds weakened and capital exports dried up. To make things worse, the deficits of the Latin American governments increased after 1825, making it impossible to remit interest and amortization payments. Default was, hence, not only inevitable but also virtually irreversible. During a span of several decades most of the Latin American states did not, and could not, renew payments.

The causes and consequences of the string of Latin American defaults are the subject of this chapter. We shall begin with the external factors which interrupted the cycle of prosperity and provoked a widespread international economic recession.

THE EUROPEAN CRISIS OF 1825/26

The dark signs of an approaching financial storm could be discerned in England by October, 1825. The London stock market was in the doldrums, the prices of basic commodities such as cotton, coffee, sugar, tin and iron had begun a sharp decline, and several country banks were on the verge of collapse.[1] In November the failure of a number of leading cotton trading firms was accompanied by severe credit restrictions on the part of the Bank of England and, by the end of the month, London private banks as well as many provincial commercial houses were calling in their bills in order to shore up their reserves. Some contemporary observers anticipated a crisis, but practically none suspected the severity of the imminent crash.

On December 9 *The Times* reported the failure of Wentworth, Chalmer & Company, a financial firm of London closely linked to several Yorkshire country banks. Four days later the same newspaper announced the collapse of Peter Pole, Thornton & Company "among the most considerable of London" and agent for some 47 country banks. At this point distress turned into panic. Financial men from all points rushed to the capital:

> An extraordinary number of country bankers from all parts of England were in town yesterday, either for the purpose of procuring specie and bank notes as a protection against a run upon them, or to ascertain by their own observations the state of affairs among their London friends. Several of them were to be seen in most of the leading banking houses, anxiously awaiting their turn for an interview with the principals...The gloom within doors, and the events which produced it, were sensibly felt at the Stock Exchange.[2]

During the week that followed another four London banking concerns as well as some sixty country banks collapsed.[3] The drain of notes and specie to the provincial financial houses was prodigious, "post chaises" arriving every hour to Lombard Street, stationing them as near as possible to the doors of the Bank of England in order to obtain the much sought-after gold sovereigns and official bank notes. In the bank's discount

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[1] For statistics of price fluctuations between 1821 and 1826 consult A. Gayer et al., *The Growth and Fluctuation*, I, 174-181.

[2] The full quote is in T. Tooke and W. Newmarch, *A History of Prices and of the State of Circulation from 1792 to 1827* (London, 1827-1858), IV, 336.

[3] On the country banks in 1825 see I. Bowen, "Country Banking, the Note Issues and the Banking Controversy of 1825," *Economic Journal* (Economic History Supplement), (February, 1938), III, No.13, 68-88. For what is still perhaps the best case study of the relations between country bankers and London private bankers in the late 18th and early 19th centuries see R. S. Sayers, *Lloyd's Bank in the History of English Banking* (Oxford, 1957). Also useful is L. S. Presnell, *Country Banking in the Industrial Revolution* (Oxford, 1956).

department clerks worked overtime to meet demands, and even greater activity was to be found at the counters of the bullion office which were "beset by a multitude of persons awaiting to convert bank-notes into sovereigns."[4] So great was the crowd that special scales were set up to weigh the piles of gold coins, thereby avoiding the need to count them out, one by one.

The state of agitation, however, could not last indefinitely. On December 16 *The Times* reported that the run on the London banks had ceased. Communications also came from Nottingham, Leicester, Derby and York banks that the panic was subsiding; at the same time, 700 leading merchants of London met at the Mansion-house to sign a declaration stating their confidence in the underlying solvency of the financial system.[5]

In the months that followed only a few additional banking houses collapsed, yet the overall economic picture did not improve. On the contrary, financial crisis brought in its wake the bankruptcy of hundreds of mercantile and industrial firms which toppled like nine pins one after the other through the winter, spring and summer of 1826. The majority of the banks had saved themselves, but they did so by demanding repayment on all outstanding debts and, as the eminent banker Baring caustically observed, "by screwing almost to destruction every farmer, manufacturer and other customer in the county from whom they could get their money."[6]

As a result, tens of thousand of workers lost their jobs. In January and February riots among weavers at Norwich were put down by the military. The situation turned equally critical for the spinners, weavers and calico printers of the numerous factories of Lancashire. In April the weavers of Blackburn, Preston, Rochdale and Manchester "broke into tumultuous rioting, destroying all the power looms within reach..." In May there were revolts and attacks on factories at Bradford and great distress was reported in Dublin.[7]

What had begun as financial debacle at London soon became a full-scale economic depression. But its repercussions did not limit themselves to England.[8] The crisis soon spread across the Channel, a fact which reflected the delicacy and complexity of ties that linked the leading trading and banking firms in ports and cities throughout Europe.

The collapse of the Berlin banking concern of Benecke and of the Leipzig house of Reichenbach created grave difficulties at Frankfurt, the great German money capital. There the powerful firms of Bethman and Gontar successfully weathered the storm but

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[4] For an excellent description of the activity at the Bank of England see the "money market" article in *The Times*, December 15, 1825.
[5] A long, detailed report on the Mansion house meeting and the merchants assisting is found in *The Times*, December 15 and 16, 1825.
[6] *The Annual Register* (1826), p.12.
[7] Numerous articles on worker discontent during the winter and spring of 1826 can be found in *The Times*. See, for example, articles of February 27 and 28 on unemployment in Manchester and Glasgow.
[8] Most historical works on the 1825/16 crisis focus on England, but there is a need for a detailed study on its international ramifications. Information on some of its the effects in continental Europe can be found in Gille, *Histoire de la Maison Rothschild*, I, 133-157.

that of Herts went bankrupt, apparently because of its close ties to B.A.Goldschmidt's.[9] The upheaval was also felt in Amsterdam, Saint Petersburg and Vienna. In the latter city, the house of Fries--one of the four leading merchant banks of the Austro/Hungarian Empire--collapsed in the spring of 1826; its senior partner, the flamboyant David Parish, threw himself into the Danube in despair.[10] In Italy several financial firms of Bologna and Rome failed in May, 1826. At the same time, the recession struck France.[11] The principal banks of Paris lost large amounts of money, but they managed to pull through. Less fortunate were numerous metallurgical enterprises in northern France, which entered a prolonged phase of depression.

According to most 19th century economists, the crash of 1825/26 constituted the first of the great cyclical crises of modern capitalism. Interestingly enough, for such eminent theorists as Sismondi, Tooke and Juglar, the roots of the economic collapse were to be found essentially in the overtrading and overspeculation caused by the Latin American mining and loan ventures of the early 1820's. Sismondi, for example, argued that the opening up of the Latin American markets had produced a sudden rush on the part of British industrialists to get rid of their surplus production. He added that the trade boom was largely financed by means of the numerous loans issued by English banks for the new governments.[12]

But how important, in fact, was Latin American independence in stimulating an artificial expansion of British industrial production? A review of the commercial statistics indicates that the Latin American economies increased their consumption of British goods from approximately 3 million pounds sterling in 1820/21 (8% of total English exports) to well over 6 million pounds in 1825 (16% of total exports).[13] Yet in spite of this commercial impulse, the *total* annual exports of the British economy barely increased during this period. Commerce with most European nations remained stable and, in some cases, such as France, Germany and Holland, it declined. Thus the new Latin American markets did not provoke overtrading but rather compensated for the fall in trade with continental Europe.

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[9] Ibid. I, 161.

[10] On the extraordinary career of David Parish, who, years earlier, had been involved in the fantastic Mexican silver scheme of 1805 (jointly with the Barings and Hopes), see Bruchey, *Robert Oliver, Merchant of Baltimore, 1783-1819*, chap.6; and Vincent Nolte, *Fifty Years in both Hemispheres or Reminiscences of the Life of a Former Merchant* (New York, 1854), chap.4.

[11] The French government kept a close watch on events transpiring in the London money market. For a review of the effects of the crisis upon French banks and industries see Bertrand Gille, *La Banque et le Credit en France de 1815 a 1848* (Paris, 1959), pp.301-329. On the textile depression in Mulhouse in these years see M. Levy Leboyer, *Les Banques europeennes et l'Industrialisation international dans la premiere Moitie du XIXe siecle* (Paris, 1964), pp.466-473.

[12] J.C.L. Sismondi, *Nouveaux Principes d'Economie Politique* (Paris,1827), II, Livre II, chap.iv. This interpretation was subsequently cited uncritically by numerous economists. Cf. Rosa Luxemburg, *Die Akumulation der Kapitalen* (Dresden, 1912), chap.30. Similar views which overemphasize the importance of Latin American trade and financial transaction in provoking the crisis of 1825 include Tooke, *History*, II, 145-150; Clement Juglar, *Des Crises Commerciales et de leur Retour periodique en France, en Angleterre et aux Etats Unis*) (Paris, 1889), pp.332-241; Michel Tougan Baranowsky, *Les Crises Industrielles en Angleterre*), (Paris, 1913), pp.32-53; and Jenks, *Migration*, pp.53-58.

[13] For global and regional statistics on British exports see Porter, *The Progress of the Nation*, pp.479-481. Also see Humphreys, *Consular Reports*, pp.344-351.

If as the commercial statistics suggest, Latin American trade constituted a stabilizing rather than a destabilizing influence on the British economy, what can be said of the effect of investment in Mexican, Brazilian, Peruvian and Colombian bonds in spurring the crisis of 1825/26 ? It cannot be denied that the large volume of bonds sold did stimulate speculation, but it should also be observed that in all the Latin American loans of 1822/25 the issuing bankers had taken the precaution of using a substantial portion of the proceeds to form short-term sinking funds. With these resources, held in London, interest and amortization payments were covered during the first two or three years after the sale of the bonds. Thus, when the crisis broke out in December, 1825, there was no default on the Latin American loans; debt service payments were still being met regularly.

In summary, the crisis did not *originate* in Latin America. On the contrary, it began in Great Britain in late 1825 and moved across the Atlantic in early 1826. The economic catastrophe battered Argentina, Chile, Peru, Mexico and the other nations of the subcontinent with especial force in three different spheres: international trade, silver mining and government finance.

THE CRISIS IN LATIN AMERICAN TRADE AND MINING

The European depression caused an immediate and abrupt decline in trade with Latin America. British industrial exports to the region fell by 50% in 1826 and French and German shipments also dropped precipitously.[14] The commercial slump was widespread, although its effects were felt more acutely in some nations than others. [See Figure II.] Peru, Gran Colombia and Argentina witnessed a particularly severe reduction in their international transactions. British trade with all three nations fell by almost 70% between 1825 and 1826.

The value of British exports to Peru, for example, approached L 600,000 in 1825 but fell to less than L 200,000 in the following year.[15] Exports to Gran Colombia were cut in half by the crisis and did not recover for years. The peak in Anglo/Argentine mercantile activity came in 1824; it remained at a high level in 1825 but fell precipitously afterwards, not to return to former levels for almost two decades.[16] In Mexico, on the other hand, the trade recession advanced more slowly; total imports slid from 19 million pesos in 1825 to 15 million in 1826 and 14 million in 1827, reaching a low point of 10 million only in 1828. In this case, curiously enough, French and United States exports plunged most abruptly whereas the sale of British commodities in Mexican markets did not decline substantially until the end of the decade.[17]

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[14] According to one estimate, British exports to Latin America dropped from approximately L 6,400,000 in 1824 to L 3,200,000 in 1826. A. Gayer, et al., *The Growth and Fluctuation*), p.182. Compare with somewhat different data in sources listed in previous note 13.

[15] For Anglo/Peruvian trade statistics see Heraclio Bonilla, *Gran Bretaña y el Perú: los mecanismos de un control económico* (Lima, 1977), V, 159.

[16] On Anglo-Argentine trade, consult Halperín, *Guerra y finanzas*, pp. 283-284.

[17] Statics on Mexican trade with Great Britain, France, and the United States are in Bernard Kapp, "Les relations économiques extérieures du Mexique (1821-1911) d´aprés les sources francaises", *in Ville et*

There was one exception in Latin America to the overall pattern of commercial distress namely, Brazil. The large and constant volume of sugar exports from Recife, Aracaju and Salvador, combined with the growing shipments of coffee from Rio de Janeiro, helped pay for a large volume of imports, especially cotton textiles. The result was that British exports to Brazil did not drop below a level of two and a half million pounds sterling at any time during the 1820's, the 1830's or the 1840's. Following the crisis of 1825/26, in fact, Brazil became the market for 50% of total British shipments to Latin America; in the 1830's it still took over 40%; and in the l840's 35%. The stability and strength of its trade, moreover, explains why Brazil proved to be the only Latin American state able to meet debt payments on a fairly regular basis during this period and, the only state in a position to negotiate several *new* loans with the London banking community.[18]

The overall decline of Latin American trade can be directly linked to the financial debacle in the money centers of the Old World. The failure of important European banking and mercantile houses meant that industrialists (and in particular British manufacturers) no longer could obtain credit to finance the export of their commodities.[19] In late February, 1826, *The London Times* underlined the dramatic consequences of the bankruptcy of one major financial firm. “The downfall of Goldschmidt's house in London is the severest blow that Glasgow has yet met in the present calamitous times. A large portion of the remittances for goods sent to South America consisted of draughts upon the Messrs. Goldschmidt...”[20]

The European credit squeeze also restricted the activities of those trading concerns with branches in Latin America since they were no longer able to acquire the bills of exchange required to finance their formerly flourishing import business. Many of these firms went bankrupt as a result of the difficulties they faced in cashing drafts which theoretically were guaranteed by government issues but, in practice, had little value, having been peddled like so much speculative paper by influential but reckless financial houses.

Among the casualties could be counted scores of British firms that had set up shop in the boom days of 1820/25. In Lima, Consul Ricketts reported that at the end of 1826 there were two million pesos in outstanding debts due to British merchants established in the Peruvian capital, and he added, "the recovery is most tedious and in great part, I fear, doubtful." Even such strong houses such as Anthony Gibbs & Sons could not entirely

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Commerce (Paris, 1974), pp. 58-67. see also Inés Herrera Canales, *El comercio exterior de México* (México, 1977), pp. 26,34,82,161.

[18] For data on Brazilian trade, see Porter, *Progress of the Nation*, pp. 483-486; and Platt, *Latin America*, table 1, p. 30.

[19] Approximately one dozen London merchant banks collapsed, including three that had been heavily engaged in Latin America loans: B. A. Goldschmidts and Herring, Powles & Graham failed in the spring of 1826, while Barclay, Herring, and Richardson & Co. failed in early 1827.

[20] *London Times*, February 27, 1826. According to Gille (*Historie de la Maison Rothschild*, 1:159-161), Goldschmidt´s had £400,000 in unpayable bills on a total debit sheet of £1,200,000.

escape the maelstrom which wrecked their smaller brethren; Gibbs had about 45,000 pounds (225,000 silver pesos) locked up in its Lima branch house in 1826.[21]

Other well-known British firms also suffered the impact of the crisis. The Hylsops trading company of Jamaica and Cartagena, for instance, cracked when Goldschmidt, the Colombian loan contractor, suspended in February, 1826. The Hylsops "were caught short with dishonoured bills and their affairs had to be put in to the hands of trustees".[22] In Mexico the once prominent establishment of Robert Staples & Company found itself submerged in difficulties and despite its close links to the powerful bankers, Baring Brothers, soon disappeared from the register of the Mexican mercantile community.[23]

In Buenos Aires another close associate of the Barings, the firm of William Parish Robertson, met its end in 1827. Although the partners had earned substantial fees on the Argentine loan of 1824, they lost large sums on an ill-advised mining venture and on an unrealistic and expensive colonization scheme. Furthermore, the trading activity of the Parish Robertson's, like that of all Anglo/Argentine merchants, was sharply curtailed by the outbreak of the naval war of 1826-28 between Argentina and Brazil, which closed the harbours of the River Plate to most traffic.[24]

By the end of the decade the once thick ranks of English trading firms in the Latin American ports had been drastically thinned. As Platt notes, "the future pattern of a few strong diversified houses sharing out the limited market between them was already established."[25] Platt uses the term "limited market" advisedly, for the Latin American consumption of British manufactured goods remained virtually stable for almost twenty years. It would not be until the 1850's that a new trade boom allowed for a new conquest of regional markets by foreign merchant houses.

While the crisis of 1825/26 produced a harvest of failures among mercantile firms, its effects upon other spheres of the economy were equally dramatic. Most significant, the suspension of European capital exports interrupted the development of an important source of national wealth upon which the Latin American leaders had pinned their hopes for rapid economic recovery: the famous silver and gold mines.

Paradoxically, it was precisely in early 1826--as the European crisis reached its apogee--that a number of the British engineers sent to Latin America finally succeeded in putting their mining enterprises on a solid footing. They had won concessions to the key silver districts, begun drainage operations and expected to process the precious metals with the new machinery they had brought across the Atlantic. But they needed a

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[21] Platt, *Latin America*, p.51.
[22] Humphreys, "British Merchants," p. 121.
[23] On the joint investments of Francis Baring and Robert Staples in Mexico in 1824, see Liehr, "La deuda exterior," pp. 427-429.
[24] In 1825 ninety-five British ships had entered Argentine ports; in 1826 there were just seven and in 1827 only one ship managed to weasel its way into the Buenos Aires harbour. The blockade caused a panic among the local community of British merchants, who in the first half of 1827 smuggled out more than 500,000 pesos of their capital from Buenos Aires. See Ferns, *Britain and Argentina*, pp. 164-165.
[25] Platt, *Latin America*, p. 51.

continuing flow of investment to get their enterprises rolling. The financial panic cut short their hopes of doing so, and soon most of the intrepid engineers were forced to lay off their workers and close down operations.

Contemporary observers in London were quick to conclude that these failures were due to the unscrupulous mine promoters who had enormously exaggerated the mineral wealth of Latin America and squandered the funds of hundreds of hapless investors. This view, later adopted by many historians, suggests that the shutdown of the mines preceded and indeed contributed to the international crisis of 1825/26. But, as the Chilean scholar, Claudio Veliz, has recently demonstrated in a brilliant revisionist essay, the reverse was true.[26] The British mining companies in Chile did not fail before the crisis but after. It was the banking and stock exchange collapse in London which severed the flow of investments to the overseas mining enterprises and virtually condemned them to bankruptcy. Meanwhile, many native-owned mining firms increased their production (despite their reliance on antiquated technology) and by the 1830's Chile and other Latin American nations were again relatively important exporters of minerals.[27]

In the case of Mexico several foreign-owned mining enterprises collapsed but others survived. The Real de Catorce, Tlapujahua and Guanajuato associations folded between 1826 and 1828. On the other hand, the United Mexican Mining Company operated throughout the 19th century and the Bolaños mining concern paid profits consistently until 1849. Similarly, the story of the largest foreign-owned enterprise, the Real del Monte Company, demonstrates that, in spite of serious obstacles, local mining ventures could hold their own if sufficient capital were employed: British investors put more than £ 700,000 into the firm between 1825 and the late 1830's, helping to make it the most modern mining establishment in the nation.[28]

In the different context of the Argentine society the experience of the early British mining enterprises proved to be one of unrelieved failure. The directors of the companies discovered that capital and technology were not the only instruments required for economic success. Bitter political and business rivalries also played a decisive role and ultimately jeopardized their ambitious plans. The Rio de la Plata Mining Association and the Famatina Silver Mining Company disputed rights to the same silver districts. The mines soon closed and the value of the company stocks dropped precipitously. Political struggles on a local level and cutthroat competition between merchants and financiers of both Buenos Aires and London thus proved to be the undoing of early mining speculations in the Rio de la Plata region.[29]

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[26] Véliz, “Egaña,” pp. 637-663.

[27] On the contemporary Chilean copper and silver production, see Pierre Vayssiere, *Un Siécle de capitalisme minier au Chili*, 1830-1930 (Paris, 1980), pp. 114-115, 269.

[28] According to Randall (*Real del Monte*), the mining firm was eventually a financial failure for the British investors, but the technical innovations introduced in the years 1824-40 contributed to the technological transformation of the Mexican mining industry.

[29] On the Argentine mining failures, see Francis Head, *Report Relating to the Failure of the Río de la Plata Mining Association* (London, 1827); and Galmarini, *Negocios y política*, chap. 5.

In summary, the checkered tale of the British mining firms reflected the complex and uncertain process of reaccommodation of the Latin American nations into the Atlantic economy during the 1820's. Most companies were swept away by the powerful undercurrents generated by the international mercantile and financial crisis, but a few survived and joined the numerous, native-owned mining concerns which participated in the restructuring of production in the mineral-rich districts of countries like Chile and Mexico. The progress realized, nonetheless, proved more difficult than originally anticipated, a fact which reflected the damage caused successively by war and crisis to the once famous pillars of precious metals that had sustained the colonial economy for almost three hundred years.

THE LATIN AMERICAN LOAN DEFAULTS

While the decline in trade and the collapse of many silver mining firms was, in good measure, the result of the crash in London, what can be said of the suspension of loan payments by the Latin American states? Did the defaults precede or follow the European panic? Traditional interpretation suggests that the disruption of the London money market was provoked, at least in part, by the new of financial insolvency of the foreign states to which such large sums had been lent. In fact, however, no Latin American nation suspended its debt service until after the outbreak of the monetary chaos in Europe.

The Peruvian government was the first to default in April, 1826.[30] The failure of the Goldschmidts two months earlier had been a major blow for though they were not official bankers to Perú, they had provided several short-term loans to finance outstanding debts. The Lima authorities were hard pressed to pay off the anxious creditors of the bankrupt firm. Furthermore, they lacked sufficient resources to cover the April 15 dividend due on the foreign debt. The Mexican, Colombian and Argentine ambassadors in London urged their Peruvian counterpart, Jose Joaquin de Olmedo, to take advantage of a short-term loan offered by the Paris branch of the Rothshchilds banking family. The Peruvian envoy, however, refused the offer on the grounds that it would prolong the agony but not solve the penury of his government. Olmedo wrote from London to Bolivar lamenting the difficulties which confronted both the Peruvian state and the bondholders, stating: “If the failure of the government to pay is censurable in all circumstances, it is particularly so in the present situation when so many families depend upon the interest payments, when there have been over 600 bankruptcies, and money scarcely circulates, and no one knows how he will survive...”[31]

The bankruptcy of Peru appeared symptomatic of the widespread financial malaise. Yet default was not inevitable, at least in the short run. The Colombian government, beset by equally trying circumstances, managed to avoid temporarily a suspension of payments. The Colombian ambassador in London, Hurtado, appealed to his Mexican colleague, Vicente Rocafuerte, to assist the sister republic by providing a loan to cover the upcoming April interest payment on the external debt. In a generous act of inter-American solidarity,

[30] On the Peruvian default, see Rodríguez O., *El nacimiento*, pp. 169-170.
[31] Ibid., p. 169, n. 36.

Rocafuerte acceded to this request and ordered the Barclay banking company to transfer £ 63,000 of Mexican funds into the Colombian accounts.[32]

The remaining Latin American nations experienced little difficulty in fulfilling their current monetary obligations since they all held substantial funds on deposit with their respective bankers in London: the Argentine government with the firm of Baring Brothers; the Chileans with Hullett Brothers; the Central American and Mexican authorities with Barclay, Herring and Richardson; the Brazilians with Rothschilds. The damage, however, had been done, and as soon as the news spread that the Peruvian treasury was insolvent, the bond quotations of the other Latin American nations dropped ten to twenty points on the London Stock Exchange.[33]

During 1826 the Mexican ambassador, Rocafuerte, made strenuous efforts to sustain the credit rating of the foreign bonds. He argued that by applying some of the loan reserves to the acquisition of the securities on the open market it might be possible to drive prices upwards. He pressured his bankers to do so, but they refused. Shortly thereafter, Rocafuerte learned that the Barclay financial house--which now served simultaneously as agents for the Mexican, Colombian and Central American debts--faced increasing problems as a result of its close relations with the bankrupt firm of Herring, Powles and Graham. A senior partner of the latter company, John Powles, had been involved in the Goldschmidt speculations and had lost heavily on mining ventures.[34] These losses, which undermined the firm of Herring, Powles proved doubly serious since Charles Herring was also heavily engaged in the merchant bank of Barclay, Herring and Richardson.

The interdependency of the most audacious and reckless London bankers involved in Latin American finances now proved to be both their undoing and the cause of acute problems for the debtor governments. In June, 1826 Rocafuerte urgently requested instructions from the Mexican finance minister to allow for the transfer of funds held at Barclay's to the safer hands of the Bank of England. The authorization never arrived. As a result, when Barclay's suspended in early August, the Mexican treasury lost over L 300,000 of the sinking fund which it had deposited with those bankers. On the 10th of August, *The Times* reported that as a result of this banking failure, a panic had erupted on the exchange, with investors trying to sell off Mexican and Colombian bonds for whatever price they could obtain.[35]

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[32] The Colombian authorities expected to pay back the Mexican loan with part of a 2,000,000 peso credit they had previously provided to the Peruvian government. After the Peruvian bankruptcy this became impossible. Nonetheless, the Colombian offered Mexico two new warships recently purchased from the United States in order to cancel the debt. The offer was no accepted by Mexico, and the loan was not finally liquidated until the early 1850´s. See Rodríguez O., "Rocafuerte y el empréstito a Colombia," *Historia Mexicana* 1969, pp. 485-515; Joaquín Ramíez Cabañas, *El empréstito de México a Colombia*, 1810-1862 (México, 1974), pp. 98-134, 233-244.

[33] The Mexican bonds dropped from 70 to 60, while the Argentine securities fell from 70 to 55. On the former, see Rodríguez O., *El nacimiento*, pp. 168-169; on the latter, see source cited in our Figure 3.

[34] Rodríguez O., "Rocafuerte," p. 507. This Powles was the same individual who hired Benjamín Disraeli to write favourable tracts on the Latin American silver-mining companies (Véliz, "Egaña," p. 639).

[35] Rodríguez O., *El nacimiento*, p. 171.

The situation was initially not as bleak as some bondholders were led to believe. Although Colombia and Chile defaulted in September, Mexico was able to transfer its agency and to pay the half-year interest payment due. Similarly, the Brazilian, Argentine and Central American governments continued to cover their external obligations. Several months later, however, the financial situation worsened. By mid-1827 all but one of the Latin American states had defaulted, and in most cases they were not to resume remittances for twenty years or more.

THIRTY YEARS OF DEBT RENEGOTIATIONS

For more than a quarter of a century the unresolved dilemma of the foreign debt projected a dark shadow over Latin American government finance. Despite repeated efforts by envoys of European bondholders to recover their monies, all governments (with the exception of Brazil) systematically refused to resume payments. They did so for a simple reason: the national treasuries had barely enough cash to cover the regular expenses of the civil and military administrations and practically no gold, silver or foreign currency. Without the latter it was useless to promise remittances when only paper money (which clearly would not be accepted by foreign creditors) could be sent abroad.

The Latin American fiscal and monetary crises, which became manifest after the European crisis of 1825/26, deepened in years following. To begin with, customs revenues dropped steadily as a result of the trade depression.[36] The situation was aggravated by the increasing scarcity of silver and gold, most of which went to foreign merchants or was hoarded by the native propertied classes. The lack of currency contributed to the fragmentation of local economies and intensified regionalist political tendencies. Political separatism and economic disarticulation weakened attempts to forge national unity. And to this situation must be added the heavy debts which weighed upon most Latin American governments.

The internal economic, social and political problems were so grave that the foreign creditors could hardly have expected a favorable reception to their claims. The associations of bondholders directed their persistent and wearisome pleas to the British Foreign Office, but the latter did not generally assume direct responsibility for their demands. Of greater importance to the British authorities was the state of commercial relations with the nations across the Atlantic. Overly aggressive policies on behalf of the bondholders could undercut British trade relations, thereby benefiting rival French, German and United States merchants. Nonetheless, the British authorities did not abstain from using military power to confirm their intention of defending the interests of merchants and creditors. The ships of the Royal Navy represented a constant threat for all the Latin

[36] Chilean ordinary revenues fell from an average of 2,000 000 pesos a year in 1820-24 to 1,600 000 pesos in 1825-32 (*Resumen de la hacienda pública en Chile desde la independencia hasta 1900*, Dirección general de contabilidad (Santiago de Chile, 1901). Customs duties provided 80 percent of Argentine government revenues in 1822-24 but only 21 percent in 1825-28 (Halperín, *Guerra y finanzas*, pp. 190-191, 195). Mexican customs revenues reached a peak of 15,000,000 pesos in 1826, falling to 11,000,000 by 1829. See Tenenbaum, *Politics of Penury*, table 4, p. 26.

American nations since they were in a position to impose blockades and even to support direct military intervention as eventually occurred in the case of Mexico.[37]

During the 1830's limited progress was made in restructuring the Mexican and Colombian debts. Formal agreements were reached with the representatives of the bondholders but no new payments were forthcoming. The situation was no better in other Latin American countries. Between 1836 and 1839 Chile clashed with the Peruvian/Bolivian Confederation in a bloody struggle which drained their respective treasuries and made the payment of the foreign debt an impossibility. In Argentina the naval blockade undertaken by French warships between 1838 and 1840 temporarily eliminated the principal sources of revenue of the government as well as provoking an escalation in local military expenditures.

During the 1840's most Latin American nations continued to be plagued by bitter political and military conflicts. At Buenos Aires the Rosas regime confronted the rebellions of dissident provinces, a situation aggravated by a new blockade of the port between 1845 and 1848 carried out by the combined British and French fleets. In Mexico civil strife intensified as a result of the invasion by several thousand United States troops who occupied the Mexican capital in September, 1847. In Peru civil war raged from 1842 to 1845, and throughout the rest of the subcontinent political instability, separatist movements and popular insurrections ravaged land and society.

The degree of internal and external conflicts in most Latin American societies of the age meant that most governments had to give priority to the maintenance of their armies. As Tulio Halperin has demonstrated in his study of Argentine finances during the first half of the nineteenth century, the state was to a large degree a militarized institution. This being the case, it was not surprising that the bulk of public funds went to pay salaries of officers and soldiers, to pay for local provisions such as flour, rice, meat, coffee, sugar, horses and mules, and to cover the contracts for supplies which had to be imported: arms, munitions and uniforms.[38] These military requirements clearly had priority over the claims of the distant bondholders.

Not surprisingly, the quotations on Latin American bonds remained depressed on the London Exchange since the prospects of repayment were bleak. Effectively speaking, these securities became speculative paper with little intrinsic value. Many of the original bondholders sold their holdings at rock-bottom prices to stockbrokers and merchants who played the market in accord with the sharp fluctuations in the political evolution of the debtor states. [See Figure III for the trends in Argentine foreign bond quotations.]

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[37] Platt argues that the Foreign Office did not systematically use force to "force British trade down Latin American throats" nor "to promote the interest of British finance." The first part of this argument is misleading since the active role of British warships throughout the region was intended to protect English merchant vessels engaged in both lawful and contraband trade. See D.C.M. Platt, *Finance, Trade and Politics: British Foreign Policy, 1815-1914* (Oxford, 1968), chap.6.

[38] Halperin provides a detailed analysis of Argentine government expenditures during the 1830's and 1840's in his *Guerra y finanzas*, chap.4.

The 1840's, however, marked the beginning of an important change, at least for a few fortunate countries. The rising European demand for primary products and raw materials ushered in a period of export-led growth in some nations such as Chile and Peru. Growing prosperity brought increased revenues and therefore renewed opportunities for a settlement of the long-standing claims of British bondholders. [See Table II.]

The first durable agreement was signed with the Chilean authorities in 1842. The government of Chile proposed the resumption of regular payments on the debt as well as the capitalization of the arrears of interest dating back to 1826. Not surprisingly the Committee of Spanish American Bondholders quickly ratified the terms offered.[39] After years of haggling, a second round of negotiations between the bondholders and another important borrower, the Peruvian state, reached a successful conclusion.[40] The expansion of guano (fertilizer) exports in the 1840's provided the Lima treasury with new and considerable resources. The Peruvian authorities resumed interest payments in 1849 by channelling approximately half of the income of the state guano monopoly to the foreign creditors.

In the rest of Latin America circumstances were not yet ripe for similar pacts. In Argentina initial conversations between a British agent and Rosas allowed for a monthly remittance of 5,000 silver pesos to the bondholders in 1844, but this flow ceased abruptly as a result of the foreign blockade of Buenos Aires port in years following.[41] In Colombia the treasury officials made polite overtures but no concrete results were forthcoming. In Central America the various small republics reapportioned their old 1825 debt and promised payment, but only the government of Costa Rica had sufficient resources to remit a small amount of hard cash.

An overall review of the debt renegotiations of the Latin American states indicates that the periods of defaults generally lasted between 15 and 30 years. As already indicated the nations which most quickly reached accords with the European creditors were Chile, Peru and Costa Rica in the 1840's, largely because of the rise in their export earnings. In contrast Argentina, Ecuador, Venezuela and Guatemala, took longer to stabilize their public finances and, therefore, did not renegotiate until the late 1850's. Even slower in coming to terms with the bondholders were Colombia, Honduras and El Salvador since they did not reinitiate debt payments until the mid-1860's and, even then, on an irregular basis.

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[39] C. Fenn, *Compendium of the English and Foreign Funds* (1883 edition), p.390.

[40] Mathew notes that firms like A. Gibbs & Sons, which had inside information on the progress of the negotiations, made large profits by buying up the bonds at low prices before publication of the debt arrangement. He adds : It would seem fair to conclude that the bondholders desired a settlement for reasons which were essentially speculative." Mathew, "The First Anglo/Peruvian Debt," p.98.

[41] According to one report, Rosas, the Argentine head of state, went so far as "to offer to cede the Malvinas Islands, seized by the British ten years before, in settlement of the debt." Nonetheless, there appears to be no firm documentary evidence to confirm such a view. See Harold E. Peters, *The Foreign Debt of the Argentine Republic* (Baltimore, 1934), p.21.

The most complex and ultimately explosive of the Latin American debts, however, was that of Mexico. The frustration and antagonism spawned by drawn-out and always tense negotiations aggravated the relations between the Mexican government and the European powers and led, ultimately, to a full-scale military invasion. The pernicious consequences of foreign indebtedness could not have been demonstrated more bluntly or bloodily.

DEBTS AND FOREIGN INTERVENTION IN MEXICO

It should be recalled that at the time of independence, Mexico had the reputation for being the wealthiest land in all of Latin America. The silver mines of Mexico were the richest in the world, and it's agricultural and ranching wealth were well-known. Mexico City had long been the largest city in the western hemisphere and the most important seat of Spanish imperial power. After independence, both foreign bankers and Mexican politicians judged that the prospects for economic recovery and growth were promising. But such beliefs were mere illusions. The economy stagnated and the Mexican government entered into a vicious circle of deficits and debts from which it could not break out.

The deficits, which arose from the enormous military expenditures, were covered initially by the two loans taken in London in 1824 and 1825. By 1827, however, these funds had been exhausted. Tax revenues fell so sharply that interest payments on the loans had to be suspended. The government did not wish to default, but there were few options. The national treasury simply did not have sufficient resources to cover its expenses. In 1828, "when president Guadalupe Victoria instructed the Treasury Minister to renegotiate the British debt, Alexander Baring of Baring Brothers advised that Mexico first alter its fiscal system substantively before it promised to honour commitments previously broken."[42]

There were only two possible solutions to the fiscal crisis. The first consisted in carrying out tax reforms. But Mexico had recently and radically restructured its entire fiscal system, eliminating many old colonial levies. The new tax system—based largely on import duties--was inefficient, there being much corruption and contraband. Yet Mexican leaders could hardly expect to win political support if they attempted to impose additional economic burdens on the population. The second alternative consisted in seeking loans to cover the deficits. Following the default on the foreign debt, the financial authorities had no choice but to seek *local* sources of credit. As a result, after 1827 the government came to rely upon the wealthy Mexico City moneylenders, a close-knit and increasingly powerful financial mafia.

For years the camarilla of loan sharks of the Mexican capital, led by agile speculators like Manuel Escandon, Cayetano Rubio, Gregorio Martinez del Rio and Manuel Lizardi, among others, increased their fortunes by supplying the always desperate finance ministers with short-term loans in exchange for control over the state tobacco monopoly, salt works, the government mints, transport concessions, army supply

[42] The best source on 19th century Mexican finance is Tenenbaum, *Mexico in the Age of the Moneylenders* previously cited. The quote is from the mss. chap.1, p.19.

contracts and even over the customs offices of various ports on the Gulf and Pacific coasts.[43]

In exchange for providing usurious loans, moneylenders like Escandon were given free rein to consolidate their personal economic fiefdoms. In 1834, Escandon and his associates obtained a contract to repair roads from the nation's capital south to Cuernavaca and north to the rich agricultural/mining region of the Bajío. In recompense, Escandon's company received rights to collect taxes on the most heavily travelled commercial route of the nation, running from the Gulf port of Veracruz to Puebla and Mexico City.[44] Another lucrative contract was obtained by the Martinez del Rio merchant firm in the early 1840's as a result of their government loan business. These merchants took over majority control of the "Empresa del Tabaco", the largest of the state-owned tobacco factories, and milked it for all it was worth.[45]

Despite the financial difficulties and the rapidly growing internal debt, Mexican leaders did not despair of finding a solution to the external debt. The distinguished intellectual, Lucas Alaman, who was minister of Foreign Affairs in the early 1830's, repeatedly urged that negotiations be pursued with the British bankers and bondholders. In September, 1831 a first agreement was signed which stipulated that the 7.9 million pesos owing in back interest be reduced to 5.5 million pesos. Furthermore, the interest payments due between 1832 and 1836 were to be suspended, after which it was expected that the Mexican government would have accumulated sufficient monetary reserves to renew remittances on a regular basis.[46]

The repayment of the London loans was scheduled to begin in 1836, but in March of that year the Texas settlers issued their declaration of independence from Mexico. The war that ensued created a new fiscal crisis. The bulk of government funds went to pay for the army which had marched north, led by general Santa Anna. As a result, the firm of Baring Brothers renounced its position as financial representatives of the Mexican government. The agency was then assumed by the firm of M. Lizardi & Company which drew up the blueprint for a new settlement with the bondholders. In early 1837, the Mexican Congress approved the terms for renegotiation. The basis of the proposal was ingenious and could have represented a feasible solution, had it not been for the conflicts with the United States. The Mexican government recognized a total debt of 10.8 million pounds sterling (a huge sum for the period) but instructed Lizardi to convert half of this

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[43] In exchange for lending cash to the government, the moneylenders often received customs certificates which could be used to pay import taxes. As a result, the revenues of the customs offices were effectively mortgaged to the moneylenders. For analysis of credit mechanisms used see essays by Barbara Tenebaum and Rosa Maria Meyer in *Banca y poder en Mexico, 1800-1925*, eds., Leonor Ludlow and Carlos Marichal, (Mexico, 1986), pp.75-118.

[44] Margarita Urias, "Manuel Escandon: de las diligencias al ferrocarril, 1833-1862," in *Formación y desarrollo de la burguesía en México, siglo XIX*) (Mexico, 1978), C. Cardoso, ed., pp.25-56.

[45] David Walker, "Business as Usual: The Empresa del Tabaco in Mexico, 1837-1844," *HAHR*, 64, No.4 (Nov., 1984), 675-706.

[46] For details on the 1831 arrangement see Joaquin D. Casasus, *Historia de la Deuda Contraída en Londres* (Mexico, 1885), pp.122-140.

sum into "Land Warrants on the vacant lands in the departments of Texas, Chihuahua, New Mexico, Sonora and California at the rate of four acres per each pound sterling."[47]

The idea of exchanging land certificates for the bonds was not unrealistic since Mexico possessed vast sparsely populated territories in the northern sections of the nation. But the military conflicts with the United States colonists made realization of the land-selling schemes improbable. The English bondholders met at the City of London Tavern on September 14, 1837, to discuss the terms and to propose a series of modifications. They insisted on retaining the old bonds (worth approximately 6.4 million pounds) although they accepted the possibility of exchanging interest payments due for "deferred bonds" which, in turn, could be used to buy land certificates. Few certificates were actually bought by the bondholders, but by means of this arrangement, the Mexican government was able to avoid having to pay interest on its external debt during almost a decade.[48]

Meanwhile, the Mexican financial agent at London, Lizardi, proceeded to carry out a series of unorthodox transactions which had a negative effect on the market quotations of the bonds. Since he was not paid his commissions regularly, Lizardi took over one million pesos in unsold Mexican bonds and placed them among speculators, keeping the proceeds for himself.[49] Such manoeuvres provoked acrimonious debate and criticism in Mexico. As a result, the agency was transferred in 1845 to the firm of John Schneider & Company of London.[50] Anticipating more favourable treatment, the bondholders pressed for a new agreement. They were encouraged by the results of the recent Chilean debt renegotiations which had increased the value of Chilean bonds on the London Stock Exchange. On July 30, 1845 the *London Times* noted in its "money market article" that Chilean bonds were quoted at 100 to 103 whereas Mexican bonds remained at 36 to 38.[51]

The hopes of the bondholders dissipated as a result of the outbreak of the war between the United State and Mexico in early 1846. To finance the war effort the Mexican treasury ministers relied heavily on the local moneylenders. These capitalists contributed to the defence of the nation during the years of conflict, but once the armistice talks had commenced they began to exercise pressure on the government in order to collect their debts. They were in an excellent position to do so on account of their formidable international connections. One of the leading moneylenders, for example, was Ewen Macintosh, who served simultaneously as British consul at Mexico City and as representative of the foreign bondholders. Another wealthy "agiotista" (as the moneylenders were known), Cayetano Rubio, had been agent for Lizardi for years and, at the same time, maintained close ties to the Spanish minister at the Mexican capital. The firm of Barron/Forbes at Tepic, on the northern Pacific coast, also had broad international

[47] Copy of April 12, l837 decree in Archivo de la Secretaria de Relaciones Exteriores, Mexico City (herafter cited as ASRE), file LE-1230, titled "Deuda de México a Inglaterra, 1822-1844".
[48] For details see ASRE, file LE-1231.
[49] For abundant correspondence on the Lizardi transactions see ASRE, file LE-1230.
[50] The correspondence between Schneider and the Mexican government is in ASRE, files LE-1230 and 1231.
[51] *The Times*, July 30, 1845.

ties; William Forbes and Eustice Barron served respectively as United States and as British consuls at the same port.[52]

The moneylenders demanded that the Mexican government use a large part of the indemnity payment from the United States government to pay both internal and external debts. The indemnity funds, totalling 15 million dollars paid by the United States for the territories of Texas, New Mexico, most of Arizona and California, represented an enormously attractive bait for both native financiers and foreign bondholders. Curiously enough, many Mexican politicians were not averse to complying with these claims, in particular those of the British bondholders. As one historian has recently argued: "Both Conservative Lucas Alaman and Liberal Valentin Gomez Farias welcomed British influence in Mexico as a counterweight to that of the United States."[53] Finally, in October, 1850, a new debt accord was signed by finance minister Manuel Payno with the bondholders. Mexico acknowledged a foreign debt of 51 million pesos (£10,240,000) and promised to pay five million pesos to cover interest due, half to be paid with the indemnity funds and half with customs revenues. In exchange the bondholders accepted a reduction of interest rates from 5 to 3%.[54]

Despite the favourable 1850 arrangement, the Mexican government could not escape the ominous spectre of indebtedness and potential bankruptcy. After 1856, the authorities found it necessary to suspend interest payments on account of the outbreak of civil war. The already critical situation was further complicated by claims of the Mexico City moneylenders. To protect themselves from government insolvency, many of these local capitalists requested the European powers--Great Britain, France and Spain--to back their claims on the Mexican exchequer. To legitimise such procedures, the moneylenders had recourse to so-called "Diplomatic Conventions", which allowed for the conversion of a large part of the internal debt into a species of external debt. These manoeuvres might appeared to have been less than orthodox, but the representatives of the foreign powers were hardly squeamish. As Robert Wilson, a contemporary American traveller in Mexico, observed: “The best way to collect a debt in Mexico is to convert it into a foreign debt, if possible, and then, if there is a resident that stands high with his minister, the matter meets with prompt attention. He that can buy a foreign ambassador at Mexico has made a fortune.”[55]

In the years 1851/53 the British Foreign Office succeeded in obliging the Mexican government to recognize a total of five million pesos (1 silver peso was equal to 1 silver dollar) in claims of this nature. Concurrently, the Spanish and French authorities did their utmost to browbeat various finance ministers until they accepted similarly dubious claims,

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[52] On these financial houses based in Mexico see Barbara Tenenbaum, "Merchants, money and mischief. The British in Mexico, 1821-1862," *The Americas*, xxxv, No.3 (1979), 317-339. D.C.M. Platt, "Las finanzas británicas en México,1821-1867," *Historia Mexicana* 32, No.2, (October-December, 1982), 226-261; and Jean Meyer, "Barron, Forbes y Cia.. El cielo y sus primeros favoritos, " *Nexos*, 4, No.40 (April, 1981), 22-36.

[53] Tenenbaum, *Mexico in the Age of the Moneylenders*, mss. chap.3, p.19.

[54] The negotiations were complex. A detailed description can be found in Casasus, *Historia de deuda*, pp.219-243.

[55] Tenenbaum, "Merchants, money and mischief," p.336.

totalling almost ten million pesos.[56] But the most notorious and irregular arrangement was the Jecker contract of 1859 by which the penniless Miramon administration promised to pay a well-known Swiss moneylender of Mexico City fifteen million pesos in bonds in exchange for less than one million pesos in hard cash. With characteristic flexibility, the French ambassador extended diplomatic protection for Jecker and his associates and subsequently proceeded to press for reimbursement.

The Jecker contract was the straw that broke the camel's back. In the spring of 1861 the Liberal forces, led by Benito Juarez, took power and refused to recognize the legitimacy of the moneylenders' claims, going so far as to suspend payments on all outstanding foreign debts. Retaliation was swift and brutal. On November 15 the British Foreign Secretary, Lord Russell, joined the Spanish and French ministers, Isturiz and Flahaut, in signing a convention which authorized the military occupation of the principal Mexican ports.[57] The final upshot of this unsavoury blend of financial and diplomatic manoeuvres came in 1862 with the invasion and occupation of Mexico by the combined forces of France, Great Britain and Spain.

Conditions were ripe for such an imperial expedition. On the one hand, the United States--embroiled in the Civil War—could not intervene. On the other, the Mexican army was in shambles and therefore unable to offer significant resistances. The British and Spanish troops were soon withdrawn, but a large contingent of French soldiers remained on Mexican soil for five long years. With the support of Napoleon III, a peculiar form of colonial administration was hastily set up in Mexico, headed by an Austrian prince, Archduke Maximilian. During a period of three years he occupied a makeshift throne at Chapultepec Castle, ruling with the support of a clique of Mexican Conservative politicians and of the 30,000 man French occupation army.[58] Eventually, however, Maximilian was overthrown and the French troops defeated as a result of the successful campaign of the Liberal forces led by Benito Juarez.

In more ways than one, the European invasion of Mexico in the 1860's represented the final and bitter climax of decades of financial insolvency. The bankruptcy of the Mexican state, which had commenced shortly after the crisis of 1825/26, became a permanent spectre, haunting the efforts of dozens of officials who headed the national Ministry of Finance during the first three and a half decades of independent government. As in the rest of Latin America, harrowing political and military developments outstripped official expectations and made fiscal stability more of an illusion than a practical reality. With few exceptions, the construction of the new nation/states proved to be an infinitely

[56] On the "Diplomatic Conventions" see William Wynne, *State Insolvency and Foreign Bondholders* (New Haven, 1951), II, 14-19.

[57] The British authorities were at first reluctant to intervene on behalf of the bondholders, but when the Mexican government formally suspended payments on the foreign debt in July, 1861, the English ambassador, Wykes, began to advocate military intervention. For the British diplomatic correspondence on Mexico see Gloria Grajales, ed., *México y Gran Bretaña durante la Intervención, 1861-1862* (Mexico, 1974), in particular pp.75-81, 107-110.

[58] There is need for a balanced study of Maximilian's reign, emphasizing financial and military questions. For an engaging but antiquated biography of the emperor see C. Conte Corti, *Maximilano y Carlota* (Mexico, 1944), based principally on materials in the Austrian archives.

more difficult and complex task than had been anticipated in the optimistic days of the early 1820's.

Yet, from another perspective, it can be argued that the efforts of the early Latin American republics to sustain their political and economic independence were not altogether unsuccessful. Despite numerous naval blockades, repeated threats of intervention and two major military invasions, this heterogeneous collection of nations resisted and survived.[59] Furthermore, during a quarter of a century, most of them maintained an effective moratorium on their external debts, a fact indicating an appreciable degree of economic autonomy from the great powers of the day. The price paid for such autonomy was undoubtedly high, but it is questionable whether any contemporary alternatives were possible or, indeed, could have proven less costly.

Recapitulating, then, it should be emphasized that, with the exception of Brazil, no Latin American state received any new loans between 1825 and the late 1850's, a period during which private foreign direct investment also practically evaporated. After mid-century, on the other hand, circumstances began to change. When the Chilean, Peruvian and Argentine governments--amongst others--decided to renegotiate their foreign debts, they did so in the firm belief that a new economic and political era had commenced; an era in which the attractions of expanding international trade and finance appeared to outweigh the potential and already well-known dangers of accumulating voluminous foreign debts.

[59] The two full-scale military invasions to which reference is made were the United States invasion of Mexico, 1846-48, and the Anglo/Spanish/French invasion of the same country in 1862.

CHAPTER 3

THE REDISCOVERY OF LATIN AMERICA: 1850-1873

> "Nations like England and France can think twice about taking foreign loans..; but poor and sparsely populated countries have no cause to hesitate..."
>
> Juan Bautista Alberdi (1858)

By mid-century a new and powerful economic wind had begun to sweep throughout Latin America, ushering in a prolonged phase of expansion which gained velocity and momentum until it broke upon the formidable barrier of the great depression of the 1870's. The main force generating new growth trends was foreign trade. The export of agricultural and ranching commodities as well as mineral products surged dramatically: guano from Peru, copper and wheat from Chile, wool from Argentina, coffee from Brazil, sugar and tobacco from Cuba, silver from Mexico. The rapid rise in export income simultaneously spurred a boom in imports of manufactured goods as the Latin American propertied classes bought increasing quantities of British cotton textiles, French silks and liqueurs, German hardware and Spanish wines and sherries.[1]

With the growth and diversification of trade came a new wave of foreign merchants and entrepreneurs who established themselves in Latin American ports and in many inland towns and cities. In cooperation with local capitalists, they contributed to the establishment of the first local joint-stock companies: banks, insurance firms, steam navigation enterprises and, most important, railroads. The number and size of these concerns tended to be small but their creation marked a critical juncture in the incipient process of capitalist transformation of the Latin American economies.

The expansion of trade meant increased income for local and foreign merchants and bankers, for landowners and for the urban middle classes throughout the region. It also meant greater revenues for governments as a result of the rise in import/export taxes.

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[1] The basic secondary source on British-Latin American trade during the 19th century is Platt, *Latin America and British Trade*. There are few monographs on trade between Latin America and *other* major trading partners such as France, Germany and the United States. An exception is Kapp, "Les relations economiques exterieures du Mexique (1821-1911)," pp.11-93. For additional information see Bonilla, *Gran Bretaña y el Perú*; Ferns, *Great Britain and Argentina*; Richard Graham, *Britain and the Onset of Modernization in Brazil, 1850-1914* (Cambridge, U.K., 1972).

Fiscal prosperity, in turn, stimulated a period of major reforms during the 1850's, 1860's and early 1870's destined to restructure state bureaucracies, modernize armies and promote ambitious public works programs.[2] Many of these reforms were covered with internal funds--basically those derived from customs duties--but some were financed with foreign loans.

The new ties between Latin American finance ministers and European merchant bankers contributed to a gradual increase in credit transactions with the outside world, thereby bringing to a close the three decades of financial hibernation which had followed upon the crisis of 1825. Indeed, the transfer of foreign capital accelerated with such speed that by the late 1860's most of the nations of the subcontinent were once again in the grip of a billowing loan cycle.[3] At the prodding of European banks, the governments of Argentina and Brazil, Peru and Chile, and even small states such as Honduras, Costa Rica or Paraguay sent agents to hawk their bonds in the money markets of London, Paris and Amsterdam.

The Latin American loan boom of the 1860's and early 1870's, nonetheless, was neither autonomous nor singular in scope and character. On the contrary, it formed the tail end of a broad and powerful phase of capitalist expansion that had begun in the early 1850's in Europe and the United States and continued accelerating until the mid-1870's. This "long wave" of growth, as some economists have described it, had its dynamic axis in the industrializing nations of the North Atlantic, whence the great economic pulsations pressed outward: the export of consumer and capital goods, the incessant current of emigrants and a growing stream of direct investments and loans.[4]

Once again, therefore, the bull market in Latin American stocks and bonds must be seen as a product of an expansive phase of the international economy. The volume and value of loans taken by the Latin American governments in the 1860's, however, far surpassed those of the earlier loan cycle of 1820-25. That this was so can be attributed to the growing vigour of capitalism on a global scale after mid-century.[5]

For our present purpose it is worthwhile emphasizing three key aspects of this process which had a major impact upon the internationalisation of the Latin American economies. In the first place, it is essential to observe that the creation of an effectively integrated world market now became a reality; this development was forcefully impelled by

[2] For an overview of the important political and social reforms implemented the Latin American nations during the 1850's see Tulio Halperin Donghi, *Historia contemporánea de America Latina*) (Madrid, 1969), chap.4.

[3] There is no overall historical study of Latin American foreign loans in this period, 1850-1873. Nonetheless, an excellent introduction to contemporary international finance can be found in Jenks, *Migration*, chaps. 7-10.

[4] The literature on "long waves" of economic activity is abundant. See K. Barr, "Long Waves: a selected annotated bibliography," *Review* II, No.4 (1979), 675-718. For a historical interpretation of the somewhat different concept of "long swings"in the United States and the Atlantic economies during the 19th century see Jeffrey G. Williamson, *American Growth and the Balance of Payments, 1820-1913* (Chapel Hill, North Carolina, 1964).

[5] For a perceptive and provocative synthesis of the international boom of the 1850's and 1860's see Eric Hobsbawm, *The Age of Capital, 1848-1875* (New York, 1975), chaps. 2 and 7.

events such as the gold rushes of California and Australia in the early 1850's which caused a remarkable intensification of economic exchange between Atlantic and Pacific. A second key factor was the multiplication of dynamic poles of industrial growth; Great Britain continued to be the world's industrial leader, but other nations such as France, Germany and the United States emerged as major rivals, competing for new markets such as those of Latin America. Finally, special attention must be devoted to the great transport revolution of the age, the most visible symbol of which was the triumph of the railroad on an international scale. The construction of railroads advanced most rapidly in the maturing industrial economies of the North Atlantic, but in other regions--such as Latin America--the steam locomotive soon also became the undisputed symbol of economic progress.[6]

The fact that a large percentage of the foreign loans taken by the different Latin American states during the 1860's and early 1870's were intended to finance the construction of public works such as railroads is indicative of the new economic strategies adopted on a region-wide scale. The basic aim of the national elites consisted in obtaining foreign capital in order to promote modernization. They formulated ambitious "development" projects, solicited loans abroad to finance these programs and arranged contracts with engineering firms to carry them out. In short, they used the financial resources of their states in order to impel an early stage of capitalist growth, albeit highly dependent upon foreign sources of technology, capital-goods and finance.

According to the much-cited view of one historian, the increasingly close ties forged between the regional elites and the European merchants and bankers can be defined as a new "colonial pact", based on the international division of labour between producers of raw materials and producers of manufactured goods.[7] Despite the underlying cogency of this argument, it tends to place the emphasis on the impact of external rather than internal factors. Admittedly, the growth of foreign trade and the renewed flows of foreign capital impelled the adoption of a new model of economic growth. But, it should also be emphasized that the ruling groups in each Latin American nation decisively influenced the way in which such a model was formulated and implemented.

In this chapter the emphasis will be placed on the role of the Latin American elites in using government loans to accelerate the process of capital accumulation. The analysis of the foreign loans of the period suggests that the financial policies adopted by each government played an even more decisive role both in determining the size and number of operations undertaken as well as in shaping the way the loan proceeds were invested. Particular attention will be devoted to analysis of the experience of the larger Latin American debtors of the day: Chile, Peru, Argentina and Brazil. In each one of these cases the analysis will begin with a review of the impact of the foreign trade cycle upon the local economy. This will be followed by a description and evaluation of the loan policies adopted by the respective national elites to promote economic and political modernization. But before delving into the details of the case studies, it is worthwhile to review the principal factors which sparked the international expansion of trade and finance

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[6] For international railway statistics and much else see Paul Bairoch, *Commerce exterieure et developpement economique de l'Europe au XIXe siecle* (Paris, 1963), p.31 ff.
[7] Halperin, *Historia contemporánea*, p.214.

after mid-century. In the case of Latin America it was a fortuitous event--the discovery of gold in California--that proved to be the turning point.

THE GOLD RUSH AND THE LATIN AMERICAN TRADE BOOM

Among historians of the United States, the discovery of gold in California in 1849 is viewed as a milestone in the expansion of the national economy. Latin American historians, in contrast, do not tend to view the gold rush in the same light. The reasons are not hard to find. In the first place, the California boom is seen as a direct consequence of the defeat of Mexico in the 1846-48 war with the United States. Had the war not taken place, Mexico rather than its northern neighbour would have benefited from the discovery of the precious metals. In the second place, there is evidence to suggest that as a result of the renewed interest of foreign powers in Latin America as a strategic crossroads between Atlantic and Pacific, the entire region became subject to an intensification of imperial pressures.[8]

Whether such a view is altogether justified or not, the fact is--as Tulio Halperin has suggested--that the gold rush did mark the beginning of a broad phase of economic expansion which lasted for almost a quarter of a century.[9] The immediate impact of the massive migration of men and goods, however, was limited mainly to those regions located on or near the two great maritime routes which fed on the gold traffic.[10] The case of Chile is illustrative of the economic and social repercussions caused by the sharp rise in traffic along the Cape Horn shipping route, which initially took the bulk of passengers and supplies bound for California. In the 1840's an annual average of 1,400 vessels from Europe and the Unites States put in at Chilean ports, but by 1850--at the height of the mining craze--over 3,000 did so.[11] Moreover, it should not be forgotten that a large number of the famous "Forty-Niners" were Latin Americans; in fact, over 20,000 Chileans joined the immense cosmopolitan throng of prospectors who flocked to San Francisco in the halcyon days of the gold boom.[12]

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[8] The acquisition of one million square miles of Mexican territory by the United States was the most blatant example of foreign expansionism in Latin America at mid-century, but additional events such as the European intervention in Mexico (1862-67), the Spanish naval incursions in the Caribbean and on the Pacific coast (1864-1866) and the aggressive tactics of citizens and enterprises of the United States and Great Britain in Central America, particularly in Panama, Nicaragua and Honduras, testify to the vigor of imperialist tendencies.

[9] Halperin, *Historia contemporánea*, p.208.

[10] Contemporary Latin American politicians and ideologues were acutely aware of the dramatic implications of the gold rush. The Argentine intellectual, Juan Bautista Alberdi, observed in his classic study, *Bases para la organización política* (Santiago, 1852): "California, an improvisation of barely four years, has transformed fable into reality, and revealed the true law of the formation of the new states of the Americas, bringing from abroad great masses of people and integrating them into the body of the nation..."

[11] For details see Claudio Veliz, *Historia de la marina mercante de Chile* (Santiago, 1961).

[12] The literature on the impact of the gold rush throughout the region is scattered. A large number of useful references can be found in R. A. Humphreys *Latin America: a guide to the literature in English* (Oxford, 1960), pp.111-178.

While the increase in the southern Pacific trades broadened the channels of international exchange, an equally important development was the abrupt expansion of passenger traffic via Central America. From 1849 onwards, tens of thousands of adventurers, lured by the distant gleam of California treasures, made their way to Panama, Nicaragua and Tehuantepec.[13] In all three cases the journey through fever-ridden tropical jungles and across uncharted valleys and mountains was difficult and beset with peril. But the persistence of the great human tide soon generated pressure for the introduction of more efficient methods of Tran isthmian transport. The construction of the Panama railway between 1850 and 1855 represented a major advance although it should be recalled that the death rate among the workers who built the road was staggering. Thousands of workers were brought from the nearby Magdalena River valley in Colombia, as well as smaller numbers of recruits from Jamaica and even from as far off as China and India. They toiled and perished as they laid down the iron tracks through jungles rife with insect plagues and tropical fevers.[14]

Before the completion of the railway, a new and redoubtable actor entered the stage. Cornelius Vanderbilt, king of the steamship lines on the eastern coast of the Unites States, could hardly overlook the enormous profits his rivals were reaping from the Panama traffic. He moved swiftly and surely, wresting a concession from the Nicaraguan government which allowed him to open a competing route to be run by his American Atlantic and Pacific Ship Canal Company.[15] Despite his failure to build the canal, Vanderbilt continued to run his paddlers up and down the San Juan River and across Lake Nicaragua during several years until an outburst of political and military conflicts disrupted the traffic. The intervention of a modern-day buccaneer from the United States, named William Walker, who attempted to set up a personal dictatorship in Nicaragua, provoked a series of regional wars. By the end of 1856 the North American soldier of fortune turned tail, fleeing to the United States, and shortly thereafter the Nicaraguan passenger route was definitively closed.[16] In the years following, the greater part of the international flow of passengers and goods returned again to Panama. But the boom generated by the gold rush gradually faded and, when the Civil War broke out in the United States, shipping on the Caribbean run to the isthmus dwindled to a trickle.

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[13] On the Panama route see Gerstle Mack, *The Land Divided, A History of the Panama Canal and Other Isthmian Canal Projects*) (Stanford, 1947), and David McCullough, *The Path between the Seas: the Creation of the Panama Canal, 1870-1914* (New York, 1977). On the Nicaraguan route consult David Folkman, "Westward via Nicaragua: the United States and the Nicaraguan route, 1826-1869," (Ph.D. thesis, University of Utah, 1966). On the Tehuantepec route an illuminating eyewitness report is that of Charles Brasseur, *Viaje por el istmo de Tehuantepec, 1859-1860* (Mexico, 1981).

[14] On this, one of the earliest railway companies in Latin America, see Joseph L. Schott, *The Story of the Building of the Panama Railroad, 1849-1855* (New York, 1967); additional details may be found in J. F. Rippy, *Latin America and the Industrial Age* (New York, 1944), pp.18-23.

[15] Vanderbilt attempted to enlist the support of the London bankers, Rotshchilds and Barings, for his company. Reference to Baring's refusal to support the project can be found in Ralph Hidy, *The House of Baring in American Trade and Finance: English Merchant Bankers at Work, 1763-1861* (Cambridge, Mass.1949), p.596, n.147.

[16] On the nefarious exploits of Walker see W. O. Scroggs, *Filibusters and Financiers: the Story of William Walker and his Associates* (New York, 1916); and Folkman, "Westward via Nicaragua".

While the California mining frenzy provided a dramatic if brief stimulus to the Latin American economies, more durable and sweeping was the subsequent surge in trade with the industrial regions of northern and central Europe. This commerce involved a broad range of agricultural, ranching and mineral commodities. The textile and shoe factories of England, France, Belgium and Germany consumed increasing quantities of cotton, wool and leather, the raw materials essential to the manufacture of the coarse and fine cloth, hats and jackets, belts and boots, rugs and blankets, which came churning out of the mills. Inevitably, European industrialists looked far afield to meet their needs, turning to the United States, Egypt and India for cotton but also--on a smaller scale--to the plantations of Brazil and of coastal Peru. They bought wool from Australia and South Africa, yet were also soon acquiring large quantities from Argentina and Uruguay. They placed orders for leather hides from the United States and Russia but also increasingly from the cattle, sheep and horse ranches of Venezuela and the Rio de la Plata region.[17]

Factories, however, were not the only consumers of Latin American commodities. The rapid growth in population of European cities also created new markets for a variety of tropical foods and goods which were not produced domestically. Most important in terms of volumes and value were sugar, coffee and tobacco, the bulk coming from Brazil and the Caribbean whilst a smaller flow originated in Peru, Colombia, Ecuador and Central America. The demand for such items was stimulated by the rising consumption of the new and prosperous European bourgeoisie as well as the lower middle and working classes in the industrial metropoli of London, Manchester and Glasgow, naturally, but also of Paris, Lyons, Brussels, Antwerp, Frankfort, Munich, Milan and Barcelona. It was at this time that coffee and sugar became staples on the breakfast and dinner tables of both wealthy and poorer households throughout central and southern Europe. As the income and size of the urban populations rose, the demand for these exotic yet increasingly indispensable products mounted year by year.

By the 1860's, therefore, most of Latin America was in the throes of an unprecedented trade boom which continued unabated until the international crisis of 1873. The growth rate of mercantile transactions was nothing short of phenomenal. Precise statistical series for the whole of Latin America and its trading partners are not available but the British data is illustrative of overall trends.[18] Between 1850 and 1873 British imports from Latin America rose by almost 300% and exports to the region multiplied by some 400%. [See Figures IV and V.] French exports also climbed steadily from 150 million francs in 1848 to over 600 million in 1860. French silks, woollens, glassware, wines and liqueurs had their largest markets in Argentina and Brazil, although luxury goods from Paris and Lyons could now be found in elegant shops in all the Latin American capitals.[19]

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[17] Two especially illuminating studies on the expansion of Latin American exports should be mentioned: on leather, the classic article by Tulio Halperin Donghi, "La expansion ganadera en la campana de Buenos Aires, 1810-1852" in *Desarrollo económico* (Buenos Aires, 1963), III, No.1-2, 57-110; and on wool, the recent article by Hilda Sabato, "Wool Trade and Commercial Networks in Buenos Aires, 1840's to 1880's", *JLAS*, 15, No.1 (1984), 49-81.

[18] The annual statistics of British trade with each Latin American nation are summarized in Platt, *Latin America*, appendix I-II, pp.316-323.

[19] In 1860 Argentina and Brazil, together, were responsible for 45% of total French trade with Latin America. The precise data can be found in the reports published by the Direction generale des Douanes et des

Concurrently a number of additional mercantile rivals began to make their mark as traders from the United States, Germany, Italy, Spain, Belgium and even the Scandinavian countries expanded their activities in markets throughout the region. United States exports to Brazil, for example, increased from three million dollars in 1850 to over six million in 1860. Imports from that country rose more rapidly, increasing from 9 million dollars in 1850 to 20 million in 1860 and to over 30 million in 1870.[20]

In summary, the expansion in trade reflected the transformation of the most dynamic sectors of the Latin American economies. But there were limits to the economic and social changes. They did not lead to the formation of national bourgeoisies comparable to those in the more advanced industrial countries, for in Latin America industrial production was not yet significant. The most important trend of the period, rather, was an increasing mercantilization of rural production. Not surprisingly, this process led to a strengthening of the two most traditional and important fractions of the propertied classes: the landowners and the merchants. Nonetheless, the increasing accumulation of capital in the hands of these groups together with the renewed flows of foreign investments and loans indicate that important features of capitalism had begun to take root in Latin American soil.

THE FINANCIAL CONSEQUENCES OF THE TRADE BOOM

If trade was the vehicle of Latin American economic expansion, finance greased the wheels of international exchange on both the Atlantic and Pacific coasts of the hemisphere. For without credit and loans, commerce on a large scale could not be sustained. Initially, the main supply of commercial credit was that provided by European merchants and merchant bankers engaged in both the import and export trades. From the mid-1850's additional sources became available. The creation of deposit banks in many Latin American cities and ports, the establishment of a variety of joint-stock companies linked to the export complex, and the negotiation of foreign loans by national governments put a great deal of money-capital into circulation. The financial expansion, in turn, stimulated the trade boom.

Numerous historical studies have emphasized the role of foreign capital in this phase of the "take-off" of the export economies.[21] In the first place, foreign merchants extended credit on a large scale in order to facilitate commercial transactions. A substantial portion of these short-term funds were obtained from London merchant banking houses, such as Baring Brothers, N.M. Rothschilds and Anthony Gibbs, which were engaged in financing the trade in various commodities such as hides from the Rio de

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Contributions indirectes, *Tableau generale du Commerce de la France avec ses Colonies et les Puissances etrangeres* (published yearly from 1827).

[20] International Bureau of the American Republics, *Handbook of the American Republics* (Wash. D.C. Jan., 1891), Bulletin no.I, p.103.

[21] To cite only the two most complete studies see Rippy, *British Investments*; and Irving Stone, "The Composition and Distribution of British Investments in Latin America, 1865 to 1913," Ph.D. thesis, Columbia University, 1962.

la Plata, coffee from Brazil and guano from Peru.[22] French banking houses also participated in the financing of transatlantic trade, although they were not able to seriously challenge British prominence in this field.[23] A similar situation prevailed in the field of direct investments; the bulk of the funds came from England. By 1875 a total of 77 companies operating in Latin America were selling their stocks and bonds on the Royal Exchange, including 25 railway firms, 11 mining enterprises, 6 overseas banks and 7 telegraph companies.[24]

Foreign capitalists, however, were not the only entrepreneurs promoting new business organizations in Central and South America. Local merchants and landowners also participated actively in the formation of banks, insurance firms, gas companies and railroads. In some instances, such as that of Chile, local stock markets came into existence and carried on a flourishing business in the securities of a broad range of these companies.[25] But most investment by the native propertied classes simply consisted in the plowing back of profits into ranches, plantations, haciendas and mines. The importance of this local capital accumulation is difficult to ascertain because of the lack of quantitative studies, although it may be suggested that reinvestment by native or resident merchants and landowners played an even more significant role in the process of economic growth than foreign direct investments.

While both foreign and native entrepreneurs benefited from the trade boom of the 1850's and 1860's, the governments of most Latin American nations also increased their economic role.[26] To be more specific, many governments began to play a major role in the spheres of transport and communications, financing the construction of some of the first railways, telegraph systems and port works of the subcontinent. The level of public investments was largely contingent upon the trade cycle, for as commerce rose or fell, so

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[22] Among studies which shed light on the role of London merchant bankers in the financing of transatlantic trade the most useful are Hidy, *The House of Baring*; Reber, *British Mercantile Houses in Buenos Aires*; William Mathew, *The House of Gibbs and the Peruvian Guano Monopoly* (London, 1981); and the various works of Platt, previously cited.

[23] There is no work on the role of French merchant banks operating in Latin America which can compare with the magnificent study by David Landes on French bankers in contemporary Egypt, *Bankers and Pashas: International Finance and Economic Imperialism in Egypt* (Cambridge, Mass., 1958). There is also a need for detailed case-studies on the financing of German and United States trade with Latin America, the bulk of which was financed through London until the 1880's.

[24] The nominal capital value of the British companies operating in Latin America in 1875 surpassed £45,000,000. There were twenty-five British-owned railway companies (worth £24,085,000), eleven mining companies (worth £2,456,000), six banks (worth £3,201,000), nine gas companies (worth £1,919,000), seven telegraph companies (worth £5,380,000), five steamship companies (worth £4,820,000), four tramway firms (worth £990,000), and ten other enterprises (worth £2,396,000). See Irving Stone, "The Composition and Distribution of British Investments in Latin America, 1865-1913" (Ph.D. diss., Columbia University, 1962), appendix B, pp.229-247.

[25] There are relatively few studies of the history of Latin American joint-stock companies and stock exchanges of the nineteenth century. Useful information for the case of Chile can be found in Robert Oppenheimer, "Chilean Transportation Development: The Railroad and Socio-Economic Changes in the Central Valley, 1840-1885" (Ph. D. diss., University of California at Los Angeles, 1976).

[26] The annual reports of the respective finance ministries of the Latin American nations are among the most important sources of information available, but to date they have been studied in depth by few historians. The Library of Congress (Washington, D. C.) has a large collection of these documents.

did the state revenues. An increase in trade and taxable income, for example, allowed finance ministers to expand the supply of paper money, the issue of treasury bills and the sale of internal bonds. The multiplication of monetary instruments gave a powerful impulse to government spending and, therefore, to internal trade and production. In several instances, official or semi-official banks were set up to facilitate the financial operations of the state. Equally important, recourse was had to foreign loans, and these soon became one of the favoured methods of raising money for the realization of government "development" programs.

There were basically three types of foreign loans during this period: loans for refinancing of old debts, for arms acquisitions and for railway construction. [See Table III.] The collaboration as well as the rivalry between foreign bankers, local entrepreneurs and the government elites were reflected in these large and complex financial transactions.

The financing of state railways is illustrative of the symbiotic interests of the interest groups mentioned. Foreign merchants and bankers, for example, were interested in the issue of railway loans because they expected to obtain profits both from the sale of the securities and from the contracts to supply railway equipment to be paid with the loan proceeds. Local merchants and landowners also supported these projects because the building of the state railways promised to facilitate the transport and export of the commodities produced on the rural estates and, therefore, to stimulate economic growth. Finally, for politicians, the public works projects represented a means to increase the economic power of the state and to win the political support of constituencies by recourse to the pork barrel.[27]

In the short and medium-run, the potential economic and political benefits of contracting foreign loans could be considerable. On the other hand, the dangers implicit in mortgaging the revenues of the state to foreign bankers tended to be overlooked. The expansive economic cycle of the 1850's, 1860's and early 1870's appeared to justify a sustained increase in government borrowing and spending policies. For the Latin American elites the contracting of government loans appeared to offer a tremendously dynamic lever for capital accumulation. The most striking proof of their confidence in this lever can be found in the number of loans they authorized. All told, Latin American governments negotiated fifty important foreign loans between 1850 and 1873, most of them being issued in London while a smaller but not insignificant portion were placed in Paris and other European money markets. [See Appendix A.]

The contemporary loan business thus fed on a formidable array of interlocking factors: the rapidly increasing volume of foreign trade, the build up of local financial and transport infrastructure and the adoption of aggressive loan-seeking policies by the respective governments. To these must be added the participation of European bankers who pressured the local politicians, urging them to throw caution to the winds. After all, was not the moment propitious? Interest rates in Europe were descending and the issue of external bonds was as easy as printing paper money.

[27] The are few detailed studies of the political and economic impact of foreign loans in Latin America during this period. The best single work is Heraclio Bonilla, *Guano y burguesía en el Perú* (Lima, 1974).

Yet the precise combination of these personal and impersonal factors, and their relative weight, varied from one nation to another, as did the advantages or, alternatively, the disadvantages of seeking financial assistance abroad. In short, the Latin American loan boom of the third quarter of the nineteenth-century can be adequately understood only in the light of the specific circumstances which governed the political and economic evolution of each of the countries riding the exhilarating but perilous roller-coaster of international finance.

BOOM IN THE SOUTH PACIFIC: CHILEAN TRADE, LOANS AND RAILWAYS

Although the decade of the 1850's witnessed a substantial increase of the foreign trade of Latin America, it should be noted that from a geographic and economic perspective there were important intra-regional differences. The foreign commerce of Mexico, Central America and the Caribbean, for example, tended to be sluggish, with the exception of Cuba. In contrast, the highest rates of growth were recorded in the South Atlantic--in Argentina and Brazil--and in the South Pacific-in Chile and Peru. The dynamism of these southern "poles of economic growth" helps explain the speedy advance of local capital accumulation as well as the large volume of foreign investments and loans in these countries.

The case of Chile is of particular interest because it was there that the new forms of capitalist organization of production and finance first took root.[28] As already indicated, from the time of the gold rush the vitality of the Chilean economy was closely linked to its role as southern bridge between the Atlantic and the Pacific. The rise of international shipping on the Pacific coast of the Western Hemisphere stimulated trade between the various ports and regions along this now busy route. The hundreds of ships carrying tens of thousands of seafaring gold prospectors also brought much merchandise from Europe and the United States. At the same time, this commercial movement stimulated an increase in exports of local production. Chilean wheat was exported in growing quantities to California in exchange for gold. Chilean grain exports also went to Peruvian and Ecuadorian markets in return for the sugar, cotton and cocoa produced on the coastal plantations of Arequipa, Trujillo and Guayaquil.[29] Much of this trade was facilitated by the Pacific Steam Navigation Company, a new enterprise which operated out of Chile but had offices and depots for its steamers along the six thousand miles of coast from Valparaiso to San Francisco.[30]

[28] The first railways of South America were built in Chile in the 1850´s. Furthermore, as of 1860 Chile had the largest merchant marine in Latin America, the largest number of cooper and coal mines, the greatest number of metal-smelting establishments, and the most active stock markets. The Chilean economic model was much admired such by Argentine politicians and intellectuals such as Domingo Sarmiento and Juan Bautista Alberdi, and its influence in Peru was not less important, particularly in the field of railways.

[29] The classic history of the Chilean wheat trade in the nineteenth century is Sergio Sepúlveda G., *El trigo chileno en el Mercado mundial* (Santiago, 1959).

[30] On the Chilean merchant marine, see Véliz, *Historia de la marina mercante*. On the history of the Pacific Steam Navigation Company, see Robert Greenhill, "Shipping 1850-1914," in *Business Imperialism*, ed. D. C. M. Platt, pp. 121-124; and A. C. Wardle, *Steam Conquers the Pacific* (London, 1940).

Mercantile and shipping expansion did not limit itself to the coastal and California trades. The discovery of gold in Australia in 1850 spurred a parallel movement of men and goods from Europe, around Cape Horn and out across the Pacific. As a result, for a few years, Chile became a leading wheat-exporter to far-off Sydney and Melbourne. The already extensive European trade with the Far East brought renewed activity to the various western ports of South America as dozens of British schooners bound for India and scores of China clippers from Boston and Salem stopped yearly at Valdivia, Talcahuano and Valparaiso for fresh water and provisions.[31] There also came many of the famous New Bedford whalers bound to and from their hunting grounds in the South Seas.

By mid-century, therefore, the Chilean economy was expanding with vigour. The agricultural production of the Central Valley, surrounding Santiago, increased steadily and allowed for a substantial scale of exports. Even more rapid was the advance of mining in the northern provinces of Coquimbo and Atacama. Production there progressed so swiftly that between 1840 and 1873 Chile became the world's foremost copper exporter.[32] Much of this relatively scarce metal was shipped to India where it fetched high prices in the bazaars, being in great demand among local artisans of fine copperware, while the rest was sold by English merchants throughout Europe.[33] Considerable amounts of silver were also sent from Chile to the Far East where British traders in Calcutta, Bombay, Hong Kong and Canton required the precious metal to carry on trade in tea, silks and spices.

The prosperity generated by exports stimulated the formation of many new firms. Although most Chilean business enterprises were small and technically quite backward, an appreciable number of joint-stock companies began to appear. By the early 1870's the shares of four banks, seven mining companies, three insurance firms and seven railroads were traded regularly on the Santiago and Valparaiso exchanges.[34] These financial markets were among the most active in all of contemporary Latin America, a fact which was due in part to the proliferation of local banking firms. The earliest financial institutions, the Banco de Valparaiso [1855] and the Banco Nacional de Chile [1856] relied heavily on the support of English mercantile firms based at Valparaiso and Santiago such as the houses of Graham, Rowe & Company and Anthony Gibbs & Sons. Similarly, the British trading firm of Balfour, Williamson bought shares in the Banco de Chile and the Banco Nacional de Chile as well as in a leading insurance company, in the Coquimbo and Taltal railway companies and in various nitrate mining establishments.[35]

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[31] On the Pacific trades, see Véliz, *Historia de la marina mercante*, pp. 71-78 and passim.

[32] Marcos Mamalakis, *The Growth and Structure of the Chilean Economy* (New Haven, 1976), p. 40.

[33] On the role of one British merchant firm at Valparaíso involved in the export of cooper to India, see Benjamín Vicuña Mackenna, *Los hermanos Clark* (Santiago, 1929).

[34] Between 1850 and 1875 approximately 270 stock companies were formed in Chile, with a capital of 210,000,000 pesos (Oppenheimer, "Chilean Transportation Development," p. 106). For additional information on the Chilean stock market, see William Sater, "Chile and the World Depression of the 1870´s," *JLAS* 2, no. 1 (1979): 67-99.

[35] See Manuel A. Fernández, "Merchants and Bankers: British Direct and Portfolio Investment in Chile during the 19th Century, " *Ibero-Amerikanishces Archiv*, n. f. 9, nos. 3-4 (1983): 354. See also John Mayo, "Before the Nitrate Era: British Commission Houses and the Chilean Economy, 1851-1880," *JLAS* 2, no. 2 (1979): 282-302.

But foreign merchants had no monopoly on new business ventures. Local merchants, moneylenders, miners and landowners were also engaged in a variety of profitable activities. In most of the banks, in fact, they held the bulk of the stock. And the same could be said of the other joint-stock companies. By 1865, according to one recent study, Chilean landowners held 49% of the shares in joint-stock enterprises, Chilean merchants held 16% and foreign traders the remaining 35%.[36] Such data suggests that it would be erroneous to consider the European merchants as a dominant neo-colonial group. In Chile, as in the rest of Latin America, foreign merchants, who set up trading houses, tended to establish close business, political and social ties with the native-born elite.[37] With the passing of time they became, effectively speaking, full-fledged members of the local propertied classes. They frequently bought landed estates and married into prominent families with old roots. The result was that during the nineteenth century the Latin American propertied classes became increasingly hybrid, in terms of national origin.

By 1860, however, the two wealthiest members of the Chilean elite were not merchants or landowners but railroad contractors namely, Henry Meiggs and William Wheelwright, both North Americans resident in Santiago. The affluence of this pair of hard-driving, if unscrupulous, entrepreneurs had a simple explanation: railroad construction represented the largest business of the day in terms of total capital investment.

Wheelwright first consolidated his reputation and fortune by founding the Pacific Steam Navigation Company [1838], an enterprise destined to play a major role in Latin American trade for many decades. Subsequently, he became interested in the silver and copper mines of Copiapo. In order to provide an outlet for their production he built the first Chilean railway. Wheelwright's goals, nonetheless, were not limited to promoting small regional railways; as early as 1855 he projected a transcontinental railroad line to connect the Argentine port of Rosario with the leading Chilean port of Valparaiso.[38]

Henry Meiggs began his railroad activities somewhat later, winning contracts in the late 1850's for the construction of the two largest Chilean railroads, both in the wheat-rich Central Valley. By the 1860's he had become the best-known railway contractor in South America.[39]

The success of Meiggs and Wheelwright as railroad builders was closely linked to the adoption by the Chilean government of a series of plans to promote public works. During the 1840's, the Ministry of the Interior invested one million pesos in the

[36] Data from Charles G. Pregger Roman, "Dependent Development in Nineteenth-Century Chile" (Ph. D. diss., Rutgers University, 1975), cited in Fernández, "Merchants and Bankers," p. 358.
[37] "British merchants and other British nationals in Chile played a significant role in the long-term process of integration that the ruling class underwent during the nineteenth century" (Fernández, "Merchants and Bankers," p. 358).
[38] The best source on Wheelwright is still the eulogistic biography by Juan Bautista Alberdi, *The life and Industrial Labours of William Wheelwright in South America* (Boston, 1877). This is a translation of the Spanish edition, *La vida y los trabajos industrialed de William Wheelwright en la América del Sud* (Paris, 1876).
[39] On Meiggs, the classic study is Watt Stewart, *Henry Meiggs: Yankee Pizarro* (Durham, N. C., 1946).

construction and repair of roads.[40] In 1847 the Congress authorized a more ambitious plan: the construction of a railroad from the port of Valparaiso to the capital, Santiago, in the heartland of the main grain belt of the country. Although the government raised most of the money to construct this key line, several wealthy Chilean merchants and landowners also invested funds. In 1858, however, the financial authorities decided that a foreign loan was needed In order to finance further expansion and to acquire additional equipment (locomotives, passenger cars, and so forth). Negotiations were quickly arranged with the house of Baring Brothers, which sold £1,554,000 worth of Chilean external bonds for this purpose.[41]

During the 1860's and early 1870's the increase in trade revenues stimulated the Chilean state to continue with its ambitious public works plans, despite unexpectedly large military expenditures. Henry Meiggs was contracted to build a second state-sponsored railroad, which was to connect Santiago with the south/central agricultural districts. Two large foreign loans, totalling three million pounds sterling, were taken in 1870 and 1873, the funds being used for construction of new branches as well as for the acquisition of shares of the railroad companies which were still in the hands of private investors.[42]

Private capitalists were therefore not the only captains of economic development. The Chilean state eventually became the biggest entrepreneur of all, obtaining large sums from abroad and additional funds internally to finance its "development" projects. As Colin Lewis has recently indicated:

> State mileage eclipsed private initiative in central and southern Chile during the 1870's. By 1876 the government had spent 5.7 millions on railways, a figure which represented over 90% of the country's foreign debt, and on the eve of the War of the Pacific [1879] government-owned rails accounted for 58% of national track age.[43]

In practice the Chilean government did not limit itself to issuing railway loans. During the 1860's it also contracted several "war loans" in Europe with the firm of J.S.Morgan & Co. with the aim of modernizing the Chilean Navy, then engaged in a series of sporadic battles with Spanish naval squadrons that had been sent to harass the Pacific ports of several South American nations. But apart from these military transactions, the main trend is clear: the Chilean state exercised an increasingly prominent role within the national economy, using trade revenues to obtain foreign loans which, in turn, could be used to finance major public works projects. In more ways than one, the Chilean experience was soon to provide a model for its neighbour, Peru.

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[40] Oppenheimer, “Chilean Transportation Development,” p. 64.
[41] Ibid., pp. 144-145.
[42] The £1,000,000 loan of 1870 was issued by bankers J. S. Morgan & Co. on behalf of the state-run Chilean and Talcahuano Railway. The £2,276,000 loan of 1873 was issued by the Oriental Bank Corporation and the City Bank Ltd. to pay for a construction of the railway between Curicó and Angol and the branch line to Los Ángeles. In that year, 1873, Oppenheimer notes that the government took over the entire stock capital of the Ferrocarril Santiago (Oppenheimer, “Chilean Transportation Development,” p. 162).
[43] Colin Lewis, "The Financing of Railway Development in Latin America, 1850-1914," *Ibero-Amerikanisches Archiv*, N.F., 9, 3/4, (1983), 264.

THE PERUVIAN LOAN FRENZY: GUANO AND RAILWAYS

Until the late 1840's the Peruvian government suffered from acute financial difficulties which can be attributed both to fiscal penury and to political and military conflicts. This situation changed dramatically with the discovery of the great economic potential of "guano", a natural fertilizer, which was in great demand in Europe. As a result of its monopoly over guano production, the Peruvian state became one of the richest in Latin America for the space of several decades. Paradoxically, it also became the most heavily indebted of all the nations of the region.

The unprecedented volume of income earned from the thousands of shiploads of guano sent abroad during the 1850's, 1860's and early 1870's proved a tremendous shot-in-the-arm for the Peruvian economy.[44] It allowed the government to reform its entire administrative and financial structure and to launch a series of grandiose plans for railway and port construction. Prosperity so beguiled Peruvian politicians that they could not withstand the temptation to negotiate loan after loan on European money markets until, finally, the debt burden became cyclopean and suffocated both the public and private sectors of the economy. Thus, the exceptional fiscal prosperity of the Peruvian state [no other contemporary Latin American government exercised *direct* control over exports] became the key factor that led the local elite to accumulate an excessive quantity of external financial obligations.

The main deposits of guano were located on a tiny archipelago, the Chincha islands, just a few miles off the Peruvian coast. The government supplied a stream of ex-convicts, Chinese coolies and other hapless labourers to mine what were literally mountains of dried bird dung and to transport the guano down to the ships anchored to a series of ramshackle piers. From there the fertilizer was sent to England, Belgium and other European countries where it was in great demand among farmers desirous of increasing yields at a time of rising food prices. British imports of guano skyrocketed from 2,000 tons in 1841 to 95,000 tons in 1850 and to over 300,000 tons in 1858. This immense trade required the use of more than three thousand ships in the decade of 1850-60, practically all of them dispatched from Peru under consignment to the powerful guano contractors, Anthony Gibbs & Sons.[45]

The guano business became a source of considerable profits for Gibbs, which charged a commission on sales as well as taking a percentage on all insurance and ship contracts, but the bulk of the income actually went into the coffers of the Peruvian treasury. The complementary, if frequently strained, relationship between the Lima

[44] A classic and still useful study on the guano trade is Jonathan Levin, *The Export Economies: Their Pattern of Development in Historical Perspective* (Cambridge, Mass, 1959) chap.2. More recent and detailed studies are the works previously cited of Bonilla, *Guano y burguesía* and Mathew, *The House of Gibbs*.
[45] W. M. Mathew, "Antony Gibbs and Sons, the Guano Trade and the Peruvian Government, 1842-1861," in *Business Imperialism*, Platt, ed., p.366.

government and the British merchant firm, nonetheless, was not limited to the shipping and selling of the precious fertilizer. As principal international fiscal agents for the Peruvian state, Gibbs soon also found itself engaged in supplying an uninterrupted stream of short-term loans for the Lima Finance Ministry.[46] The latter required these funds to cover the costs of a ballooning civil and military bureaucracy since, inevitably, a major consequence of the guano boom was that it provided Peruvian politicians and generals with the resources necessary to expand their power base. The provision of jobs and emoluments in the government and the army constituted an attractive instrument for gaining the support of the middle and lower-middle classes, especially in the capital. Yet the availability of fresh and apparently inexhaustible sources of hard cash also provoked intense conflicts among the ruling factions, culminating in the liberal revolution of 1856 which, in itself, consumed a large portion of the export income of the republic.[47]

During this agitated period each of the various administrations in power sought to win the support of the popular classes as well as to ingratiate itself with the most important propertied sectors. In the first place, the guano revenues allowed for major fiscal and social reforms. These included the abolition of the traditional taxes paid by the Indian communities ["tributo indigena"] as well as the abolition of slavery.[48] The old slave owners were paid off with government bonds and new sources of labour were provided by means of importing tens of thousands of Chinese coolies.[49] In the second place, the guano income was used to cancel a huge volume of internal debts, held by local merchants and landowners, allowing them to exchange much worthless government paper for hard currency.[50]

The accumulation of wealth by the new Peruvian aristocracy, however, was threatened by a sharp drop in exports in 1859. In order to mollify the propertied classes, the government authorized the negotiation of two large loans with London bankers in the years 1862 and 1865 for a combined total of £14,500,000.[51] A large part of these funds

[46] In 1849 Gibbs paid an advance of £ 72,000 in dividends on the Anglo/Peruvian debt as well as supplying a 472,000 peso short-term loan to the Peruvian government. In 1850 the sums advanced totalled 1,442,000 pesos; in 1853 1,460,000 pesos; in 1854 500,000 pesos plus a monthly subsidy of 200,000 pesos; and so on, until the termination of the Gibb's monopoly in 1862. Ibid. pp.351-353.

[47] The 1856 revolution cost approximately 40 million pesos, equivalent to almost 40% of the total guano revenues between 1854 and 1862. Julio Cotler, *Clases, estado y nación en el Perú* (México, 1982), pp.79-82.

[48] For an incisive survey of the policies adopted with respect to the taxes on the Indian communities in Peru and Bolivia see Nicolas Sanchez Albornoz, "Tributo abolido, tributo repuesto. Invariantes socioeconómicas en la época republicana," in his book, *Indios y tributos*.

[49] The government helped finance the coolie trade which brought almost 80,000 extra labourers to Peru between 1849 and 1874. See Watt Stewart, *Chinese bondage in Peru. A History of the Chinese Coolie, 1849-1874* (Durham, North Carolina, 1951).

[50] For analysis of these complex internal debt arrangements see Bonilla *Guano y burguesía*, pp.26-35; and Carlos Palacios Moreyra, *La deuda anglo peruana, 1822-1890* (Lima, 1983), chap.3.

[51] The 1862 loan, for a nominal total of L 5.5 million, was issued ostensibly to convert the old Anglo/Peruvian debts of the 1820's. The 1865 loan, which had a nominal value of L 9 million, was placed by the London banking firm of J. Thomson Bonar & Co., which from 1863 had been named guano consignees in Great Britain and international fiscal agents by the Peruvian state. The 1865 loan was intended for the conversion of the foreign debt but also served to cancel a large part of the internal Peruvian debt as well as to cover important military expenses. See Palacios Moreyra, *La deuda anglo peruana*, pp.96-113.

were used to convert the internal debt into external debt, thus further contributing to the accumulation of money capital in the hands of native merchants, landowners and speculators. The Lima elite, however, did not leave their funds idle. They soon were engaged in launching a variety of joint-stock enterprises, the most important of which were a half-dozen banks.[52]

By the mid-1860's Peru had acquired a substantial foreign debt. Yet this was only the beginning. Most of the gold from the previously mentioned loans quickly evaporated. The money was absorbed by the debt conversions as well as by the expenses incurred in the brief but bitter conflict with the Spanish Navy, which raided several ports and seized the guano islands in 1865/66. After the termination of hostilities the Lima elite again looked abroad for additional financial assistance, although now with aim of fulfilling a different set of goals.

The extravagant dream that seized the imagination of the Peruvian ruling caste in the late 1860's was the construction of a vast network of railways to connect the dynamic coastal regions with the almost impenetrable subsistence economies of the peasant communities of the Andean highlands. The motives which led contemporary politicians to promote the building of these mountain railroads were various. Government leaders like Manuel Pardo, president of Peru between 1872 and 1876, were great enthusiasts of the "iron horse". As he wrote:

> Who will deny that the railroad is today the missionary of civilization? Who will deny that Peru urgently needs such missionaries? Without railroads there cannot be material progress...nor moral progress, for material progress provides the masses with prosperity and eliminates their misery and ignorance...[53]

Such principles were unquestionably laudable, but the unanswered question is precisely why Pardo and other contemporary Peruvian politicians felt that building railroads up into the Andes would prove more economically beneficial than building them along the coastal regions where the export economy was booming. One explanation offered by Pardo was political; it was necessary to incorporate the majority of the Indian population--which lived in the Andes--into the nation. A second may have been of a historical nature. The Andean region had not only been the seat of the Inca Empire, it had also been the source of the silver wealth of Peru during the colonial period. Unfortunately, in the 1860's the silver mines were in disrepair and, even with railroads, it was doubtful that a new mining boom could take place, at least in the short run.

The Lima politicians, nonetheless, were bent on the modernization of their nation. The task of building railroads up and across the Andes was certainly formidable but there were entrepreneurs that insisted it could be done. The daring capitalist who finally convinced the Peruvian authorities that such railways could actually be built was Henry

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[52] In Peru native merchants monopolized the premier banking concerns like the Banco del Peru (1863) and the Banco de la Providencia (1863), largely excluding British merchants from this strategic branch of local business. On the first Peruvian banks consult Carlos Camprubi Alcazar, *Historia de los bancos en el Perú, 1860-1879* (Lima, 1957).
[53] Cited in Bonilla, *Guano y burguesía*, p.58.

Meiggs, a man who had already gained a reputation as a master railway promoter in Chile. Plying journalists with propaganda and liberally distributing bribes to dozens of public officials, Meiggs soon had the Balta/Pierola administration [1868-1872] eating out of his hand. The price he was prepared to charge for such stupendous engineering feats, however, was almost as redoubtable as the Andes. This fact did not deter the ministers at Lima, confident that their apparently inextinguishable guano deposits could withstand the challenge.[54]

Meiggs initiated work in 1868 on a railway line in southern Peru destined to link the port of Mollendo with the highland agricultural center of Arequipa. He brought some ten thousand Chilean and Bolivian workers there to build 107 miles of track. Most supplies and equipment were also shipped in: hundreds of tons of flour from Chile to feed the workers; thousands of wood ties from Chile and from as far off as Oregon; bridgework, rails and locomotives from Great Britain.[55] A second line, begun in 1870 to connect Lima with the Andean town of Oroya, covered a distance of 138 miles through incredibly rugged terrain. In order to traverse the deep chasms and range after range of towering mountains, a total of 61 bridges, 26 switchbacks and 65 tunnels were constructed, including the remarkable Galerna tunnel which passed below the summit of Mt. Meiggs (!) at over 15,000 feet above sea level, making the Central Peruvian the highest railway on the face of the earth. In addition to Chilean, Bolivian and Peruvian workers, a great mass of Chinese were forcibly put to labour on the Andean lines; thousands perished in this titanic enterprise.

Such epic construction exploits required a constant stream of labourers and an increasingly large flow of funds. In order to fulfill their growing obligations, the Balta/Pierola administration signed an extraordinary contract with the French merchant firm of Drefyus Freres in the year 1869.[56] According to this agreement, the Dreyfus syndicate was to buy a total of two million tons (!) of guano, subsequently to be sold throughout Europe. In exchange for the gross proceeds, the syndicate was to pay the expenses involved in the loading, shipment and sales of the fertilizer as well as to provide the government with a variety of financial services linked to the payment of interest and amortization on the Peruvian external debt.

Dreyfus further promised to promote a major railway loan, issued simultaneously in England and France to the tune of almost twelve million sterling in 1870. The banking houses which led the placement were the powerful Societe Generale concern of Paris and

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[54] According to William Clarke, who was sent by the British bondholders to Peru in 1877 to study the railroad contracts: "My idea of the whole affair was that the real ingenuity consisted in obtaining L 40,000 per mile for its construction. Any American or even English railway engineer could have made a fortune out of it had the cost been restricted to one quarter of the amount per mile." Cited in Stewart, *Henry Meiggs*, p.47.
[55] For information on workmen, materials and methods of construction see Ibid. pp.111-165.
[56] On the partners and Peruvian associates of the Dreyfus firm see Ernesto Yepes del Castillo, *Perú, un siglo de desarrollo capitalista, 1820-1920* (Lima, 1972), pp.85-87, notes 27,28,29. For the text of the Dreyfus contract see Republic of Peru, Ministerio de Hacienda y Fomento, *Memoria, 1870*, "Documentos de contabilidad general y credito," Anexo 3, pp.99-103. Additional information based on French archival sources can be found in Bonilla *Guano y burguesía*, pp.85-116. For a still useful overall survey of the same contracts see Wynne, *State Insolvency and Foreign Bondholders,1951*, II, 107-196.

J.H. Schroeder & Co., merchant bankers at London. Barely two years later, the same financiers launched another and even greater loan for a grand total of 22 million sterling, among the largest Latin American loan operations of the entire nineteenth century. This gigantic transaction, nonetheless, proved a failure and most of the banking parties engaged were stuck with huge amounts of Peruvian bonds. Worse hit was the Lima treasury since it received only a fraction of the nominal sum yet became responsible for what was now an immense external debt service. As a result, the spectre of national bankruptcy soon cast a dark shadow over Peru. The days of the guano boom as well as of the subsequent loan boom were over by 1873. The dilemma for the Peruvian government now lay in finding a way to pay back a mountain of debts with sharply reduced resources.

THE FINANCES OF BRAZIL AND ARGENTINA: WAR AND RAILWAYS

If trade along the Pacific coast of South America advanced at a rapid pace during the 1850's and 1860's, the mercantile expansion of the south/central Atlantic coast was equally impressive. The highest rates of commercial activity were registered in the ports and hinterland of Rio de Janeiro and Sao Paulo in Brazil and of Buenos Aires in Argentina.[57]

Here, too, economic growth was fuelled by exports: wool from the ranching "estancias" of the Argentine pampas; coffee and cotton from the slave plantations surrounding Rio de Janeiro and Sao Paulo. The export boom in turn stimulated urban modernization. A contributing factor was the rising population of many coastal towns and cities which absorbed several waves of European immigrants as well as a flow of migrants from the less dynamic regions of the interior.[58] The construction of commercial and residential buildings, the multiplication of mercantile firms, the establishment of the first banks and the initiation of port and drainage works were testimony to the vitality of the economic expansion.[59]

Few historians have devoted detailed attention to the question of determining how this early phase of Argentine and Brazilian economic development was financed. There is evidence to suggest that reinvestment of profits provided much of the necessary capital. It was supplemented by the credit supplied by resident merchants and by the earliest banks.[60] The landlords of the province of Rio de Janeiro, for instance, obtained short-term

[57] Accurate and complete commercial statistics are hard to come by, but various published studies provide an idea of the major trends. Buenos Aires wool exports rose from 10,000 tons in the year 1855 to over 70,000 in 1872. See Sabato, "Wool Trade," p.51. In that same time period Brazilian cotton and coffee exports to Great Britain jumped by 500% and 400% respectively. Graham, *Britain and the Onset of Modernization in Brazil*, p.72.

[58] The population of Buenos Aires rose from 91,00 in 1855 to 180,000 in 1872; that of Rio de Janeiro from 186,000 in 1854 to 267,000 in 1872. Richard Morse, ed., *Las ciudades latinoamericanas* (Mexico, 1973), II, 62, 82.

[59] For information on the role of English entrepreneurs in promoting urban modernization and a variety of new economic enterprises see M. Mulhall, *The English in South America* (London, 1878), pp.494-534 and passim.

[60] For a fascinating description of the activities of the Brazilian "coffee factors" see Stanley Stein, *Vassouras, A Brazilian Coffee County, 1850-1890* (New York), chap.4. On Buenos Aires wool merchants and wool ranchers see Sabato, "Wool trade,"; on the Banco de la Provincia see N. Casarino, *El Banco de la Provincia de Buenos Aires, 1822-1922*, (Buenos Aires, 1922).

funding at the peaks of the planting and harvesting seasons from a special breed of merchants called "commissarios" or coffee factors. The latter, for their part, maintained close ties with the leading export houses in the city of Rio itself. Similarly, the ranchers of the province of Buenos Aires procured credit from a local circle of wool and leather trading firms as well as from the recently established and extremely dynamic Banco de la Provincia de Buenos Aires.

The greater part of the revenues of the Brazilian and Argentine governments throughout this period were derived from import taxes, which rose steadily as foreign trade expanded. With their coffers regularly replenished, the finance ministers at Rio and at Buenos Aires were not as inclined to contract foreign loans to cover ordinary expenditures as were the Peruvians. Relations with foreign bankers were initially limited to the renegotiation and conversion of outstanding foreign debts. The house of N.M.Rothschilds & Sons, for example, formally became the international bankers of the Brazilian Empire in 1855, but its chief function was to "roll over" the loans of the 1820's, 1830's and 1840's rather than to provide significant transfusions of new capital.[61] The Argentine government established close ties with another British merchant bank, Baring Brothers, which in 1857 assumed responsibility for renegotiating the foreign loan of 1824. But again no new transfer of gold was involved, the operation being limited to an exchange of old bonds for freshly printed ones.[62]

In the year 1865, however, a new and unexpected event blew open a gaping hole in both Argentine and Brazilian budgets: the outbreak of war against Paraguay [1865-1870] absorbed huge expenditures. This war proved to be the bloodiest and most vicious of all military conflicts that took place in mid-nineteenth century Latin America.

How did the Brazilian and Argentine governments finance the war ? Some money came from abroad, but an overall analysis of public income and military spending indicates that internal sources of funds were more important than foreign loans. The Brazilian authorities negotiated a £ 7,000,000 loan with Rothschilds in 1865 to finance the acquisition of arms and munitions, but this large sum represented no more than 15% of the total expenses of the Rio treasury in the Paraguayan war.[63] In practice, the considerable task of maintaining the 50,000 Brazilian man army abroad during five years was achieved mainly through recourse to the printing of paper money, the issuance of internal bonds and the negotiation of short-term loans with local banks or with merchants engaged in war contracting.

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[61] Apart from placing three Brazilian refinancing loans (1852, 1859,1863) Rothschilds also promoted two issues designed specifically for Brazilian state railways (1858 and 1860) totalling L 2,800,000. For some interesting sidelights see Gille, *Histoire de la Maison Rothschild*, II, 410-413, 458-460. For details on the contracts see Valentim Boucas, *Historia da divida externa da Uniao* (Rio de Janeiro, 1946).

[62] For comments see Ferns, *Britain and Argentina*, chap. 10; and Platt, "Foreign finance in Argentina," pp.32-35.

[63] For a detailed survey of Brazilian finances during the war see Liberato de Castro Carreira, *Historia financeira e ocamentaria do Imperio do Brasil* (Rio de Janeiro, 1889), pp.381-432. According to a contemporary Buenos Aires newspaper, the five year Paraguayan War cost the Brazilian government a total of L 56 million and resulted in a loss of 168,000 Brazilian troops. *The Buenos Aires Standard*, October, 1870. J.C.Herken Krauer, "La cobertura de la Guerra de la Triple Alianza por The Times," in *Todo es Historia*, no.175, (Buenos Aires, 1981).

In Argentina, the rocketing costs of war impelled the government to send agents to Europe to solicit funds and to supervise the purchase of uniforms, cannon and other military materiel. The net proceeds of a two million sterling loan, issued by Barings in 1866, proved disappointing. The merchant bankers attempted to sell the securities in the midst of a London financial crisis (sparked by the failure of the Overend Gurney bank) which obliged them to retain most of the Argentine bonds in order to avoid large losses. The final sale, effected in 1868, brought a price disadvantageous to the Argentine government.[64] Meanwhile, in Buenos Aires, successive finance ministers managed to cover the huge military expenses with a series of loans granted by the Banco de la Provincia de Buenos Aires, as well as by issuing a flood of promissory notes to officers, soldiers and purveyors. All told, foreign loans accounted for no more than 20% of the funds expended by the Argentine state in this protracted and wretched war.[65]

The enormous financial drain provoked by the military conflict caused a slow-down of most government-sponsored development projects in both nations. Railways suffered most. The first short lines had been built during the 1850's and 1860's by relying on a combination of private capital (mostly British) and state funds. But construction subsequently faltered and, as of 1870, Brazil could only claim a total of 740 kilometres of track in operation and Argentina just 730 kilometres. When compared to contemporary figures for Canada (4,200 kms. of lines) or India (7,600 kms.) the backwardness of the largest South American nations was evident.[66] After the war, nonetheless, rail construction resumed at a brisk pace. In Brazil most of the capital invested was raised by private capitalists. In Argentina, on the other hand, the bulk of the ambitious public works programs undertaken during the Sarmiento administration (1868-1874) were financed by the government with foreign loans contracted for this purpose. The money raised in England was used to construct several state-run railroads and major water works in the city of Buenos Aires.

The rivalry among British merchant bankers to win a share of the lucrative Argentine business proved so intense that the prestigious banking house of Baring Brothers temporarily lost its financial preeminence in the Rio de la Plata region. The first and decisive blow was struck by the small but aggressive Anglo/Spanish financial firm of Cristobal Murrieta & Co. In 1870 this London merchant bank sold £ 1,000,000 in external bonds of the provincial government of Buenos Aires. In 1871 it won the bidding on a large £ 6,000,000 "public works loan" for the national government. And in 1872-74, Murrieta's capped its remarkable string of Argentine financial triumphs by convincing the Santa Fe and Entre Rios provincial authorities that they should be named financial agents for two small but important foreign loans.[67]

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[64] The bonds were sold at 72-74% of nominal value. For details on Baring's participation see Platt, "Foreign finance in Argentina," pp. 34-38.

[65] For details on Argentine loans and war expenditures see complete statistical charts in Republic of Argentina, *Memoria del Ministerio de Hacienda, 1876* (Buenos Aires, 1877), pp.xiii-xic, xciv-xcvi, ci-ciii.

[66] For a comparative survey of Brazilian and Argentine railway development as well as data on Canadian and Indian rails see Eduardo Zalduendo, *Libras y rieles: las inversions britanicas para el desarrollo de los ferrocarriles en Argentina, Brasil, Canada e India durante el siglo XIX* (Buenos Aires, 1975).

[67] The 1871 public works loan was used to finance the state-owned railway companies, the Central Norte and the Andino; the Buenos Aires provincial loans of 1870 and 1873 went to pay for the water works of the

In Brazil the firm of N.M.Rothschilds kept a firm grasp on the international transactions of the imperial treasury. Rival bankers protested against this monopoly and criticized the *London Times*, denouncing it as the "Jews-harp", because it boosted the Brazilian stock handled by Rothschilds.[68] But the Rio de Janeiro financial authorities rarely complained, and with good reason. Their bond issues in London sold at higher premiums than any other contemporary Latin American securities.[69]

In summary, despite the flurry of international loans taken by Brazil and Argentina in the early 1870's, their foreign obligations were not as unmanageable as the Peruvian external debt. As a result, the former nations were able to weather the depression of the 1870's without suffering a generalized economic or political collapse.

THE HEIGHT OF THE LOAN FRENZY, 1870-1873

An overall review of the international financial transactions of the Latin American states between 1850 and 1873 reveals the existence of three stages with distinct characteristics. [See Table III.]

The majority of the loans of the 1850's were limited to the conversion of old foreign debts (most dating from the 1820's) and therefore did not represent a transfer of new capital to the region. At mid-century, foreign bankers were not yet willing to risk much new money in Latin American ventures, be they of a public or private nature. They were intent basically upon recovering their old outstanding debts. The only exceptions were two loans taken by the Chilean and Brazilian governments to finance state railways and a series of small bond issues to finance private railways in Cuba.

During the 1860's, on the other hand, the number of *new* Latin American external bond issues multiplied, there being a total of seventeen in this decade. A surprisingly large number were war loans; these included loans for the Chilean and Peruvian navies, then engaged in conflicts with Spanish forces; loans for the Argentine and Brazilian armies during the Paraguayan War; and two spurious loans taken by the Empire of Maximilian in Mexico to finance the French occupation army during the years 1863-67.[70]

Finally, in 1870-73, a new and significant shift in Latin American loan operations took place as the bulk of the funds raised abroad were channelled into public works projects, particularly for state railways in Argentina, Chile, Peru and Central America. The large volume of capital invested in these enterprises can be attributed in good measure to the availability of excess funds in European money markets, but it also mirrored the new

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capital; and the two small provincial loans of Entre Rios and Santa Fe were used to stabilize local finances. For details see Carlos Marichal, "The State and Economic Development Policies in Argentina, 1868-1880," paper presented at the American Historical Association meeting, (San Francisco, December 27-29, 1983).

[68] Jenks, *The Migration*, p.399 n.42.

[69] For a comparison of interest rates on Latin American bonds during the l9th century see Carlos Marichal, "Perspectivas históricas sobre el imperialismo financiero en América Latina," in *Economía de America Latina*, No.4 (Mexico, 1980), 13-44.

[70] A stimulating essay on the French banks involved in Mexico is Genevieve Gille, "Les Capitaux francais et l'Expedition du Mexique," *Revue d'Histoire Diplomatique*, 79 (1965), 193-251.

"developmentalist" strategies which had become an integral part of the policies of virtually all Latin American governments.

The loans thus fulfilled a varied set of political and economic objectives including the conversion of debts, the modernization of armies and the promotion of public works. In this respect, it may be suggested that the Latin American experience was not altogether dissimilar from that which took place in other regions of the world. The professionalization of the military forces was in itself a typical feature of the nation-building efforts of all nineteenth-century states. Similarly, the recognition and conversion of internal and external debts proved crucial to the consolidation of parliamentary regimes everywhere. More concretely, in Latin America the creation of a stable public credit system was an indispensable instrument to win the allegiance of the powerful merchant and landowning classes as well as to renew capital flows from abroad. Last, but certainly not least, the financing of railroads and ports also constituted a key feature of government policies in many other nations during the second half of the nineteenth-century such as those of Germany, Belgium, Russia and Australia.[71] In this sense, the financial policies of the Latin American states reflected a series of broader worldwide trends.

The three years immediately preceding the international crisis of 1873, marked the climax of the loan contracting business. Virtually all the Latin American states--with the exceptions of Venezuela, Ecuador and Mexico--negotiated important credits with the European bankers.[72] The crowd of Latin American agents who flocked to the financial districts of London and Paris were no longer limited to those of the larger, richer states, but now also included official and unofficial representatives of small and relatively poor republics like Honduras, Guatemala, Costa Rica, Santo Domingo, Haiti, Bolivia and Paraguay. [See Appendix A.] Generally speaking, most of the loans they negotiated were aimed at promoting railroad construction. As we shall see in the next chapter, the misuse of a large portion of these funds played a fundamental role in leading to the bankruptcy of the smaller states after the crisis of 1873.

But the desire of Latin American governments to stimulate material improvements was not the only factor responsible for the issue of close to 75 million pounds sterling in external bonds during the early 1870's. An additional and compelling force behind the loan boom was the acute rivalry among European bankers for a share in this highly lucrative if speculative business. The circle of banking companies and speculators engaged in the Latin American loan operations broadened with remarkable speed to include a wide spectrum of British and French merchant banks.

The participation of Parisian bankers in Peruvian finances has already been mentioned. The most important houses engaged in issuing Peruvian bonds were the

[71] For historical case-studies of state intervention in various nations see Hugh Aitken, ed., *The State and Economic Growth* (New York,1959), in particular Neil Butlin's essay on Australia in the second half of the nineteenth century. A more general analysis of state investment policies in Europe can be found in Barry Supple, "The State and the Industrial Revolution, 1700-1914," in *The Fontana Economic History of Europe*, C. Cipolla ed., (London,1973), vol.3, 301-357.
[72] Venezuela defaulted in 1866, Mexico in 1867 and Ecuador in 1868. For additional information see tables in chapter 4.

Societe Generale and Dreyfus Fryers, but a large number of allied firms also played a part in the huge loans of 1870 and 1872. In Central American finances the cosmopolitan firm of Bischoffsheim, Goldschmidt of Paris, Brussels and London took a leading role. Meanwhile, in Mexico, under Maximilian, leading Parisian banks, such as the Comptoir D'Escompte and the Credit Mobilier, helped Napoleon III with the financing of his military ventures.

Despite the intrusion of the Continental firms, the London merchant banks continued to dominate most of the Latin American loan transactions. The best-known were firms such as Rothschilds, Barings, J.S.Morgan, Thomson/Bonar, J.H.Schroeder and Sterns. [See Appendix D]. Customarily, they took the largest issues, organizing broad-ranging syndicates in order to guarantee a rapid and successful placement. A secondary roster of financial firms included Murrieta, Knowles and Foster, Robinson, Fleming and Peter Lawson, which generally had to content themselves with the pickings discarded by their more powerful brethren but occasionally were able to win profitable business. Last but not least, there were the individual gamblers like Edward Hartmont, Albert Grant or Samuel Laing, who played high-stakes poker with any bonds they could lay their hands on.[73]

It goes without saying that the activities of the more avaricious financiers tended to make the Latin American loan transactions increasingly speculative and dangerous as they pushed the smaller republics into the vortex of the international money game by providing generous bribes to high-level public officials at the same time as they devoted their talents to the creation of artificial markets for the securities with enticing, if misleading, propaganda. The premier banking houses, to be sure, were habitually more conservative, preferring to negotiate with the wealthier, solvent governments. But even so, the high profit rates and large commissions stirred competition to the boiling point.

In summary, all the Latin American states were besieged by the European moneylenders who urged them into the financial fray. Under the circumstances, it was not surprising that few politicians or bankers took precautions to deal with a possible abrupt change in the international economic climate. Thus, when a major crisis broke in late 1873, virtually all the participants in the debt contest were severely jolted. The golden days of the loan boom were over. A long, wintry decade of depression followed during which most of the Latin American nations had no alternative but to default and, hence, to be ousted from the European capital markets.

[73] For information on the activities of these international financial knaves see W.R. Reader and J. Slinn, *A House in the City: Foster and Braithwaite, 1825-1975* (London, 1980), pp.70-79; and Cesar A. Herrera, *De Hartmont a Trujillo: estudio para la historia de la deuda pública*) (Santo Domingo, 1953), chaps. 1-2.

Chapter 4

THE FIRST WORLD DEBT CRISIS

"We shall be curious to see whether
Bolivia will be more successful
than Honduras, San Domingo and other
of the South American Republics in
meeting the interest on loans from
which it has obtained no sort of
benefit..."

The Economist July 4, 1874

Few clouds obscured the economic horizon of Latin America as the year 1873 began. Throughout the region the commercial and financial boom was still in full swing. Hundreds of sailing vessels and steamers jammed the harbors of Rio de Janeiro, Buenos Aires, Callao and Valparaiso, swiftly disembarking their cargoes of emigrants from Europe--Italian and Spanish workmen, French and German artisans, British traders--and more slowly unloading crate upon crate of merchandise.[1] Merchant firms busied themselves with the traffic as their agents identified shipments at the customs houses, reviewed bills of lading, paid fees to ship captains and taxes to port officials. The intense mercantile activity was complemented by bustling construction work: huge new piers and docks in the harbor of Callao, Peru; major drainage projects in Buenos Aires; new water and gas companies as well as port works visibly transforming Santos and Rio de Janeiro.[2] But the press of business did not limit itself to the ports. Equally striking was the movement and activity generated by the construction of the first railways in the hinterland. Across the Argentine pampas, the 1870's saw thousands of Spanish and Italian laborers laying down the tracks of several competing companies. In the inland vallies of Brazil even greater numbers of blacks, mulattos and white peasants hammered ties and rails into the red clay soils of the coffee districts of Sao Paulo and Minas Gerais. Far to the west, on the towering Andes, tens of thousands of Chilean "rotos", Bolivian "yanaconas" and Peruvian "serranos" toiled to complete the Oroya railroad, the Juliaca-Cuzco route and the Arequipa-Puno line. Even in the little states of Central America, railway construction

[1] During 1870-73 Europeans emigrated in large numbers to Brazil, Chile, Uruguay and, above all, to Argentina: the average yearly number of immigrants arriving at the port of Buenos Aires rose from 5,000 in the 1850's to 20,000 in the 1860's and to over 40,000 in the early 1870's. (*Extracto estadístico de la Republica Argentina* [Buenos Aires, 1916], p.589ff.).

[2] For information on the Callao docks, the most important contemporary Latin American port works, see Mulhall, *The English in South America*, pp.523-524. On the Buenos Aires water works of the early 1870's see Ibid. pp.521-522. For information on urban modernization in Brazil see Graham, *Britain and the Onset*, chaps. 4 and 7.

proceeded apace: in Honduras the British contractor, Charles Waring, pushed his iron road 57 miles into the interior from the coastal town of Puerto Caballos; while in Costa Rica the North American entrepreneur, Minor Keith, hired two thousand Chinese coolies and Jamaican laborers to build the route from the Caribbean port of Puerto Limon to the highland centres of Cartago and San Jose.[3]

Yet like all cycles of prosperity, the Latin American boom was not destined to last indefinitely. The first news of an impending slowdown in the international economy came with the mail steamers which anchored in the Atlantic ports of the subcontinent in early June, 1873; the newspapers from Europe spoke of the crash that had taken place on the Vienna Stock Exchange on May 8th and the subsequent spread of the financial panic to the principal money markets of Germany.[4] Preliminary reports were disquieting, but it was reassuring to note that neither the British nor the French exchanges had been seriously disturbed and that recent Latin American loan issues continued to sell briskly. Only in September--when word arrived of a dramatic collapse of the New York stock market--did fading optimism on both sides of the Atlantic completely dissipate.[5] It now became clear that a major international crisis had commenced.

Within a matter of months trade between Europe and Latin America began to fall. At the same time, the export of capital from England and France ceased as stock exchanges weakened and as banking houses began calling in their domestic and foreign bills. The commercial and financial retrenchment not only produced a harvest of mercantile failures in Latin America; it also sharply reduced government income. As a result, a succession of states declared themselves bankrupt and suspended payments on their external debts.

THE CAUSES OF DEPRESSION

That the commercial and financial upheaval in Latin America was triggered by external factors does not seem to be in doubt, but it is worthwhile asking why this crisis should have been so widespread and intense. One answer is that by the 1870's the international monetary and banking system had become much more complex and closely inter-related. World finances were no longer under the sway of just one or two dominant money markets but now could be better described as a constellation of various primary and secondary financial centers, all of them interdependent. Thus, in contrast to previous nineteenth century financial debacles, which had been ignited by panic on the London or Paris money markets, the crisis of 1873 was triggered by distress in Central Europe and the United

[3] On railway construction in Peru, Argentina and Brazil see previous references in Chapter 3, notes 25, 43, and 66. A description of Keith's railway building activities in Costa Rica can be found in Watt Stewart, *Keith and Costa Rica: A Biographical Study of Minor Cooper Keith* (Albuquerque, 1964).

[4] For a brief but illuminating evaluation of Vienna's financial development in the 1860's and 1870's see D.C.M.Platt, *Foreign Finance in Continental Europe and the USA*, (London, 1984), chap.4. The number of failures that took place as a result of the Viennese crash was astonishing; between 1873 and 1878 half of the Austrian banks then in existence closed and 400 of the 800 Austrian joint-stock companies went bankrupt. M.Sokal and O.Rosenberg, "The Banking System of Austria," in *Foreign Banking Systems*, H. Parker Willis, ed., (New York, 1929) pp.106-109.

[5] The most resounding banking failure in the United States was that of the firm of Jay Cooke & Company of New York and Philadelphia. For a vivid description see Mathew Josephson, *The Robber Barons* (New York, 1962), pp.93-96, 165-170.

States. This development reflected the rapid process of integration of capitalism on a global scale.
Severe banking problems in one corner of the world were now transmitted with considerable speed to distant financial centers, thus producing a generalized economic short-circuit.[6]

The steep decline in commodity and stock prices in most capitalist nations as well as ensuing bank and industrial failures inaugurated an era of deep and widespread economic troubles. In the United States the high rates of unemployment stirred up popular discontent, including numerous strikes and mass demonstrations; at the same time, the collapse of many large enterprises led to a restructuring of the major financial and industrial groups.[7] In Europe the crisis at first appeared to be somewhat less severe, but by the end of the decade it became clear that the recession had actually been transmuted into what historians have called the "Great Depression of 1873-1896".[8]

Contemporary writers, as well as theorists of a later age, attributed the economic calamities of the 1870's to two principal factors. For Juglar, Kondratieff and Lewis, the prime force underlying the breakdown was found in the decline of primary and industrial commodities on a world scale; this trend produced a drop in the profit rates of key economic sectors in both the more advanced and the less developed nations.[9] For Giffen, Schumpeter and Rostow, on the other hand, the ultimate cause of the crisis sprung from the slowdown in the most powerful and "internationalized" branch of economic activity namely, railroad construction.[10] The advances achieved in the years preceding the crisis of 1873 had been nothing less than spectacular: in the United States rail mileage had doubled since the end of the Civil War from 55,000 to over 100,000 miles; in Russia over twenty thousand miles had been built from the late 1860's; and throughout Europe, the railway mania continued to incite investors to pour their savings into dozens of new companies, both at home and abroad. Subsequently, the stock market slumps produced a

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[6] Kindleberger suggests that there was a close connection between the financial panics in Central Europe and the United States. See Charles Kindlebeger, *Manias, Panics and Crashes. A History of Financial Crises* (New York, 1978), p.132. It is known that much German capital had been invested in American rails (for example in Cooke's favored Northern Pacific), but there is little documentary evidence on the presumed flight of capital back to Germany.

[7] It has been argued that the collapse of Cook & Co. opened the way for J.P. Morgan's assumption of the role as leading international banker of the United States from the 1870's onwards. This argument is put forth in Lewis Corey, *The House of Morgan* (New York, 1930), pp.122-127.

[8] The nature of the "Great Depression" of 1873-1896 has been extensively discussed in such classic articles as J. T. Walton Newbold, "The Beginnings of the World Crisis, 1873-1896," *Economic History*, 2, no.7, (January, 1932), pp.425-441; and A. E. Musson, "The Great Depression in Britain, 1873-1896," *Journal of Economic History*, XIX, No.2 (1959), 199-228. For a revisionist interpretation see S.B. Saul, *The Myth of the Great Depression* (London, 1969).

[9] Two classic studies which analyze the impact of the price fall of the 1870's are C. Juglar, *Des Crises commerciales*, pp.390-433, and Willard Long Thorp, *Business Annals* (New York, 1926), pp.167-168, 189-190, 207-208. A more recent analysis is W. A. Lewis, *Growth and Fluctuations, 1870-1914* (Boston, 1978).

[10] Giffen was one of the most respected contemporary financial writers. See Robert Giffen, "The Liquidations of 1873-76," in a volume of his essays titled *Economic Inquiries and Studies* (London, 1904), I, 98-120. For Schumpeter's views see his much-cited *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process* (New York, 1939), I, 336-397. Also see Walt. W. Rostow, *The World Economy: History and Prospect* (Austin, 1978), pp. 153-156.

dramatic fall in the companies' paper profits and an equally abrupt decline of investment in the field. As a result, railway magnates and contractors around the globe froze construction in progress, laid off workers and cancelled supply contracts with metallurgical and mining industries.

But the downturn in commodity prices and the drop in railroad construction were not the only catalysts of depression. The financial tidal wave caused by the Franco/Prussian War of 1870 also played a critical part. Following Bismark's unforeseen and stunning triumph over the army of Napoleon III, the new French government, headed by Thiers, had been obliged to pay a huge indemnity of 5 billion francs (200 million sterling) to Germany. The leading banks of both London and Paris organized a massive rescue operation, raised the money in a remarkably short time-span, and shipped the gold off to Berlin. These indemnity loans--the largest of all financial transactions of the nineteenth century--channeled a massive flow of capital into the economies of Central Europe, yet also spurred an unexpected degree of speculation, thereby destabilizing the financial markets of Western Europe. As Newbold argued in a classic analysis: “Thus we can see that there is very strong ground for supposing that what started off the great crisis which commenced in 1873 was the ever more profound unsettlement of the short-term money markets by the movements of gold and the transfers of balances from France to Germany via London...”[11]

In summary a review of the major causes which sparked the financial storm of 1873 suggests that equal attention should be paid to the long-term forces which molded the dynamics of capitalism--such as the world-wide railroad construction cycle of 1850-73--as well as to the short-term shocks which produced abrupt upheavals in international capital transactions—like those arising from the Franco/Prussian War. By the middle of the 1870's, moreover, the crisis had spread to the less developed nations of the capitalist "periphery", engendering a world depression of unprecedented severity.

THE BIRTH OF AN INTERNATIONAL DEBT CRISIS

Although the contemporary economic upheaval had its roots in the financial and commercial fluctuations of the industrial nations of the North Atlantic, its impact soon made itself felt with particular virulence in the non-industrialized regions of the Near East and Latin America. In these regions the depression of 1870's can best be defined as a "debt crisis" since the overriding cause of the economic turmoil there stemmed from an excessive accumulation of foreign debts by governments. By 1876 the Ottoman Empire, Egypt, Greece, Tunisia and eight Latin American states had defaulted, and the prospects of repayment appeared remote, to say the least.[12]

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[11] Newbold, “The Beginnings of the World Crisis,” p.439.

[12] For two contemporary surveys of the international debt crisis, see Dudley Baxter, “The Recent Progress of National Debts”, “*Journal of the Statistical Society 36* (March 1874): 1-20; and Hyde Clarke, “On the Debts of Sovereign and Quasi-Sovereign States Owing by Foreign Countries, “*Journal of the Statistical Society* 41 (June 1878): 249-347.

The largest and most notorious of these debtors were Turkey, the seat of the Ottoman Empire and Egypt, a semi-autonomous satellite of the former. By 1875 the Turkish Sultan and the Egyptian Khedive had each managed to saddle their respective administrations with external obligations approaching 100 million pounds sterling. No other nations outside of Europe could boast an equivalent feat, a fact which merits a brief commentary before proceeding to a more detailed analysis of the financial quandary of the Latin American states. Indeed, it was the simultaneous default of Turkey and Egypt that finally forced contemporaries to recognize the weighty and unpredictable consequences of the "foreign loan collapse".[13]

It should be emphasized that a full awareness of the implications of the international debt crisis took some time to sink in. During the years 1873 and 1874, the European financial press did not judge the situation of the Turkish treasury to be particularly disturbing, despite the signs of distress in the money markets. But by 1875 the Turkish bond market collapsed, and few British, French or German bankers seemed disposed to throw more money after bad.[14] The day of reckoning had finally arrived. As Jenks dramatically described the situation:

On October 7, 1875 the Turkish ministry, confronted with an indebtedness of 200 million pounds, incurred in only 20 years, beset by rebellion in Bulgaria, insurrection in Bosnia and Herzegovina, disorders in Crete, menaced with external war and palace revolution, listened to the disinterested [*sic*] advice of the Russian ambassador. It announced that for the next five years interest coupons would be paid one half in specie and one half in 5% bonds.[15]

The news of the Ottoman bankruptcy also provoked a precipitous decline in the price of Egyptian bonds on the London and Paris Stock Exchanges. To repay his creditors, the Khedive drastically increased local taxes, pressing ever more brutally upon the toiling Egyptian peasantry. At the same time, he sought new loans to pay for the old, and in late 1875 determined to sell the Suez Canal for less than five million pounds, a mere fraction of the original cost. Despite this extreme sacrifice, the Egyptian state remained in desperate straits, aggravated by the demands of the European powers that it repay all outstanding debts.[16] The bitter upshot of this contest came in 1882 when the British Navy bombarded Alexandria, an event shortly followed by the military occupation of the entire country.

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[13] Giffen: wrote: “No doubt in 1873…the collapse of the foreign loan financing had been foreshadowed; but the anticipatory events of that year were in themselves comparatively unimportant, so that down to 1875 what chiefly happened was a succession of monetary and commercial crises in countries dependent on England, but from which England by comparison escaped. In 1875 these crises were succeeded by a crisis in England itself of very great intensity…the whole culminating in the financial disorders of the foreign loan collapses, which will probably form in after years the most conspicuous feature of the whole series of liquidations” (cited in Clarke, “On the Debts,” p. 326).

[14] A classic study on the Otoman loan is David Blaidsell, *European Financial Control in the Ottoman Empire* (New York, 1929). See also Sevket Pamuk, “The Ottoman Empire in the Great Depression of 1873-1896,” *Journal of Economic History* 44 (1984): 107-118.

[15] Jenks, *Migration*, p. 320.

[16] On the contemporary Egyptian finance, the most illuminating work is Landes, *Bankers and Pashas*. Useful references are also in Jean Bouvier, “Les Intérets financiers et la question d´Egypte, 1875-76,” *Revue Historique*, no. 224 (1960): 75-104.

The collection of international debts had become a hopelessly complicated and, indeed, a bloody business. The European bankers had entangled the Near Eastern rulers into a financial web so intractable that the only options left to them lay either in soliciting new loans or, alternatively, in proclaiming outright default. When the latter option was actually adopted, the chancelleries and military establishments of Great Britain and France began to apply pressure to demonstrate that the bankers' bills would be backed up by guns.

In Latin America the crisis of the 1870's also caused extensive damage as a series of mercantile and financial squalls on a local scale were followed by a string of defaults. But, in contrast to the situation in the Near East, there was no military intervention, a fact which may be attributed to Latin America's less important "strategic" role in European power politics. Hence the external coercion directed against the governments of the region was limited essentially to economic measures. The first response to the suspension of payments (which began in 1873 and multiplied in years following) consisted in a sharp fall in the stock exchange quotations of the bonds of the defaulting nations. A second more premeditated reaction on the part of the bankers was a freeze on new foreign loans, excluding the bankrupt states from foreign capital markets, but not thereby forcing them to reimburse the angry bondholders. The third and inevitable step consisted in the launching of a series of aggressive campaigns by the bondholder committees to pressure the Latin American governments, the British Foreign Office and the British Parliament for a favorable resolution to their claims.[17]

But not all Latin American states of the period defaulted. Several of the larger and more prosperous nations continued to meet their external financial obligations on a regular basis throughout the crisis years and, in some instances, even managed to raise new short or long-term loans. A balanced analysis of the contemporary debt crisis consequently requires us to distinguish between the differing degrees of financial penury afflicting the countries of the subcontinent.

ECONOMIC RECESSION AND DEFAULT IN LATIN AMERICA

The mercantile and financial crisis battered all the Latin American nations, yet its intensity and duration were not uniform. For some states like Peru and the Central American republics the economic downswing led to a profound depression and subsequently to default and complete ostracism from foreign money markets. More fortunate countries, such as Brazil, Argentina and Chile suffered acutely but were able to weather the storm without suspending payments.[18]

The combined trade statistics of Latin America suggest the widespread worsening of circulation and production. The data on trade with Great Britain--the region's most

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[17] The complex and prolonged campaigns of the bondholders are documented in detail in the annual reports of the Corporation of Foreign Bondholders, published from 1873 (cited hereafter as CFBH).

[18] For a comparative review, see Carlos Marichal, "La crisis de 1873 en América Latina: algunos comentarios sobre los casos de Argentina, Chile y Perú," *Iztapalapa, Revista de Ciencias Sociales* (México) 3, no. 6 (1982): 59-90.

important commercial partner--indicate that exports from Latin America dropped by 37% between 1872 and 1878 and that imports fell just as sharply, by 37% in the years 1872-1876.[19] [See Figures IV and V.] In conjunction with the steady price decline of most primary and mineral commodities--sugar, coffee, wool, copper, silver, etc.--the drop in trade provoked numerous mercantile and banking failures, the collapse of dozens of recently-established joint-stock companies and a sharp reduction of government income.

The three wealthiest nations, Argentina, Brazil and Chile avoided default because of relatively high level of export earnings. Even so, their respective Finance Ministries had to make severe adjustments. The impact of the crisis upon these three countries, however, was not synchronized.

In Argentina, the European economic troubles caused a disruption of trade beginning in late 1873, and resulted in the downfall of a large number of Buenos Aires trading firms.[20] In 1874 two local banks, the Banco Belgo/Aleman and the Banco Mercantil, collapsed; the following year a pair of state-owned banks, the Banco de la Provincia de Santa Fe and the Banco Nacional, approached the brink of bankruptcy. By mid-1876 the private sector of the economy had begun to recover, but the government confronted a fiscal crisis as a result of the decline in import-tax revenues. The president of the republic, Nicolas Avellaneda, proclaimed that the Argentine people would willingly suffer privations and even hunger in order to sustain the international credit and reputation of the national government. The austerity program which he methodically implemented was warmly applauded by the British financial community, as attested by an important short-term loan advanced by the London banking house of Baring Brothers.[21] This loan allowed the Buenos Aires Ministry of Finance to meet its scheduled payments on the foreign debt. Subsequently, rising export receipts provided sufficient surpluses of hard currency to meet commitments with European bondholders.

In Brazil, in contrast, the effects of the crisis proved barely perceptible during the years 1873-75 since foreign trade remained remarkably bouyant. It was only as of 1876 that commercial depression shook Rio de Janeiro, Santos, Sao Paulo and the other commercial centres of the vast nation.[22] In the contemporary Brazilian banking world the most resounding failure was that of the powerful firm of the Baron de Maua, which had offices throughout the country as well as at Montevideo and London.[23] Yet Maua's difficulties did not unleash a general financial panic. The stability of the imperial

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[19] The statistical data is summarized in Platt, *Latin America*, appendix I-II, pp. 316-323.

[20] In 1877 Mulhall affirmed that "in the River Plate alone more than 400 commercial houses failed in the last four years" (Mulhall, *The English in South America*, p. 528). For a recent analysis of the crisis of the 1870´s in Argentina see José Carlos Chiaramonte, *Nacionalismo y liberalismo económico en Argentina, 1860-1880* (Buenos Aires, 1971), pp. 91-120.

[21] Information on the Argentine short-term loans negotiated abroad can be gleaned from government accounts with Baring Brothers and Murrieta & Co. published in the appendixes to Republic of Argentina, *Memoria del Ministerio de Hacienda*, for the years 1875 and 1876.

[22] Brazilian exports to Great Britain were estimated at £7,400,000 in 1875, £5,200,000 in 1876, £6,300,000 in 1877, and £4,700,000 in 1879. The 1875 figure marked the peak in Brazilian-British trade until the year 1905. See Platt, *Latin America*, appendix II, pp. 320-322.

[23] On the Mauá failure, see Marchant, *Viscount Mauá*, pp. 202-203, 228-233.

government continued to inspire the confidence of local and foreign capitalists, a fact underlined by the excellent relations maintained with its official bankers, the house of N.M. Rothschild and Sons of London.[24] Despite the depressed state of the markets, this influential banking concern managed to place a major Brazilian bond issue on the London Stock Exchange in 1875, an operation which guaranteed that the government would continue its service on its relatively large external debt without interruption.

In Chile the crisis wreaked greater havoc, successively battering agricultural production, industry, mining and, finally, banking.[25] In 1874 cereal exports began to fall, provoking widespread hardship among the peasants employed on the haciendas of the Central Valley. The agrarian depression was accompanied by economic recession in the principal cities and in the mining districts of the North. As a result, many small commercial and manufacturing firms temporarily folded, and approximately 25 of the leading industrial, construction and mining joint-stock companies collapsed. The weakening of local money markets and the decline of foreign trade simultaneously scorched the Valparaiso and Santiago banks, wrecking several of the smaller firms: in 1877 the Banco Thomas failed and in 1878 the Banco del Pobre closed its doors. During the latter year the drain of gold became so acute that the bank reserves of the largest Chilean financial institution, the Banco Nacional de Chile, were wiped out and the government declared its banknotes inconvertible.

But the Chilean authorities did not respond passively to the turmoil. They quickly approved new tariff laws to reduce imports and to protect domestic manufactures and, at the same time, ratified a sweeping fiscal reform, including direct taxes on property.[26] The results were encouraging but short-lived. The war which broke out in 1879 between Chile and Peru radically modified the preexisting political and economic situation. Paradoxically, the military conflict cut short the crisis in Chile by reactivating local agriculture and industry and, above all, by facilitating the conquest and exploitation of the rich nitrate fields which had formerly been under Peruvian jurisdiction. Indeed, for Chile, this imperial victory inaugurated a decade of rapid mercantile, mining and financial expansion, consolidating the nation's credit-standing among international bankers and investors.

The picture was radically different in the smaller Latin American states which found themselves obliged to default: Honduras and Santo Domingo suspended payments in 1873, Costa Rica and Paraguay in 1874, Bolivia and Guatemala in 1875 and Uruguay in 1876. In all these cases perhaps the most important cause of economic disaster was the excess weight of external debts. In all probability, the smaller Latin American republics would not have been so gravely affected by the world crisis of the 1870's had it not been for the great foreign loan operations which threatened to crush their respective treasuries.

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[24] On the role of the Rothschilds in Brazilian finance, see Boucas, *História da dívida externa*, and Gille, *Histoire de la Maison Rothschild*, 2:410-460.

[25] The complex nature of the Chilean economic crisis has been described by Sater, “Chile and the World Depression,” pp. 67-89.

[26] Sater argues that the tax reforms would have inaugurated a new and more industrial phase in Chilean economic development, but that the acquisition of the rich Peruvian nitrate deposits (obtained as a result of the war conquests of 1878-82) once again lent strength to the old export model (ibid., pp. 98-99).

It should be observed, in this respect, that before the outbreak of the panic of 1873 most of the smaller countries mentioned had experienced significant improvements in their economic situation. Given such relatively promising circumstances, there existed some justification for European bankers and investors to believe that a few small foreign loans could be repaid in hard currency. On the other hand, there was no reason to expect that they could recover large loans or investments. Yet the London and Paris financiers were apparently less interested in security than in obtaining quick and voluminous speculative gains by the sale of large amounts of bonds. Nonetheless, by 1873 the bankers had managed to foist one or more large loans upon each and every one of these tiny republics. They therefore engaged them to cover a foreign debt service which annually represented between 50% and 200% of total export earnings and frequently was superior to the national budget.[27] The consequence could be none other than default.

A similar if somewhat less acute dilemma confronted those nations which had suspended payments before the crisis: Venezuela, Ecuador and Mexico.[28] The only possibility of their renewing payments on their external debts lay in a sustained increase in export income. But in the mid-1870's such a prospect appeared unlikely, given the international contraction of markets and prices.

The most spectacular financial collapse in Latin America during the 1870's was that of Peru, the nation with the largest foreign debt. For the British and French bankers, Peru had been an ideal client since it possessed not one but several valuable export commodities with which to pay the interest on its loans: guano, cotton, sugar and nitrates. Furthermore, in contrast to many of its sister republics, Peru did not experience an extreme mercantile slump in the years 1873-75. Guano shipments did tend to decline, yet the surge of production in the nitrate districts and on the sugar plantations compensated.[29] Thus, two years after the onset of the crisis abroad, this Andean nation appeared to be riding the financial storm with remarkable poise, a performance which reinforced the impression that it had managed to escape the worst effects of the international recession.

The first clear-cut evidence of the grave difficulties soon to be confronted by the Peruvian economy came with the announcement on August 1, 1875 of the virtual bankruptcy of the Banco Nacional del Peru, a private institution with close ties to the government. The finance minister resolved to confer with the directors of the other leading banks of the capital since all suffered from similar if somewhat less severe problems. The

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[27] Precise fiscal data for each of the small Latin American nations is relatively hard to come by. In the case of Costa Rica, government revenues averaged approximately £500,000 in the crisis years of 1875-77, whereas the debt service (including interest and amortization) was about £250,000. In the case of Honduras, the debt service as of 1874 was almost 200 percent of total government revenues. See Fenn, *Compendium* (1883 ed), pp. 404-410, 477-479.

[28] The Mexican government had formally suspended payments in 1867 and did not renew remittances on the "English debt" until 1884. Venezuela suspended payments in 1866. Ecuador stopped payments in 1868.

[29] The value of guano exports fell from £2,418,000 in 1873 to £1,631,000 in 1875. In contrast, nitrate exports rose from £3,679,000 to £5,113,000; sugar exports also climbed steeply from £443,000 in 1873 to £1,273,000 in 1875. The real mercantile crunch came after 1876. For statistics see Heraclio Bonilla, "La coyuntura comercial del siglo XIX en el Peru," *Desarrollo Económico*, 46, No.12 (1972), tables 1-2.

most disturbing was the scarceness of gold and bills of exchange caused by the decline in guano exports.[30]

On September 10 the treasury officials and the bankers signed an agreement by which the government allowed the banks to increase their note issue by some 8 million "soles" in exchange for lending this paper money to the government with the object of liquidating a number of outstanding internal debts. In addition, the banks were encouraged to assume a leading role in the new state program of nationalization of the nitrate business, which was expected to replace guano as the major source of public revenues. The pact established that the state would hand over bonds and certificates to the nitrate producers in exchange for their properties. Nationalization would be mitigated by allowing the Lima banks to serve as local consignees of nitrate production, while several foreign firms--such as Anthony Gibbs--handled the world-wide distribution of the precious mineral fertilizer.[31] In practice, however, the credit crunch did not allow the Finance Ministry to take over the mines. As a result, most nitrate entrepreneurs did not sell out but continued to administer their companies, selling the produce to the state. At the same time, the Lima banking firms assumed a key role in the administration of this quasi/public monopoly, a fact which helps to explain their survival until the year 1879.

In spite of these mercantile and financial reforms, the Peruvian government abruptly suspended the service on its foreign debt in January, 1876. It did not resume payments for more than a decade. The default was the result of two parallel developments: on the one hand, the Peruvian debt had increased astronomically in recent years; on the other, the main source of state income, guano revenues, had been subcontracted to the firm of Dreyfus Fréres of Paris. Dreyfus promised to cover the debt service in exchange for the guano monopoly but warned the Lima ministers in July, 1875 that the interest on the huge external debt would no longer be paid if guano sales remained depressed. Six months later the inevitable suspension took place. The foreign bondholders were informed that due to differences among the guano contractors and the Peruvian authorities no further payments would be forthcoming.[32] Consequently the London quotations of Peruvian bonds fell precipitously. [See Figure VI.] Various elaborate attempts were made to resolve the financial tangle, but none of these could revive prosperity.

THE SELECT COMMITTEE ON FOREIGN LOANS

The Peruvian default--coincident with those of Turkey and Egypt--marked the climax of the world debt crisis. By the year 1876 some fifteen non-European nations had suspended payments on a total of almost three hundred million pounds of foreign

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[30] The finance minister's report of 1875 indicates that the Peruvian government believed that it was suffering from short-term liquidity problems rather than severe structural problems. For transcripts of the pertinent government documents see Emilio Dancuart, *Anales de la hacienda publica del Peru. Historia y legislación fiscal de la Republica*) (Lima, 1908), X (1875-1878), 261-292 and XI (1877-79), 9-81.

[31] Robert Greenhill and Rory Miller, "The Peruvian Government and the Nitrate Trade, 1873-1879," *JLAS*, V, No.1 (1973), 119-131.

[32] A detailed discussion of the Peruvian default is found in Wynne *State Insolvency*, II, 121-170; and in Palacios Moreyra, *La deuda anglo peruana*, chaps. 4 and 5.

securities. The agitation of the bondholders now reached a peak although it is worthwhile emphasizing that financial cycle throughout Europe had been well aware of the potentially explosive denouement since 1873. Investors, however, initially paid greater attention to the news of financial disturbance in the smallest debtor countries of Latin America than to the more ominous if less perceptible evidence of potential bankruptcy in Turkey, Egypt or Peru. They were not altogether mistaken, at least in the short run. After all, the first defaulters were precisely the little nations--Honduras, Santo Domingo, Costa Rica and Paraguay--whereas the big international borrowers temporarily managed to steer clear of the dangerous reefs of default by negotiating several huge rescue loans.

During 1874 and most of 1875 a great deal of ink was spilt in the English financial press arguing that the growing instability on Lombard Street had been caused by excess speculation in the bonds of a number of insolvent republics in Central and South America. The value of these bonds had begun to fall as a result of defaults in 1872 and 1873. [See Figure VII.] The bondholder committees demanded an official enquiry into the matter, hoping for some kind of telling police action on the part of the Royal Navy in order to submit the offending governments to the established and presumably sacred norms of international credit transactions. The British Foreign Office, however, did not appear disposed to intervene given the small economic stakes involved and the non-strategic character of the states in default. Parliament, on the other hand, proved more interested, apparently because several members of the House of Commons felt that a public airing of some of the loan scandals might encourage the adoption of legislation to supervise the operations conducted on the great London Stock Exchange.

The Select Committee on Foreign Loans (organized by the British Parliament) began hearings in early March, 1875 which continued through June. During this time a broad array of bankers, brokers, contractors, speculators and even clerks were questioned in depth on the mechanics of the loan business.[33] By focusing on the bond issues of only four nations, Costa Rica, Honduras, Paraguay and Santo Domingo, the Committee avoided discussion of the largest financial scandals of the day, thereby eluding a confrontation with the most powerful members of the London banking community. But there is also no question that the voluminous parliamentary report shed much light on the mysterious ways in which foreign loans were managed and/or mismanaged.

The Latin American loans investigated were among the smaller financial affairs of the era. They had only a marginal impact on the world depression. But as case studies they are illustrative of the methods used by bankers, speculators and politicians to enrich themselves at the expense of the gullible if avaricious European bondholders and of the virtually defenseless peoples of the small debtor republics. A brief review of the practices disclosed provides an "inside" view of the conduct and motives of the principal actors involved in the international bond business.

From a general point of view, what does the report tell us about the protagonists of the loan deals ? It demonstrates that there were four main groups engaged in these highly

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[33] *Parliamentary Papers*, "Loans to Foreign States, (Reports from Committees) vol.XI, (London, 1875). (Cited hereafter as *Parl. Papers*, "Loans".)

complex and cosmopolitan financial undertakings. The first group was composed of government officials of the Latin American states seeking funds abroad. In most instances, the political elite sought foreign gold for what could be considered productive purposes such as the construction of local railways; this was the case in the Costa Rica and Honduras loans. In others, the objective was simply deficit/financing, as occurred with the Paraguayan and Santo Domingo bond issues. But regardless of publicly advertised goals, politicians frequently intended to promote private aims by taking a percentage of the profits to be reaped from the securities abroad or, alternatively, by obtaining "gratuities" from the entrepreneurs engaged in the business contracts derived from the loans.[34]

The entrepreneurs, generally public works contractors, constituted a second group of individuals interested in the negotiation of foreign loans. Often they took the initiative in suggesting the opportuneness of raising money through the European capital markets in order to finance particular public works programs. For example, the railroad firm of Charles Waring (active in Honduras) and that of Henry Meiggs (operating in Costa Rica as well as Peru) used the proceeds of the bonds to cover construction costs on the railroads they were building and to pay for the import of expensive capital goods: steel rails, locomotives, and so forth. Such contractors usually concentrated on the engineering aspects of their business, but they were not averse to speculating in the sale of the same bonds with which they were paid.[35]

The issuance and distribution of the securities, nonetheless, remained the responsibility of the community of bankers and brokers at London and Paris. Their aim invariably consisted in collecting commissions from client governments as well as in turning a profit on the "spread" between the price they paid for the bonds and the price at which they were able to sell them. Furthermore, in most nineteenth century Latin American loans, an additional and frequently stupendous source of gain stemmed from the reception and disbursement of the loan proceeds by the bankers. The degree of fraud arising from the maladministration of these funds sometimes reached astonishing proportions, as the parliamentary investigation conclusively demonstrated. This was attributed by premier banking houses like Barings and Rothschilds (which naturally considered themselves above such unorthodox manipulations) to the activities of second-rate and unscrupulous firms.[36]

[34] Some insights on political graft derived from the Latin American loans can be found in the parliamentary report cited, but in most instances it is difficult to document such practices. An exception is the Costa Rica loan of 1870 since president Guardia publicly acknowledged and defended his "commissions". See note 55 of this chapter.

[35] Charles Waring, for example, was paid for his railway work in Honduras with bonds which he sold through the speculator Lefevre. Waring was also heavily engaged in the sale of Paraguayan bonds despite the fact that he had no railway interests there. For Waring's testimony see *Parl. Papers*, "Loans," pp.74-82, 195-204.

[36] Such arguments should be taken with a grain of salt but they were not altogether misleading. The first witness called before the select Comittee was George Henry White, member of Baring Brothers during forty years and a specialist in foreign loans; he explained that Baring's never took more than 2% as commission for the issue of the bonds and discursement of the proceeds. Ibid., pp.1-4.

Finally, a fourth and large group of individuals directly involved were the investors who purchased bonds. Those acquiring Latin American securities formed a varied cast of characters, including wealthy capitalists as well as "country clergymen, widows, poor professional men and tradesmen who have got a little money to invest." After default the bondholders inevitably protested that they had been misled by the bankers into placing their hard-won savings in spurious stocks. Yet, as virtually all the witnesses before the Select Committee testified, the smaller Latin American loans were known to be highly speculative. As Charles Lewis, M.P. affirmed: “I have no hesitation whatever in saying, from what I know, that the public have made the Stock Exchange a great gambling house, especially in regard to transactions in unallotted stock and shares...and in all these South American Republic loans, the whole of the dealings have been gambling transactions, or for the purpose of rigging the market.”[37]

The small investor, nevertheless, frequently did not have access to reliable information on the real resources of the country issuing the bonds. And he rarely was privy to the specifics of the contracts drawn up between the issuing bank and the government. The bankers resolutely refused to divulge this information since, logically enough, they feared that the market might be weakened if it became known that they were gouging the treasuries of the very foreign governments whose bonds they were promoting.[38] As a result, investors tended to act on the basis of alluring "tips" rather than facts, thereby intensifying the speculative character of the bond deals. When asked to explain the cause of the speculative fever, no less an authority than Nathaniel de Rothschild, banker and M.P., told the Committee that the reason was deceptively simple: "I should say that the disease is the desire of people to get a high rate of interest for their money. "[39]

These desires could be richly fulfilled with the 13% real interest rates offered, for example, by Honduras 1870 bonds. But what happened when the Central American government defaulted? As prospects of repayment evaporated, the bondholders asked what had become of their monies. The debtor states, not infrequently, could justifiably answer that they had never seen more than a fraction of the original loan proceeds and that they were equally mystified.

A central question remains: who benefited and who lost from the loan transactions? The money did not simply disappear. Some went into the pockets of bankers; some to a variety of financial speculators, agents and politicians; with the remainder going to contractors and merchants who had extensive dealings with the state in question. The exact proportion of disbursement can only be determined through a case-by-case study of individual loans. Only a vast research effort could determine the precise circumstances attending all the Latin American loans of the 1870's. For the present and more limited

[37] Ibid., pp.210-211.
[38] The European financial press acted in collusion with the bankers. Cairncross notes : "The individual investor simply had not the information on which to base a sound judgement...It was estimated that only 25 out of 186 financial journals had any claims to independence...and only 2 or 3 of these could be said to be thorougly honest in their comments on new issues." Alec Cairncross, *Home and Foreign Investment, 1870-1913* (Cambridge, U.K., 1953), p.224.
[39] *Parl. Papers*, "Loans," p.266.

purpose it suffices, perhaps, to comment on some of the financial operations highlighted by the Select Committee's hearings.

Two examples of highly speculative but partially productive issues were the Costa Rica and Honduras railway loans. In the case of Costa Rica--a tiny country with barely 145,000 inhabitants--two large bond transactions were pushed onto the London Exchange in 1870 and 1872. The ostensible purpose of the loans was to finance a railway which would stimulate coffee exports. The Costa Rican president, general Guardia, contacted the famous railway builder, Henry Meiggs, then resident at Lima, requesting him to take responsibility for the project. Meiggs accepted the task of building the line and soon dispatched his nephew, Minor Keith, to supervize the work.[40] A preliminary account of the financial results of both loans suggests that there was little mystery with respect to the distribution of the funds. Of net proceeds, totalling approximately £ 1,920,000, some 45% went to the railroad contractors, 12% to the bondholders for interest charges during the years 1871-73, 34% to the bankers and roughly 8% to president Guardia.[41] For Costa Rica, the securing of foreign gold in this way proved to be extraordinarily costly.

For Honduras, the successive loan deals of 1867, 1869 and 1870 were so outrageous that by contrast the Costa Rican transactions appeared positively judicious. Like their neighbors, the Honduras authorities were intent upon stimulating economic progress through the construction of railways. But they had even more ambitious plans. In 1867 the government announced its decision to build a railroad to be pompously named the "Inter-Oceanic Railway Company", connecting Puerto Caballo on the Caribbean with the Bay of Fonseca on the Pacific. According to the prospectus, the new line would provide an alternative route for international traffic which could successfully compete with the profitable Panama railway. It was never made clear, however, why shippers or merchants should prefer a 230 mile route across mountainous territory to the short, flat 50 mile run across Panama.[42]

In any event, the rulers of Honduras did not hesitate to leap precipitately into the European loan circus; they launched four major bond issues in London and Paris within five years. An initial £ 1,000,000 loan--taken by the ubiquitous Bischoffsheim, Goldschmidt bankers--proved a failure on the London Stock Exchange. Despite this situation, the government resolved to press forward with the railroad and advanced one-fifth of the bonds to the engineering firm of Charles Waring, with the promise that a market would

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[40] On Keith's activities see Stewart, *Keith and Costa Rica*, passim.

[41] The main banking firm engaged in the Costa Rica loans was the Anglo/French firm of Erlangers, although they did not act alone. The 34% in profits was split among various participants in the syndicate, including such well-known firms as the International Financial Society, J.S. Morgan, Louis Cohen & Sons, Cristobal Murrieta & Co., and Knowles and Foster. *Parl. Papers*, "Loans," p.149. Erlangers, nonetheless, reaped extraordinary gains from the management of the loan proceeds, retaining £ 300,000 in cash and £ 250,000 in unsold bonds as a guarantee for several large overdrafts by the Costa Rica government. Ibid., pp.160-172.

[42] The prospectus of the company painted a glowing picture: "Besides the trade of the countries above mentioned (the Central American republics), the Honduras Inter-Oceanic Railway will command a large proportion of the trade now going to the west coast of Mexico by the Panama railway and even a certain trade connecting South and Central America with California and China, Japan and Australia..." Ibid., appendix 12, pp.113-114.

soon be "made" for these little-known and unattractive securities. In 1869 a new and larger loan was floated in Paris through the offices of the banking company of Dreyfus, Scheyer which, in spite of lack of success in obtaining suscriptions, took 11 million francs "firm", representing a little less than 20% of the total value of the bonds. Part of these funds went to the railroad contractors, part to Bischoffsheim in recompense for alleged outstanding debts, and another 3 million francs for the manufacture of nickel coin on behalf of the Honduras state treasury.[43]

By 1870 the enormous volume of unsold bonds from the 1867 and 1869 transactions led the European bankers concerned to propose a new loan for £ 2,700,000. Once again Bischoffsheim assumed formal responsibility for the issue. This house worked in alliance with a singularly mischievous speculator named Charles Lefevre who, it was later found, had a criminal record in France for fraudulent business dealings. Lefevre hired between fifty and one hundred agents to create an artificial market at London for the Honduras bonds and soon managed to sell off a large proportion of both the old and new loan paper at relatively high prices. According to an embittered former clerk in his financial house by the name of Gossip, Lefevre bought the cooperation of the Honduras minister in England with a gift of £ 4,000 in diamonds for his wife; simultaneously, the financier remitted a gratuity of £ 10,000 to Medina, the president of the Central American republic.[44]

But these perquisites were only the scraps of the enormous pickings enjoyed by Lefevre and the bankers on the Honduras loans. The net proceeds on the bond issues of 1867, 1869 and 1870 totalled £ 2,695,000. About one quarter of this sum went to Warring for constructing 57 miles of the projected railway, another 20% to the bondholders to pay interest charges in advance, and some 15% to the Honduras treasury for sundry expenses. Yet almost L 1,000,000 still remained unaccounted for. According to the parliamentary enquiry of 1875, three quarters of this huge sum constituted the booty of Lefevre (who apparently spent a great deal of it on racehorses), while the remainder went into the pockets of Dreyfus and Bischoffsheim.[45]

Though it might appear that the financiers would by now have satiated their lust for riches, they were unrepentant. The gargantuan nature of their appetites was exemplified by the attempt of Lefevre and his cronies in 1872 to promote a gigantic 15 million pound loan in order to finance what was proclaimed to be a revolutionary innovation in contemporary transport namely, the establishment of the Honduras Ship Railway Company.

According to the plan, the few miles of rails already built would soon be transformed by the marvels of modern engineering into a stupendous steel road capable of

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[43] Paradoxically the nickel coins were not accepted by the Honduras public and this operation therefore turned out to be a total failure. The details of the Paris loan are reviewed in Ibid., appendix 12, pp.67-70.

[44] Mr. Gossip added: "Immediately after the loan (of 1870) was issued...Mr. Lefevre began to astonish all his clerks by his lavish expenditure...He purchased the most costly works of art by the greatest masters, some by Jerome, the great French painter, ...and he purchased racehorses to an enormous amount..." Ibid., p.108.

[45] The committee had considerable difficulty ascertaining the precise figures related to the Honduras loan proceeds and their disbursement, but a summary estimate is to be found in the final report. Ibid., pp.xiii-xxvi.

transporting ocean-going ships with a weight of 1,200 tons across the entire territory of Honduras. Two prominent British engineers publicly announced that they considered the project to be feasible, despite the fact that no such enterprise had ever been attempted before and despite the fact that it required the laying of six parallel rails as well as the construction of several immense "ship-wagons" (weighing 700 tons), each of which would be equipped with 240 wheels.[46] The Honduras minister at London, an enthusiast of this mad scheme, attempted to justify it by proclaiming : “This gigantic, colossal, bold idea...could not be doubted...in an age which has seen electric cables stretched across the ocean, a passage for ships opened between the Mediterranean and the Red Sea across the isthmus of Suez, locomotives traversing the Alps after the perforation of an immense tunnel in Mount Cenis, and works prepared for opening another tunnel from England to France under the Channel.”[47]

Enthusiasm, nonetheless, could not guarantee success. The prestigious financial journal *The Economist* soon buried this crude stratagem under a mountain of abuse. The bonds were never sold and Lefevre shortly decamped to France.[48]

While the Honduras loans proved to be an instrument of prodigious fraud, at least a small percentage of the funds raised on the European money markets were actually used for the purpose of building one-third of a small railroad. On the other hand, two additional groups of loan transactions studied by the Select Committee--those of Santo Domingo and Paraguay—represented out-and-out cases of larceny, with no tangible benefits to either state.

The Santo Domingo loan of 1869, nominally valued at £750,000, was an Anglo/American fabrication which included an attempt to annex the island to the United States, a series of real-estate speculations in which president Ulysses S.Grant, among others, was involved, and a sophisticated market-rigging operation in London. Among the bankers involved were prominent firms such as Bischoffsheims, J.S.Morgan and Morton, Rose. They made hay as long as the bonds sold. Santo Domingo received a net payment of £ 38,000, approximately 5% of the value of the loan. Not surprisingly, the legislative assembly of the Caribbean island soon repudiated the bonds.[49]

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[46] The two "distinguished" engineers were James Brunlees and Edward Woods, the latter president of the Society of Civil Engineers of England. Ibid., appendix 12, pp.72-73.

[47] Carlos Gutierrez, simultaneously minister to both Costa Rica and Honduras, had formerly been a clerk in a commercial house at Liverpool. What his "percentage" was in all these financial transactions is a matter of speculation, but it must have been substantial. Gutierrez published his defense in a pamphlet titled "Historical Account..," the whole of which is reproduced in Ibid., appendix 12, pp.58-108.

[48] Five days after the project was presented to the British investing public, news arrived at London of a revolution in Honduras, followed by the invasion of the country by forces from Guatemala and El Salvador. These events caused the quotations of Honduras bonds to plunge abruptly, and eliminated all possibility of issuing any new securities. Ibid., appendix 12, pp.116-120.

[49] On the involvement of Grant and various North American politicians and financiers in this early annexation scheme see the excellent account by Sumner Welles, *Naboth's Vineyard, the Dominican Republic 1844-1924* (New York, 1928), I, chap.5. The gallery of rogues involved in the 1869 loan included Edward Hartmont, the loan contractor and principal organizer of the fraudulent deal; the underwriters, Peter Lawson & Co., guano and seed merchants who subsequently went bankrupt; and the financiers Julius Beer and Charles Morrison as well as the bankers mentioned in the text. This group took the bonds at 55 and sold

Finally, the history of the Paraguayan loans of 1871 and 1872 reveals the vilest characteristics of contemporary speculation. It should be recalled that this small country had just barely managed to survive an extremely bloody war against Brazil, Argentina and Uruguay [1865-1870]. Most of the male population had been wiped out, epidemic disease was rife and food scarce. Despite these catastrophic conditions, local politicians and London bankers contrived to launch two large foreign loans which the country clearly could not support. But the financiers insisted that they were innocent of fraud as well as innocent of any knowledge of the true state of affairs in this remote South American nation.[50] For their part, the politicians of Paraguay were only too happy to get their hands on a substantial amount of gold which, not surprisingly, they surreptiously shipped out of Asuncion and lodged in Buenos Aires bank accounts and in Argentine real estate.[51]

A review of loans scrutinized by the Select Committee suggests that the Latin American bonds of the day were nothing more than gambling chips in a transatlantic financial casino managed by avaricious scalpers. Yet, as we have already seen, not all Latin American governments were subject to such extortionist practices. The larger and more prosperous states could obtain foreign loans on relatively expensive but still payable terms. Furthermore, the disbursement and allocation of funds was carried out by the finance ministers of these nations with considerable fidelity to the objectives espoused, be they investments in public works, arms contracts or refinancing operations. Thus, fiscal and financial restraint, in conjunction with a favorable debt-service/export-earnings ratio, allowed Argentina, Brazil and Chile to avoid default.[52]

In summary, it is possible to argue that the European bankers adopted a substantially different behavior when dealing with the larger, more dynamic nations of Latin America than when arranging business deals with the smaller, poorer republics. The London and Paris financiers exercised a greater degree of prudence with their bigger, stable clients who provided them with profits and remittances on a regular basis. In contrast, the weaker countries were fair game for all kinds of speculators, whether established or newcomers, since the benefits to be reaped were expected to be extremely large, if short-lived. Once the bankers had harvested their golden crop, they habitually abandoned the scene as soon as possible.

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them at prices ranging from 65 to 70 in financial markets in England, France and Germany. *Parl. Papers*, "Loans," pp.130-135. For additional details see Wynne, *State Insolvency*, II, 199-206; and Herrera, *Las finanzas de la Republica Dominicana*, which has two chapters on the so-called "Hartmont Loan of 1869".

[50] The verbal exchange between the Committee members and George Fleming of the merchant-banking firm of Robinson, Fleming & Co. during the parliamentary investigation was illustrative of the stupendous insolence of the financiers. It went as follows: Question: "Did you know the state Paraguay was in at the time you issued the prospectus?" Answer: "It was perfectly peaceful." Question: "Yes, very peaceful; did you not know that the population had been almost exterminated?" Answer; "No." *Parl. Papers*, "Loans,", p.188.

[51] Harris Gaylord Warren, "The Golden Fleecing: the Paraguayan Loans of 1871 and 1872," *Journal of Interamerican Economic Affairs* (hereafter cited as *IAEA*), No.26 (1972), 11-13.

[52] In all three cases the debt service averaged between 10 and 15% of total export earnings, a reasonable ratio according to modern-day "debt-experts". In the Argentine case precise estimates can be formulated on the basis of documents published in Republic of Argentina, *Memoria del Ministerio de Hacienda, 1876*, section V, "Deuda publica". My Brazilian and Chilean estimates are based on data in Fenn *Compendium* (1883 ed.), pp.380-403.

On the other hand, investors--who considered that they had been left holding the bag--could not make a similarly profitable exit. They demanded reimbursement on their securities, however spurious. The result was a series of protracted conflicts between the private creditors and the debtor republics, the latter waging a successful battle in the late 1870's only to succumb, in practically all instances, during the 1880's.

TURNING THE SCREW: DEBT RENEGOTIATIONS

A detailed analysis of the prolonged and labyrinthine negotiations waged between European creditors and Latin American governments (of which eleven were in default by 1876) goes beyond the limits of the present study. But an attempt should be made to sketch out the common features of these financial and political struggles, lasting in some cases ten, twenty or more years. [For comparative data see Table IV.] The main contenders were the bondholders, who sought repayment of the bonds, and the Latin American finance ministers, who argued that such demands could not be met.

Of the bondholders' organizations the most important and vociferous were the British committees although in several instances the French and Dutch associations also played a role in the discussions.[53] The bondholders usually could count upon the informal support of their respective chancelleries but, in contrast to the situation in the Near East (where the European powers intervened directly to guarantee the repayment of debts), in Latin America armed force was used sparingly during the last quarter of the nineteenth century. There were calls by individual capitalists or by jingoist newspapers to send the gunboats, but official response tended to be muted. Indeed, it would not be until the turn of the century that military punishment for non-payment of Latin American debts became common practice.[54]

The British and French bondholders of the 1870's generally had to limit themselves to seeking the support of a prestigious banking house that might be able to persuade a given Latin American government to renew payments on its debts. More effective were pacts worked out with public works contractors who, as in the cases of Costa Rica and Peru, brought private creditors and public debtors together to negotiate a settlement.

Initially, all the Latin American ministers were leery of renegotiation. This was comprehensible considering that the commercial depression of the 1870's made it almost

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[53] The British Corporation of Foreign Bondholders was established in 1868 but only began to publish annual reports regularly from the year 1873, when it began to exercise an active role in international finance.

[54] In 1875 Charles Waring suggested to the parliamentary committee that it might prove expedient to send a gunboat to Paraguay in order to oblige the Asuncion government to pay its debts. *Parl. Papers*, "Loans,", p.204. In 1876 a British warship was sent to the Argentine river port of Santa Fe to protest against the closure of the local branch of the Bank of London and River Plate. For some time afterwards, the British authorities tended to more circumspect in their use of direct military force in Latin America. On the Santa Fe incident see Ezequiel Gallo, "El gobierno de Santa Fe versus el Banco de Londres y Rio de la Plata: 1876," *Revista Latinoamericana de Sociología*, No.2-3 (Buenos Aires, 1971), 146-173. On the militarist tactics adopted by the European powers to collect debts at the turn of the century see Miriam Hood, *Gunboat Diplomacy, 1895-1905: Great Power Pressure in Venezuela* (London, 1975).

impossible for the debtor states to dispose of the resources required for service of their external debts. Moreover, the debtors could scarcely be expected to renew payments until a final resolution of complex lawsuits could be reached. As far as the finance ministers were concerned, the longer the cases dragged on in the British courts, all the better. The suspension of interest payments provided breathing space for the suffocating economies of the smaller countries of Central and South America.

An additional factor which moved Latin American rulers to postpone resolution of the debt question was political. The meager benefits derived from the loans, as well as the corruption they had generated provided excellent grist for the mill of opposition parties. Finance ministers could hardly justify fulfilling engagements on foreign bond transactions which had frequently produced net returns equivalent to less than 50% of the nominal value of the securities. And for politicians like general Guardia of Costa Rica, who had publicly acknowledged his acceptance of huge "presents" from the foreign financiers, it seemed less than expedient to insist upon the discharge of great sacrifices by the local treasury in order to appease the bondholders.[55]

By the mid-1880's, a new set of political and financial circumstances began to soften the intransigence of Latin American ministers and presidents. On the one hand, the rise in exports of raw materials and primary commodities that took place at this time stimulated the regional economies and replenished the coffers of local governments. On the other hand, European investors once again began to fix their sights upon profitable enterprises in the region. The agents of the London bankers and of the bondholders insisted that if the old debt questions could be successfully untangled, it might prove possible to stimulate a new flow of investments from abroad. The arguments were plausible but implementation proved more difficult and costly for the debtor governments than they had anticipated.

The first favorable resolution obtained by the bondholders came as a result of a decision adopted by the British courts with respect to the Bolivian foreign debt. The judges announced that the £ 800,000 of the net proceeds of the Bolivian loan of 1872, which had been deposited at the Bank of England, should be returned to the bondholders. The railroad contractors, who had been hired by the Bolivian government to build a line from the highlands of Bolivia to the plains of southern Brazil, protested, but to no avail. They received practically no part of the funds.[56]

A second negotiation which also proved favorable to the British bondholders was signed between the Guatemalan government and the respective bondholders' committee

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[55] Guardia acknowledged receipt of large gratuities in a speech to the Costa Rica legislature and in a pamplet titled "Vindicacion de Tomas Guardia, Presidente de la Republica en los Asuntos del Ferrocarril y Empréstito," (1871) in which he affirmed that Meiggs "by an act of pure generosity...put at my disposal...the sum of L 100,000 in order that I should do with the sum what I thought best." The full text is reprinted in F. Nunez, *Iniciación y desarrollo de las vías de comunicación y empresas de transporte en Costa Rica* (San Jose, 1924); the same text was printed in English in *Parl. Papers*, "Loans," pp.153-155.

[56] An account of the Bolivian railway project can be found in Rippy, *Latin America in the Industrial Age*, chap.6.

in December, 1882.[57] Other agreements followed in 1885 when Costa Rica and Paraguay finally bowed to foreign pressure, making key economic concessions in exchange for what appeared to be long-term reductions of their outstanding external obligations. In the years 1886-1888 the governments of Mexico, Ecuador, Santo Domingo and Venezuela followed suit. Peru, in contrast, remained enmeshed in court battles in London and Paris until 1890, while the most impenitent debtor, the government of Honduras, continued with its lawsuits until well after the turn of the century.[58] [See Table IV.]

That the majority of the long-delayed financial accords should ultimately have benefited the creditors more than the debtors is not surprising. After all, the small Latin American states had no alternative but to make concessions if they wished to return to the fold of "creditworthy" nations and to spur a new current of direct investments from abroad. Since none of the governments counted upon abundant fiscal resources, they were obliged to adopt one of two possible solutions in order to placate the bondholders.

One solution was to issue a new set of bonds which would replace the old ones. This was the strategy adopted by the authorities of Guatemala, Mexico, Santo Domingo and Venezuela. The extortionate nature of some of these agreements is luridly illustrated by the incredible contract signed by the Santo Domingo government. In 1888 the administration of Heureaux (the Haitian ruler who had taken control over the entire island) agreed to issue £ 770.000 in new bonds to reimburse the bondholders of the 1869 loan which, it should be recalled, had originally netted less than £ 40,000 for the government ! The negotiations were effected through the offices of a mysterious Dutch firm, known as the Westendorp Corporation, which assumed effective control of the tax collection machinery of the nation. This neocolonial financial solution was much applauded by the European bankers.[59]

A second and different possibility for Latin American governments that desired to restructure their foreign debts consisted in exchanging public properties for old bonds. In the case of Costa Rica the entrepreneur Minor Keith persuaded the finance minister that he could reduce the foreign debt by selling the state-owned railway company to a private firm. The success of this proposal depended upon the good will of the bondholders. They had to accept stock in the private railway enterprise in exchange for their bonds. In order to make the contract more attractive a clause was added stipulating that 600,000 acres of public lands would be donated to the new concern as an incentive to the construction of additional lines. Having won the approval of the San Jose elite, Keith sailed for Europe where, after two tedious years of negotiations, he finally induced the bondholders to accept his plan. The latter received one third of the stock in the railway company, but the Costa Rican government had to issue two million pounds in new bonds as additional

[57] On account of a long-standing border conflict with Guatemala, the Mexican government attempted to torpedo the Guatemalan loan negotiations in London by publishing adverse articles in the financial press. But its efforts were unsuccessful. Details can be found in ASRE, file 51-1-16.
[58] The details on all these renegotiations can be found in the annual reports of the Corporation of Foreign Bondholders.
[59] For details consult Wynne *State Insolvency*, II, 204-211.

recompense.[60] In the long run, it was Keith who turned out to be most highly rewarded by the agreement. He used the railroad and the land concession to lay the foundations of the famous (and infamous) North American firm known as the United Fruit Company.[61]

Bankers and politicians adopted similar measures to reduce the Paraguayan debt. In 1885 the Asuncion government proposed a reduction in the value of bonds outstanding from £3,000,000 to £800,000 in exchange for two and a half million acres of public lands and forests which would be ceded to the Corporation of Foreign Bondholders. The British investors accepted the proposition and soon established the Anglo/Paraguay Land and Cattle Company, an enterprise destined to play a major role in the local economy for over two decades.[62]

Last, but certainly not least, reference should be made to the complexities of debt resolution in the Peruvian case. Renegotiation proved extremely difficult, a fact which was not unrelated to the enormous volume of interest in arrears on the Peruvian foreign bonds since the default of 1876. After years of litigation between the Lima government and the bondholders, an agreement was worked out. This pact, known as the Grace Contract of 1890, cancelled most of the Peruvian external debt but gave the bondholders (now constituted as "The Peruvian Corporation") possession of all the state railways (approximately 770 kilometers of lines), two million tons of guano, a concession for the operation of a steamship line on Lake Titicaca, five million acres of public lands, and rights to the development of the rich mines of Cerro de Pasco.[63]

Despite the generosity of the terms obtained by the British bondholders, the court cases did not end. The French bondholders had not been included in this accord. They protested and demanded reimbursement, but met with less success than their British colleagues. It was not, in fact, until 1910 that the French Ministry of Foreign Affairs was finally able to persuade the Peruvian Finance Ministry to renew payments due on £ 3,400,000 claimed by the firm of Dreyfus Freres. And it was not until 1926 that the last remittances were made on this debt, now over a half-century old.[64]

In summary, the consequences of the debt defaults of the 1870's proved to be both complex and protracted. In the short-term the defaulting Latin American nations benefited from a unilateral grace period during which no interest or amortization was paid on the outstanding loans. But after approximately a decade of moratoriums, the majority of the

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[60] For data on the Costa Rican negotiations see T.Soley Guell, *Historia económica y hacendaria de Costa Rica* (San Jose, 1947), I, 340-341; C. Gonzalez Viquez, *Capítulos de un libro sobre historia financiera de Costa Rica* (San Jose, 1979), pp.174 ff.; Henry C. Bischoff, "British Investment in Costa Rica," *IAEA*, 7, No.1 (1953), 40 ff.

[61] Some useful references can be found in Stacy May and Galo Plaza, *The United Fruit Company in Latin America* (Washington D.C., 1958).

[62] For details see Warren, "The Golden Fleecing".

[63] There are sharp difference of opinion with respect to the virtues and vices of the Grace Contract. Most Peruvian historians consider it to have been an instrument of foreign economic domination. Rory Miller disagrees and defends the British-owned Peruvian Corporation against its critics. Rory Miller, "The Grace Contract, the Peruvian Corporation and Peruvian History," *Ibero Amerikanisches Archiv*, N.F. 9, 3/4 (1983), 319-348.

[64] Wynne, *State Insolvency*, II, 169-170.

governments shifted their position and resolved to settle their disputes with the bondholders. They hoped that a renewal of international credit transactions would inaugurate a new era of economic prosperity. They were not altogether mistaken, although the price they paid was often exorbitant. In the long-run, the consequences of the depression of the 1870's spelled severe financial as well as political problems for many countries of the region. The first world debt crisis reflected the traumas and the contradictions that accompanied the spread of capitalism throughout Latin America; contradictions which, it may be added, sprung from the alternating and apparently inevitable cycles of boom and bust, of development and underdevelopment.

CHAPTER 5

LOAN FRENZY IN THE RIO DE LA PLATA, 1880-1890

> "With just one of these loans,
> we can carry out a thousand
> useful public works...Here we
> have Archimedes' lever with
> which it is possible to realize
> the greatest economic revolution..."
>
> Julio Roca, president of Argentina,
> May,1880

The world depression of the 1870's wreaked havoc upon most of the Latin American economies, but by the early 1880's a process of recovery had begun to take place. The foreign trade of many nations of the region increased and tended to become more diversified.[1] At the same time, the flow of foreign capital resurged vigorously. By the late 1880's a new loan boom was sweeping the financial markets of Europe.

Not all the Latin American countries, however, benefited from the mercantile and financial expansion. The pattern of economic development throughout the region was markedly uneven, for while some nations sustained high rates of growth, others stagnated. The foreign trade of Argentina, Brazil, Chile, Mexico and Uruguay, for instance, rose rapidly.[2] In contrast, during these same years the foreign trade of Peru and Colombia declined a fact which discouraged European capitalists from investing funds there.[3] Concurrently, in most of the smaller republics mercantile activity and agricultural production recovered gradually, but progress was slow.

While the effects of foreign trade upon economic development proved more unsettling and haphazard than might have been expected, the renewed flow of foreign capital to Latin America constituted a strong compensating tendency. It is important to note, in this respect, that the 1880's were the first decade in the history of the region when

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[1] On the diversification of Latin American trade during the 1880's see Platt, *Latin America*, chaps. vi-x.

[2] Information on Latin American foreign commerce in this period is scattered. For statistical data on Argentine trade see Vicente Vazquez Presedo, *Estadísticas históricas argentinas*, 2 vols., (Buenos Aires, 1971 and 1976); on Mexico see Kapp, "Les relations economiques,"; on Brazilian exports see Steve Topik, "State Autonomy in Economic Policy: Brazil's experience 1822-1930," *Journal of Interamerican Studies and World Affairs*, 26, No.4 (November, l984), 455.

[3] On Colombian trade see J. Rodriguez and W. McGreevey, "Colombia: comercio exterior, 1835-1962," in *Compendio de estadisticas históricas*, M. Arrubla and M. Urrutia eds., (Bogota, 1970); on Peruvian trade see H. Bonilla, *Gran Bretaña y el Peru*, passim.

foreign *direct* investments (as opposed to loans) began to arrive in large quantities. Now, not only British but also French, German and North American firms moved aggressively to stake out positions in the traditional spheres of commerce and banking as well as in railways, tramways, mines, sugar refineries, flour mills, gas works and even some early electric and telephone companies.[4]

But once again it is essential to underline the uneven impact of this external economic influence. A look at the aggregate data on foreign investments illustrates the skewed nature of their distribution. During the 1880's the bulk of total British direct investments went to just five countries: 37% to Argentina, 17% to Mexico, 14% to Brazil, 7% to Chile and 5% to Uruguay.[5] Not surprisingly, it was in these nations that agricultural, ranching and mining production as well as railway construction and urban development advanced most swiftly. By 1890 Argentina, Brazil and Mexico could each boast a railway network of nine to ten thousand kilometres in operation, while Chile had 2,700 and Uruguay 1,700 kilometres of rails. In contrast, through most of the rest of Latin America, the impact of the railroad was still limited.[6] In summary, the overall picture which begins to emerge is that of a handful of economically dynamic nations which had begun to outstrip the poorer republics of the subcontinent in terms of growth rates.

If attention is directed to the role of foreign loans in Last in America, the disparate distribution of resources becomes even more conspicuous than in the case of trade or direct investments. During the 1880's two nations--both of them bordering on the great Rio de la Plata--were responsible for the lion's share of the international credit transactions undertaken by contemporary Latin American governments. Together, Argentina and Uruguay secured approximately 60% of the value of *all* loans negotiated by the states of the region in this era. [See Table V.]

In the brief span of ten years, Argentina took a total of *50* foreign loans (including national, provincial and municipal issues), whereas only *5* loans were taken by Brazil, *4* by Mexico, *5* by Chile and *2* by Cuba. Less fortunate were Peru, Colombia, Venezuela and

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4 The nominal value of British-owned enterprises operating in Latin America rose from approximately £ 50 million in 1880 to some £ 230 million in 1890. During this period French investments in the region also rose substantially; much French capital went into the Panama Canal Company, which issued almost 2 billion francs (£ 80 million) in stocks and bonds during the decade; French funds were also invested in Latin American banks such as the Banco Nacional de Mexico (1884) and the Banco Frances del Rio de la Plata (1889). German investments were still mainly concentrated in commercial and banking companies operating in various countries of the subcontinent. United States capital exports went primarily into Mexican railroads and mining firms. For source materials see a broad range of bibliographical references in Marvin Bernstein, ed., *Foreign Investment in Latin America* (New York, 1966), pp.283-305.

5 Data from Rippy, *British Investments*, chap.3, charts 7,8,9,10.

6 Much statistical information can be found in what are still the most complete histories of railway development in Latin America: G. S. Brady and W. R. Long, *Railways of South America*, 3 vols. (Bureau of Foreign and Domestic Commerce, Washington D.C., 1926, 1927, 1930); and W. R. Long, *Railways of Central America and the West Indies* (Washington D.C., 1925) and by the same author, *Railways of Mexico* (Washington D.C., 1925).

most of the smaller republics of the subcontinent since they were virtually frozen out of the European capital markets.[7]

The special role of Argentina (and to a lesser extent Uruguay) in the loan boom of the 1880's was not limited to the fact that it contracted the bulk of the foreign loans of the decade. It was also reflected in the objectives of the financial transactions which were markedly different from those of other Latin American states. The bulk of the Argentine issues of the 1880's were intended to accelerate economic development by financing the construction of state railways and ports, establishing public banks and promoting urban modernization. In contrast, most of the loans taken by other Latin American nations were simply refinancing operations. The great Brazilian £ 20,000,000 loan of 1889, for example, was issued to convert the old bonds of the previous loans of 1865, 1871, 1875 and 1885. Similarly, the mammoth £ 10,500,000 Mexican loan of 1889 did not bring much new capital to Mexico; it was used basically to convert all the old 5% and 6% bonds circulating in Europe, a large part of them dating from as far back as 1825. Likewise, the largest Chilean financial operation, the £ 6,000,000 loan of 1886, was used to redeem the old bonds of 1858, 1867, 1870, 1873 and 1875. Finally, the great Cuban loan of £ 23,000,000 issued in 1886 by Baring Brothers, in conjunction with Spanish banking concerns, was used for refinancing purposes but not for the promotion of public works.[8]

However, it was not only the productive nature of the Argentine loans which distinguished them from those of other Latin American states. An additional and important feature can be found in the fact that the Argentine authorities allowed provincial and municipal governments as well as several state enterprises and banks to compete with the national government for loans in the international capital markets. This trend stood in marked contrast to the financial policies of Brazil, Mexico and Chile where central governments monopolized virtually all foreign loans.

During this period the principles of financial federalism were implemented on a grander scale in Argentina than in any other Latin American country.[9] Between 1880 and 1890 ten Argentine provinces negotiated twenty-five loans in England, France, Belgium and Germany for a total of almost £ 35,000,000 (U$S 175,000,000). [See Appendix II.] At the same time, five municipal governments, those of Buenos Aires, Rosario, Cordoba, Santa Fe and Parana, were able to obtain a total of ten smaller loans abroad. Equally successful were several Argentine state companies and banks which created markets in Europe for their bonds. The Buenos Aires provincial railway company, the Ferrocarril

[7] As indicated in Table VI, the smaller Latin American republics were able to obtain support from some European financial houses for refinancing of some of the debts on which they had defaulted in the 1870's, but this did not imply the transfer of any new capital from Europe to them.

[8] The Cuban bond issue was, in practice, a Spanish foreign loan inasmuch as Cuba was a colony of Spain and the transaction was guaranteed by the Madrid treasury. The nineteenth century financial operations of Cuba, nonetheless, deserve greater attention on the part of historians than which they have received heretofore.

[9] As may be seen in Appendix II, the only foreign loans issued by *local* entities of the other Latin American nations during the 1880's were a Montevideo municipal loan, a Mexico City municipal loan, a loan for the provincial government of San Luis Potosi (Mexico), and a loan for the provincial government of Bahía (Brazil). The municipal and provincial foreign loans of all other Latin American nations thus totaled a mere four as compared to the thirty-five taken by Argentine provincial and municipal governments.

Oeste, raised various loans in England in the early 1880's. The government-run Banco Nacional sold its bonds through a syndicate of British and German bankers. Similarly, the public mortgage banks (the Banco Hipotecario Nacional and the Banco Hipotecario de la Provincia de Buenos Aires) placed over £ 30,000,000 of their mortgage bonds in primary and secondary financial markets throughout Europe.

The dominance of Argentina in the foreign loan activity of the 1880's would seem to contrast with the more widespread character of the previous loan boom of l860-73, when practically every Latin American state had participated in the financial frenzy. But it should be recalled that in the previous boom, there was also one government which took the largest number of loans, that of Peru. The Argentine financial authorities of the 1880's, nonetheless, did not take into account the lessons of the Peruvian experience namely, that the contracting of foreign loans on a large scale could stimulate economic expansion but was also fraught with danger. The greatest debtor of the 1860's and 1870's, the Peruvian state, had become a major casualty of the international crisis of the 1870's. As we shall later see, the greatest debtor of the 1880's, Argentina, would be the nation most severely battered by the crisis of 1890.

In this chapter we will focus on the conditions which explain why and how the Argentine and Uruguayan governments became the leading borrowers of the 1880's. Particular attention will be devoted to analysis of the programs and methods used by these states to obtain European funds in order to accelerate the capitalist transformation of their economies. A second theme to be underlined is the rivalry of the European bankers to obtain a share of the loan business in the Rio de la Plata region. The rise in competition was closely linked to the fact that the most prosperous Latin American governments of the day were able to raise money on various markets simultaneously: London, Paris, Brussels, Berlin and several less important centers. These changes made the Latin American and, most particularly, the Argentine loan business increasingly complex.

We shall begin with a review of the financial policies adopted by the Argentine elite during the years 1880-1886 which were aimed at promoting an active role for both national and provincial governments in the administration of several important economic enterprises. These policies were soon destined to make Argentina the largest Latin American debtor.

FINANCING RAILWAYS AND PORTS IN ARGENTINA, 1880-1886

The Argentine economy had been severely bruised by the crisis of 1873 which flailed numerous mercantile and banking firms at Buenos Aires, cut short the flow of immigrants and of foreign capital, brought railway construction to a virtual standstill and pushed the government to the brink of bankruptcy. By the late 1870's, however, the recession came to an end as ranching, agricultural, commercial and manufacturing activity rallied. Paradoxically, one of the causes of the renewed prosperity in the Rio de la Plata originated in the widespread crisis which had gripped European agriculture. Several bad harvests in the 1870's not only drove food prices sky high but also impelled thousands of hungry European peasants out of the countryside and into the ports where they soon boarded ships bound for the United States, Canada, Australia and Argentina. As the *Buenos Aires Standard* observed in late February, 1880: “The distress in Europe, the loss in crops, and the misery of thousands tend to increase our appreciation of the rare blessings all enjoy in this favored country [Argentina]...Fifty thousand immigrants have settled on these shores in the past year.”[10]

It was from 1880, therefore, that European commercial interests began to view the Rio de la Plata region not only as a major wool-producing zone (which it already was) but also as a great potential meat and bread basket for the industrial economies of northern and central Europe. Like the United States and other "newly-settled" nations, Argentina was blessed with vast open frontiers and extraordinarily rich soils which only awaited the arrival of men, threshers and railroads to become one of the most productive agricultural belts in the world. *The South American Journal* commented rapturously: “In fact, absolutely no limit can be put to the development in this direction, the extent of virgin soil suitable for wheat-growing being unlimited...The number of sheep is nearly double that existing in the whole of the United States and is about on a par with the Australian continent and far surpasses it as far as cattle.”[11]

The prospects for growth, however, depended not only upon the abundance of natural resources but also upon political and social conditions. In order to establish a stable national government two fundamental problems had to be resolved. The first was the expulsion of the Indian tribes from the rich lands of the pampas. During the years 1876-1880, the Argentine army carried out a successful campaign to expand the western and southern frontiers, slaughtering thousands of Pampa Indians and driving the remaining tribes across the Rio Negro (Black River). The second major obstacle to the consolidation of a unified political system lay in the resolution of regional/political conflicts which still ran rife. So acute were the divisions that in December, 1879 the governor of the wealthiest and most populous province, that of Buenos Aires, launched a military revolt against the national authorities. Eventually, the army succeeded in smashing the insurrection but only at the cost of several thousand lives.[12]

Subsequently, national elections brought to power general Julio Roca, a man who had won fame as the main strategist of the Indian Wars. Roca immediately reduced the power of the provincial government of Buenos Aires by transforming its leading city into the federal capital of the republic and by working out a complex political pact with the ruling elites of the other Argentine provinces. As a result of the process of political unification, the national government was able to assume an active role in the promotion of economic growth.

The Roca administration, nonetheless, did not innovate a new development strategy. Indeed, most of the ambitious railway and port projects which it sponsored had

[10] Cited in *The South American Journal*, February 19, 1880.
[11] Ibid., January 8, 1880.
[12] The rebellion was led by governor Tejedor in order to impede general Roca from winning the presidency. The rebel militia actually forced the national government authorities out of the capital, but were subsequently defeated by the better-trained and and more disciplined troops of the national army. For an eyewitness account of the battles see synopsis in H. Ferns, *Britain and Argentina*, pp.388-391.

been initiated during the presidency of Sarmiento (1869-1874).[13] What it did do, rather, was to seek an unprecedented degree of financial assistance from abroad to carry out and conclude these programs. The Argentine politicians and technocrats of the early 1880's spared no effort in their campaign to attract banking and industrial companies from Great Britain, France, Belgium, Germany and even the United States to participate in the financing and construction of railways across the pampas, ports at Buenos Aires and La Plata and other important public works.

That the Argentine authorities placed great emphasis on the promotion of state-run enterprises (financed with foreign loans) did not imply that they were opposed to private enterprise. On the contrary, most politicians were themselves landowners or engaged in some kind of private business, often in conjunction with one or more foreign-owned companies. Nonetheless, it should be emphasized that the majority of the Argentine propertied classes believed that the state should play a key role in the administration of economically important enterprises, in particular railways and ports. It was precisely this view which appeared to justify the negotiation of numerous external loans, since they would benefit the entire community by providing a major input of both foreign capital and technology.

The first major loan negotiated by the Roca administration was taken in the year 1881 with the aim of concluding two important trunk lines: the Central Norte railway, running from the mid-western city of Cordoba northwards to Tucuman and Jujuy; and the Andino railroad which was to connect Cordoba with the western towns of Mendoza and San Juan, near the Chilean border. Together, these lines were destined to form the skeleton of the modern transport system of the nation, and hence to contribute to the double task of strengthening the political unity of the republic and forging of an incipient national market.

In mid-1881 the finance minister, Santiago Cortinez, began to sound out several British banking houses, including Baring Brothers, on the possibility of raising funds in London for the construction of the state railways. But Roca intervened, ordering that the loan should be negotiated with a Parisian syndicate of banks which had offered greater security. In early June, 1881 the Argentine ambassador at Paris wrote to Buenos Aires confirming the success of the issue: “The loan--he wrote--has been completely oversubscribed in France...This is, in effect, a great triumph, for the unfavorable impression which had been caused by the loans [in default] of Mexico, Peru and Honduras made the present transaction uncertain.”[14]

[13] Argentine historians have emphasized the originality of the economic policies adopted by the Roca regime; Roberto Cortes Conde and Ezequiel Gallo, *Argentina, la republica conservadora* (Buenos Aires, 1972). For a contrary view see C. Marichal, "The State and Economic Development under Sarmiento and Avellaneda, 1868-1880," paper presented at the American Historical Association meeting in San Francisco, December, 1983.
[14] Letter from the Argentine ambassador at Paris, Mariano Balcarce, dated June 4, 1881. Archivo de la Deuda Exterior de la Republica Argentina, Ministerio de Economia, Buenos Aires (cited henceforth as ADERA), folder 2088.

In years following, additional foreign loans were negotiated on behalf of the state railways by French bankers in a joint syndicate with the Anglo/Spanish banking firm of Murrieta. The French financiers took advantage of these transactions to promote a set of commercial objectives. On the one hand, they used a part of the funds to arrange the sale of French-made rails and locomotives to the Central Norte line. On the other, by financing railroad construction in Tucuman province, they were able to expand their participation in the supply of machinery to modernize the sugar mills then being established in the region by immigrant/entrepreneurs, many of them of French origin.[15]

Both the Central Norte and Andino railroads proved to be of great importance for the economic expansion of the central, western and northern provinces of Argentina, a fact which appeared to justify the large loans used to finance their construction. In addition, it should be noted that these enterprises broadened the technical expertise of key branches of the government such as the National Department of Engineers. It was this agency which drew up the basic blueprints for the railroads. Furthermore, it was in this department that the first generation of Argentine engineers received their practical training. These included men like Pompeyo Moneta, Guillermo Villanueva, Julio Lacroze, Knut Lindmark and Luis Huergo, all of whom played a critical part in the introduction of new technology in the fields of railroads, port works, roads, bridges and urban development.[16]

The national government was not alone in promoting new economic enterprises. The provincial government of Buenos Aires already had considerable experience in this terrain, having promoted and financed the first Argentine railway, the Ferrocarril Oeste, from the late 1850's. This line, which ran through the most prosperous ranching and agricultural districts of the province, produced sufficient earnings to cover a large portion of the costs of construction of new branches. But after 1880 governors Rocha and D'Amico accelerated expansion by taking several foreign loans to pay for additional capital equipment.

The principal banking firm engaged in the sale of the Buenos Aires railway bonds was an Anglo/Canadian merchant bank, Morton, Rose & Company.[17] This cosmopolitan firm used the money raised in London to finance a complex and sophisticated technological package which included the import of supplies from various countries: rails from the Schneider steel mills in France; carriages and bridge material from Cockerill & Company in Belgium; and powerful locomotives from the Baldwin Locomotives Company

[15] For additional information on the French role in financing Argentine railways see C. Marichal, "Los Ferrocarriles franceses en Argentina, 1880-1940," *Todo es Historia*, IX, No. 105 (Buenos Aires, 1976, 38-54. Also see Andres Regalsky, "Las inversiones francesas en transporte en el nordeste del pais," in Academia Nacional de Historia, *Quinto congreso de historia regional*, mimeo (Buenos Aires, 1982).

[16] Information on the activities of the National Department of Engineers can be found in the annual reports of the Argentine Ministerio del Interior, *Memoria*, 1870-1890.

[17] Morton, Rose & Company specialized in the financing of Canadian railways in the second half of the nineteenth century, raising money in London and using it to buy railway equipment in the United States which was shipped to Canada. For details see B. Naylor, *The History of Canadian Business* (Toronto, 1975), I, chap.8.

in the United States.[18] As a result, the Ferrocarril Oeste remained an efficient carrier throughout the 1880's, sustaining a volume of commodity and passenger traffic that was matched only by the British-run Great Southern Railway of Buenos Aires.

If railroads could be deemed the number one priority of the economic development plans of the Argentine state in these years, urban modernization was clearly the second most important objective. It was in this period that the Argentine elite first dreamt of making Buenos Aires the "Paris of South America", and they spent a great deal of money to do so. The mayor of the capital in the 1880's, Torcuato Alvear, who fancied himself a latter-day Haussman (the famous French city planner of Napoleon III), launched a grand public works campaign to build broad avenues, spacious parks and ostentatious government buildings. Alvear also supported a municipal company which built a modern water supply and drainage system for the rapidly growing metropolis.

The most ambitious of the urban development plans, and that requiring the largest foreign loans, was the building of a modern port which could meet the demands caused by the enormous rise in international and local shipping at Buenos Aires. Because of the size and complexity of this project, the national government assumed responsibility for financing the construction. But the authorities had difficulty in deciding which of two port proposals would prove most beneficial.[19]

One plan proposed by engineer Luis Huergo consisted in deepening and widening the Riachuelo, a small river on the southern city of the city, transforming it into a secure deep-water port for ocean-going vessels. During the 1870's and early 1880's, Huergo managed to garner sufficient economic and political support to carry out the initial stages of his plan, but as of 1882 he began to face increasing opposition. His rivals were led by the wealthy entrepreneur, Eduardo Madero, who was supported by the influential senator, Carlos Pellegrini, as well as by a powerful set of Buenos Aires merchants and British financiers. This group sponsored a scheme to build a series of docks and basins on the river banks of the downtown mercantile section of the city, next to the great square, known as Plaza de Mayo.

Madero made several trips to London where, after arduous negotiation, he succeeded in convincing Sir John Hackshaw, a leading British port expert, to serve as technical advisor. Simultaneously, Madero engaged the Baring banking house to provide financial assistance. In late 1883 the Argentine government authorized a large foreign loan for this purpose, but the issue on the London market proved a failure.

The lack of success in marketing the Argentine bonds was due fundamentally to the outbreak of a financial crisis in 1884 in Great Britain. These circumstances caused a suspension of much government-sponsored construction throughout Argentina. In order to

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[18] For details on the financing of the Ferrocarril Oeste see C. Marichal, "Los banqueros europeos y los empréstitos argentinos: rivalidad y colaboración, 1880-1890," *Revista de Historia Económica*) , II, No.1 (Madrid, 1984), 72-77; E. Zalduendo, *Libras y rieles*, pp.265-285.

[19] On port works projects in Buenos Aires during the 1870's and 1880's see James Scobie, *Buenos Aires, From Plaza to Suburb, 1870-1910* (Oxford, 1974), chaps. 3 and 5.

break the financial deadlock, president Roca decided to send his trusted lieutenant, Pellegrini, to Europe on a special mission. The goal consisted in fusing several public works loans into one gigantic £ 8,000,000 loan to be issued by a syndicate of British, French and German bankers.[20] Although the Berlin financiers finally withdrew from the group, the bond sales proved successful. As a result, a large portion of funds became available to build what came to be known as the Madero Port of Buenos Aires, the largest and most modern port to be built in all of Latin America in the last decades of the nineteenth century.

While the national legislature spent several years squabbling over the merits of various port schemes for the capital of the republic, provincial deputies moved more swiftly, authorizing the building of a provincial capital at La Plata and a small port at the nearby town of Ensenada. The construction of La Plata--which involved several foreign loans--was one of the most ambitious urban development projects undertaken in South America in the decade of the 1880's, for it implied building a new city entirely from scratch. Some Argentines criticized the plan, which they denounced as a white elephant of gigantic proportions. Nonetheless, it would be incorrect to argue that the only criteria for the construction of the provincial capital were political.[21] Governor D'Amico (1882-1886), for instance, did a great deal to promote the nearby port at Ensenada with a view to attracting part of the trade which went to Buenos Aires as well as fostering the establishment of several of the first modern meat-packing plants near the new city.[22]

In summary, during the years 1880-86 both the national authorities and those of Buenos Aires Province carried out a series of state-run development projects which, in terms of size and cost, had few precedents in Latin American history. In the short-run, the expansionist policies of the Roca administration were unquestionably attractive. But in the long-run they posed serious dangers. The flow of gold from across the Atlantic quickened the pace of railway and urban development in Argentina and attracted a great wave of immigrants. Yet even as this powerful engine of growth stimulated prosperity, it also loaded down the state treasury with an increasingly heavy and inflexible debt burden.

THE BANKING BOOM IN THE RIO DE LA PLATA, 1886-1890

As general Roca's presidential term drew to a close, he began organizing a campaign to name his successor. Roca's personal choice was his brother-in-law, Miguel Juarez Celman, an influential landowner and governor of the province of Cordoba. In 1886, after what can only be described as fraudulent elections, Juarez Celman assumed the presidency. Most of his supporters probably expected him to follow the basic guidelines set down by his illustrious predecessor, but somewhat unexpectedly the new

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[20] For information on Pellegrini's financial mission in Europe see Charles Jones, "European bankers and Argentina, 1880-1890," Working Papers No. 3, Business Imperialism Series (1972), Centre of Latin American Studies, University of Cambridge.

[21] A summary of some of these criticisms can be found in John H. Williams, *Argentine International Trade Under Inconvertible Currency, 1880-1900* (Cambridge, Mass., 1920), pp.40-41.

[22] A personal justification for the construction of La Plata and the Ensenada port is to be found in Carlos D'Amico, *Buenos Aires, sus hombres, su politica, 1860-1890* (Buenos Aires, 1977), pp.126-27, 162-68. The first edition of this work was published in Mexico City in 1891.

head of state decided to discard a number of Roca's key policies. More specifically, the new president decided to reduce the state's role in the administration of railways.

In early 1887 the Ministry of the Interior sold the trunk lines of both the Central Norte and Andino railroads to British capitalists.[23] Juarez Celman justified these measures arguing that governments are, by nature, bad economic administrators. He argued that the "laissez-faire" policies, espoused by many European theorists should be adopted as the basic doctrine of the Argentine government.[24] Moreover, both the president and his finance minister insisted that the sale of the transport enterprises would provide the necessary gold to reduce the nation's foreign debt.

The external financial obligations of the republic, nevertheless, did not decline after 1886 but rather rose to fabulous new heights. [See Figure VIII.] The explanation of this phenomenon is not at first altogether self-evident, for it might be assumed that a government which reduced the issue of railway bonds abroad would lessen its dependency on the European financial markets. But the Argentine elite of the late 1880's did not reject all foreign loans. On the contrary, while they did stop issuing railway loans, they increased the number of external securities sold on behalf of state banks. In this they were extraordinarily successful, obtaining the support of both first-rank and secondary financial houses in England, France, Belgium and Germany, all of which channeled enormous amounts of capital into the Argentine banking network.

Between 1886 and 1890 the promotion of government-run banks (on both a national and provincial level) became the fundamental instruments of the new administration's policies to stimulate economic growth. The public credit institutions included the Banco Nacional, the Banco de la Provincia de Buenos Aires, two state mortgage banks and, after 1887, the official banks of a dozen provinces. As one contemporary observer noted: “The administration has not remained content with the role of these institutions [the official banks] as auxiliaries to commerce, industry and agriculture; it has converted them into the agents and initiators of all types of economic enterprise...having been induced in this error by the experience of the Banco de la Provincia de Buenos Aires.”[25]

For over thirty years the Provincial Bank of Buenos Aires (established in 1854) had dominated Argentine finances.[26] Eventually, its success provoked the envy and concern of many politicians and businessmen. In order to break its monopoly over note issue, the National Bank (Banco Nacional) had been set up in the 1870's, but it was not until the

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[23] On the sale of the state-owned railways see Raul Scalabrini Ortiz, *Historia de los ferrocarriles argentinos* (Buenos Aires, 1974), pp.221-224, 232-241.

[24] On the laissez-faire views of Juarez Celman see L. Sommi *La revolucion del 90* (Buenos Aires, 1957), pp.27-31.

[25] D'Amico, *Buenos Aires*, p.107.

[26] Finance minister Lopez observed in a speech to the Argentine Congress in 1890: "During a third of a century the Banco de la Provincia de Buenos Aires was the solid column upon which rested the prosperity of the province." *Memoria del Ministerio de Hacienda, 1890* (Buenos Aires, 1891), p.lvi. For additional information see Horacio Cuccorese, *Historia del Banco de la Provincia de Buenos Aires* (Buenos Aires, 1972).

following decade that this bank began to seriously challenge its provincial rival. The National Bank established branches in all the Argentine provinces and contributed to the creation of a unified, national monetary and credit system. The bank's expansion was not only based on domestic growth. It relied increasingly on foreign business. The National Bank became the principal international financial agent for the government, servicing the foreign debt and negotiating new loans abroad. In 1886 the bank took the audacious step of issuing ten million gold pesos of its own bonds through a syndicate of German bankers. The following year it assumed responsibility for a similar transaction on behalf of the municipal government of Buenos Aires, and subsequently multiplied its activities in the European money markets.[27]

An equally important factor in the banking boom of the 1880's was the expansion of the mortgage bank business. Here again, the role of foreign capital proved critical. In 1886 the Argentine congress approved a law creating the National Mortgage Bank, modelled on its provincial counterpart, the prosperous Mortgage Bank of the Province of Buenos Aires. During the years 1886-90 these two land banks issued the fabulous sum of 150 million gold pesos (£ 30 million) in "cedulas" (mortgage bonds) on various European markets, including those of Belgium, Holland, France, England and Germany.[28]

The mechanics of the sale of the mortgage bonds proved to be one of the most efficacious instruments of speculation ever conceived. The large landowners of the pampa region and the real estate operators at Buenos Aires (who were the main clients of these banks) received mortgage bonds in exchange for deeds of the specific properties on which the transactions were based. These mortgage bonds were negotiable cash instruments which could be sold by financial agents on the Buenos Aires Exchange or abroad.[29] Meanwhile, the individuals who held the mortgages were obliged to make regular payments to the banks so that the latter could, in turn, cover the interest charges on the bonds. But given the complex nature of the financial jugglery, the banks were rarely able to determine whether the money had been invested productively or whether it had been employed in speculative ventures. Moreover, since the mortgage banks were public institutions, the government soon found itself trapped into servicing an immense number of private debts which had been generated by the spiraling prices of rural and urban properties.[30]

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[27] The National Bank gradually replaced the Provincial Bank as the main agency for international financial transactions. It also temporarily displaced private Buenos Aires financial firms such as E. Tornquist y Cia. and S. Hale y Cia. as intermediaries in the negotiations of loans with various European banking syndicates. An illuminating analysis of Argentine banking developments is found in Williams, *Argentine International Trade*, chap. 5.

[28] *The Money Market Review* published an article on March 29, 1890 titled "Cedulas" in which it noted: "...the great bulk of this paper is held in Europe and chiefly on the Continent. Some amounts were imported into England through certain London establishments, but the vast majority of the several issues passed into the hands of Continental investors through the banking establishments of Paris, Hamburg, Berlin, Amsterdam, Frankfort and other financial centres. "

[29] For details on the mechanics of the "cedula" sales see Ferns, *Britain and Argentina*, pp.370-71, 420-22; and Williams, *Argentine International Trade*, pp.73-85.

[30] In early 1891 the Mexican ambassador at Buenos Aires commented on the consequences of the speculation provoked by the "cedulas": "In the days of prosperity of this Republic, the business fever became epidemic; the transactions multiplied and the real estate passed through the hands of eight to ten

The number of fortunes built on the basis of mortgage-bond speculation during the later 1880's was legion and included a varied cast of characters: wealthy landowners, urban property owners, out-and-out speculators, politicians and bank directors. The same could be said of the large crowd of individuals who benefited from the increasingly lax policies applied by the National Bank and the Provincial Bank. So widespread did the corruption become that, according to one report, the unscrupulous governor of the province of Buenos Aires, Maximo Paz (1886-1890), made it a daily habit to ask the director of the Provincial Bank to his home to provide him with a list of persons who were to be granted financial favors on the following day.[31]

The pivot of the financial frenzy was located at Buenos Aires, but soon politicians and capitalists from the other Argentine provinces also began to take steps to profit from the real estate and banking boom. It should be recalled, that Juarez Celman and many of his closest collaborators came from the mid-western province of Cordoba, and that they had retained extensive business interests there. Until 1887, however, local banking capital was scarce both in Cordoba and other regions of the interior of the country, all of which relied heavily on Buenos Aires banks and merchant firms for credit.[32] In order to lessen this financial dependency the national and provincial authorities agreed to ratify the so-called "Free-Banking Law" of 1887, which authorized any banking organization to issue bank notes, provided it purchase government gold bonds to the full amount of the notes to be issued.

As a result of this law, seven provinces which had no banks (Santiago del Estero, La Rioja, Mendoza, San Juan, Catamarca, San Luis and Corrientes) were able to set up official credit institutions and to begin printing money fast and furiously. At the same time, thirteen previously existing financial institutions also took advantage of the law to increase their issue; among these were the provincial banks of Cordoba, Santa Fe, Entre Rios and Buenos Aires.

The new legislation was, with some modifications, an attempt to emulate the National Bank system of the United States.[33] Argentine businessmen and politicians were aware of the enormous expansion and multiplication of banks in North America and of the decisive contribution they had made to economic development there. Nonetheless, it should be observed that several important differences existed between the basic guidelines used in the Argentine and the United States banking systems. One common

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proprietors in a single week, increasing their value with each new sale. Thus the nominal price was much greater than the real value of the property. The banks gave credit on properties which in reality were not worth a tenth of the mortgage and issued mortgage bonds ("cedulas") on the basis of the nominal value of the real estate...." ASRE, file L.E. 1678, letter from Juan Sanchez Azcona, minister at the Mexican Legation at Buenos Aires, dated March 23, 1891.

[31] D'Amico, *Buenos Aires*, pp.109, 180-183.

[32] On the demands of Cordoba politicians for new sources of credit and for foreign loans see M. Candelari, M. Gonzalez and D. Roca, *Inversiones extranjeras en Cordoba, 1870-1900*, (Universidad Nacional de Cordoba, 1975), pp.22-39.

[33] On the parallels between U.S. and Argentine banking legislation see Williams, *Argentine International Trade*, pp.55-64.

point consisted in assuring that each bank would guarantee its note issue with negotiable government bonds to be held as a reserve fund. But in contrast to the United States, where practically all the banks were private, in Argentina a great number of the new credit enterprises were public provincial institutions. The Argentine regional banks raised most of their capital through the negotiation of foreign loans which were guaranteed by state revenues.

In the years 1886, 1887 and 1888, Cordoba politicians authorized three successive bond issues in Europe, totaling 16 million gold pesos. Similar measures were adopted by the authorities of practically all the Argentine provinces. As a result, the value of the external debts of these provinces had surpassed £ 30,000,000 by the year 1890. [See Appendix II.] In theory, the bulk of these funds were to be used to strengthen the capital base of the provincial banks and to back up their banknotes. In practice, however, local state treasurers and bank directors channeled much of the foreign gold into private speculative ventures.[34]

In summary, the sweeping bank reforms did not strengthen the autonomy of the Argentine banking system but rather weakened it by accentuating dependency on foreign money markets. At the same time, the finances of the national government were compromised by the irresponsible policies of the bank directors. All told, the national government delivered 200 million gold pesos of bonds to the banks as a guarantee for a similar quantity of banknotes. But the banks paid less than 80 million gold pesos for these securities. The national treasury thus found itself in the position of having to guarantee a huge sum of paper money with reserves equivalent to less than 40% of that sum. Not surprisingly, depreciation of the paper money began almost at once, driving the gold premium upwards from 35 in 1887 to 48 in 1888, 91 in 1889, 151 in early 1890 and, finally, 310, by April, 1890. As the inflation accelerated, various rings of gold speculators in Buenos Aires added fuel to the fire, causing havoc in currency markets, in the stock exchange and in the real estate market.[35]

FINANCIAL FRENZY IN URUGUAY, 1887-1890

The banking boom of the late 1880's was not exclusively an Argentine phenomenon. Similar developments also took place in Uruguay where, following the financial reform of 1883, a rapid expansion took place in urban and railway construction, sheep ranching, real estate speculation and banking. Although the motor of Uruguayan capitalism was fuelled fundamentally by domestic factors, a contributing element was the migration of capital and capitalists from Buenos Aires to Montevideo.

That Argentine entrepreneurs should have been interested in expanding their activities to the small republic on the northern banks of the Rio de la Plata came as no surprise. For over a half a century Montevideo had been a key commercial entrepot,

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[34] According to an official investigation, the authorities in the province of Cordoba "managed to dispose in illegal ways of no less than 70 million pesos...." Williams, *Argentine International Trade*, pp.63-66.

[35] On gold speculation in Buenos Aires see A. G. Ford, *The Gold Standard, 1880-1914: Britain and Argentina* (Oxford, 1962), pp.132-141.

serving as intermediary for the trade of the Argentine river provinces of Entre Rios, Santa Fe and Corrientes, as well as for the trade of the southernmost province of Brazil, Rio Grande do Sul. Already in the early 1850's, audacious businessmen like the Brazilian banker, Maua, and his friend, the speculator Buschental, had grasped the nature of the advantages which Montevideo offered for a broad range of financial and commercial transactions. Maua established the first modern bank in Uruguay and remained active in the real estate and financial spheres until 1875. During the years, 1870-73, furthermore, several groups of financiers from Buenos Aires staked out positions in the Uruguayan capital, participating in the first important foreign loan of the nation.[36]

After 1880 the financial links between Argentina and Uruguay became stronger. In 1883, for example, the Buenos Aires financial firm of S.B. Hale y Cia. arranged a foreign loan for the City of Montevideo through the banking house of Baring Brothers. At the same time, the Bank of London and River Plate, which had formerly operated mainly in Argentina, intensified its operations in Uruguay. The president of the bank, George Drabble, took over the most important local transport firm, the Central Uruguay Railway and obtained capital from Great Britain to build hundreds of miles of new branches.[37]

But the most spectacular example of the role of foreign capital in spurring Uruguayan finances to the boiling point can be found in the activities of the syndicate organized by Emilio Reus during the years 1887-90. Reus became considered the prototype of the speculator/banker in this age of unbridled financial furor. Born at Tarragona, Spain, he had settled at Madrid, gaining a widespread if brief notoriety as lawyer, politician, playwright and editor. In 1885, after losing much money on the Madrid Stock Exchange, he emigrated to Argentina, presumably to escape his creditors. At Buenos Aires he obtained employment as financial chronicler in the newspaper, *La Patria* and soon he was speculating heavily in the money market. Another spate of losses led him once again to seek greener pastures for his financial talents and, early in 1887, he turned to Montevideo.

It was precisely at this moment that a major banking boom had begun to gather strength at the Uruguayan capital. Two large private banks, the Banco Comercial and the agency of the Bank of London and River Plate dominated the local credit market, although they faced increasing competition from a number of smaller financial firms. The president of Uruguay, general Tajes, did not oppose the proliferation of banks but he desired the establishment of a strong credit institution which could serve simultaneously as a financial "point d'appui" for the government and as a source of funds for ranchers and farmers. Emilio Reus immediately seized the opportunity, organizing a syndicate of capitalists including the Argentine wool merchants and financiers, Edward Casey, Thomas Duggan, Emilio Bunge and Eduardo Agarragaray, who proposed to serve as the founders of a

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[36] On Maua's activities in Uruguay see Lidia Besouchet, *Maua en el Rio de la Plata: prologo a la correspondencia politica* (Buenos Aires, 1942); and Marchant, *Maua*, pp.151-54, 176-78. The Argentine firm which served as intermediary for the £ 3,000,000 Urguayan foreign loan of 1871 was that of Lumb and Wanklyn, owners of the Banco Mercantil Argentino.

[37] On Drabble's business interests in Uruguay see David Joslin, *A Century of Banking in Latin America* (London, 1963), pp.39-40, 133-139.

national bank. Shortly thereafter, the Banco Nacional de la Republica Oriental del Uruguay was set up with Emilio Reus as first managing director.[38]

Although the aims of the Uruguayan National Bank were to stabilize official finance and promote rural development, its operations stimulated financial speculation and instability.[39] The first major transaction which Reus pursued (in conjunction with the London banking firm of Barings) was the acquisition of a large percentage of the internal bonds of 1886 at a low price. Barings negotiated a £ 4,000,000 foreign loan for the Uruguayan government by which the internal bonds were exchanged for external gold bonds, producing a huge profit for the insiders. A second project of Reus and his cronies lay in the creation of a large construction and real estate firm to promote the development of two important suburban districts of Montevideo (both named after Reus).

In 1889, after having overextended himself, Reus had to liquidate most of his holdings. But once again--like the eternal phoenix--the audacious financier managed to raise enough capital to launch a last and formidable speculative venture. He created two new banks, the Sociedad de Crédito Argentino at Buenos Aires and the Banco Transatlántico at Montevideo. These enterprises lasted only a few months. Both were swallowed by the crisis of 1890 and a year later Reus died in a small apartment in Montevideo in complete poverty.

Emilio Reus, however, was not the only bankrupt of these years. In 1890 the Banco Nacional of Uruguay folded, producing a run on all the other local banks as well as creating a panic on the Montevideo Stock Exchange. At Buenos Aires, the years 1890 and 1891 witnessed the fall of the Argentine National Bank, the collapse of the land mortage banks and the crash of the Provincial Bank of Buenos Aires. Hundreds of mercantile firms in were swallowed up by the crisis. Finally, but certainly not least, the Buenos Aires and Montevideo financial debacles exercised a critical influence in triggering the famous Baring Panic in London, an event which dramatically illustrated the degree to which the greatest European banking houses had become involved in the vicissitudes of the finances of the Rio de la Plata.

THE EUROPEAN BANKERS: RIVALRY AND COLLABORATION

While there is no doubt that the expansionist policies of the Argentine and Uruguayan governments were largely responsible for the phenomenal loan boom of the 1880's, it would be misleading to neglect the role of the foreign banks in stoking the financial cauldron. The availability of a large surplus of capital in European money markets encouraged the bankers to channel funds to the Rio de la Plata. During the early 1880's a steady flow of gold began to issue forth but, as we have already seen, by the second half of the decade the stream became an uncontrolled torrent. In May, 1887 the *Money Market*

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[38] On Reus and his activities see J. Ferrando, *Resena del crédito publico del Uruguay) (Montevideo, 1969*, pp.97-101; Carlos Visca, *Emilio Reus y su época* (Montevideo, 1963); Raul Montero Bustamamnte, *El Banco Comercial y la epoca de Reus* (Montevideo, 1966).

[39] According to an informed study, nonetheless, the Banco Nacional did contribute substantially, if ephemerally, to the expansion of many ranching and agricultural establishments. Bernardo Nahum and Jose P. Barran, *Historia rural del Uruguay* (Montevideo, 1971), II, 460-472.

Review spoke glowingly of the boom in South American securities, describing Argentina as "the United States of South America". And as late as April, 1889, the same journal could affirm: "Even at this hour what can an investor desirous of getting 4 or 5% interest [an increasingly difficult thing to accomplish] do better than spread it over a selection of the Argentine State and Railway Guarantees, throwing in a mixture of Brazil and Chili?[40]

But why were the European investors so eager to invest their capital in Argentina? High profit rates on both private and public investments offer one important explanation. But there were additional reasons. Argentina and Uruguay were, in fact, very good credit risks. In the 1880's their per capita foreign trade averaged £ 6 to £ 7 per year, whereas in most other Latin American nations the figures ranged between £ 1 and £ 2. According to the contemporary statistician, Mulhall, the per capita income of the inhabitants of Uruguay and of the eastern provinces of Argentina ranked on a level with those of Canada, the United States and Australia.[41] Such a high level of prosperity could not be overlooked by foreign bankers who fought for a share of the rapidly expanding financial business in the Rio de la Plata.

Although the bulk of the money that flowed to Argentina and Uruguay originated in the London Stock Exchange, attention should also be paid to the parallel surge of capital that came from other financial centers of Europe. Most important in this respect was the role of Paris and Brussels as markets for Argentine government securities and mortgage bonds, but equal note should be taken of the growing participation of the Berlin and Frankfort exchanges in this intoxicating financial merry-go-round. Inevitably money attracted more money. The *Money Market Review* underlined the cosmopolitan character of the loan business:

> Holders of Argentine securities may be invited to consider how vast and widespread are the interests which are concerned in upholding Argentine credit. Four or five of the greatest Banks and other Joint-Stock Companies are identified with her bond issues; and so likewise are the establishments at Paris, Berlin, and many other continental centers of finance. It is not as in the old days when the relations of the Argentine government with Europe were conducted only through one or two channels.[42]

The Argentine railway loan of 1881 had marked the entrance of French bankers into the Rio de la Plata bond business. Thereafter, several leading Paris banks such as the Comptoir D'Escompte, the Banque de Paris Bas and the Societe Generale took shares in another seven national government loans while a number of lesser French financial firms participated in eight Argentine provincial loans. In the larger transactions the French financiers tended to act jointly with British banking houses, forming broad-based syndicates to guarantee the success of sales.

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[40] The Money Market Review, April 13, 1889.

[41] See references to comparative per capita income in Michael Mulhall, *Handbook of the River Plate* (Buenos Aires and London, 1885), pp.17,19,88.

[42] *The Money Market Review*, November 26, 1887.

Even so, the French participation represented an unmistakable threat to the former monopoly of the London merchant banks over South American finance.[43]

A more belated challenge to the British came from another quarter as two powerful German financial concerns, the Deutsche and Disconto Banks moved into private banking at Buenos Aires in the late 1880's. At the same time, they promoted international loans for the Argentine national government, for the National Bank and for the city of Buenos Aires.[44] This German financial offensive has been linked by some historians to Bismark's new geo/political strategy, but there is evidence to suggest that strictly economic factors played a dominant role. German mercantile and industrial companies were actively pursuing the conquest of Latin American markets in the late 1880's. And German banks were becoming increasingly involved in the export of capital due to the growing abundance of money on the stock exchanges of Frankfort and Berlin.[45]

Despite the growing competition, the London financial firms continued to control the greater part of the capital exports which deluged the region of the Rio de la Plata. In contrast to their French and German rivals, who invariably operated in groups or syndicates, the British bankers generally adopted a more individualistic strategy. The number of important London merchant banks engaged in Argentine and Uruguayan loans numbered at least a dozen. The best-known were Stern Brothers, J.S. Morgan, C. de Murrieta, Morton/Rose, L. Cohen and Sons, Glyn/Mills and, of course, Baring Brothers.

Each of these merchant banks tended to specialize in a particular sphere of Argentine or Uruguayan financial business. Murrieta, for instance, was heavily engaged in loans for the provincial governments of Entre Rios and Santa Fe as well as in the financing of the Central Norte railway. Morton/Rose tended to specialize in the sale of bonds on behalf of the Buenos Aires state railway, the Ferrocarril Oeste. L. Cohen and Sons participated in the issue of foreign loans for the provinces of Corrientes, San Juan and Tucuman. Glyn/Mills was closely linked to various Anglo/Argentine railway firms. Sterns took part in bond issues for San Juan and Buenos Aires. And Morgan participated in the 1886 public works loan and in financing a private railway firm.[46]

The most powerful house, that of Baring Brothers--which was considered to be, jointly with N. M. Rothschilds, the preeminent leader of the British merchant banking community--was engaged in vaster and more diverse activities than any of its rivals. It took charge of the Uruguayan government's foreign loans of 1883 and 1888. At the same time, it led most of the European banking syndicates selling bonds of the Argentine

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[43] On French loans to the Argentine national and provincial governments see Marichal "Los banqueros europeos," pp.54-62; and Andres Regalsky, "Inversiones francesas en empréstitos públicos nacionales, 1880-1890," paper presented at Asociación Argentina de Historia Económica, VI Jornadas de Historia Económica (Córdoba, 1984).

[44] On the participation of German bankers in Argentine finance see Marichal, "Los banqueros europeos," pp.63-68.

[45] For data on the foreign bond activity on the German stock market see Max Wirth, "The Crisis of 1890," *Journal of Political Economy*) (London, March, 1893), pp. 227-229.

[46] Additional information on the operations of these banking firms in the Rio de la Plata can be found in C. Marichal, "Foreign finance and the Argentine state, 1862-1890," unpublished mss.

national government during the 1880's and also took a share in several Buenos Aires provincial and municipal loans.[47] Despite the breadth of Baring's ventures in the realm of public finance, these were less risky than its speculative plunges in the field of private finance.

Baring's participation in the wild speculations of Emilio Reus at Montevideo has already been mentioned. Equally audacious and imprudent proved to be the attempt by Lord Revelstoke (leading partner of the merchant-bank) to take over the state-owned Buenos Aires Water Supply and Drainage Company. British and Argentine critics of the operation accused Revelstoke of having bribed president Juarez Celman and minister Eduardo Wilde with the huge sum of £ 180,000 for the concession.[48] But regardless of the veracity of the accusations, the fact of the matter was that the water works scheme turned out to be a financial disaster for the bank since it overloaded the Baring portfolio with stock which proved unsaleable amidst the financial turmoil of 1889 and l890.

In summary, a great number of European financial firms became engrossed in Argentine and Uruguayan finances during these years. And, as happens time and again in the banking world, the intense rivalry led the banks to take unwarranted risks, believing that if they did not participate in the loan boom they would lose profitable opportunities for business.[49] Yet by mid-1889 the majority of the foreign money managers had begun to think twice about advancing any more money to the Argentine or Uruguayan republics.

Almost alone, the directors of Barings (a firm which had won a reputation for prudent, conservative practice in the handling of international business transactions) seemed oblivious to the waning of confidence in the financial markets. As late as the spring of 1890, they attempted to place £ 2,000,000 in newly-minted Uruguayan bonds on the London market. Shortly thereafter, came news of the banking and mercantile crisis at Montevideo (May, 1890), of political revolution at Buenos Aires (July, 1890) and of the possibility of a suspension of payments by the treasuries of both Argentina and Uruguay. To make matters worse, Barings itself was on the verge of bankruptcy and was therefore in no position to assist its South American clients. Once again, the transition from boom to bust undermined the most dynamic Latin American economies and shook the international banking community. The inevitable result was a new debt crisis.

[47] Barings led the European syndicates for the Argentine national loans of 1882, 1885, 1888 and 1889. For additional details see Appendix III of this study.

[48] British newspaper reports were not in agreement on the actual amount of the bribes paid; £ 180,000 was the low figure, £ 320,000 the highest estimate. See *The Weekly Bulletin*, June 20, 1891, cited by M. Pena, *Alberdi, Sarmiento, el 90* (Buenos Aires, 1973, p.12.

[49] For comments on the aggressive tactics of the European money managers and for information on the principal financial companies involved in Argentine speculation see Horacio Cuccorese, "La version histórica argentina sobre la crisis de Baring Brothers en 1890," in Academia Nacional de Historia, *Investigaciones y Ensayos*), XX, (Buenos Aires, 1976), 312-315.

Chapter 6

THE BARING PANIC OF 1890

> "The suspension of payments on
> the foreign debt (of Argentina)
> would have consummated the
> catastrophe of Baring; affected
> the Bank of England; and aggra-
> vated the perilous state of the
> London market..."
>
> Speech by Vicente Fidel Lopez to
> the Argentine Congress, May 5, 1891

On the morning of Saturday, November 8, 1890, three of the financial leaders of the City, Everard Hambro, Lord Revelstoke and William Lidderdale met privately to discuss the fate of what was perhaps the most prestigious London merchant bank. Revelstoke (E. C. Baring) informed Lidderdale (Governor of the Bank of England) that he did not know if his firm could continue operating or "whether we have to stop".[1] The implications were grim, for the bankruptcy of Baring Brothers threatened to unleash a financial panic and perhaps even a major economic depression.

On Monday, the 10th, Lidderdale met with Goschen, the Chancellor of the Exchequer, to ask his support on two counts: the first consisted in persuading the Rothschilds to help transfer a large sum of gold from the Bank of France to the Bank of England as speedily as possible. The second lay in putting pressure upon the Argentine government to cover its outstanding debts with Barings. By Wednesday three million sterling in gold arrived from Paris; at the same time, the Bank of England managed to raise another million and a half by selling Exchequer bonds to the financial agent of the Russian government. Although it had been presumed that these measures could stave off or at least, slow down the panic, the volume of Baring bills that began to pour into the Bank of England for discount proved greater than expected. As a result, Lidderdale moved to unite the entire London banking community in a sophisticated rescue operation. Between Friday and Saturday he succeeded in convincing the cream of the merchant banks--Rothschilds, Glyn/Mills, Hambros, Raphael, J.S. Morgan, Anthony Gibbs, Smith Payne and Smith, Brown/Shipley and Robarts--as well as the leading joint-stock banks to

[1] John Clapham, *The Bank of England, A History, 1797-1914* (Cambridge, 1944), II, 328.

pool resources totaling £ 17 million in order to back up Barings.[2] In the weeks that followed a large portion of the private bank's liabilities were liquidated and by the beginning of 1891 the English financial market had begun to stabilize.

As in previous crises, European financial journalists were quick to look for a scapegoat. In this instance the culprits could be easily identified. The firm of Baring Brothers had unsettled the financial world by overextending itself in a variety of South American ventures, having been beguiled by Argentine and Uruguayan politicians into rash if potentially profitable speculations.[3]

But how decisive were the merchant bank's financial commitments in the Rio de la Plata in unleashing the turmoil? *The South American Journal* defended Barings, arguing:

> The unfortunate circumstances which together conspired to bring the great house in Bishopsgate Street to a sudden halt did not only relate to its vast commitments in South America, but to the general disturbance of the finance markets throughout the world. Its transactions in North America and all the countries of Europe were even on a larger scale than those identified with the River Plate, and the prolonged depression of North American bonds must have had a most embarrassing influence upon its business.[4]

The powerful merchant bank had extensive interests: in Canada Barings had long been involved in the financing of railroads; in the United States it participated (through allied firms) in the great reorganization of the railway monopolies which took place in the late 1880's; and in France it was engaged in the resolution of the fantastic copper corner which caused the collapse of the powerful Paris bank, the Comptoir d'Escompte, in 1889.[5]

But regardless of the breadth of the Baring holdings, there is no question that by November, 1890 the bank's balance sheet showed that the firm had overburdened itself with Argentine securities totaling some £ 5,700,000. In principle, these stocks and bonds were assets which could be used to liquidate a substantial portion of Baring's £ 21 million in outstanding liabilities.[6] The Argentine paper, nonetheless, could not be easily transformed into hard cash. The suspension of debt service payments by the Banco Nacional at Buenos Aires (some six months before) had caused a steady decline in the market value of Argentine external bonds. If Barings attempted to sell off these securities on the Royal Exchange, it would not only suffer enormous losses but further disrupt stock

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[2] Ibid., pp.332-333; for additional data see Republic of Argentina, *Memoria del Ministerio de Hacienda*, 1890, pp. xix-xxi.

[3] The financial press criticized European bankers as a whole, but the brunt of their fire was directed against Baring Brothers and the Argentine state banks. See, for example, W. R. Lawson, "Gaucho Banking," *The Bankers Magazine*, 51 (London, January, 1891), 33-52.

[4] *The South American Journal*, November 22, 1890.

[5] On the Baring interests in Canadian railways see T. Naylor, *The History of Canadian Business*, I, 267-275. On the French copper corner of 1889 see Max Wirth, "The Crisis of 1890", *Journal of Political Economy*, 1 (March, 1893), 220-222; and Claudio Jannet, *Le Capital, la Speculation et la Finance au XIXe siecle*) (Paris, 1892), pp.322-331.

[6] According to the *The South American Journal*, June 13, 1891, the Baring portfolio contained £ 5,700,00 in Argentine securities, £ 2,100,00 in Uruguayan bonds and £ 1,100,000 in bonds of other Latin American governments as of November, 1890.

transactions and possibly precipitate a full-scale collapse. Thus it proved to be in the interest of the entire financial community at London to shore up the old merchant bank at the same time as they moved to restructure the Argentine foreign debt.

The Baring Panic of 1890 was an intense but relatively short-lived crisis. It reflected a temporary weakening of commercial, industrial and banking activity in different parts of the world but it was not the harbinger of a prolonged international depression as had been that of 1873. It is in this sense that economic historians are probably correct in arguing that the financial storm of 1890 can be defined essentially as an Anglo/Argentine crisis.[7] Nonethless, there are several aspects which lend it a broader significance and demonstrate the growing complexity of the relationship between the debtor states of Latin America and their European creditors.

In the first place, it should be noted that in contrast to previous debt crises, which were triggered by recession in the industrial nations of the North Atlantic, that of 1890 was unleashed fundamentally by the crash of the Argentine economy. More than any other factor it was the bankruptcy of the Argentine state banks and of the government itself that led to the downfall of Baring Brothers. Such consequences were vivid testimony to the growing weight of the Latin American nations in the world economy.

In the second place, the Anglo/Argentine crisis of 1890 dramatically underlined the risks of the international loan business.The effects of the panic were soon felt in other nations of Latin America since it provoked a marked reduction in the flow of foreign capital. During the decade of the 1890's European bankers were reluctant to extend more new loans for the governments of the region, fearing that they would be burned as badly as Barings had been. In fact, it would not be until after the turn-of-the-century that capital flows to Latin America would be renewed on a large scale.

But the freeze on foreign loans was not the only important consequence of the crisis. The price that Argentina, in particular, had to pay for having adopted overly ambitious policies of financial expansion was ominous. The restructuring of the Argentine foreign debts took over a decade to complete. It proved to be the most complex of all financial negotiations in Latin American history to that date. Furthermore, it proved extremely costly for Argentine society. It led to the imposition if unpopular austerity measures, a striking reduction in real wages and the sale of state enterprises to foreign bankers. It implied, in short, capitulation to the dictates of the international banking community in practically every sphere of the economy. The collapse of the Argentine boom bespoke the dangers of promoting economic growth by relying on foreign sources of capital.

On the other hand, for European creditors the events of that year reflected the extent to which a political and economic crisis in one Latin American country could affect the money markets of the most powerful capitalist nations. It mattered little now that

[7] In a classic study Lauck argued that the 1890 crisis was basically an Anglo/Argentine financial debacle and was not therefore the cause of the more widespread depression of 1893. W.J. Lauck, *The Causes of the Panic of 1893* (Boston, 1907), chaps. 1 and 5.

Buenos Aires was eight thousand miles from London. The staccato message of the telegraph which told of political revolution and financial turmoil in the Rio de la Plata had an almost immediate impact on the transactions in the Royal Stock Exchange.

FINANCIAL AND POLITICAL TURMOIL IN ARGENTINA

The crisis at Buenos Aires had a prolonged gestation period which spanned the year preceding the Baring collapse. Violent fluctuations of the gold premium and of stock prices on the Argentine market as well as of urban and rural property values undermined the economy. These circumstances provoked increasing social agitation which finally exploded in a virulent if brief political upheaval.[8]

In spite of the symptoms of growing disorder, the Juarez Celman administration did not react decisively but instead continued its dangerous balancing act on the financial tightrope which swung between boom and bust. That this was so can probably be explained by the fact that until early 1890, the bulk of the Argentine propertied classes--wealthy ranchers, urban property owners, merchants, bankers and politicians--remained engrossed in a fantastic speculative carnival, oblivious to the signs of impending catastrophe.

To be sure, the vigor of the economic boom appeared to justify the behavior of both Argentine and foreign capitalists in playing the market to the hilt. During the year 1889 property sales had surpassed 300 million pesos, ten times more than in 1886.[9] Scores of new companies were registered on the local stock exchange where total transactions reached one billion paper pesos.[10] Much of the buying and selling represented speculative ventures but the flood of banknotes and mortgage bonds issued by the official banks ensured that the financial whirlwind would continue. By late 1889 the state banks had put into circulation almost 200 million pesos of their notes and the mortgage banks had sold "cedulas" to the tune of 350 million pesos.

The boom in banking, real estate and joint-stock companies did not only have a local origin. Foreign capitalists, as already noted, played an important role. The greater part of the Argentine mortgage bonds were bought by investors in Belgium, France, Germany and Great Britain. During 1889, furthermore, European and especially English financiers invested over 100 million pesos in a variety of private enterprises in the South

[8] The classic study on the revolution of 1890 in Buenos Aires is Luis Sommi, *La revolución del 90* (Buenos Aires, 1957).
[9] The real estate transactions at Buenos Aires during these years have been studied by O. Yujnovsky, "Políticas de vivienda en la ciudad de Buenos Aires, 1880-1914," *Desarrollo Económico*, 18, No. 54 (July-September, 1974), 330-361.
[10] See, for example, Ferns, *Britain and Argentina*, chap. 14; and A.G. Ford, "Argentina and the Baring Crisis of 1890," *Oxford Economic Papers*, new series, 8, No.2 (June, 1956), 127-150. A contemporary novel which described the stock markets speculations of the late 1880's in lurid terms is Julian Martel, *La bolsa* (Buenos Aires, 1898).

American country: railroads, tramways, electric firms, gas works, banks, import/export companies and ranches.[11]

Not all social classes were deceived by the illusions of economic grandeur. The rapid depreciation of the Argentine currency began to corrode the real income of rural and urban workers. In August, 1889 mass strikes took place among port workers in Buenos Aires. In September there followed strikes by the employees of various railroad companies, and in October thousands of construction workers at the capital carried out a series of demonstrations and walkouts. The authorities responded by jailing several union leaders but did not go so far as to outlaw the strikes. As the newspaper *El Nacional* argued in an editorial published on October 4, 1889: “The working class movement has a logic of its own and there is no need to force it out of its path into a class war which would be prejudicial to all.”[12]

By early 1890, however, the patience of both workers and middle-class opponents of Juarez Celman evaporated as the phenomenal rise in the premium of gold undercut the value of the peso and produced an equally sharp decline in real wages and property values. In February the gold premium reached 218, in March 240 and in April it reached a peak of 310. Meanwhile Juarez Celman and his ministers ratified a succession of unorthodox monetary and financial reforms which only added fuel to the flames. To begin with, the suspension of gold transactions on the stock exchange (decreed in March, 1889) spawned a huge black market in foreign currencies and precious metals. In order to defend the peso against further devaluation, minister Varela ordered the National Bank to begin selling its gold reserves, a measure which only succeeded in further undermining the value of the national currency. To make matters worse, the government authorized national and provincial banks to continue issuing a huge volume of bank notes and mortgage bonds.

The excess issue of paper money, the government deficits, the gold drain and the large number of bad bank loans combined to produce a vicious brew. So critical did the situation become that by March, 1890 the national treasury, the National Bank and the Provincial Bank of Buenos Aires were virtually bankrupt.[13] The government made a last-ditch attempt to raise funds by selling the profitable state railroads, including the Ferrocarril Oeste and the remaining branches of the publicly-owned Andino and Central Norte lines to syndicates of British investors. These measures provoked a resounding outcry on the part of the opposition parties and press who declared that the government

[11] For statistical series on foreign investments in Argentina in this period see Williams, *Argentine International Trade*, chap. 6.

[12] Cited in L. Sommi, *La revolución del 90*, pp.105-106.

[13] That Juarez Celman was oblivious to the dangers of bankruptcy appears evident. However, a recent revisionist study suggests that the policies adopted by this administration during 1887-1889 actually presupposed an audacious financial strategy intended to oblige foreign capital to carry the burden of Argentine economic development. See Tim Duncan, "La política fiscal durante el gobierno de Juarez Celman: una audaz estrategia financiera internacional," *Desarrollo Económico*, 23, No. 89, (April-June, 1983), 11-34.

had betrayed the nation by selling off its hard-won economic patrimony to foreign capitalists.[14]

On April 13 the opponents of the Juarez Celman regime organized a series of protest meetings throughout the capital. Thus were sown the seeds of the broad-based social and political movement destined to overthrow the president. By June the political movement known as the Union Civica Radical—which included substantial numbers of workers but was led by members of the propertied classes--had gained such momentum that its spokesmen proclaimed their intention to oust the corrupt-ridden executive authorities. On July 26 a revolution broke out at Buenos Aires, headed by several prominent army officers and politicians. The rebels, however, failed to take advantage of their initial military superiority and after several days of heavy fighting they were obliged to surrender. Shortly, thereafter, the Argentine National Congress forced Juarez Celman to resign, replacing him with vice-president Pellegrini, who promptly formed an emergency Cabinet including general Roca as minister of the Interior and the venerable Vicente Fidel Lopez as minister of Finance. These changes temporarily placated the opposition forces but did not bring a definitive peace.

In February, 1891 the agitation continued to run strong. The Mexican ambassador at Buenos Aires reported:

> Since my arrival official circles are in a state of constant alarm...Every night the garrison troops are placed on a state of alert and numerous brigades patrol the streets...There is little confidence in the economic situation. The number of unemployed increases day by day and the emigration of workers begins to be alarming...Over 20,000 have left recently from Buenos Aires to Montevideo...Among the signs of public discontent I must report a recent and grave event. General Julio Roca, Minister of the Interior, was almost assassinated last evening, and everything suggests that the crime is the doing of a group of unemployed men...Since it is thought that Minister Roca is the soul of the administration in power, all criticisms are directed against him.[15]

A major factor that contributed to the persistence of political instability was the failure of the Pellegrini government to gauge the full extent of the financial crisis which had engendered the social conflicts. This is not to say that it responded passively. In two important fields--those of fiscal reform and of the foreign debt--the administration acted firmly. The minister of Finance, Vicente Fidel Lopez, an aged but lucid politician and intellectual, introduced new fiscal policies which, he hoped, would increase revenues and reduce deficits. Lopez hiked up customs duties and introduced new taxes on exports and on sales of tobacco, beer and sugar. He also levied a series of taxes on all foreign banks operating in Argentina. The tax reforms were accompanied by efforts to maintain the international credit of the government and to implement a policy of reconciliation with the European banks in order to avoid default on the enormous foreign debt of the republic. But in the sphere of banking, the authorities responded with less firmness and as the Argentine banking system crumbled, the crisis deepened.

[14] *La Capital*, March 20, 1890.
[15] ASRE, file L.E. 1678, letter from minister Sanchez Acona, dated February 20, 1891.

THE BANKING CRISIS AT BUENOS AIRES

The initial steps taken by the Pellegrini administration decelerated but did not halt the economic crisis. The authorities had most difficulty in dealing with the gradual but inevitable collapse of the state banking network. The contradictory tactics adopted by the ruling elite to save the public credit institutions reflected their reluctance to recognize the degree of failure of the financial policies that had been adopted in the 1880's.

It should be recalled that during the regimes of Roca and Juarez Celman a large part of the Argentine propertied classes had come to believe that the state banks constituted not merely the symbol but the chief instruments of economic progress itself. They thought that the demise of the state banks would bring a state of total anarchy to the economy. While their fears ultimately proved unwarranted, this attitude delayed the adoption of the measures necessary to restructure the banking system and weakened the position of the Argentine government in its renegotiation of the foreign debt.

That the most important financial institutions, the Provincial Bank of Buenos Aires and the National Bank, were on the verge of bankruptcy had been suspected as early as March, 1890. In order to avoid such a denouement, the governor of the province of Buenos Aires ordered that the funds obtained from the sale of the state-owned railroad, the Ferrocarril Oeste, be deposited in the Provincial Bank. At the same time, finance minister Uriburu proposed that 60 million pesos of treasury bills be issued to support the National Bank on condition that the much-criticized bank president should resign. Juarez Celman, however, refused to take the latter measure. In an abrupt about-face he asked, instead, for the resignation of minister Uriburu. Meanwhile, the Argentine president authorized a series of clandestine note issues by various public banks, to be backed up by three short-term loans negotiated with French and Belgian bankers.[16]

After the ouster of Juarez Celman, Pellegrini and Lopez once again confronted the prospect of an imminent collapse by the National and Provincial banks. Pellegrini decided to carry out Uriburu's old plan, issuing 60 million pesos in treasury bills to bolster bank reserves. This stabilized financial operations for several months, but in November came the unexpected news of the Baring collapse. At the instigation of the Governor of the Bank of England and of Lord Rothschild, the Argentine government agreed to transfer 43 million pesos of the treasury notes held by the National Bank to pay short-term debts in Europe, a large portion consisting of acceptances due to Barrings.[17] As a result, the once-powerful Argentine state banks found themselves navigating again towards the reefs of financial disaster.

In early January, 1891 Pellegrini received news of an imminent run by depositors on the Provincial Bank of Buenos Aires. In response he instructed the already weak

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[16] These short-term loans totalled eleven million gold pesos and were obtained through L.R. Cahen d'Anvers et Cie. and the Bank of Antwerp. Williams, *Argentine International Trade*, p.117, n.3.

[17] For details on the transfer of the treasury bills by the Banco Nacional to European creditors see Republic of Argentina, *Memoria del Ministerio de Hacienda*, l890, pp.xxiii-xxv and "Anexos" 1, 2; and Ibid., 1891, pp.169-170, 172.

Banco Nacional to transfer a part of its reserves to the former institution. To raise additional funds he imposed a 2% tax on all deposits held by foreign-owned banks as well as a 7% tax on their profits. The executive branch justified the latter action arguing that private firms like the Bank of London and River Plate were run by heartless, avaricious managers who refused to recognize the wisdom of assisting the public banks in their darkest hour.[18] These nationalistic measures won Pellegrini political support but did not solve the banking crisis.

The managers of the Bank of London and River Plate, as well as those of other private banks, had good reason to protect themselves--building up their gold reserves and restricting credits, rather than helping the state banks. They were aware that the long-awaited Buenos Aires banking collapse had finally come home to roost.[19] On March 6, having been informed that the leading state institutions were once again on the verge of suspending payments, Pellegrini and Lopez declared a banking holiday. Four days later they asked the financial and merchant community of Buenos Aires to save the public banks by subscribing to a "patriotic loan" of 100 million pesos. The capitalists took forty million pesos of the bonds, but this was not enough. As a result, on April 4 the National Mortgage Bank suspended payments on its cedulas and on April 7 both the National Bank and the Provincial Bank announced a 90 day moratorium on all transactions. The Buenos Aires newspaper, *El Diario* noted: “While the news [of the bank moratorium] has made a large impression on commercial circles, it has provoked great alarm among the working classes and the small depositors subject to the impact of street rumors...On Florida Street the agitation was intense among the circle of stockbrokers and merchants.”[20]

At this point it became clear that the entire public banking system would have to be dismantled. Pellegrini's close friend, Vicente Casares, who had been conducting an investigation of the financial state of the Banco Nacional, issued a withering report on the extraordinary degree of corruption in this banking institution.[21] Pellegrini and Lopez had no alternative but to close the Banco Nacional.

In the months that followed the economic situation worsened. On July 6, 1891 the *Buenos Aires Standard* observed with considerable bitterness:

> Business is almost at a standstill...Hundreds of the working classes are starving and soup kitchens are crowded by hungry applicants. Nevertheless, the display of carriages and Russian horses at Palermo Park last Thursday was really superb, quite equal to what one sees at the Bois de Boulogne of Paris. The people who own the carriages are evidently living in a fool's paradise, ignorant of the volcano on which we stand.

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[18] See the bitter attack by minister Lopez against the private banks in Ibid, 1890, pp. xxxix-xli.
[19] Joslin, *A Century of Banking*, pp.125-127.
[20] *El Diario*, April 8, 1891.
[21] The report prepared by Casares was published in full by *The Buenos Aires Standard* on April 29, 1891. For comments see J.E. Hodge, "Carlos Pellegrini and the Financial Crisis of 1890," *HAHR*, 50, No.3 (August, 1970), 517-518.

Surprisingly, the volcano did not explode. The leading private banks survived a run by thousands of depositors in June.[22] Gradually, the economy stabilized. By September the government reported that there would be a large trade surplus--the first in a decade--and that railroad and urban construction had begun to pick up. A month later the National Congress passed a bill authorizing the creation of a new state credit institution, the Banco de la Nación.[23]

While it may be argued that the Pellegrini administration ultimately proved successful in its efforts to resolve the banking crisis, the impact of the financial damage should not be underestimated. The breakdown of the Argentine banking system (the most highly developed national banking network in Latin America during the 1880's) reflected three serious failures on the part of the Argentine ruling classes.

The first error may be considered a technical fault. The extraordinarily rapid growth of the state banks had taken place without maintenance of a reasonable level of gold or silver reserves with which to back up the issue of paper money. This was not only inflationary but also dangerous for the banks. A comparison of the national bank balances of 24 of the most economically advanced nations in the world in the year 1889 reveals that the specie/ratio of the Argentine banks ranked lowest on the list.[24] In other words, the managers of the Argentine banks adopted extremely risk-prone policies.

The second major failing--which should be defined as a socio/political rather than a technical problem--stemmed from the propensity of national and provincial politicians to use bank funds and reserves for outlandish speculation. The issue of loans to friends, relatives and political allies came to be considered legitimate practice. And most of the money extended in this fashion went into risky but lucrative real estate operations. Public funds thus became a favored instrument for private accumulation.

The third and most complex failure sprung from the involvement of the state banks in the international loan business. Since the early 1870's the Argentine government had adopted a policy of financing major public works projects and other economic development programs with money raised abroad. As long as the inflow of foreign capital surpassed the outflow, such policies appeared justifiable. But by 1890 the debt service produced a gold drain of ominous proportions.[25] The institutions most affected were the state banks since they were responsible for assuring the payment of interest and amortization on national and international public debts. The state treasury was unable to provide the credit institutions with the required funds and forced them to sell off their gold

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[22] However, not all the private banks escaped unscathed. The Banco de Italia y Rio de la Plata, for example, was obliged to temporarily close its doors after the drain of 12 million pesos by fearful depositors. For a vivid description of the run on the Bank of London and River Plate see Joslin, *A Century of Banking*, pp.127-129.

[23] The Banco de la Nacion later became the leading bank of Argentina and still holds that position today. For an excellent official history see *El Banco de la Nación en su cincuentenario* (Buenos Aires, 1941).

[24] The ratio of specie reserves to banknote issues was 357% in Australia, 128 % in the United States, 70% in Great Britain but only 10% in Argentina and 20% in Uruguay. Michael Mulhall, *The Dictionary of Statistics* (London, 1892), p.76.

[25] According to one estimate, the debt service for 1890 was equivalent to 60% of total Argentine export revenues. Ford, *The Gold Standard*, p. 141.

reserves in order to pay the foreign creditors. When the banks had exhausted all sources of foreign exchange, they faced bankruptcy. Since the banks were, effectively speaking, government agencies,the whole edifice of public finance was jeopardized. The once coveted blessings of foreign financial dependency had become a curse.

RENEGOTIATING THE ARGENTINE FOREIGN DEBT, 1891-1893

As a result of the domestic financial crisis and the simultaneous drop in capital flows from abroad, the Argentine government found it impossible to cover the entire external debt service. During 1890 the foreign trade balance produced a deficit of 41 million gold pesos which, if added to the 15 million due in debt service, created a gap in the balance of payments that surpassed 50 million pesos.[26] Despite the grave implications of these figures, president Pellegrini insisted that Argentina would not fail its foreign creditors. On receiving news of the Baring Panic, he spelled out his position to a correspondent of the Buenos Aires newspaper, *La Nación*: “If the customs revenues are insufficient...I shall ask for authorization to sell the properties of the state...Rather than suspend service on the debt, I would prefer to renounce the presidency.”[27]

In practice, however, both Pellegrini and Lopez had already begun to sound out the European bankers on a series of rescue measures which they hoped would tide the treasury over the crisis. In September, 1890--two months before the Baring collapse--they had sent an experienced financial technocrat, Victorino de la Plaza, to London to open discussions with the leading merchant bankers of the City. He was urged to argue that the Argentine Finance Ministry could not continue to remit payments to Europe without buying large quantities of gold on the Buenos Aires market. But such action threatened to produce even greater agitation among the gold speculators and to further debilitate the Argentine currency.[28]

The group of London bankers in charge of supervising the Baring liquidation, known as the Rotshchilds Committee, met with De la Plaza on November 27, 1890.[29] An agreement was soon reached which stipulated that the Argentine authorities should temporarily overlook their own financial problems and assist Barings by ordering the Banco Nacional to remit money to liquidate short-term debts and by canceling Barings' obligations to pay its last installment on the notorious Water Works Company

[26] Williams, *Argentine International Trade*, p.136.
[27] Horacio J. Cuccorese, "La version histórica argentina sobre la crisis de Baring´s Brothers en 1890", in Academia Nacional de Historia, *Investigaciones y Ensayos*, 20, No.2 (January-June, 1976), 290.
[28] Finance minister Lopez observed that "the principal aim of the mission (of De la Plaza) was to avoid having to go into the market to buy gold (for the payment of the debt service)..." Republica Argentina *Memoria del Ministerio de Hacienda*, 1890, p.xii. Williams adds, in this regard, that the speculators "knowing when the half-year remittances of interest came due, laid their plans accordingly. By "rigging the market" they ran up the price of gold in preparation for the great event so that the government found itself forced to pay a higher price..." Williams, *Argentine International Trade*, p.124.
[29] The Committee was headed by the banker Rothschild precisely because he was not engaged in Argentine business. Additional members included partners of Anthony Gibbs, Hambros, J.S. Morgan and Glyn, Mills. Two other important participants were Charles Goschen, brother of the Chancellor of the Exchequer, and George Drabble, president of the Bank of London and River Plate.

transaction.[30] In exchange, the London banking community agreed to take steps to arrange a large bond issue to cover the service on the Argentine external debt. This would impede a drop of the bond quotations and would protect both the bankers and the government. Baron Rothschild explained the nature of the measures in a public letter to the Bank of England: “The recent severe crisis...has disclosed that there are very large financial interests engaged in the Argentine Republic, and has made it clear to those who joined together in facilitating the liquidation of the Barings' affairs that the result of this liquidation is dependent upon the future value of Argentine securities and obligations”.[31]

The Argentine Funding Agreement, as it became known, was in fact a moratorium which relieved the Buenos Aires authorities from having to make full payments in cash on their debts during a period of three years. In exchange the Argentine state would print a set of new bonds (with a value equivalent to the interest due) which would be handed over to the bondholders.[32] The banking houses were amenable to this arrangement because many of them--including not only Barings, but also Murrietas, Glyn/Mills, Sterns, Morton/Rose and others--held large amounts of Argentine securities and wished to avoid the catastrophic fall in quotations which would surely follow upon default.

There was some difficulty in deciding which bank should underwrite the new bond issue because of the unstable situation on the London money market. Finally, the powerful Anglo/American house of J.S. Morgan & Company decided to assume responsibility for the transaction. Why this firm took this audacious step has not been explained by historians, but it may be surmised that one important reason behind this decision can be found in its alliance with its sister branch of J.P. Morgan & Company of New York, already the leading investment bank in the United States. Proof of the importance of the American connection came in the spring of 1891 when J.P. Morgan sailed for England to assume control of J.S. Morgan & Company, following the death of his father. While in London, the New York financial magnate was able to preside over the final negotiations for the issue of the Argentine bonds under the Funding Arrangement.[33]

Not all the creditors of the Argentine government were satisfied with the moratorium loan. The German and French bankers, in particular, were critical of the way negotiations had been conducted with De la Plaza. They tended to be more sanguine than their British colleagues, arguing that a respite of six months would prove sufficient for the Argentine economy to recover. After that, they expected that finance minister Lopez would be able to raise the funds necessary to renew interest payments. Furthermore, the German bankers

[30] The last installment to be paid by Baring was for 7 million gold pesos (approximately £ 1.2 million). Republic of Argentina, *Memoria del Ministerio de Hacienda*, 1890, p.xvii.
[31] Full text of letter in H. L. Shepherd, "Default and Adjustment of the Argentine Foreign Debt, 1890-1906," U.S. Department of Commerce, *Trade Promotion Series*, No. 145 (Washington D.C., 1933), 29-32.
[32] A total issue of 15 million gold pesos in new bonds was authorized, but only 7 million actually went onto the market. Details on the Funding Arrangement are found in Jose Pena, *Deuda Argentina, recopilacion de leyes, decretos, resoluciones, notas y contratos* (Buenos Aires, 1907), document no. 85, pp.527-540. Additional information is in ADERA, folder 2103, "Antecedentes de empréstitos argentinos- Empréstito de Consolidacion de 6% de 1891."
[33] *The South American Journal*, March 28, 1891.

felt that they had not been fairly treated by the London merchant banks who were in charge of the negotiations.

The director of the Disconto Bank, Von Hausseman, sent a memorandum to finance minister Lopez in March, 1891 in which he noted that several of the loans in which German investors had interests were not guaranteed by the Rothschild/De la Plaza arrangement. Moreover, he added, the favoritism of the British committee had been clearly demonstrated by the disclosure that the only Argentine loan which was to receive 100% interest payments was the 1886 Port Works Loan, an operation which was in the charge of none other than the house of Morgan.[34]

In order to answer these charges and to assure the success of the agreement on the Continent, De la Plaza promised to go to Berlin in early 1891. But on receiving news of the intransigence of the heads of the Deutsche and Disconto banks, he cancelled his trip. He wrote to the Argentine ambassador at Berlin, Carlos Calvo, criticizing the German financiers and adding that their fears with respect to the British bankers were groundless.[35] The financial ranging went on for over a year, but by early 1892, De la Plaza was finally able to sign an accord with bankers at Berlin and Paris.

Although Pellegrini and his associates appeared to have maintained the credit-standing of the government, the costs were heavy. So heavy, that only a few months after authorization had been given for the Morgan loan, officials at Buenos Aires were already having second thoughts about its virtues. Popular protests at Buenos Aires revealed the existence of widespread anti-British sentiments.[36] The *Buenos Aires Standard* observed on June 5, 1891:

> The bankers and millionaires of London can have no idea of the bitter feelings that have been engendered by the unfortunate Moratoribus-Rothschild loan. They were apparently under the impression that they were conferring a great favor on Argentina by preventing the financial bankruptcy of Baring Brothers. But the whole business had been viewed here in a very different light...The English flags in Plaza Victoria were torn down by well-dressed Argentines...and the recent run on the London Bank was cheered and applauded in many circles that never before showed us any ill will.

In October, 1892 a new president, Luis Saez Pena, replaced Pellegrini and a new finance minister, Juan Jose Romero, took over the task of dealing with the foreign creditors. Romero sent another financial agent to Europe to cancel the old Morgan loan and to negotiate a new agreement with the bankers.

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[34] The letters of De la Plaza on this subject are in ADERA, folder, no. 2156.

[35] The text of Von Hausseman's memorandum is in ADERA, folder 2156.

[36] Much criticism was directed against the Bank of London and River Plate. So anxious did the local managers of the bank become that they requested the British government to intervene militarily to protect their interests. However, the Secretary of the Foreign Office, Salisbury, refused to intervene. Ferns, *Britain and Argentina*, pp. 465-467.

The minister's instructions were peremptory: the funding loan was a national disaster, having placed an enormous and unacceptable burden on the treasury.[37] A new solution was indispensable. Moreover, Romero added, the collusion between De la Plaza and the Morgan bankers had been notorious. In order to avoid further misunderstandings Romero requested Baring Brothers (which was now back on its feet) to send a representative to Buenos Aires to discuss terms. The agent, Mr. Read, accepted most of the demands of the finance minister and in mid-1893 a new moratorium was arranged, being known as the Romero Agreement. Payments on the sinking fund of the Argentine external debt were suspended for a decade and interests payments on fourteen loans were reduced substantially during a period of five years. After that date, full interest payments were to be resumed.[38]

The advantages of the new pact for the Argentine government were considerable. In the first place, no more new Morgan bonds would be issued, thereby arresting the increase of the nominal value of the external debt. The Morgan bonds had merely constituted an expedient by which the arrears in interest were immediately capitalized and added onto the already mammoth financial burden of the Argentine treasury. In the second place, Romero succeeded in obtaining a reduction of interest rates without causing a drop in the quotations of the bonds. The Barings, who were responsible for this result, were probably pleased with themselves; they had managed to regain control over Argentine international finance, displacing their rivals of the house of Morgan.[39]

THE LONG-TERM CONSEQUENCES OF FINANCIAL DEPENDENCY

While the debt arrangement of 1893 provided substantial relief for the Argentine national treasury, the drain of capital from Buenos Aires to Europe continued. The net outflow of capital caused by the external debt service and by remittances of foreign companies totaled approximately 160 million gold pesos between 1891 and 1900. This sum represented over 80% of the export surplus obtained by the Argentine economy during the decade.[40] As a result, after 1890 Argentina became a *net capital exporter*, in striking contrast to its condition as a great *capital importer* during the 1880's. The flow of funds now went back towards to Europe, rather than vice-versa.

Despite the large payments remitted from Argentina, the foreign debt of the national government did not decline. In fact, between 1891 and l900 it rose from 204 million to 389 million gold pesos. This striking increase did not come from fresh loans, as such, but rather from a series of conversions of previous debts. More concretely, the Argentine national government assumed responsibility for all existing debts of the provincial governments and of the municipalities.[41] The method used to convert these debts

[37] The correspondance of Romero is in ADERA, folder 2103, "Antecedentes de Empréstitos Argentinos-Arreglo Romero."
[38] For details on the negotations with Read and on the final settlement see ADERA, folder 2110.
[39] Barings was reorganized in 1891 as Baring Brothers & Company Ltd. After having paid off its debts, it again resumed its role as a leading London merchant bank.
[40] Based on data in J.H. Williams, *Argentine International Trade*, p.136 and 152.
[41] The total value of new Argentine gold bonds issued for debt settlements between 1891 and 1900 was equal to approximately 190 million gold pesos. Provincial loan restructuring absorbed 93 million; 40 million

consisted in providing the foreign bondholders with new national bonds in exchange for the old provincial and municipal ones. In addition, the treasury issued a huge volume of new bonds to liquidate the so-called railway guarantees which were held by a dozen British railway companies operating in the country.[42]

These complex financial arrangements had important political consequences. By assuming the debts of the provinces and municipalities, the national government centralized financial control and power in its hands. The federalist tendencies which had gained strength in the late 1880's were thus dealt their death blow. The trend towards political and financial centralization at the nation's capital gained strength, setting a course which was progressively accentuated during the twentieth century.

As already indicated the Argentine debt renegotiations of the 1890's were among the most complex ever undertaken by a Latin American nation. [See Table VI.] Given the complex nature of the financial arrangements, it is necessary to analyze the different settlements separately. We shall begin with the restructuring of the provincial external debts.

An overall survey of the rise in the foreign debt during the 1890's indicates that 50% of the total increase was due to the conversion of the provincial debts. These provincial securities had been sold in the 1880's throughout Europe. It is difficult to make an accurate estimate of foreign holdings, but it may be suggested that approximately 10% were held in Germany, 10% in Belgium, Holland and Switzerland, 30% in France and perhaps 50% in Great Britain.[43] The number of creditors of the Argentine provincial governments was, therefore, large and widespread. Generally speaking, the bonds had been sold by second-rank financial firms which had less political influence than the big banking houses that handled the bonds of the Argentine national government. Hence, it was not surprising that in the early stages of debt renegotiations (1891-1893) little attention was paid to the demands of the holders of the provincial bonds. They received practically no payments on their investments. Not surprisingly, the bondholders accused the big banks and the national financial authorities of Argentina of collusion. Yet it was also a fact that the provincial governments did not have the funds with which to pay.[44]

At first the national government proved reluctant to accept responsibility for the tangled finances of the ten provinces with outstanding foreign debts. But finally, in 1896, it took a decisive first step, assuming the task of reorganizing the external loans of the province of Buenos Aires. It offered the provincial bondholders £ 6,700,000 national gold bonds in exchange for approximately £ 7,000,000 of old provincial bonds. This agreement

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were issued to convert municipal debts of various kinds; and almost 60 million were issued to cancel the railway guarantees. A detailed chart of all outstanding Argentine securities can be found in CFBH, *Annual Report*, 1892.

[42] For information on the consolidation of the foreign-owned railroad empires see Colin Lewis, *British railways in Argentina, 1857-1914: A Case Study of Foreign Investment* (London, 1983); and Carlos Marichal, "British and French Investments in Argentina, 1880-1940," Ph.D. thesis, Harvard University, 1977.

[43] Based on data in Marichal, "Los banqueros europeos y los empréstitos argentinos," Table 2, pp. 58-59.

[44] Information on the demands of the various committees of British bondholders of the Argentine provinces is found in abundance in CFBH, *Annual Report*, 1890-1897.

paved the way for similar conversions of the bonds of the provinces of Catamarca, Cordoba, Corrientes, Entre Rios, Mendoza, San Juan, San Luis, Santa Fe and Tucuman. A total of £ 17,000,000 of new national bonds were exchanged for some £ 24 million in outstanding provincial debts.

These conversions freed the provinces from their foreign financial commitments, but at the same reduced their political and economic autonomy. The price they were forced to pay consisted in subordinating themselves to the increasingly centralized fiscal and financial machinery of the national government.

It might be presumed that the national authorities would have paid less attention to the external debts of the Argentine municipalities than to those of the provinces but this was not the case. The explanation can be found in the fact that the bulk of the municipal debts were those of the federal capital, the city of Buenos Aires. The national government had important political reasons to press forward with a major reform of the capital's fiscal and financial system.

The first step to restructure the municipal finances of Buenos Aires took place in early 1891. The National Congress approved a law stipulating that the Buenos Aires Water Works and Drainage Company would be bought back from Baring Brothers.[45] Originally this company had belonged to the city, but in 1887 negotiations were initiated to transfer it to the British financiers. After the crisis, however, the London bankers pressed Pellegrini to nationalize the enterprise. They calculated that reimbursement of the Water Company stock could prove to be a key instrument in the liquidation of the huge volume of Baring liabilities. Some Argentine deputies were not pleased with the salvaging of Barings. As deputy Olmedo noted: "The bankers who negotiated the concession [of the Water Works Company] have been the first in suggesting the need to rescind the contract in order to lift this enormous weight from on top of Barings, which fell, as is well-known, as a result of this ruinous transaction."[46]

With the new law in hand, finance minister Lopez transferred 31 million gold pesos in new bonds to the Rothschild Committee, which was in charge of liquidating Barings' debts. The water works of the city of Buenos Aires were now once again public property, but the costs of the related financial operations left a large debt on the hands of the national treasury.

Less extortionate but equally complex was the renegotiation of the Buenos Aires municipal bonds of 1888 and 1889. Most of these bonds had been sold in Europe through the agency of the Banco Nacional. When the latter went bankrupt in 1891, the foreign bondholders panicked. But there was little they could do. Interest payments were temporarily suspended, although subsequently the city renewed service by paying in paper pesos. The big London banks were not predisposed to include these debts in the Morgan or Romero arrangements. A final solution was reached in September, 1897 by

[45] For details on the rescission of the Water Works contract see ADERA, folder 2156.
[46] *Diario de Sesiones, Cámara de Diputados* (Buenos Aires), January 23, 1891, p.966.

which the national government issued £ 7,000,000 in gold bonds in exchange for the old securities.

The advantages of the Buenos Aires settlement were not lost on the bondholders of other Argentine municipalities. By exchanging their old bonds (which were now quite worthless in terms of stock market quotations) for new national gold bonds (which were quoted at par) the European investors recovered their capital. Nonetheless, in some instances they were forced to accept substantial sacrifices of interest payments in arrears. The Rosario bondholders, for instance lost some £ 300,000 and those of Santa Fe and Cordoba similar sums. [See Table VI].[47]

The resolution of the provincial and municipal debts thus became an essential plank of the broader plan of the Argentine authorities of the 1890's to restructure and stabilize the financial machinery of the state. The final arrangements did not prove satisfactory to any of the parties concerned since the national government was forced to increase its foreign debt while the provincial and municipal governments lost power. Nevertheless, the various administrations in charge of the renegotiations argued that the stabilization of public institutions was more important than the sacrifice of federal principles.

The motives of the Argentine political elite were quite different when they decided to include the demands of the British-owned railway companies as a part of the global debt settlement.[48] By bowing to the demands of the European bankers and railway magnates, the Argentine authorities opened the door to increasing penetration of the nation's economy by foreign capital. The strong state role in the economy, which had been promoted by the administrations of Sarmiento, Avellaneda, Roca and even Juarez Celman was reversed. After 1890, the state would continue to fulfill certain supervisory economic functions, but it was not allowed to compete with private companies (and in particular foreign firms) in the running of *profitable* railway and/or port enterprises.

By including the railway guarantees in the larger debt package, the Argentine financial authorities guaranteed that the railway managers and shareholders would be protected from the negative impact of the economic depression of the early 1890's. In effect, the Argentine elite transferred a huge volume of public resources into the hands of a group of private firms which, it should be added, were the largest capitalist enterprises in the country.

The links between the railways and the external debt became manifest from the outbreak of the crisis in 1890. In that year the executive authorities of the republic decided to sell off the remaining state railroads to several British concerns with the object of reducing the foreign debt. Protests against these measures were led by deputy Osvaldo Magnasco who argued that it would be a mistake to auction off these valuable public

[47] On the municipal loan arrangements see Shepherd, "Default and Adjustment," pp.56-58.
[48] For text of the railway guarantee bond issue see J. Pena, *Deuda Argentina*, document no. 96, pp.557-561.

properties.[49] But his criticisms were to no avail. Pellegrini and Lopez argued that the crisis offered no other alternatives since the sale of the state enterprises guaranteed a possible method of reducing debts.

In later years the British railroad firms pressed for additional concessions. Most of these companies had been established during the 1880's with large annual subsidies paid by the government which were better known as "railway guarantees". In order to encourage construction of new branches, the government provided a yearly subsidy equal to between 5 and 7% of the nominal capital value of each company.[50] Not surprisingly, in 1890 these payments were abruptly suspended.

The railway managers complained, but until 1896 they received no satisfactory reply.[51] It was then that they were able to convince the weak-willed Argentine president, Uriburu, to bow to their demands. Uriburu agreed to issue a grand total of 60 million gold pesos in new government bonds (approximately £ 10 million) to be transferred directly to the company coffers. The injection of this huge amount of capital allowed the British-owned firms to use these funds to consolidate their control over the entire national railway network of Argentina, establishing four great monopolies which dominated the principal cattle, wheat, sugar, wine and quebracho producing regions.

Once again, several nationalistic deputies protested, arguing that the government was regaling the companies with enormous sums in exchange for the dubious privilege of canceling the railway guarantees.[52] They noted that most of the transport firms were already profitable enterprises and that they no longer had need for subsidies. The guarantees could simply be annulled, saving the government an enormous amount of money. But such arguments made little headway in the Congress or in the executive branch. The "railway lobby" already had accumulated more influence at the highest levels than the small circle of opposition parties.

The acquiescence of the Argentine government with respect to the British railway companies marked a striking and fundamental reversal of the 1870's and early 1880's when state-run enterprises had been favored. Now laissez-faire became the recognized ideology of the state and encouragement was given to foreign capitalists to expand their interests throughout the nation without restrictions. These concessions were, in effect, the bitter and final legacy of financial dependency.

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[49] Magnasco not only criticized the sale of the state railways; he also opposed the early proposals made by the government to cancel the railway guarantees, as they would benefit the British railway companies. *Diario de Sesiones, Cámara de Diputados*, September 11, 1891, pp.660-661.

[50] For details see R. Scalabrini Ortiz, *Historia de los ferrocarriles*, pp.173-175, 239-242, 318-323.

[51] The British bankers who had issued railway bonds also complained. See, for instance, the letter from J.S. Morgan & Co. to the Argentine minister of Finance in early 1894 in which the financiers denied the extortionate nature of the tariffs charged by the railway companies and demanded payments of the guarantees. ADERA, folder, 2110, letter dated January 3, 1894.

[52] See speeches by deputies Almada and Varela in *Diario de Sesiones, Camara de Diputados*, 1895, pp.1013-1087.

In summary, the crisis of 1890 subjected the Argentine state to the dictates of the international banks which imposed severe financial conditions upon both the national and provincial governments in order to guarantee that they would recoup their loans and to assure the profitability of allied enterprises such as the British railway firms. At the same time, the European bankers took advantage of the failure in 1890 of numerous Argentine-owned enterprises, public and private, to further consolidate the dominant position of foreign capital in key spheres of the Argentine economy. And, after the turn of the century, they promoted a renewed burst of capital exports to the Rio de la Plata, coordinating their strategies closely with commercial, railway and industrial magnates interested in expanding their interests there. This trend, moreover, was common to many other Latin American nations as international bankers spurred a new and powerful wave of loans and direct investments in the region which continued to run strong until the First World War.

CHAPTER 7

DOLLAR DIPLOMACY AND THE LOAN BOOM OF THE 1920'S

> "It would be delightful if loans to
> such countries could be made on the
> same credit basis as we make loans
> to England and Germany. But until we
> remold the world closer to our heart's
> desire, this cannot be the case."
>
> Henry K. Norton, United States economic expert, 1928

By 1914 Latin American governments had accumulated foreign debts valued at more than two billion dollars. Half of this sum originated from loans taken during the nineteenth century, which were still being paid off. The other half had been contracted more recently in the midst of the financial frenzy of the prewar era. The new loan boom of 1904-1914 marked the apogee of European financial influence and power over the Latin American states.[1]

While the London merchant banks continued to play a most important role--Rothschilds remained the official bankers to Brazil and Chile while Barings were the main financiers of Argentina and Uruguay--they were confronted with rivals which threatened to undermine and possibly break British financial predominance in Latin America. In Mexico, for instance, German bankers seized control of the international loan business as early as 1888, although by the first decade of the twentieth century they were forced to share this lucrative business with United States and French financiers. The German banks were also active in the promotion of loans for Chile and Argentina, working closely with industrial firms to stimulate trade.[2]

The French banks were just as active. In Brazil and Argentina, for example, French banks assumed a leading role after the turn of the century. Powerful firms such as the Credit Mobilier and the Banque de Paris et Pays Bas provided numerous loans for national and provincial governments and became engaged in a variety of economic

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[1] For statistics on European investments in Latin America in this period see United Nations, Economic Commission for Latin America, *El financiamiento externo de America Latina* (New York, 1964), pp.5-17; Rippy, *British Investments*, pp.66-83; Jacques Thobie, *La France imperiale, 1880-1914* (Paris, 1982), pp.214-227.

[2] The Disconto and Deutsche Banks, in particular, used loans to promote German industrial exports such as railway equipment and cannon from the Krupp factories and turbines and electrical supplies from the giant industrial establishments of Siemens and AEG. On the role of German banks in Argentina see Luis Sommi, *Los capitales alemanes en la Argentina* (Buenos Aires, 1945); on their influence in Mexico see Friedrich Katz, *The Secret War in Mexico* (Chicago, 1982) chap. 2.

enterprises including the Rosario port works, railways in Santa Fe and Buenos Aires, port modernization in Pernambuco, state railways in Minas, Goyaz and Bahia.[3]

The United States banks were slower in moving south of the Rio Grande than their European counterparts, but already by 1910 they had become engaged in several international financial syndicates which provided loans to Argentina, Mexico and Cuba. The most powerful of the New York banking firms such as J.P. Morgan & Company and the National City Bank recognized the possibilities for expanding business in Latin America but, in most instances, they did not yet dare to strike out alone. The New York financiers relinquished the front seat to the European bankers in joint loan issues not only because they felt that their colleagues from the Old World had superior experience in this field, but also because the North American investing public was much more reticent than that of Europe to invest money in foreign government bonds.[4]

The increasingly cosmopolitan character of the Latin American loan activity reflected the intense economic rivalry which characterized this age of "high imperialism". But loans were not the only bones of contention. Even more important was control over the production, transport and commercialization of the natural resources of Latin America. During this era British, French, German and United States private enterprises (many of them forerunners of the modern multinational corporations) invested an unprecedented volume of capital in railways, tramways, mines and agricultural companies throughout the subcontinent.[5] The intense rivalry among the imperial powers thus stimulated a great burst of speculation in Latin American bonds and stocks, which continued unabated until 1914.

The outbreak of war in Europe caused an abrupt suspension of capital exports and threatened to dislocate the financial structures of all the Latin American economies. Yet in spite of the temporary breakdown of the international trade and credit machinery, the governments of most nations of the region continued to adhere to the gold standard as well as to sustain regular payments on their external debts. For the first time in Latin American history a major loan boom was not followed by widespread defaults.

Traditional explanations for the remarkable resiliency of the Latin American economies during the First World War emphasize the role of United States banks in replacing the European financial institutions as suppliers of credit.[6] Such a view, however, is misleading on several counts. In the first place, it is necessary to emphasize that during

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[3] On the role of French banks in Latin American provincial and municipal loans see Fredrick Halsey, *Investments in Latin America and the British West Indies* (Washington D.C., 1918) Department of Commerce Special Agent Series, No. 169, 124-139.

[4] Until 1914 the United States remained a net importer of capital from Europe. The only Latin American bonds placed in New York were those of Cuba (1904, 1909), Mexico (1904, 1912) and Argentina (1909). Even in these few cases, a substantial portion of the securities were sold in Europe by allied banking firms.

[5] For the early history of U.S. multinationals in Latin America see Mira Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge, Mass., 1976), chap. 9.

[6] Although it is unquestionable that the United States played an increasingly important role in Latin American trade after 1914, its ascendancy in the financial field did not come until the 1920's. For a restatement of the traditional view see, *Latin America in the 1930's: The Role of the Periphery in World Crisis*, Rosemary Thorp, ed., (New York, 1984), p.3.

1914-1918 the majority of the Latin American governments were able to do without financial assistance from abroad. As recent historical studies have demonstrated, they overcame the obstacles posed by the drastic reduction in European loans by relying on two different sources of funds. On the one hand, they used their large export surpluses to pay the service on foreign debts. On the other, they covered government deficits by utilizing internally generated funds such as local bank loans, by issuing treasury bills and by printing considerable quantities of paper money.[7]

In the years immediately following the war (1918-1920) there was an increase of United States direct investments in several countries of the region, especially in Cuba, Mexico and Chile, but there were no long-term loans for governments.[8] This situation changed after the international commercial crisis of 1921.

The violent and unexpected impact of the crisis of 1921 convinced Latin American leaders that they had no alternative but to seek the financial support of the United States. From that date several Latin American governments began to explore the possibility of floating long-term loans on the New York Stock Exchange. Despite the initial opposition of authorities at Washington D.C. to foreign loans and the unreceptive attitude of North American investors towards foreign bonds, a number of New York banking firms took steps to prime the market with Latin American government securities. The speculation increased rapidly, reaching its apex during 1925-28 when United States bankers sold over one and a half billion dollars in Latin American bonds. This "dance of the millions", as the financial furor came to be known in countries such as Colombia, dramatically illustrated the nature and impact of the financial relations that now linked the budding money markets of Havana, Bogota, Buenos Aires and Rio de Janeiro to the enormously dynamic financial machinery of Wall Street.

The sudden triumph of the North American financial offensive in Latin America provoked the astonishment of contemporaries and spawned a considerable body of journalistic and academic literature which baptized the 1920's as the age of "dollar diplomacy".[9] This phrase was intended to convey the idea of the coming-of-age of the United States as a preeminent economic power in Latin America. Implicitly it also suggested that the New York bankers and Washington diplomats were well on their way to becoming the proconsuls of a burgeoning empire. This was true in some of the smaller countries of the subcontinent, but not so in the larger nations.

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[7] Much of the discussion that follows with respect to the evolution of the Latin American economies during 1914-1918 is based on the manuscript of Bill Albert, "Latin America and the First World War", which he kindly allowed me to consult in a preliminary draft.

[8] The best sources on U.S. investment during this period are Max Winkler, *Investments of United States Capital in Latin America* (Boston, 1929); and Cleona Lewis, *America's Stake in International Investments* (Washington, D.C., 1938).

[9] Journalists coined the term, but a series of academic studies, sponsored by the American Fund for Public Service, provided a comprehensive body of empirical data to sustain this view. Among these excellent studies see Leland Jenks, *Our Cuban Colony: A Study in Sugar* (New York, 1928); Margaret Marsh, *Our Bankers in Bolivia* (New York, 1928); Melvin Knight, *The Americans in Santo Domingo* (New York, 1928). J.F. Rippy, *The Capitalists and Colombia* (New York, 1931); and C. Kepner and J. Soothill, *The Banana Empire* (New York, 1935).

In this chapter we shall argue that the transfer of control over Latin American finances from European banking centers to those of the United States was not as sweeping or unequivocal as has been traditionally supposed. Furthermore, it should be emphasized that while the United States bankers were fundamental protagonists of the great loan boom of the 1920's they did not act alone. Other key actors who played an important role included the Latin American politicians; in some instances, the latter were able to arrange the financial transactions with a certain degree of autonomy. The analysis of the finances of Brazil (the most prodigal borrower of the decade) suggests that the authorities at Rio de Janeiro and Sao Paulo were responsible for the formulation and implementation of a strikingly original loan policy. In addition, a review of the Brazilian experience indicates that important ties were maintained throughout the loan boom with leading European banking houses. The New York bankers participated but they did not control.

Quite different was the situation in the smaller republics such as Haiti, Santo Domingo, Nicaragua and Cuba. Powerful financial groups of the United States imposed a tight grip over fiscal and monetary policy as well as over the public and private financial machinery of each of these nations. In this they were assisted by military force and by pressure brought to bear by the State Department. "Dollar diplomacy" was here equivalent to a symbiosis of financial and military colonialism.

In short, the experience of the smaller countries was quite different (and more tragic) than that of the larger nations of Latin America in this era. But before entering into a discussion of the loan boom of the 1920's, let us return briefly to the year 1914.

LATIN AMERICAN DEBTS AND THE FIRST WORLD WAR

The impact of the First World War upon the Latin American economies was contradictory. At first, transatlantic commerce and finance were severely disrupted, but later the economic situation tended to improve. During 1914 and early 1915 both exports and imports dropped, provoking mercantile failures and banking panics in many Latin American republics. Yet by the end of the latter year Latin American exports had rebounded. This development was the secret which explained why there were no major defaults on foreign debts.

The decline in trade, which took place at the beginning of the war, led to large public deficits since practically all governments depended heavily upon customs revenues as their main source of income (approximately 50% in most cases). The time-worn solution of asking for bridge loans from European banks to allow for temporary relief could not now be implemented since the foreign banking houses were entirely absorbed in the problems of war-finance. Only Brazil--due to its special relationship with Rothschilds--was able to extract a large long-term loan from Europe in 1914.[10] The rest of the Latin American states were obliged to seek different expedients for their financial worries.

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[10] This Brazilian loan of £ 14 million ($ 70 million) was issued by Rothschilds to guarantee payments of interest on the outstanding foreign debt of the national government. Albert Kimber, *Kimber's Record of Government Debts, 1934*, (New York, 1934), p.253.

During the war years Latin American finance ministers were concerned fundamentally with two inter-related problems: maintenance of regular payments on foreign debts and financing of public deficits. The continuation of the debt service could only be guaranteed if there were an amelioration in the balance of payments situation. Such an improvement made itself felt from the end of 1915 as a result of the war-time export boom. [See Figure IX.] As exports rose and imports declined, most of the Latin American states accumulated large reserves of gold and foreign currencies. The trade surpluses provided sufficient foreign exchange to cover payments on foreign debts on a regular basis.

The volume of funds required to satisfy foreign creditors, nevertheless, proved to be enormous. Not only was it necessary to provide service on the public foreign debts (totaling some $ 2 billion) but also on private foreign investments (totaling approximately $ 7 billion). During 1914 – 1918 the Latin American economies remitted interest and dividends on these sums to all its major creditors, England, France, Germany, Belgium and the United States, and therefore became a *net capital exporter*. It can be estimated that, as a whole, Latin America transferred perhaps 2 billion dollars in such payments, almost half of the 4 billion dollars accumulated in the way of export surpluses during the war.[11]

The honoring of foreign debts imposed severe strains on the public finances of many Latin American states. To begin with, the debt service provoked an increase in government financial expenditures. To make matters worse, overall state income tended to decline as a result of the drop in import taxes. The combination of growing expenditures with declining revenues inevitably engendered mounting deficits. In order to resolve this dilemma, each of the Latin American governments adopted a somewhat different solution.

The case of Argentina is illustrative of the effects of adopting conservative fiscal, monetary and financial policies. The Argentine authorities were bent on complying with their foreign creditors. According to Bunge's calculations, the public debt service absorbed an astonishing 45% of government revenues during the war years.[12] This was made possible by recourse to a combination of short-term loans from London and New York bankers during 1914-1916, an increase of 500 million pesos in the internal debt and a large flow of local bank loans to the government. Meanwhile, import revenues dropped approximately 30% between 1914 and 1918. Argentine financial officials responded by raising excise taxes and relying on bank credit rather than printing money to cover deficits. The result was that the government had to reduce its investments in economic development, education and public health programs. At the same time, the private sector was starved of capital since foreign funds were no longer available and since much local

[11] Calculating an annual return of 5% on foreign public debts and 4% on foreign direct investments, it can be estimated that total annual transfers from Latin America surpassed $ 400,000,000. Rippy calculated that the average annual return on British investments in Latin America in 1914 was close to 4,7%. See Rippy, *British Investments*, pp.72-64. For additional data on foreign investments in Latin America in 1914 see footnote 1 of this chapter.

[12] Alejandro Bunge, "Deuda publica," Informe No. 6, serie F, No. 2, Dirección General de Estadística de la Nación (Buenos Aires, December, 1923), p. 9.

bank credit was siphoned off by the government. Such policies allowed the treasury to accumulate large gold reserves but did not stimulate balanced economic growth.[13]

The more flexible and heterodox monetary and financial policies adopted by Brazil contrasted with those of Argentina. To begin with, the Brazilian government suspended amortization payments on most of its foreign debts between 1914 and 1920. Interest payments continued to be made and represented close to 25% of total government expenditures, but it was clear that the financial authorities at Rio de Janeiro felt less obliged to comply with foreign bankers than did those of Buenos Aires. They also had less confidence in the virtues of the gold standard and the maintenance of a strict monetary policy. On the contrary, in order to meet the growing deficits, which sprung from the decline in customs receipts, the Brazilian treasury officials tripled the issue of paper currency during 1914-1918. Curiously, this did not affect the exchange rate as the value of the Brazilian currency remained stable. Moreover, the flexible monetary strategy served to stimulate the economy, allowing for a large volume of public investments and pushing local banks to adopt expansive lending policies.[14]

The Chilean government found itself in a more auspicious situation than those of Brazil or Argentina. This was due mainly to the fact that it relied mainly on export taxes for the bulk of its income. The boom in nitrate exports during 1914-1918 provided the state with sufficient funds to cover all its expenditures without increasing the internal debt or printing money. In addition, the export surpluses allowed for a reduction of the value of the external debt by 12%. Thus the war boom assisted the Chilean authorities in lessening the degree of external financial dependency.

The economic situation in most other Latin American nations was less favorable. The most complex was that of Mexico, immersed in revolution and threatened by the intervention of United States military forces. The Mexican government had continued to pay its debt service until 1913, and was even able to raise a large loan in Europe in that year.[15] Subsequently, however, the revolutionary struggles intensified and debt payments were suspended. In 1914 several battalions of United States Marines occupied the port of Veracruz with the goal of protecting the properties of several large North American oil companies. The foreign bankers also demanded protection for their loans but they could hardly expect to obtain any money from a nation engulfed in a tremendous process of social and political upheaval.

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[13] Because of its conservative monetary policies, the coffers of the Argentine treasury were so flushed with foreign currency reserves that the government was able to lend money to the European powers. In 1917 and 1918, Argentine credits totaling 200 million dollars were extended to England and France for the acquisition of grain. For the first time, a Latin American nation was able to change its condition from international debtor to that of international creditor.

[14] Bill Albert sums up these policies in the following way: "The Brazilian government seems successfully to have defied prevailing financial orthodoxy, and although its policies might be seen as a blow against foreign domination, in effect they represented no more than an attempt to strengthen the export sector and the links with the world economy in a way consistent with the extreme conditions of the period." Bill Albert, "Latin America and the First World War," mss., section titled "Brazilian Finances", p. 18.

[15] Bazant, *Historia de la deuda exterior* pp.174-176.

Following the European armistice, most Latin American nations benefited from the continuing rise in international prices of raw materials and primary products. The years 1918-20 were characterized by extraordinary speculation in all export commodities. In Argentina, for example, prices of wool, meat and cereals reached a peak of 200% of their 1910 levels. Prosperity made it possible to continue covering the debt service as well as the large volume of profit remittances by British, French and United States companies which operated in the various countries of the subcontinent.[16] But by mid-1920 the postwar boom came to a shattering end.

The international economic crisis of 1920/21 caused an abrupt decline in prices of most export commodities produced by Latin America. Exports plunged from an all-time high in 1920 to prewar levels the following year. [See Figure IX.] Meanwhile, imports tended to remain stable. As a result, many nations began running balance of trade deficits and both public and private finances rapidly deteriorated. Indeed, from both a commercial and a financial perspective, the crisis of 1920/21 proved to be one of the most severe ever suffered by the Latin American economies.[17] Furthermore, it was this crisis which pushed Latin American political elites into the arms of the bankers from New York.

THE BELATED FINANCIAL OFFENSIVE OF THE NEW YORK BANKS

As previously suggested, in the years prior to World War I the bulk of the new loans taken by Latin American governments had been provided by European bankers and investors. A small portion also came from the United States but a rough estimate suggests that not more than 10% of the total Latin American bonds sold abroad between 1904 and 1914 were placed in American markets.[18] Bankers from the United States traditionally had been inclined to rely on British merchant bankers for the financing of most trade with Latin America. Similarly, the volume of United States *direct* investments was substantially less than that realized by the British, French and German companies operating in Latin America.

An important exception was the case of Mexico, where United States investors acquired important railway and mining properties from the 1880's.[19] But, generally speaking, North American bankers and entrepreneurs did not begin to show a marked interest in Latin America until the end of the Spanish-American War of 1898. As a result of

[16] The best information available on the balance of payments of any Latin American nation during the war years is that of Argentina. Between 1914 and 1920 Argentina annually remitted an average of 150 million dollars on its public and private foreign debts. The total net export of capital by Argentina was equal to almost exactly one billion dollars. Its trade surplus during 1914-1920 was equal to 1.4 billion dollars. The service on its private and public debts therefore absorbed an astonishing 70% of its export surplus. Vernon L. Phelps, *The International Economic Position of Argentina* (Philadelphia, 1938), chart 7, p.115 and table 1 of the appendix.

[17] The impact of this crisis has been studied by only a few historians of Latin America. For details on the impact of the drop in sugar prices on the Cuban economy see Jenks, *Our Cuban Colony*, pp.206-217; on the drop in meat prices in Argentina see Peter Smith, *Beef and Politics in Argentina: Patterns of Conflict and change* (New York, 1969), chap.4.

[18] For details see Lewis, *America's Stake*, chap. 16.

[19] Nicolau d'Olwer, "Las inversiones extranjeras," in D. Cosío Villegas et al., *Historia moderna de México. El Porfiriato. Vida económica* (Mexico, 1974), pp.973-1185.

that war, the United States acquired two new valuable properties in the Caribbean: Puerto Rico and Cuba. Success in these early imperial ventures led United States bankers and politicians to advocate further expansionism.

The bellicose financial and military strategy of the United States in the early twentieth century, however, was not directed against the larger and stronger states of Latin America, where European bankers had major stakes, but against the smallest and weakest republics. The imposition of United States control over Cuba and Puerto Rico was followed by expansion into Panama and by intervention in Santo Domingo [1916-1924], Haiti 1915-1933] and Nicaragua [1912-1925]. In each of these cases the New York bankers worked cheek and jowl with the Marines.[20] The bankers involved in Santo Domingo loans were headed by the New York firm of Kuhn, Loeb & Co.[21] In the case of Haiti, the dominant financial force was the aggressive firm of the National City Bank, which ran the Banque National d'Haiti.[22] Meanwhile, in Nicaragua a different set of buccaneering bankers were active, led by the blue-chip firms of Brown Brothers and J. and W. Seligman & Co.[23]

During the First World War, therefore, the United States consolidated its financial and military grip over various small but strategically located nations in the Caribbean and in Central America. However, this did not imply that it had yet made major inroads in the rest of Latin America. On the contrary, the kind of gunboat diplomacy which was effective in the banana republics could not be successfully applied in the larger nations of South America. For not only did states like Brazil, Argentina or Chile have relatively powerful military forces, they also counted upon the support of important European economic interests. And few United States financial groups were predisposed to provoke a full-scale economic battle with the British and French banks and industrial corporations which had interests in those countries.

The only large New York financial firm which did challenge the European banks in South America was the National City Bank. From 1914 it began opening branch offices in various countries of the region, a policy facilitated by the Federal Reserve Act of 1913 which removed many constraints on the overseas activities of U.S. banks. The National City Bank also promoted the formation of a large trade-finance association which included several leading United States industrial companies engaged in the South American

[20] In a recent study, based mainly on military archives, Langley argues that the United States Marines played a dominant role in shaping imperial policy and practice in the Caribbean during the first third of the century. This is an important corrective to those historical interpretations which argue that the State Department had a coherent policy in this field. On the other hand, Langley underestimates the importance of private economic interests in furthering political and military expansionism. See Lester Langley, *The Banana Wars: An Inner History of American Empire, 1900-1934* (Lexington, Kentucky, 1984).
[21] On U.S.-Dominican relations see the ponderous but detailed work by Welles, *Naboth's Vineyard*; and the more agile and critical Knight *The Americans in Santo Domingo*), passim.
[22] On United States economic interests in Haiti see Scott Nearing and Joseph Smith, *Dollar Diplomacy: A Study in American Imperialism* (New York, 1966, reprint of the original 1925 edition), pp.133-150; also see Lewis, *America's Stake*, pp.344-345.
[23] On the U.S. role in Nicaragua see Amaru Barahona Portocarrero, "Breve estudio sobre la historia contemporanea de Nicaragua," in *América Latina, historia de medio siglo*, P. González Casanova, ed. (Mexico, 1984), II, pp.377-387; also consult Nearing and Smith, *Dollar Diplomacy*, pp.151-168.

trades.[24] The City Bank's president, Frank Vanderlip, forcefully advocated the need for closer collaboration between United States banks and industries to conquer foreign markets. He repeatedly cited the example set by the German banks, noting that "the connection between industries pushing their goods in foreign markets and the German banks has had much to do with the institution of long credit in South America..."[25]

Vanderlip advocated the extension of more bank credit for Latin America because he believed that it was the essential instrument which could allow United States firms to capture regional markets from their rivals. As a result of the war, the European-owned railway companies, tramways and electrical firms in Argentina, Brazil, Chile, Peru and other countries could not obtain sufficient industrial supplies from Europe. If the leading New York banks seized the opportunity and provided them with loans, these firms would place orders in the United States and American industry would benefit. As Charles Muchnic vicepresident of the American Locomotive Sales Corporation, argued in 1915:

The railways, mines, municipal and public utilities in South America are financed almost entirely by European capital, and the bankers in furnishing the funds have invariably stipulated…that the materials to be purchased by the proceeds of the loans...should come from the country that furnished the capital... If we are to remedy this situation, we must insist upon our bankers taking a more active part in the development of South American railways.[26]

While the National City Bank pushed the expansion of commercial credits for private companies, it did not extend any long-term loans for Latin American governments during 1914-1920. Why it adopted this policy is not difficult to explain. In the first place, Latin American governments did not demand many loans during this period. In the second place, there was little surplus capital in United States capital markets for Latin American loans. Most of the available funds were absorbed by the war-time domestic boom and by the European allied governments. Furthermore, the most powerful investment banking houses of New York, like J.P. Morgan, did not favor Latin American bond issues, which they judged to be the traditional prerogative of the London merchant banks.[27]

The international crisis of 1920/21 obliged the New York banks to reformulate their Latin American financial strategies. At first, the abrupt drop in trade forced a reduction in commercial credits. Between 1920 and 1924 the number of foreign bank branches in Latin America declined from 72 to 45. As one author has argued recently, "the decrease in

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[24] The American International Corporation, was founded in 1915 with a capital of $ 50 million. For a complete list of the shareholders see National City Bank, *The Americas*, November, 1915, pp.1-3.

[25] On the views of Vanderlip and other officials of the National City Bank on economic expansion in South America, see the bank's journal, *The Americas*, in particular Vanderlip's articles in the October, 1914, November, 1914 and January, 1919 issues.

[26] National City Bank, *The Americas*, April, 1915, pp.29-30.

[27] Parrini argues that the two dominant financial powers in New York at this time were Morgan, the greatest investment bank, and National City, the most dynamic commercial bank, and that each made an effort to respect their respective spheres of influence. He adds: "Morgan and associates opposed rivalry with the British world banking system. Carl Parrini, *Heir to Empire: United States Economic Diplomacy, 1916-1923* (Pittsburgh, 1969) p.55.

branch banks temporarily undermined the attempt on the part of National City and its affiliates to make New York the world center for the exchange of short-term dollar acceptances..."[28] But this did not eliminate other possibilities for making profits in Latin America. Paradoxically, while trade declined, the government loan business increased, opening up new avenues for the overseas expansion of the New York banks. After 1922 they focused their attention on the realization of lucrative gains by providing money at expensive rates to the governments of Uruguay, Brazil, Chile, Colombia and other states of the region.

It was then that the two most powerful New York banking groups, Morgan and National City, began to forge a common strategy, working together in the issue of large Latin American loans, particularly for the governments of Argentina and Cuba. At the same time, other New York investment banks fought for a share of the bond business, each carving out its own sphere of influence: Dillon, Read issued the bulk of the national loans for Brazil and Bolivia; J. and W. Seligman specialized in Peruvian bonds; Kuhn, Loeb had a predilection for the gold bonds of the Chilean Mortgage Bank; Hallgarten and Kissel, Kinnicutt dominated the sale of Colombian government securities. [See Appendix 3.]

The number of United States investment firms and banks engaged in these loans was large, and in several instances competition was keen as was the case with the Colombian departmental loans, for which literally dozens of the smaller financial houses fought like so many sharks. But generally speaking, it was the big banks which set the trend and created a market for the Latin American bonds.[29] *In all*, between 1922 and 1928, the United States banking community sold almost two billion dollars in Latin American bonds to North American investors. [See Figure X for trends of dollar loans to Latin America.] As a result, New York displaced London as the money mecca to which all the governments of the region looked for financial assistance. "Dollar diplomacy" now reached its apogee.

From a political point of view, it should be noted that many of the loans served to consolidate the power of dictators like Leguia in Peru (1919-1930), Ibañez in Chile (1927-1931) and Orellana in Guatemala (1922-1926) as well as to maintain neocolonial regimes in Nicaragua, Santo Domingo, Haiti, Honduras and Cuba. Not surprisingly, the alliance between bankers and authoritarian chiefs of state provoked acid criticisms, the brunt of which were directed against the corruption that the loan business stimulated among the ruling circles of the debtor states. As Seligman's agent in Peru observed: "The President was a dictator, and he spent what he chose and borrowed what he chose. The people had no way of checking."[30]

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[28] Joan H. Wilson, *American Business and Foreign Policy, 1920-1933* (Boston, 1973), pp.102-103.

[29] For information on Latin American bond sales see Charles C. Abbot, *The New York Bond Market, 1920-1930* (Cambridge, Mass., 1937); Ilse Mintz, *Deterioriation in the Quality of Bonds Issued in the United States, 1920-1930* (New York, 1951); and Lewis, *America's Stake*, appendix E.

[30] The quote is from testimony by Mr. Dennis published in United States Senate, Hearings Before the Committee on Finance, 72nd Congress, 1st Session, *Sale of Foreign Bonds or Securities in the United States* (Washington D.C., 1931), p.1601. (Cited hereafter as U.S. Senate, *Sale of Foreign Bonds*.) The

The New York financiers could reply that they also provided loans to the more liberal administrations of Brazil, Argentina and Colombia. This was true, although it did not absolve them of responsibility for backing up authoritarian and corrupt regimes. In any event, United States financial expansion was not simply a one-way street. The Latin American elites also played an important role in the formulation of loan policies during the 1920's. In order to understand the degree of financial influence exercised by the United States banks, therefore, it is necessary to review the nature of the financial strategies adopted by the Latin American governments during the 1920's.

LATIN AMERICAN LOAN POLICIES IN THE 1920'S

Between 1921 and 1930 the majority of Latin American governments embarked on a foreign loan splurge, authorizing the issue of a total of some 50 national, 40 provincial and 25 municipal loans. The biggest borrower was Brazil, which increased its foreign debt by over 600 million dollars. Other big spenders included Argentina, Chile and Colombia; although in per capita terms the nations which assumed the largest debt burdens were Cuba, Bolivia and Uruguay. [See Table VII for data on loans by country.]

While each country sought money abroad for different purposes, it is possible to single out two main reasons which impelled them to seek foreign funds during this period. The first decisive factor was the impact of the crisis of 1920/21. As previously suggested, the crisis gave rise to large public deficits and balance of payments problems. To overcome these difficulties recourse was had to "refinancing" loans. A second circumstance which spurred the loan frenzy was the widespread conviction among Latin American elites that they could carry out new public works and urban modernization projects with cheap money from New York. This urge led them to contract a great number of "development" loans during the years 1925-1928.

An adequate explanation of the forces which contributed to the multiplication of these two different types of loans requires, at the very least, a summary analysis of the economic context which shaped the views of the politicians who were responsible for formulating financial policy. We shall begin with a discussion of the reasons why the crisis of 1920/21 compelled so many Latin American leaders to look to the United States for refinancing loans.

The international commercial upheaval of 1920/21, as already noted, triggered a sharp drop in export revenues and therefore caused a crisis in Latin American public finances. The decline in foreign trade reduced the volume of customs revenues and obliged governments to cut spending. Nonetheless, there were some expenditures which could not be easily reduced, the most important being the service on the foreign debt. The payments on these debts, as well as the remittances abroad of profits by foreign-owned companies, required an abundance of foreign exchange or of gold. But the commercial crisis eliminated the possibility of obtaining much foreign exchange. As a result, the

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hearings, as a whole, are a singularly revealing source on the collusion between New York bankers and Latin American politicians during the 1920's.

burden of the foreign debts threatened to provoke a massive hemorrhage of the gold reserves which had been accumulated between 1915 and 1920.

The most serious structural problem which confronted Latin American finance ministers in the early 1920's was the maintenance of a steady flow of funds abroad to cover interest on loans and profit remittances. The bulk of these payments went to investors in Europe--England, Germany, France, Belgium, and Holland--since they were holders of most Latin American bonds as well as of shares in a great number of private enterprises operating in Brazil, Argentina, Chile and the other countries of the region. On the basis of a rough estimate, it can be calculated that between 1920 and 1929 Latin America transferred a total of approximately five billion dollars abroad to cover the foreign debt service and the remittances by foreign-owned enterprises. During this period Latin America accumulated an export trade surplus of some three billion dollars. As a result, two billion dollars were needed to cover the difference. It was not surprising, therefore, that during this same period the Latin American states should have contracted foreign loans for the sum of two billion dollars, mostly in the United States.[31]

The loans negotiated with New York bankers proved to be crucial to the equilibrium of Latin American balance of payments during the 1920's and to the maintenance of fluid financial and commercial exchanges between the triangle of Latin America, Europe and the United States. This relationship was recognized by the bankers. A certain Mr. Dennis, employed by Seligman Brothers of New York for the negotiation of several Peruvian loans, explained the nature of the trade-off between European commercial and war debts and United States loans to Latin America:

> It so happened, after the war that England and France, and the creditor countries of Europe had to pay for a heavy surplus of imports from America. Where were they to get the necessary dollars? They got them very largely from South America and other fields in which they had invested capital. They drew their income from investments in Latin America in dollars, and they used those dollars to pay the United States for an excess of imports from this country and also on war-debt payments...We loaned the money to Latin America and thus Europeans acquired dollars to pay us...It was a triangular movement.[32]

From a macroeconomic perspective the loans of the 1920's contributed to smoothening the operations of the capitalist economy on an international scale, allowing Latin America to pay off its European creditors with funds obtained from money markets in North America. On the other hand, from what can be called a microeconomic viewpoint, each one of these loans was considered by Latin American finance ministers to be a key tool to cover deficits or to promote ambitious public works which they could not carry out with regular revenues.

So great did the demand for these dollar credits become that numerous Latin American governments requested financial experts from the United States to assist them in reorganizing their system of public finance with a view to winning the confidence of the great New York banks. For it was believed that the banks might prove amenable to the

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[31] For data see sources cited in Figure X.
[32] U.S. Senate, *Sale of Foreign Bonds*, pp.1606-1607.

granting of loans if these were designed to help implement a series of fiscal and financial reforms based on North American models.

The most famous of the financial experts contracted by Latin American governments was Edwin Kemmerer, a Princeton professor of economics, who became widely known as the "international money doctor". He led financial missions to Colombia (1923), Guatemala (1924), Chile (1925), Ecuador (1926-27), Bolivia (1927) and Peru (1931).[33] Kemmerer adopted a similar strategy in each case, taking a small team of experts with him, who studied various aspects of the local financial system in order to propose key reforms. Generally speaking, the missions recommended that a more sophisticated public accounting system be established, that budgets be carefully balanced, that sufficient gold reserves be maintained in order to continue with adherence to the gold standard, and that central banks be created along the lines of the Federal Reserve Bank of New York.

The Kemmerer missions were not officially sponsored by the State Department but rather were paid for by the Latin American governments which requested the financial advice of the "experts". Nonetheless, it is clear that the role of the Princeton professor and his associates was considered a useful one by both United States diplomats and bankers. Furthermore, a considerable number of the members of these missions were directly involved in programs designed to extend United States control over the fiscal structure of various Latin American nations. A case-in-point was that of Thomas R. Lill, member of the mission to Colombia, who stayed on afterwards as technical advisor to the government at Bogota. Another was William Roddy, who served on the Kemmerer mission to Peru, as director general of customs in Ecuador (1927-30) and as advisor of customs in Colombia (1931).[34]

The establishment of United States control over customs receipts in several Latin American nations--in Cuba, Haiti, Santo Domingo and Nicaragua during the entire decade of the 1920's, in Peru between 1921 and 1924, in Ecuador, Honduras and Bolivia in the late 1920's--was closely linked to foreign loan policy. By arranging for the appointment of North American advisors to supervise taxes, budgets and public credit in foreign nations, the State Department gave comfort to bankers and investors engaged in buying and selling Latin American bonds. The advisors were, effectively speaking, financial proconsuls who used their positions to ensure that United States bondholders would get their money back.

The leaders of the Latin American nations mentioned were not opposed to this foreign intrusion in the management of the finances of their states because they felt that the presence of the advisors might help to attract new loans and investments from abroad. The acceptance of foreign advisors did not guarantee that a flow of foreign capital would

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[33] On the Kemmerer missions see Robert Seidel, "American Reformers Abroad. The Kemmerer Missions in South America, 1923-1931," *Journal of Economic History*, 32, No.2 (1972), 520-545. For a detailed analysis of Kemmerer's role in Ecuador see Linda A. Rodriguez, *The Search for Public Policy: Regional Politics and Government Finances in Ecuador, 1830-1940*, (Berkeley, 1985), pp.133-162.

[34] Information on the wide-ranging role of these "experts" can be found in Seidel, "American Reformers," pp.528-32, 537, 542.

begin immediately.[35] But by the mid-1920's there was such an abundance of capital in United States money markets that virtually all the Latin American elites were able to obtain large sums for their economic projects.

As in previous loan booms, the construction of railways and ports were major priorities of government development plans. But now more money was invested in urban modernization, including the building of schools and hospitals, the establishment of gas works and electrical plants, the construction of modern drainage systems and the paving of streets and avenues. In rural areas the building of highways received much attention.

The public works projects served a variety of purposes. Politicians, bankers and contractors all had a finger in the pie. The politicians used public works as instruments to consolidate their power, expecting that they could win the support of their constituencies by stimulating economic growth. This did not mean, however, that the projects were viewed as humanitarian instruments to improve the lot of the working classes or the peasants. The contracts were intended fundamentally to produce political and economic profits for the ruling elite. Indeed, the less scrupulous leaders, such as Leguia, the Peruvian dictator, or Machado, the authoritarian Cuban president, had few qualms about using a substantial portion of the loan funds to line their own pockets.[36]

The contractors had a strictly economic interest in the public works. The most prominent were several large United States construction companies which used the loan proceeds to finance development projects in which they had a stake. Warren & Company, for example, built roads in Chile, Colombia, Cuba and Guatemala. Ulen & Company, which worked in conjunction with the National City Bank, won electrical contracts in Brazil, Peru and Argentina, and took charge of irrigation works in Chile and port works in Colombia. The Foundation Company was responsible for water works and street paving in Lima, Peru as well as additional building projects in Argentina, Bolivia and Chile. And Snare & Company won the contracts for the modernization of Peruvian ports.

As was later demonstrated, these firms charged exorbitant prices and reaped enormous profits on their Latin American business. But government officials did not protest. After all, many of them were being paid handsome commissions to allow the North American entrepreneurs to bloat the contract bills. Furthermore, a large number of urban property owners in cities like Lima, Rio de Janeiro, Sao Paulo, Havana and

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[35] The dictator of Peru, Agustin Leguia, for example, accepted the State Department's recommendation that a financial expert be appointed to reform government finances and the national banking system. The individual chosen, William Cumberland, remained at Lima between 1921 and 1924 and played a key role in the establishment of the Peruvian Central Bank. Paradoxically, Cumberland's presence did not help Leguia to obtain loans from the New York bankers in the short-run. It would not be until the 1927 that Peru finally managed to jump onto the foreign loan bandwagon. For details see Frank Mackaman, "United States Loan Policy, 1920-1930: Diplomatic Assumptions, Governmental Politics and Conditions in Peru and Mexico," Ph.D. dissertation, (University of Missouri, 1977), II, pp.596-651.

[36] On payoffs to Leguia see Mackaman "United States Loan Policy, 1920-1930," II, pp.646-677. On Machado's personal relations with the Chase Bank see Raymond Buell, et al., *Problems of the New Cuba*, Report of the Commission on Cuban Affairs of the Foreign Policy Association, (New York, 1935), pp.389-391.

Montevideo were making enormous sums from the phenomenal boom in real estate values.[37]

The New York bankers, who provided the loans for the public works, collaborated closely with politicians and contractors. In Peru, for example, the principal bankers involved, J. and W. Seligman & Company of New York, were aware that the loans did not contribute to financial stability but rather fuelled a tremendous wave of speculation in local real estate markets and banking circles. However, Seligmans was more interested in obtaining high commissions for selling the external bonds and in arranging lucrative public works contracts than in the maintenance of conservative and prudent fiscal and monetary programs.[38]

The loans of 1925-28 therefore had a different purpose from the foreign financial transactions which followed the crisis of 1920/21. "Development" now took priority over "refinancing" goals. The ways in which each government carried out their financial programs, however, varied substantially. In order to underline the differences we shall compare Cuban loan policies, which were virtually designed by the United States banks, with the more independent policies implemented by Brazilian government authorities.

CUBAN LOANS AND NEW YORK FINANCIAL GROUPS

By the mid-1920's United States bankers and industrialists had invested more money in Cuba than in any other Latin American nation. From 1902 to 1924 their investments in sugar plantations and refineries rose from 50 to 600 million dollars, to which must be added an additional 400 million dollars in railroads, electric power plants, telephones and telegraphs, tramways, banks and numerous commercial firms. In addition, U.S. businessmen wielded decisive control over the foreign trade of the island; at its apex the United States supplied 73% of Cuban imports and took 84% of its exports.[39]

Economic control was complemented by political and military intervention in the internal affairs of the republic of Cuba. During 1899-1902 and 1906-1909 two different United States governors were in charge of the island government. Thereafter, various instruments were used to maintain what can only be described as a neocolonial regime. These included strict fiscal control, supervision of all elections and the training and arming of the Cuban Rural Guard. As a further guarantee, frequent recourse was had to the Platt amendment which sanctioned military intervention to guarantee political stability. In 1912 and 1917 the U.S. Marines were sent to Havana to quell working class protests. And early

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[37] An excellent case-study of the relation between urban development loans and real estate speculation is the chapter on the Montevideo loans of the 1920's in Carlos Zubillaga, *El reto financiero: deuda externa y desarrollo en Uruguay, 1903-1933* (Montevideo, 1982), pp. 142-155. Abundant information on the U.S. construction companies and their Latin American ventures can be found in U.S. Senate *Sale of Foreign Bonds* passim; also see Lewis, *America's Stake* pp.378-379.

[38] See testimony of Mr. Dennis, employee of Seligman's, U.S. Senate, *Sale of Foreign Bonds*, pp. 1583-1609.

[39] On U.S. interests in Cuba see Jules P. Benjamin, *The United States and Cuba: Hegemony and Dependent Development, 1880-1934* (Pittsburgh, 1977), pp.14-21.

in 1919 general Enoch Crowder was sent to Cuba to supervise the national elections, staying on afterwards as a kind of American viceroy.[40]

While United States interests focused on consolidating their control over Cuban sugar production and trade, they did not disdain the considerable profits to be made in local banking. In the years proceeding 1920 several banking subsidiaries were set up by powerful New York groups including the Trust Company of Cuba (controlled by the Morgan interests), the American Foreign Banking Corporation (controlled by the Chase Bank), several branches of the National City Bank, and the Mercantile Bank of the Americas (closely linked to the huge Cuban Sugar Cane Corporation). These banks, however, did not operate alone. Two large Cuban-owned banks, the Banco Español and the Banco Nacional de Cuba, built up a large network of branches throughout the island and came to control much of local financing. As Leland Jenks noted in a classic study: "It is worth recording that there developed in Cuba between 1917 and 1920, under indigenous control, most of the phenomena of speculation, industrial combination, price-fixing, bank manipulation, pyramiding of credits and over-capitalization, which we are accustomed to regard as the peculiar gift of the highly civilized Anglo-Saxons."[41]

Then came the crash in the autumn of 1920. Sugar prices had climbed from 9 cents a pound in February to a high of 19 cents in June. Thereafter they began to decline. In September they fell sharply to 9 cents and continued downwards, reaching bottom at 4 cents in December. On October 11 a bank moratorium was declared to save the banks from collapse. During the following year a Bank Liquidation Commission was set up but proved ineffective; in spite of its support, some 18 local banks failed. At the same time, a Sugar Export Committee was established to help stimulate a recovery of international sugar prices; it was more successful but, even so, the majority of the Cuban-owned sugar companies were sold to large United States conglomerates.[42]

The National City Bank was one of the financial groups which moved most quickly to absorb local sugar plantations and mills. By 1925 it owned ten *centrales* and controlled financially another twenty. Other important New York groups, which also took major shares in sugar firms, included J.P. Morgan & Company, the Chase Bank, and the investment firms of J.W. Seligman and Brown Brothers.[43] The expanding role of the banks in Caribbean agro/industrial enterprises reflected the increasingly complex strategies of United States finance capital in Latin America. These were complemented by aggressive promotion of loans for the Cuban government.

In late 1921 the Cuban president, Alfredo Zayas, appealed to J.P. Morgan & Company to provide a loan in order to cover the huge deficits which had arisen as a result of the commercial crisis. The New York bank immediately dispatched one of its senior partners, Dwight Morrow, to Havana; he was accompanied by Norman Davis, who had

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[40] On Crowder's involvement in Cuban finance see Robert Freeman Smith, *The United States and Cuba; Business and Diplomacy, 1917-1960* (New York, 1960), chap.6.
[41] Jenks, *Our Cuban Colony*, p.207.
[42] On the Cuban response to the crisis of 1920/21 see Ibid., pp.237-239.
[43] For details on the United States financial groups involved in the Cuban sugar business see Oscar Pino Santos, *La oligarquía yanqui en Cuba*) (Mexico, 1975), pp.96-106.

recently left the State Department to take over the direction of the Trust Company of Cuba. After consultation with the State Department, the financiers agreed to provide a five million dollar advance to the Cuban treasury as the first trance of a larger fifty million dollar bond issue. But before proceeding to issue the bonds, Morrow and general Crowder submitted a program of wide-ranging fiscal, budgetary and banking reforms to president Zayas which they expected the Cuban Congress to ratify. To assure success for the plan Crowder pressured Zayas to revamp his entire Cabinet, naming a set of new ministers who would favor the reform program.[44]

The 1923 Cuban loan can be considered an explicit example of collaboration between New York bankers and Washington politicians to control the financial policies of a Latin American nation. Certainly, it revealed the close ties that existed between leading United States banks and the State and Commerce Departments. Nevertheless, it should not be considered a paradigm of foreign loan activity in the 1920's, for in most other bond issues the bankers did not make a major effort to obtain the support of authorities at Washington D.C.[45] And even in Cuba it should be observed that, after the successful sale of the 1923 bonds, president Zayas began to adopt a more independent financial policy.

The other large foreign loan negotiated by the Cuban government in this period was the public works loan of 1927. The new president, Gerardo Machado, undertook an elaborate program of public works, including the construction of a central highway running the length of the island. Machado, who was personally in charge of the contracts, hired a Boston construction company, Warren Brothers, to build the highway. At the same time, he opened bidding on a large loan to finance the public works. The competition among the National City Bank, Morgan Guaranty and the Chase Bank was intense. Chase finally won, being assisted, perhaps, by the fact that Machado's son-in-law was an employee of the local subsidiary of the bank and that Machado, himself, received several large personal loans from the Chase office in Havana. In any event, the bonds sold briskly in United States capital markets, and the Cuban government was soon proudly touting its development projects. According to the loan contract, 45% of the funds were to go to the highway, 20% to the building of a huge new Capitol building at Havana, 10% for drainage and pavements and 10% for hospitals and schools. In practice, the highway and the Capitol absorbed most of the money while the public health and social programs were sacrificed. Not surprisingly there were reports of enormous graft on the contracts.[46]

A few years later, following the panic of 1929, Machado turned again to the Chase bankers, requesting their assistance to save his government from financial collapse. In early 1931, in the midst of the depression, the financiers advanced another twenty million dollars to the unscrupulous Cuban president. Shortly thereafter, he was forced to leave office and in 1934 the Cuban government temporarily suspended payments on the public works loan, linking it to the unethical nature of the financial arrangements. An advisory commission of lawyers reached the conclusion that the Chase loans had been illegally

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[44] Jenks, *Our Cuban Colony*, pp.257-261; and Smith, *The United States and Cuba*, chap.6.
[45] This point is argued in great detail by Mackaman, "United States Loan Policy, 1920-1930," passim.
[46] Buell, *Problems of the New Cuba*, pp.386-393.

contracted and that they should therefore be repudiated.[47] In fact, there was no long-term default on the Cuban foreign debt, but the influence of the New York bankers over the finances of the island had been seriously shaken.

BRASIL'S INDEPENDENT LOAN POLICY

Not all the Latin American nations were compelled to accept the tutelage of Washington politicians or the patronage of New York bankers. Indeed, during the 1920's some republics found space to negotiate what can be defined as a relatively independent loan policy. The Brazilian case is illustrative of the possibilities of implementing such a strategy, a fact which is doubly significant since Brazil was the largest borrower of the decade. [See Table VII.]

The formulation of Brazilian loan policies was inscribed within a complex financial structure. There were three tiers to this structure, including the national, provincial and municipal governments. Each of these had a considerable degree of autonomy as is demonstrated by the fact that provincial legislatures and city councils could negotiate foreign loans without asking for authorization from the national government at Rio de Janeiro. Between 1920 and 1930 the national authorities took 5 large loans abroad, provincial governments 21 loans and the municipalities 10 loans. This kind of financial federalism meant that there was no one public entity responsible for designing the international loan programs of Brazil. As a result, the 1920's witnessed extreme competition among the various government agencies to obtain funds abroad. They were all remarkably successful.[48]

The most unique of the Brazilian foreign loans were those negotiated by the state government of Sao Paulo on behalf of the powerful landed and mercantile interests involved in coffee production and trade. These loans demonstrated that, in contrast to the case of Cuba, the Brazilian ruling classes had a considerable degree of independence from United States political and banking interests.

The finances of Sao Paulo had long been closely linked to the fortunes of the coffee trade. From the turn of the century the state authorities had collaborated with the federal government in the promotion of a complex price-support program known as the coffee valorization scheme. Together they bought up a large part of bumper crops in 1906, 1911, 1913 and 1921, financing these transactions with loans raised in London. By removing surplus coffee from the market, such a policy helped maintain stable, high prices for the most important Brazilian export commodity. But after 1921 the federal government refused

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[47] Republic of Cuba, Secretaria de Hacienda, Comisión Especial de Investigación de las Obligaciones Contraidas con The Chase National Bank, *Los empréstitos de obras publicas* (Havana, 1935).

[48] The success of the financial strategies of the Brazilians was surprising for several reasons. The Brazilian economy had benefited less than other Latin American economies from the export boom of 1915-1920. The national government had actually been forced to suspend amortization payments on its foreign debts during this period and had simultaneously adopted a series of inflationary monetary policies which were anathema to foreign bankers. Furthermore, the crisis of 1920/21 undermined what was already an unstable financial and commercial situation. The rubber export boom faded; sugar production faltered; and coffee, a traditional mainstay of the Brazilian economy, suffered from the steep fall in international prices.

to continue participating in the coffee valorization program. This blow to the coffee interests was compounded by the impact of the international commercial crisis which produced a calamitous drop in international prices in coffee, falling from 24 cents per pound in 1920 to 9 cents in 1921.[49]

In order to avoid a collapse of this sophisticated price-defense mechanism, the Paulista plantation elite worked out a new solution. In 1924 the Sao Paulo Coffee Institute was set up with the specific purpose of buying up excess coffee stocks, storing them in warehouses and selling them when prices rose. In order to finance the Institute, the state authorities requested the New York banking firms of Dillon, Read and Speyer & Company to assist them by issuing a foreign loan. But the United States government stepped in to block the operation. More specifically, the Secretary of Commerce, Herbert Hoover, denounced the Brazilian plans to defend coffee prices, arguing that it would be prejudicial for American consumers. Hoover argued: "If European financiers were willing to enter into a gamble to hold the price of coffee at a point which curtailed consumption and stimulated production to a point where today we have a world surplus, that was a matter of their own responsibility...but that if they did, it was better that it be done by some outsider than done by American bankers against the interest of the American public".[50]

The banking firm of Dillon, Read protested, arguing that such a policy would allow European bankers to reassume their control over Brazilian finances.[51] But to no avail. The Washington politicians would not brook the financial independence of the Sao Paulo authorities. The latter were not stymied. They turned to the powerful London merchant banking firm of Lazards, which was a key player in international coffee markets. And in 1926 Lazards Brothers arranged the issue of a £ 10,000,000 loan (U$S 50 million) in order to provide the Coffee Institute with the necessary funds for its operations. The London merchant bankers had no difficulty finding a market for the Sao Paulo bonds, selling 80% of them in Great Britain and 20% in Switzerland and Holland.[52]

During the rest of the decade the British bankers continued to support Brazilian coffee programs, much to the mortification of United States government officials. In 1927 and 1928 Lazards arranged new loans for the Bank of the State of Sao Paulo, which was in charge of administering the funds of the Coffee Institute. However, the success of the price-boosting mechanisms eventually proved counterproductive. By early 1929 an enormous quantity of unsold coffee had accumulated in the warehouses and, when international prices collapsed in the latter part of the year, Sao Paulo found itself on the brink of bankruptcy.[53] On this occasion, another group of London merchant bankers, led by J.H. Schroder, Baring Brothers and N.M. Rothschilds stepped in to save the day, although they were now also assisted by a syndicate of New York banks led by Speyer &

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[49] On the coffee valorization schemes see Thomas H. Holloway, *The Brazilian Coffee Valorization* (Madison, 1975); Stephen Krasner, "Manipulating International Commodity Markets: Brazilian Coffee Policy," *Public Policy*, 21, no.4 (1973), 493-523; and Celso Furtado, *The Economic Growth of Brazil: A Survey from Colonial to Modern Times* (Berkeley, 1971) pp.195-202.
[50] Wilson, *American Business*, p.172.
[51] Ibid. pp.172-173.
[52] Kimber, *Kimber's Record of Government Debts, 1934*, pp.330-331.
[53] Joseph Love, *Sao Paulo in the Brazilian federation, 1889-1937* (Stanford, 1980), pp.250-251.

Company. In 1930 the British firms sold over 60 million dollars in Sao Paulo Gold Bonds, placing them in markets in London, Amsterdam, Stockholm, Milan and Zurich. Simultaneously, Speyer sold 35 million dollars of the bonds in New York. The specific purpose of this operation—the largest of all contemporary Latin American loans--was to liquidate sixteen million bags of coffee which sat unsold in warehouses throughout the State of Sao Paulo.[54]

The coffee valorization loans represented a sophisticated attempt by the coffee planters of Brazil to use foreign finance to sustain a century-old export model of growth. But the coffee aristocrats did not monopolize Brazilian financial policy. On the contrary, it may be argued that the decade of the 1920's actually witnessed a diversification of financial resources to the benefit of the non-export sectors. This was demonstrated by the remarkable urban expansion that took place during these years, the substantial advance of industrialization, and the progress achieved in construction of infrastructure such as railroads, roads, port works and electrical power plants.[55]

It was, in fact, the dynamism of the *domestic* economy of Brazil which helped to overcome the effects of the crisis of 1920/21 and to attain high growth rates in subsequent years. In this respect, it should be noted that foreign commerce played a less significant role in the Brazilian economy than is ordinarily presumed. A comparison of the *per capita* value of foreign trade in several Latin American nations illustrates this point. In 1920, for example, Brazil had a foreign trade of $ 26 per head as contrasted with $ 120 in Chile, $ 210 in Argentina and close to $ 400 in Cuba.[56] Such data suggest that the economy of Brazil depended much less on external factors than did those of the other nations mentioned.

In the early 1920's the federal government contributed to the domestic recovery by adopting several policies that helped to keep up production and employment. These included a sustained expansion of government spending to maintain consumption levels, a liberal credit policy by the Banco do Brasil and the issue of two large foreign loans to finance a series of ambitious public works programs. The public works programs promoted by the administration of President Epitacio Pessoa (1918-1922) were financed with two large loans taken in 1921 and 1922. The principal object of the 1921 loan was to build dams, irrigation works and roads and to make the drought-ridden region of northeastern Brazil more habitable and to prevent the periodic exodus of the population. The goal of the second loan was to electrify the Central Railroad of Brazil and to make other transport improvements. Since these public works programs were carried out in the midst of a severe commercial crisis, they can be seen as countercyclical measures to lessen the impact of the economic downturn.[57]

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[54] Kimber, *Kimber's Record of Government Debts*, pp.334-335.

[55] Even in the case of Sao Paulo quite a number of foreign loans went for other purposes not directly linked to coffee valorization, including railroads, conversion of previous debts and the promotion of immigration. Love, *Sao Paulo*, p. 248.

[56] Based on data from Pan American Union, *The Foreign Trade of Latin America, 1910-1929* (Washington D.C., 1931).

[57] On the other hand, after 1922 the administrations of Arthur Bernardes (1922-1926) and Washington Luis (1926-1930) did not negotiate any more foreign credits for productive purposes. They limited themselves to

The state and municipal governments of Brazil were also active in the negotiation of loans to carry out public works, seeking the funds in both New York and London. They solicited the foreign gold in order to build railways and ports but, above all, to promote urban development. The 1920's were a period of dramatic and rapid modernization of the leading cities of Brazil, as was the case in many other Latin American nations. The construction of broad avenues, the building of attractive residential districts for the middle and upper classes, the introduction of the automobile, the spread of the department store, the universalization of electric lighting for both home and industry were all testimony to the enthusiasm and energy devoted to the transformation of city life.[58]

In practically every Brazilian state large amounts of public funds were spent to transform the local capital city into a showhouse of progress. The southern ranching state of Rio Grande do Sul, for example, issued two state and three municipal loans abroad to modernize the city of Porto Alegre; the funds were invested in harbor works, sanitation and drainage, the construction and paving of new streets and the establishment of a new electric light system. In the northern sugar state of Pernambuco the goals of the local political elite were similar; they contracted loans to finance the building of wharves, docks, warehouses and other public works at the port of Recife, an old colonial city which aspired to enter the turbulent world of the twentieth century. In Minas Geraes, the loans of 1928 and 1929 went to finance electric light and power facilities in the city of Bello Horizonte and to provide funds to carry out improvements in neighboring municipalities.[59]

Not surprisingly, the largest loans were taken by the two most important Brazilian cities, Sao Paulo and Rio de Janeiro. The dynamism of Sao Paulo was evinced in the extraordinary expansion of its population, which rose from half a million inhabitants in 1920 to over one million in 1930, as well as in the expansion of its construction and manufacturing industries. By l930 Sao Paulo had the largest industrial "park" in South America.[60] The growing metropolis required a large amount of money to provide the basic infrastructure for economic expansion. In 1922 and 1927 the city authorities turned to several United States investment houses including Blair & Company and The First Boston Corporation to provide loans to help finance the construction of streets, tunnels and municipal markets. Not to be outdone, Rio de Janeiro, the nation's capital, also resorted to New York bankers for assistance with its ambitious renovation plans. The city issued

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the authorization of several refinancing loans through a coalition of New York and London banks. An interesting contemporary critique of Brazilian monetary and debt policies is Waldemar Falcao, *O empirismo monetario no Brasil: Ensaio de critica financeira* (Sao Paulo, 1931).

[58] An excellent study of urban development in this period is Warren Dean, *The Industrialization of Sao Paulo, 1880-1945* (Austin, 1969). Nonetheless, Dean considers that industry did not grow as rapidly in these years as in the first decade of the 20th century. Other authors put forth a strong case for the rapid expansion of industry during the 1920's. See Flavio Robelo Versiani, "Before the Depression: Brazilian Industry in the 1920's" in *Latin America in the 1930's*, R. Thorp. ed., pp.163-187.

[59] A wealth of information on the state finances of Brazil can be found in Francois Conty, *L'Independance financiere des Etats federes du Bresil* (Paris, 1926). In addition a large amount of data can be found in A. Kimber, *Kimber's Record of Government Debts, 1934*, pp.263-431. Another important source is the multivolume Valentim Boucas, *Financas do Brasil: historia da divida externa estadual e municipal* (Rio de Janeiro, 1934-1955).

[60] Alfredo Ellis, *A evolucao da economia paulista e suas causas* (Sao Paulo, 1937), pp.260-261.

loans worth over $ 30 million to build avenues, to construct a municipal slaughter house, to remove Morro Castello, a large hill in the centre of the business section, and for a variety of additional public works.[61]

The foreign loans negotiated by the national, state and municipal governments contributed to an expansion of the state's role within the economy. By 1930 the federal government owned close to one third of all Brazilian railroads, half of the merchant marine and the largest bank.[62] The state governments also became public entrepreneurs, using foreign loans to assume control of local railways and ports. Similarly, municipal governments used foreign funds to become chief promoters of the electrical power industry, there being over 400 municipal lighting companies by the 1920's.

By promoting these and other enterprises the Brazilian state accelerated the process of capitalist accumulation at both a national and provincial level. This process, however, did not benefit the mass of the Brazilian population. The benefits of the injection of a large volume of foreign capital were reaped fundamentally by the urban and rural propertied classes, which profited from the rise in the value of real estate and from a great boom in the construction industry.

The foreign loans of the 1920's had a dual and, in some respects, a contradictory economic and social impact. On the one hand, they instilled new life in the traditional coffee-producing sector, which had constituted the basis of the Brazilian economy during the nineteenth century. On the other hand, the loans provided impetus to the building of cities and the development of a series of young industries, which were to be the axis of economic growth in future decades. The contradictions between these two models of growth would intensify as a result of the world crisis of 1929.

In many other Latin American nations it may be argued that the impact of foreign loans was also contradictory. The flow of capital from abroad spurred economic activity in the major cities without weakening the landed oligarchies or the export economy. On the contrary, by tying loans to foreign trade, financial dependency lent strength to the traditional power structure based on the alliance of merchants, landowners and foreign capitalists. Meanwhile, other social sectors--including an incipient industrial bourgeoisie in countries such as Argentina, Chile and Brazil-- benefited from the rapid process of urban expansion and, therefore, offered little opposition to financial policies which progressively submitted the national economies to the dictates of the New York and London bankers. As long as the money flowed, the conflicts between the different fractions of the propertied classes could be patched over.

But after 1929, as international trade fell and foreign loans dried up, social and political tensions escalated. The old model of the export economy came increasingly

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[61] Data from Kimber, *Kimber's Record of Government Debts, 1934*, pp.308-310, 339-340.

[62] For an illuminating discussion of the expanding economic role of the Brazilian state see Steven Topik, "State Interventionism in a Liberal Regime: Brazil, 1889-1930," *HAHR*, 60, No.4 (1980), 593-616; and by the same author, "A empresa estatal em um Regime Liberal: O Banco do Brasil, 1905-1930," *Revista Brasileira do Mercado do Capitales*, 7, No. 19 (January, 1981)), 70-83.

under fire. Furthermore, all Latin American nations now confronted an inescapable dilemma: either they suspended payments on their foreign debts and adopted a more autonomous path of economic development or they continued to pay their creditors in the hope that prosperity would somehow return.

CHAPTER 8

THE GREAT DEPRESSION AND LATIN AMERICAN DEFAULTS

> "The government has the right to
> suspend payments [on the debt]
> when the nation is threatened
> with political and economic
> slavery."
>
> Cuban Government Commission on Foreign Loans [1934]

The thunderous crash of the New York Stock Exchange on October 24, 1929 was heard round the world. It announced the end of a decade of prosperity and the beginning of the Great Depression of the 1930's. Black Thursday on Wall Street confirmed the severity of the economic catastrophe, but numerous signs had appeared previously indicating the ominous instability of the international economy.

In Latin America the downturn had begun to be felt at least two years before, as a result of the gradual decline in prices of several important export commodities. [1] Financial conditions in Latin America also began to deteriorate before the onset of the panic. In the latter part of 1928 the foreign loan boom waned and during 1929 only 67 million dollars in Latin American bonds were sold in the United States, barely one fifth of the average amounts placed in the previous three years. [2] Direct foreign investments likewise tended to dwindle, largely as a result of the diversion of capital by the wild speculation on the New York stock market. The economic upheaval that followed, therefore, was shocking but not entirely unexpected.

By the first months of 1930 the collapse of international trade and finance had seriously undermined practically all the Latin American economies. The fragility of the traditional export model of development became evident as the principal commodity markets in the United States and Europe closed their doors to the sugar, coffee, beef, wool, copper, tin, silver and petroleum that came from Central and South America and from the Caribbean. [3] Furthermore, the economic downturn generated enormous social and political tensions throughout the subcontinent. In the space of two years virtually every state in the region suffered a coup d'etat or revolution.

The first signs of the impending political turmoil in South America came from the highlands of Bolivia. On May 28, 1930, president Hernando Siles was overthrown as a result of the discontent caused by the economic depression, which led to closure of many tin mines and to widespread labor protests. A military junta temporarily took power in La

Paz. Three months later the political unrest spread to Peru. On August 25, following a revolt led by several Army colonels, Dictator Augusto Leguia was forced to resign. Barely ten days later, on September 6, general Jose Uriburu led a coup d'etat against the Argentine president, Hipolito Irigoyen, who was forced out of office at gun-point. A month later a great revolt broke out in the southern provinces of Brazil which spread like wildfire throughout the vast nation. By the end of October, 1930, Getulio Vargas, former governor of Rio Grande do Sul, had assumed power as Brazilian head of state, a post he was to hold without interruption until 1945. Finally, in Chile, dictator-president Carlos Ibañez desperately attempted to stay in power in the face of a catastrophic economic situation, but social conflicts intensified. On July 24, 1931, a general strike brought down Ibañez, who fled to exile. A year later a group of radical military officers set up a socialist-oriented government which, although short-lived, presaged the Chilean Popular Front regime of the late 1930's. [4]

The political and social turmoil also swept through Central America and the Caribbean. In early 1930 president Vázquez of the Dominican Republic was forced to step down as a result of a revolt led by army officer, Rafael Trujillo, who set up an authoritarian regime which harshly repressed all opposition parties. In January, 1931, a revolution overthrew the government of Panama. In the same year general Jorge Ubico seized power in Guatemala and there was a coup d'etat in El Salvador. Meanwhile, in Nicaragua civil war raged between the revolutionary forces led by Augusto Sandino and the U.S. supported government troops. At the same time, social turbulence built up in Cuba, where sugar-cane workers, white collar employees and railroad laborers organized strike after strike. On August 12, 1933, the army forced president Machado out of office, facilitating the establishment of a nationalist administration under the direction of Ramon Grau San Martin. The provisional government soon fell, but the Cuban revolution of 1933 shook the status quo in the island and weakened United States influence in the Caribbean. [5]

Despite the critical economic situation and the acute social and political tensions, the Latin American nations maintained full service on their foreign debts throughout 1929 and 1930. In addition, the national treasuries and state banks provided the exchange required to pay outstanding commercial credits as well as to allow foreign-owned companies to remit profits abroad. As a result, by 1931 the gold reserves of Latin America had fallen by approximately one billion dollars. [6] Once again--as had been the case during the First World War--the region became a *net capital exporter*, transferring large sums to European and United States banks at a time of crisis.

The financial sacrifice which the Latin American economies were forced to make, however, had limits. The sustained fall in international trade, which reached its nadir in 1931-1932, slashed public revenues and made it increasingly difficult to honor commitments with foreign creditors. Defaults were therefore unavoidable.

In January, 1931 Bolivia became the first Latin American state to formally declare a unilateral moratorium on its foreign debts. It was followed by Peru in May and by Chile in July. [7] Then, in October, the largest Latin American debtor, Brazil, announced a partial suspension of payments on its debts. [See Table VIII.] The government promised to remit scrip instead of gold to the bondholders, but indicated that it would take the necessary measures to renew payments in hard currency as soon as possible. [8] Such promises were not hollow, but the financial situation in Brazil and the rest of Latin America was destined to get worse before it became better.

In the course of 1932 there were new defaults, including the partial suspension of payments on the foreign debts of Colombia and Uruguay. The Colombian government made strenuous efforts to continue meeting its obligations with its foreign creditors, but by 1935 the Bogota treasury was empty and default could no longer be avoided. [9] Uruguay was more fortunate; it paid interest irregularly during several years yet later returned to the good graces of the foreign bankers by renewing its full debt service.[10]

Meanwhile, in the Caribbean and Central America, the debt situation became increasingly unstable. The governments of Costa Rica and Panama defaulted in 1932. That same year, the dictator of the Dominican Republic, Trujillo, froze payments on the sinking fund of his government's debt while, at the same time, continued to remit interest to the New York bankers who were supporters of his regime. In Cuba the provisional government of Mendieta [1934] suspended service on the notorious 1927 public works loan although it maintained payments on the rest of the external debt. On the other hand, in Haiti, Honduras and Nicaragua no suspension took place. United States banks systematically collected a percentage of the customs duties in hose countries and sent the sums to the bondholders. [11]

In summary, several of the smaller Latin American republics were able to avoid default, but most of the larger nations could not do so. The only exception among the latter was Argentina, which maintained interest and amortization payments on all national loans without interruption until their final liquidation. [12] Yet even in the Argentine case, negotiations with the foreign bankers were necessary. Throughout the 1930's and a good part of the 1940's all the Latin American governments were involved in complex readjustments of their debts with United States and European banks and bondholders. In this chapter we shall focus on the different approaches adopted by the three largest Latin American debtors, Argentina, Brazil and Mexico to resolve their respective financial quandaries. But before discussing these three cases, it is worthwhile reviewing the nature of the international forces which unleashed the wave of Latin American defaults between 1931 and 1933.

THE CAUSES OF LATIN AMERICAN DEFAULTS

Events moved so rapidly in the first years of the depression that contemporaries had difficulty in understanding the structural determinants of the economic cataclysm. As in previous crises, the first instinct was to look for individual scapegoats. Hence it was not surprising that following the first Latin American defaults in 1931, a large number of distressed bondholders in the United States began to organize a campaign to demand a congressional investigation of banker malpractice in the issue and sale of the bonds.

The bondholders believed, with some reason, that the New York investment houses had not adequately informed them of the political and economic risks involved in acquiring Latin American government securities. A number of powerful Washington D.C. politicians agreed with them, and in December, 1931 the U.S. Senate opened hearings on the subject. During the space of four months an impressive roster of New York bankers were publicly cross-examined. The financiers called to Washington included the patrician Thomas Lamont of the House of Morgan the flamboyant Charles Mitchell, president of the National City Bank, Clarence Dillon of the blue-ribbon firm of Dillon, Read, Otto Kahn of Kuhn, Loeb & Company, James Speyer of Speyer & Company, and many others. Not surprisingly, these individuals denied any wrongdoing and affirmed that by selling the bonds they had simply been pursuing the expansion of United States trade. As Charles Mitchell affirmed: "That the banking interests of this country have floated foreign loans in America is something which should have the praise rather than the criticism of any body of men."[13]

Some of the senators did not appear to be convinced by this argument. As Senator Tom Connally said to Mitchell: "With reference to foreign bonds, you are like the saloon keeper who never drank. His whiskey was made to sell, not to drink." [14] Connally's intention was to suggest that the financiers enticed the investors to buy the bonds without informing them of the possible dangers which such transactions might entail.

The bankers, of course, insisted that they were innocent. On the other hand, a number of lower-level employees of the banks divulged much information which revealed the degree of cupidity and amorality of both North American bankers and Latin American politicians. The arguments put forth were similar, in many respects, to those presented before the British Parliament in its investigation of Latin American loans held in 1875. The bankers were judged to be, on the whole, unscrupulous businessmen who did not have the interests of the average investor at heart. It was due largely to their duplicity that the menace of a Latin American financial crisis had not been foreseen.

Despite the withering criticisms vented in the U.S. Senate and in the North American press against the bankers and politicians who had inflated the Latin American loan bubble, the fact was that default were not caused so much by speculation as by the depression itself. The single most important factor which undermined the capacity of Latin American governments to pay was the drastic decline in foreign trade revenues. [See Figure XI.] For without sufficient hard currency receipts from international commerce few states could meet financial commitments abroad.

In order to defend their foreign trade and financial positions Latin American governments rapidly instituted a variety of reforms. These included the establishment of exchange controls, the reduction of public spending, and implementation of special measures to save the principal export-sectors from total collapse. Nonetheless, the impact of the depression was devastating.

The case of Chile is especially illustrative of the difficulties encountered in responding to the crisis. According to economists, no other country in the world suffered as much as Chile from the trade depression. By 1932 Chilean exports had fallen to a mere one-sixth of their 1929 level; at the same time, government revenues dropped by over 75%. [15] In spite of this calamitous situation, the Santiago treasury continued to service the foreign debt during most of 1929-1931, transferring $ 90 million to creditors in the

United States and Europe. These remittances represented one-quarter of total government expenditures, a figure suggestive of the magnitude of Chile's external financial commitment. [16]

As the economic crisis intensified, however, the Santiago authorities began to question the wisdom of continuing to cover the debt service. There were certainly other more pressing needs. The new Chilean Nitrate Company, COSACH, which had been set up in 1930 by the government to buy and sell nitrate stocks in order to stabilize prices, required a great deal of financial assistance. Similarly, several important public works projects--initiated by strong-man Ibañez in the late 1920's and continued after the crash in order to mitigate unemployment--absorbed much local credit. The maintenance of trade and employment also had priority over the claims of the distant bondholders. By mid-1931 the Chilean government had decided it was necessary to suspend payment on its external debt.

In neighboring Bolivia, which also relied heavily on mineral exports, the effects of the depression were equally severe. The drop in tin prices shattered the brief but fragile boom experienced by the Bolivian economy in the late 1920's. Attempts were made to reduce tin stocks after 1930 by means of an international cartel of the leading tin producers of the world. But the damage was done. By 1931 Bolivia was bankrupt. [17]

The economy of Peru also suffered the impact of the decline in prices of raw materials. The dollar value of Peruvian exports dropped by 72% between 1929 and 1932. This was due, in large measure, to the closure of foreign markets as a result of defensive action by the United States as well as by the United Kingdom and France, the latter subsidizing copper companies in their colonial territories. [18] The protectionism of the powerful industrial nations thus had a distinctly negative impact upon the weak and dependent economies of nations like Peru.

By 1930 the Peruvian debt service was absorbing one-third of the now-scarce export revenues. The burden was excessive. Financial officials at Lima could not continue to gratify foreign bankers and bondholders indefinitely. They abandoned the gold standard, set up rigorous exchange controls and devalued the national currency. They also suspended the debt service. As Rosemary Thorp points out, the default was inescapable: “It is important to bear in mind that devaluation and default are closely interconnected; once devaluation occurred, the incidence of external debt service on internal revenues in domestic currency became so high that there was a strong incentive to at least partial default..."[19]

The effects of the trade depression, however, were not limited to the Andean nations. Throughout Latin America commerce dropped to pre-1914 levels. [See Table XI.] Few finance ministers could view such developments without apprehension. The trade catastrophe made the suspension of payments on debts a logical defensive measure.

The second major factor which made defaults inevitable was the international banking crisis that took place in 1931. As already noted, during 1929 foreign banks had sharply reduced their lending to Latin America. The negative impact of this reduction, nevertheless, forced both European and United States banks to reconsider their policies and in 1930 they made an effort to assist the Latin American governments in order to avoid a suspension of payments on their debts. The Chilean government, for example, was able to sell 60 million francs in bonds in 1930 through various Swiss, French and Dutch banks. [20] At the same time, Rothschilds and other influential London merchant banking firms aided the Brazilian government in raising $ 35 million in London, New York and Paris as well as an additional $ 100 million for the Sao Paulo Coffee Institute. Other Latin American republics also succeeded in obtaining emergency funds abroad: the Cuban government raised a large loan in New York through the Chase Bank while Guatemala and Bolivia obtained two small credits through none other than the Swedish Match Corporation [21]

The international banking community therefore did not completely abandon Latin America in the initial stages of the depression. But eventually they were obliged to shut down all foreign loan transactions as a result of a major banking debacle. The first signs of a weakening of the banking system came from the United States as a run on banks in the Southeast almost provoked a national panic in mid-1930. [22] The weakest link of the international financial structure, however, was not to be found in the United States but in Europe. The crisis exploded in May, 1931, when the great Credit-Anstalt bank of Vienna collapsed. The run then shifted to Germany and provoked the fall of the even larger Danatbank. By late July the London money market had begun to crack under the strain and on September 21 Britain went off the gold standard. Another twenty-one countries followed the British example and exchange controls were established by the governments of thirty-one nations around the globe.

In order to shore up the European and, in particular, the German banks, the major powers resolved to gather at an international economic conference in Lausanne in 1932. At this meeting the countries entitled to war reparations payments from Germany (which originated from the First World War) renounced further claims upon assumption by the German government of a much-reduced sum; the nominal value of the German war-debt was pared down from $ 31 billion to less than $ 1 billion. At the same time, the same nations which had renounced German reparations now demanded relief on their own financial obligations to the United States. The so-called "allied debts" (which also had originated from the war) surpassed $ 10 billion. Of this total, 42% was owed to the United States by Great Britain, 34% by France, 16% by Italy and 4% by Belgium. [23] Under great pressure the United States financial authorities accepted a debt holiday with a duration of one year.

Politicians at Washington D.C. felt that they had acted generously to save the international financial structure from collapsing, although they expected the sacrifice to be short-term. They were mistaken. At the end of 1932 the British Exchequer requested another postponement of payments on the war debts. The United States Treasury sidestepped the issue, preferring to avoid making public pronouncements on what it judged to be a "hot" political issue. Payments remained frozen, and there the matter rested until early 1934 when Senator Johnson of California managed to push a law through Congress limiting the sale of foreign bonds in the United States. European monetary authorities interpreted this piece of legislation as an untimely and aggressive act of financial isolationism. On June 4, 1934, Great Britain unilaterally suspended all future payments on the war debts with the United States, and it was soon followed by France, Italy and Belgium.

The banking crisis of 1931 thus led to bitter transatlantic financial conflicts. The contradictions between the major powers offered a new set of opportunities for Latin American governments to justify default. Finance ministers at Mexico, Rio de Janeiro, Lima and Santiago instructed their ambassadors at Washington and London to discretely sound out the possibilities of obtaining special treatment for their debts, such as that conceded to Germany at the Lausanne Conference. [24] Moreover, the suspension of the gold standard provided attenuating circumstances insofar as Latin American finance officials could now justify the payment of their debt service in national currencies instead of gold, dollars or sterling.

But once again it should be emphasized that not all Latin American states had suspended payments on their external debts. In 1934 seven republics were still paying part, if not all, of their foreign obligations. As already noted, Haiti, Nicaragua, the Dominican Republic and Honduras were pressured by the United States to maintain payments. Cuba interrupted remittances on a part of its debts in 1934 but eventually reimbursed the bankers. Brazil, the biggest debtor, paid part of the interest on the federal and Sao Paulo loans although it suspended service on additional provincial and municipal debts. And the Argentine government--which never even considered a moratorium--met its foreign financial commitments with what may be described as Swiss punctuality. On the other hand, Mexico, Chile, Peru, Bolivia, Colombia and six other states continued in a state of complete default. [See Table VIII.]

The strategies adopted by the Latin American nations to deal with the debt crisis were therefore diverse. In all cases financial rescue programs were the result of complex and prolonged negotiations with bankers and politicians in Washington, London and Paris. In several instances the debtors won major concessions which helped soften the blow of the Great Depression. In others the conditions obtained were less favorable. To illustrate the complexity of the international financial adjustments we shall review the different solutions negotiated by the three largest debtors: Argentina, Brazil and Mexico. In each of these cases, it should be observed that international and political factors played as important role in the ultimate resolution of the debt dilemma as did strictly economic factors.

ARGENTINA, THE FOLLY OF A LOYAL DEBTOR

Prior to the Wall Street panic of 1929, the prices of the key Argentine export commodities, beef and cereals, had begun to weaken in international markets. By mid-1930 discontent had become rife among local cattle ranchers, wheat producers, merchants and bankers. The resentment was soon transmitted to the top ranks of the Argentine army. And, when general Uriburu carried out a swift and bloodless coup against the aging but still popular president of the republic, Hipolito Yrigoyen, there was little opposition on the part of the ruling Radical party or of other parliamentary groups.

The demise of the seventy year-old Argentine parliamentary regime was not lamented by United States bankers. Only a month after Uriburu took power, he received offers for a $ 50 million short-term loan from the influential investment bank of Brown Brothers, ostensibly with the goal of stabilizing the finances of the new administration. The signing of the loan suggested the possibility of a rapprochement between the Argentine military and the United States which might even lead to a weakening of the traditional Ango/Argentine alliance. [25] But such was not to be the case.

In 1932 Uriburu was replaced by general Justo, who had been elected president by the Conservative party in one of the most fraudulent elections in the history of the republic. Justo was less intent upon negotiating with the United States than he was in strengthening the old political and economic ties between Argentina and Great Britain. His administration was dominated by representatives of the powerful cattle ranching interests, which were intent upon conserving the all-important British markets for their products. The ranchers were acutely concerned with the results of the Ottawa Conference of 1932, the purpose of which had been to propose a common defensive strategy for all the member nations of the British Commonwealth. As a non-member, the Argentine government feared that it might be excluded from British markets and also lose access to the London money market in the future. In order to obtain favored treatment, such as that gained by Canada and Australia, Justo sent vice-president Roca to London in 1933 to negotiate a broad-ranging commercial and financial accord with the British authorities.

The agreement, subsequently known as the Roca-Runciman Treaty, provided for concessions by both nations. On the one hand, Argentine beef exports were guaranteed a fixed and large portion of the British market. [26] In exchange, the powerful British commercial and railway firms operating in the Rio de la Plata were now offered the possibility of remitting dividends to stockholders in England. From 1930 these remittances had been frozen by the Argentine Treasury in so-called "blocked sterling accounts" in order to avoid a damaging gold drain. According to the treaty provisions, the Argentine government would now free these accounts by issuing £ 13 million (U$S 65 million) in external bonds in England to all private creditors who presented receipts of their blocked accounts in Argentina.

The financial accords of 1933--less studied by historians than that of the beef quotas--constituted the linchpin of the entire Argentine program for economic recovery. By freeing the sterling accounts, the government was able to restructure both its external and internal debts, to gradually devalue the national currency and to permit expansion of bank credit, especially for wheat and corn farmers. [27]

The economic success of the Anglo/Argentine alliance was indisputable. By 1937, with a record wheat crop, Argentine exports had climbed back to pre-depression levels. [See Figure XI.] Meanwhile, the government was able to continue full service on its external debts and even to liquidate several hundred million dollars worth of foreign bonds in 1937 and 1938. The Argentine economy appeared to prosper in the midst of numberless calamities throughout the world: breadlines and mass unemployment in the industrial nations; the outbreak of the Spanish Civil War; the invasion of Austria by Nazi Germany; the conquest of Manchuria by Fascist Japan.

Yet despite the apparent success of the Argentine authorities in negotiating commercial and financial accords with the United Kingdom, the fact was that relations between the South American republic and the old imperial power were asymmetrical. Argentina depended more upon Great Britain than vice-versa. British investors held the bulk of the Argentine foreign debt and British-owned companies ran three-quarters of the Argentine railway network, owned half of the meat-packing plants in the country and controlled much of the import/export business. Furthermore, Argentine cattle and wheat producers were entirely dependent upon British markets for the sale of their commodities. The external dependency of the wealthiest Latin American nation was manifest.

The consequences of dependency were felt in Argentina with increasing force after the onset of World War II. The rivalry between the major powers transformed this South American nation into the pawn of a complex geopolitical and economic conflict. For Great Britain the key issues were maintenance of the meat trade and of the debt service. For the United States, on the other hand, the debt question was less important than political and military considerations.

As early as 1940 the British Foreign Office began to take steps to protect its economic position in Argentina, which was considered to be essential to the overall war effort of the United Kingdom. In October, 1940 a commercial mission was sent to Buenos Aires with the specific goal of assuring a continued flow of beef exports to England as well as of obtaining the acquiescence of the Argentine government to the deposit of the proceeds of the meat trade in special "blocked sterling" accounts in the Bank of England. [28] In this way, the British government could assure that its army and navy would have fresh meat supplies without having to pay for them in gold.

The British were not alone in expressing their interest in the role Argentina might play in the war. German agents were also active, playing an important role in the organization of pro-fascist political associations, although it should be underlined that German economic interests had been severely curtailed as a result of the British naval blockade of German shipping in the Atlantic. [29] The principal beneficiaries were United States commercial and industrial firms which quickly took over much of the business previously handled by German companies. Yet despite the growing control of the Argentine import business by North American corporations, politicians at Washington were increasingly obsessed with the supposed threat of an alliance between Argentina and Nazi Germany. These fears--as expressed in policy--eventually led to disputes with the British over the question of how to deal with the neutralist stance of the Argentine government.

The British were aware of the increasingly deep ideological splits within the Argentine ruling classes and within the top ranks of the Argentine army. The British ambassador at Buenos Aires, David Kelly, knew that pro-German sentiment had gained considerable strength among nationalist circles. Nonetheless, his reports indicated that he believed that the fascist threat in Argentina was much overrated. The ambassador was actually, more concerned with the attempts by the United States to establish its political hegemony over the Latin American nations, a fact which became manifest at the Rio de Janeiro Conference of 1942. [30]

At that meeting the United States Secretary of State, Cordell Hull, and his assistant, Sumner Welles made a strenuous effort to oblige all the nations of the hemisphere to sever relations with Germany, Italy and Japan. The Argentine delegates opposed this proposal and were successful in obtaining ratification of a declaration which merely recommended severance of relations with the fascist powers but did not require it. [31]

The Argentine diplomatic triumph at Rio proved to be a Pyrrhic victory. While the Buenos Aires authorities gained the respect of other Latin American nations for their independent stance, they also won the unyielding hostility of the Roosevelt administration. Henceforward, the United States government refused to consider any Argentine request for economic or military assistance. And after the June, 1943 coup d'etat, headed by general Ramírez, tensions intensified. United States intelligence agents considered that the Argentine military government represented a major threat for the other nations of the Southern Cone. As Hull affirmed in strident terms: "Argentina, under the control of the Fascist lawless government is the refuge and headquarters in this hemisphere of the Fascist movement." [32]

In order to punish and isolate the Ramirez administration, the State Department went as far as to urge the British government to blockade Argentine trade. But this was too much for Whitehall. In June, 1944 Churchill informed Roosevelt that it would prove impossible for him to carry out such reprisals because the United Kingdom depended upon Argentina for 40% of its meat imports. [33] Moreover, London banking circles were concerned that a break with Argentina might possibly lead to the expropriation of British enterprises in the Rio de la Plata and prejudice a favorable solution to the Argentine debt held in England. The bankers were gratified by the fact that a large portion of the Argentine blocked sterling accounts were being used to liquidate the old external bonds. They had no intention of castigating a loyal debtor.

After the end of the war, British diplomats continued to promote a conciliatory policy, a fact which allowed them to negotiate a favorable settlement of both the railway and the debt questions with the new president of Argentina, Juan Domingo Peron. In Febuary, 1947 an agreement was reached by which the Buenos Aires government ceded the huge sum of 150 million pounds ($ 750 million) in blocked sterling accounts in London in exchange for the nationalization of the British-owned railway corporations in Argentina. Furthermore, the Peron government used additional export surpluses to pay off all outstanding external bonds still held in Great Britain. [34]

In contrast to the British, the United States insisted on attacking the Peronist administration. The motives behind the hard-line adopted by American diplomats like Spruille Braden, however, were essentially political. Braden was incensed with the nationalist positions adopted by the Argentine government which undermined the attempts by the United States to establish hegemony over Pan American affairs. On the economic front, in contrast, there were no legitimate motives for criticism of the Argentines. Peron, like his predecessors, paid all off all debts due to the United States punctually and in gold. In 1946 he used $ 135 million for final repatriation of the dollar-held debt and an additional $ 85 million to cover the costs of the nationalization of the United River Plate Telephone Company, a subsidiary of ITT. [35]

In the final analysis, it can be argued that the debt solutions adopted by the various Argentine administrations in power from 1940 to 1947 sacrificed economic advantages for a series of dubious political benefits. Presidents Castillo, Ramirez, Farrel and Peron did not waver in honoring their financial commitments but failed to extract significant economic concessions from either the United States or Great Britain. Indeed, the greatest benefactors of the Argentine financial policies of both the 1930's and the 1940's were actually the foreign bondholders who recuperated their capital and received full interest payments. *In all* it can be estimated that between 1929 and 1946 they received payments from Argentina totaling approximately half a billion dollars on capital account and a slightly smaller amount in the way of interest payments.[36]

The enormous economic burden incurred by the Argentine debt strategy can be attributed to two main factors. In the first place, the debt policies adopted from the early 1930's were remarkably rigid despite substantial political changes inside Argentina. Buenos Aires finance ministers remained committed to payment *in full* of interest and sinking fund debits. Debt renegotiations were not effectively used as instruments of economic diplomacy since the threat of a moratorium or a default was never used by the Argentine authorities as an instrument to obtain more lenient conditions from foreign creditors.

In the second place, the Argentine governing elite had great difficulty in adjusting to the shifting balance of power during World War II and, in particular, to the new role of the United States as the dominant force in the postwar world. The Peron administration believed that Argentina finally was in a position to establish economic independence from both Great Britain and the United States by paying off its debts and nationalizing the foreign-owned companies which controlled the bulk of the nation's railways, tramways, telephones and other public services. That this implied an enormous economic sacrifice was not at first self-evident. But in the long-run it would become clear that the price paid to the foreign creditors had been altogether too heavy.

BRAZIL: THE DIPLOMACY OF DEBT POLITICS

In contrast to the orthodox financial policies of Argentina, Brazilian officials adopted a more flexible and, ultimately, more advantageous debt strategy. Following the initial default on the Brazilian external debt in 1931, renegotiations led to several different agreements with foreign creditors in 1934, 1940 and 1943. In each instance the Brazilian government bargained long and hard to extract substantial concessions from the bankers and bondholders. By deftly pitting the British against the Americans over a period of fifteen years, the Vargas administration succeeded in lessening the weight of the debt at the same time as it strengthened the Brazilian role in international politics.[37]

The success of the Brazilian financial strategy was surprising in more ways than one. It should be recalled that at the time of the Wall Street crash of 1929, Brazil was the largest Latin American debtor. In order to cover payments on more than one billion dollars in loans, the national treasury relied primarily on the income generated by coffee exports. But as these revenues declined, the possibilities of continuing to service external debts evaporated. The only way to avoid a full-scale economic collapse, therefore, consisted in arresting the fall of coffee prices.

From the onset of the depression, British bankers collaborated closely with the Brazilian financial authorities to stabilize the international coffee markets and to assure an uninterrupted flow of payments on the external debt. The British financiers were committed to assisting the Brazilians not only because they were the major creditors of the republic but also because of their large investments in railways, banks and plantations as well as their considerable stake in the coffee trade. The fact that the Schroeder banking firm (of London) owned coffee plantations in Brazil, for example, probably influenced its decision to participate in the Coffee Realization Loan of 1930. Thus the loans provided by Schroeders, Lazards and Rothschilds served to protect the large, traditional British role in the Brazilian economy. [38]

The rescue measures implemented from 1930 onwards helped defend domestic coffee producers from the adverse consequences of the international economic crisis and helped maintain employment. Nonetheless, from a financial point of view, the Brazilian government found itself in an increasingly difficult situation. The outflow of gold caused by the debt service and by the profit remittances of foreign-owned companies led to the rapid depletion of the hard currency reserves of the Brazilian banking system.

In order to avoid a possible default British financial authorities urged the Brazilian finance minister, Aranha, to invite Sir Otto Niemeyer, a well-known British fiscal and monetary expert, to head a mission to investigate the possibility of carrying out a reform of Brazilian public finance. [39] The Niemeyer mission published its recommendations in July 1931. The main proposals were to increase direct taxes, reduce customs duties, reorganize the postal, telegraphic and railway services and to balance the budget. Furthermore, Niemeyer insisted that Brazil should remain on the gold standard despite the enormous turbulence in international financial circles and urged the establishment of a Central Bank to assure convertibility of the Brazilian currency.

Not surprisingly, the Vargas administration gave lip-service to Niemeyer's proposals but did not take steps to implement them. On the contrary, the Brazilian government rejected the orthodox reforms and abandoned the gold standard. On September 1, 1931, word came from Rio de Janeiro that the government had resolved to suspend sinking-fund payments on all foreign loans except the funding loans handled by Rothschilds. A few days later interest payments were also frozen. [40]

London and New York banking circles were naturally taken aback by the Brazilian decision. The amount of debt in default was staggering and they feared that the example of Brazil would now be followed by the rest of Latin America. The British bankers were the quickest to react. As Abreu notes, it was the firm of Rothschilds, official bankers to Brazil since the time of independence, who made the key proposals for a major debt reform: “At the end of September [1931] Rothschilds recommended that the total debt be divided into three categories: (1) funding loans, (2) secured loans, and (3) unsecured loans. The first category was to receive full service, the second contractual interest only, and the third 25% of contractual interest." [41]

The proposal implied that those bondholders who had bought securities of the oldest and best-guaranteed loans, such as those of 1898 and 1914, would receive their money's worth while the remaining creditors would have to accept a reduction in payments. This scheme favored the British and French bondholders over the Americans because the bulk of the funding and secured loans had been placed in Great Britain and in France. [42]

The Brazilian finance minister accepted the Rothschild blueprint apparently at the urging of Otto Niemeyer, with whom he maintained close ties. But several months later the Rio de Janeiro authorities announced that they would need additional concessions from the bondholders. In early 1932 a "funding arrangement" was ratified by which the interest on most loans would not be paid in cash but in new bonds to be issued in London, New York and Paris. [43]

Although the accords of 1931 and 1932 brought some financial relief, it was not enough. By 1934 the Brazilian government requested its foreign creditors to discuss a new restructuring of the debt. Once again, the ubiquitous Niemeyer appeared as the representative of British interests and his presence carried additional weight as his services were simultaneously requested by the Argentine government to help set up a Central Bank. Niemeyer submitted an outline of negotiable reforms to the new Brazilian finance minister, Aranha. His suggestions were accepted and the loans were classified according to a complex hierarchy of seven grades. Grades 1 and 2, which included the Rothschild loans, would receive full interest payments. Grade 3, which included several federal loans plus the bonds issued by the Sao Paulo Coffee Institute, would receive 30% of interest. The remaining loans, which consisted mainly of the dollar loans of the 1920's for the federal, provincial and municipal governments, would receive lesser sums. [44] The representatives of the American bondholders fought fruitlessly to modify this scheme. The British bankers still had the upper hand.

During 1934-37 the Brazilian treasury complied with this arrangement, paying a total of 150 million dollars in cash to the bondholders. Eventually, however, the Vargas administration reversed its stance and decided to call a halt to further payments. The reasons for the new default, announced in November, 1937, were complex. On the one hand, the Brazilian economy was suffering the effects of a renewed decline in the international price of coffee. On the other hand, Vargas had adopted a series of measures to reorganize the entire public administration according to a corporativist model called the "Estado Novo". His intentions were to use the new state structure to promote the modernization of the national transport network, to build up heavy industry and to strengthen the army. To finance these projects Vargas planned to take advantage of increasingly close commercial ties between Brazil and Nazi Germany. Since 1934 Germany had expanded its acquisition of Brazilian cotton, coffee and rubber in exchange for which it sent textiles, chemicals and armaments to Rio de Janeiro and Santos. [45] The new links with Germany, moreover, led to a weakening of the financial relationship with Great Britain and appeared to justify default.

The reaction of British bankers and government official to the new Brazilian suspension of payments was bitter. The *Economist* declared that : "Brazil needs not make a rigid choice of destroyers or debt service." And prime minister Austen Chamberlain announced in menacing terms that "His Majesty's Government view with the gravest concern the loss inflicted on individuals and on the country as the result of default on Foreign Loans." [46]

In contrast to the virulent British response, that of the United States was remarkably mild. This could be ascribed in part to the policy of the Departments of State and of Commerce in support of multilateral trade policies which ran against the British preference for bilateral arrangements. Washington officials did not wish to encourage trade with Germany yet they considered it would be counterproductive to punish Brazil for diversifying its foreign commerce. Above all, however, it was Roosevelt's determination to make Brazil a key actor in the Good Neighbor Policy which shaped relations between the United States and the South American nation. Consequently, no reprisals were taken against the Vargas administration.

In 1939, however, the United States began to press for reimbursement of the foreign loans. By then it had become apparent that the Brazilians were willing to reinitiate some interest payments. Aranha, who had assumed the post as Brazilian ambassador at Washington, met with Morgenthau, the Secretary of the Treasury, to work out an agreement by which the Export/Import Bank would advance industrial credits to Brazil in exchange for the partial renewal of the debt service. The Brazilian government made a token payment of one million dollars in New York in July, 1939 and invited the various bondholders associations to send agents to Rio to renegotiate the debt. [47]

During several months the Brazilian finance minister, Souza Costa, bargained with the bondholders and with a representative of the State Department. In January, 1940, Souza Costa made a final proposal based on the old 1934 plan. The American bondholders obtained more favorable terms on their loans while the British tended to lose ground. This shift reflected the emerging political and military alliance between Brazil and the United States.

From the onset of the Second World War, the United States had been concerned with the degree of Axis penetration of Latin America. Brazil was considered to be particularly vulnerable on account of its large German immigrant population. As a result, the Roosevelt administration began to formulate a policy designed to reduce that threat by establishing close ties with the Brazilian military. The implementation of this policy moved slowly, but after Pearl Harbor (December 7, 1941) the urgency of reaching an agreement with Rio became manifest. In March, 1942, four accords were signed between the United States and Brazil, including the supply of antitank and antiaircraft weapons, 300 light and medium tanks and 50 combat aircraft for the Brazilian forces. [48]

During 1942-45 Brazil became a crucial way-station for the military air-traffic of the United States. As Frank observes, "some 25,000 combat aircraft were ferried (via Northeast Brazil) to Europe, Africa and even to Asia as well as a good deal of Lend-Lease hardware to the Soviet Union." [49] According to a popular saying, Brazil became the "air funnel to the battlefields of the world."

The Brazilian government was able to use its now considerable military and political influence as leverage in its final renegotiation of the foreign debt. Souza Costa began talks with the British bondholders in early 1943 and then in June informed the Americans that the talks were already in progress. Incensed with this news, the State Department immediately dispatched high-level representatives to counter any advantages gained by the British and to obtain equal terms for the American bondholders. [50]

The final Brazilian debt settlement of 1943 guaranteed that the interest payments on the dollar loans would be upgraded, thereby diminishing the discriminatory effect of the 1934 classification scheme. At the same time, major concessions were made with respect to the reduction of a part of the interest and capital of the debts. This allowed the Brazilian government to redeem a portion of the outstanding bonds at low prices. As a result, between 1943 and 1945 the total external debt was reduced by approximately 250 million dollars. [51]

By the end of the Second World War Brazil still had an external debt of close to 800 million dollars, but it had wrung sufficient concession from its creditors to make repayment less burdensome than would have been otherwise the case. This favorable solution can be judged to have been largely the result of strategic cooperation with the United States during the war years. On the other hand, the British government proved less flexible. “Whereas the Americans took a rather conciliatory stand, paying careful attention to their strategic economic and political aims in Brazil, the British tended to worry only about maximization of financial payments”.[52]

The success of the Brazilian strategy, nonetheless, was not only the consequence of the war and of the military alliance with the United States. Equally critical had been the decision taken by the Brazilian authorities from 1931 onwards to use default, or partial default, as an instrument of economic diplomacy. According to one calculation, the permanent relief gains obtained through the various defaults and renegotiations of the 1930's and 1940's allowed Brazil to save a total of approximately half a billion dollars in payments. [53] Despite the constant pressure of foreign creditors, the Brazilians had learned how to play the game of international power politics to economic advantage.

MEXICO: THE BENEFITS OF PROCRASTINATION

In many ways the resolution of the Mexican foreign debt quandary proved to be the most complex of all the Latin American financial adjustments of the 1930's and 1940's. Mexico's external debt, valued at approximately $ 500 million, was the third largest in the region after those of Brazil and Argentina. [54] The Mexican debt had been in default since 1914 when, as a result of the revolution, the treasury had simply run out of money. In succeeding decades negotiations were carried out with the bankers who represented the foreign bondholders on several occasions, but the amount of payments extracted from the government was insignificant.

The first major renegotiation of the foreign debt of Mexico took place in 1922. The principals involved were the finance minister, Adolfo de la Huerta, and Thomas Lamont, head of the International Committee of Bankers on Mexico. The latter body represented the United States and European investors who had bought the bulk of the government bonds issued before 1914 as well as a large part of the shares of the Mexican National Railways. [55] In 1921 the bankers assumed a key role in convincing the State Department to take steps toward formal recognition of the Mexican government. They were opposed by the American oil companies which demanded political and/or military intervention by the United States government to protect their interests in Veracruz and Tampico. But the views of the bankers ultimately prevailed. The government of President Alvaro Obregón was pleased to receive the financiers in Mexico City, hoping to win a reduction of the debt service as well as to obtain funds to assist in the establishment of a Central Bank.

Despite the preliminary show of goodwill, the negotiations between Lamont and the Mexican finance minister were not cordial. De la Huerta insisted that his government was prepared to recognize the pre-revolutionary debts but that it would not sacrifice the welfare of the Mexican people. He affirmed: “Above all, Mexico must survive...If a family finds itself in dire economic straits, the first consideration must be to obtain bread and milk and, after that, to its creditors.” [56]

Lamont was adamant but eventually convinced De la Huerta to sign a settlement by which the entire original capital of the old debts was recognized as well as part of the interest in arrears. The Mexican government promised to use oil taxes to establish a fund of $ 30 million with which to cover the debt service. The agreement was ratified by the National Congress and during the space of two years the Mexican treasury sent a small stream of silver pesos to New York.

To pay its debts Mexico relied essentially on the income produced by petroleum taxes. However, this meant that if there were a marked decline in production of oil, the government would find it difficult to pay its creditors. The oil boom had reached its apogee in 1921/22 but waned in years following. The drop in oil income, together with a series of internal conflicts, led President Obregon to announce the suspension of the debt service as of June, 1924.

The new default stirred the International Committee of Bankers to action once again. Lamont now found himself bargaining with another Mexican finance minister, Alberto J. Pani, who proved to be more adroit than his predecessor. Pani argued that export earnings were insufficient to renew the full debt service immediately, although he promised that his government would do so by 1928. In order to reduce the overall debt burden, however, Pani acceded to the request of the bankers' committee that the National Railways be returned to private ownership within the space of one year. [57]

Between 1926 and 1927 the Mexican government deposited 27 million dollars in New York to the account of the Committee of Bankers. [58] The receipt of these funds appeared to indicate to the bondholders that Mexico had finally returned to the fold of "creditworthy nations". But they were soon to be sorely disappointed. After 1927 no further payments were forthcoming. To make matters worse, the National Railway Company began running such large deficits that the management found it impossible to distribute dividends to the foreign shareholders.

As before, the cause of the new Mexican default was linked to the fall in the value of the nation's exports: silver and oil. From 1926 silver prices had begun to decline and the mining companies had cut back on their production. Meanwhile, the petroleum fields along the Gulf diminished in productivity, and numerous United States and British firms moved out, shipping much of their drilling equipment to Venezuela where a great oil boom was now in progress. [59]

The world depression aggravated an already grim predicament. In July, 1930 the Mexican government signed a new pact with the International Committee of Bankers known as the Montes de Oca-Lamont agreement. It was short-lived and was never ratified by the Mexican Congress. Throughout the decade of the 1930's Mexico would remain in complete default on its external obligations.

The turning point which would lead to the final resolution of the Mexican debt question was the outbreak of World War II. As in the case of Brazil, the United States authorities made a concerted effort to establish a political, economic and military rapprochement with its southern neighbor. In exchange for financial concessions, the leaders of the Roosevelt administration expected that the government of president Avila Camacho would support the Allied war effort.

The Mexican government was well-appraised of the intentions of Washington and determined to strike a hard bargain. In April, 1941, the Mexican ambassador at Washington, Castillo Nájera, wrote to his superiors that in the course of talks with State Department officials Welles and Duggan he had learned that the claims of the United States petroleum companies (which had been nationalized by Mexico in 1938) were now to be subordinated to the goal of convincing the Mexican government to sign a series of military and naval treaties. Castillo replied to Welles that the economic and military questions would have to be resolved simultaneously. [60]

The United States strategy of seeking an alliance with Mexico, however, was not predicated solely on military grounds. In fact, as the Mexican ambassador shrewdly observed, Mexico was to destined to play a secondary role in the overall military strategy of the United States. On the other hand, Mexico's political contribution to the Allied cause could prove decisive since it would carry great weight throughout Latin America. As Castillo wrote in May, 1941: "Our cooperation...has, I repeat, political importance because of its impact on the entire hemisphere." [61]

In July, 1941, negotiations began on the indemnities claimed by the petroleum companies as well as by American investors who sought monetary compensation for landed estates expropriated during the revolution of 1910-20. At the same time, the Mexican Finance Ministry requested credits from the Export/Import Bank and the Department of the Treasury. It also pressed for a readjustment and reduction of the foreign debt. The economic negotiations were accompanied by military agreements, including the formation of a Mexican-American Defense Commission and the signing of a series of treaties with respect to United States access to Mexican air lanes and seaports. [62]

In addition, it should be noted that Mexico made two other contributions of great significance to the United States war-effort. On the one hand, the Mexican government allowed Mexican-born citizens residing in the United States to join the United States Army; approximately one quarter of a million did so. In the second place, it facilitated the mass migration of Mexican workers across the border to labor in both field and factory, helping to resolve the acute labor shortage of the United States war economy. [63]

The final resolution of the Mexican debt was contingent therefore on a complex set of military, political and financial factors. That the Mexican government proved willing to support the Allied war effort induced the Roosevelt administration to pressure both the oil companies and the International Committee of Bankers to accept a major reduction in their claims. The oil companies were awarded $ 23 million for the properties that had been nationalized. Mexico agreed to compensate for the surface value and capital equipment, alleging state title to subsoil rights. The oil companies' much greater estimates of their losses included the value of oil in the ground. [64]

The bondholders had to accept a greater sacrifice. According to the final debt agreement signed in 1942 by Lamont and by finance minister Eduardo Suarez, the holders of Mexican government securities were obliged to accept the cancellation of approximately 90% of the nominal value of the bonds. Consequently, the Mexican external debt was scaled down from a sum of approximately $ 500 million to $ 50 million. [65] A similar arrangement was reached with the shareholders of the National Railway Company of Mexico by which the foreign investors received a net cash payment of fifty million dollars on properties that had been originally valued at ten times that sum. [66] In brief, the loans accords allowed the government of Mexico to cancel the bulk of its external debts.

CONCLUSIONS

The Mexican debt settlements of 1942 and 1946 were the most favorable of the Latin American debt renegotiations of the era. Like the Brazilian accords, they were in good measure the by product of the radical change in international relations that had been engendered by the World War. These new circumstances led the United States government to intervene directly in the debt renegotiations, subordinating the private economic interests of the bondholders to the political and military requirements of "hemispheric cooperation".

In contrast to the privileged treatment reserved for Mexico and Brazil, other Latin American nations obtained less significant financial concessions. This may attributed to the less important role that they played within the geo/political strategy of the major powers during the war years. But it should also be noted that a number of these South and Central American republics did reap some benefits. Nations such as Bolivia, Chile, Colombia, Costa Rica, El Salvador, Panama and Peru were able to maintain a moratorium on their respective debts from the early 1930's until the mid or late 1940's. [See Table 8] They latter had no other alternative but to resume negotiations with the bondholders. In several instances, nonetheless, they were able to obtain a partial reduction of their outstanding debts.

In the final analysis, it may be argued that while the Great Depression and the World War severely dislocated the Latin American economies, the defaults helped pave the way to recovery. By unilaterally freezing their external financial commitments, a large number of republics were able to attenuate the impact of the international financial and commercial crisis that had originated with the crash of 1929. The defaults did not lead to economic independence but they did reduce financial dependency during more than a decade. This was a historical experience which would bear remembering.

APPENDIX A
FOREIGN LOANS TO LATIN AMERICAN GOVERNMENTS, 1850-1873

Country and Govt. Entity	Year	Nominal Value (£ thousands)[a]	Interest Rate[b]	Issue Price[c]	Purpose[d]	Bankers[e]
ARGENTINA						
National govt.	1857	1,263	3.0	-	Refinance	Barings (L)
	1865-68	2,500	6.0	72-75	Military	Barings (L)
	1871	6,122	6.0	88	Public works	Murrieta (L)
Buenos Aires Prov.	1870	1,035	6.0	86-88	Public works	Murrieta (L)
	1873	2,041	6.0	90	Public works	Barings (L)
Entre Ríos Prov.	1872	227	7.0	90	Refinance	Barings (L)
Santa Fé Prov.	1874	300	7.0	92	Bank and railways	Murrieta (L)
BOLIVIA						
National govt.	1864	1,000	6.0	Failure	Bank and railways	London Country Bank (L)
	1872	1,700	6	68	Public works	Lumb, Wanklyn (L)
BRAZIL						
National govt.	1852	1,041	4.5	95	Refinance	Rothschilds (L)
	1858	1,527	4.5	96	Railways	Rothschilds (L)
	1859	503	5.0	-	Refinance	Rothschilds (L)
	1860	1,373	4.5	90	Public works	Rothschilds (L)
	1863	3,300	4.5	88	Refinance	Rothschilds (L)
	1865	6,963	5.0	74	Military	Rothschilds (L)
	1871	3,460	5.0	89	Refinance	Rothschilds (L)
	1875	5,300	5.0	96	Refinance	Rothschilds (L)
CHILE						
National govt.	1858	1,555	4.5	92	Railways	Barings (L)
	1865	450	6.0	92	Military	Thomson, Bonar (L)
	1866	1,121	7.0	92	Military	Morgan (L)
	1867	2,000	6.0	80	Refinance	Morgan (L)
	1870	1,013	5.0	83	Railways	Morgan (L)
	1873	1,227	5.0	89	Railways and military	Oriental Banking Co. (L)
	1875	1,136	5.0	88	Public works	Oriental Banking Co. (L)
COLOMBIA						
National govt.	1863	200	6.0	86	Public works	London Country Bank (L)
	1866	7,500	7.0	Failure	-	-
	1873	2,000	4.0	-	Refinance	London Country Bank (L)
COSTA RICA						
National govt.	1871	500	6.0	72	Public works	Bischoffsheim (L&P)
	1872	500	6.0	74	Public works	Bischoffsheim (L&P)
	1872	2,400	7.0	82	Railways	Knowles, Foster; Erlangers (L&P)
ECUADOR						
National govt.	1855	1,824	6.0	-	Refinance	Commitee of Bondholders
GUATEMALA						
National govt.	1856	150	5.0	-	Refinance	Isaac, Samuel (L)
	1869	500	6.0	70	Public works	Thomson, Bonar (L)
HAITÍ						
National govt.	1875	1,458	8.0	86	Refinance	Crédit Général Francasi (P)

FOREIGN LOANS TO LATIN AMERICAN GOVERNMENTS, 1850-1873 cont.

Country and Govt. Entity	Year	Nominal Value (£ thousands)[a]	Interest Rate[b]	Issue Price[c]	Purpose[d]	Bankers[e]
HONDURAS						
National govt.	1867	1,000	10.0	80	Railways	Bischoffsheim (L&P)
	1867	90	5.0	-	Refinance	Haslewood & Co. (L)
	1869	2,000	7.0	75	Railways	Dreyfus et Cie. (P)
	1872	15,000	-	Failure	-	-
MEXICO						
National govt.	1864	6,960	6.0	63	Military f	Crédit Mobilier (P); Glyn, Mills (L)
	1865	10,000	6.0	68	Military and refinance	Comptoir d´Escompte; Oppenheim (P)
PARAGUAY						
National govt.	1871	1,000	8.0	80	Refinance and railways	Robinson, Fleming (L)
	1872	2,000	8.0	82	Public works	Robinson, Fleming (L)
PERÚ g						
National govt.	1853	2,600	4.5	85	Refinance	Murrieta; Hambro (L)
	1853	400	4.5	-	Railways	Hegan & Co. (L)
	1862	5,500	4.5	93	Refinance	Heywood Kennard (L)
	1865	9,000	5.0	83	Refinance	Thomson, Bonar (L)
	1869	290	5.0	71	Railways	Thomson, Bonar (L)
	1870	11,920	6.0	82	Railways	Schröder (L); Société Générale (P)
	1872	22,130	5.0	77	Refinance and Railways	Schröder Sterns (L); Société Générale (P)
SANTO DOMINGO						
National govt.	1869	785	6.0	70	Public works	Peter Lawson (L)
URUGUAY						
National govt.	1871	3,500	6.0	72	Refinance	Thomson, Bonar (L)
VENEZUELA						
National govt.	1862	1,000	6.0	63	Refinance	Barings (L)
	1864	1,500	6.0	60	Refinance and public works	General Crédit Finance Co. (L)

SOURCES: Corporation of Foreign Bondholders, Annual Reports (London, 1873-80); Charles Fenn, Fenn´s on the Funds (London, 1883); Investor´s Monthly Manual (London, 1873-76); Irving Stone, "The Composition and Distribution of British Investment in Latin America, 1865-1913" (Ph.D.diss., Columbia University, 1982).

[a] The information here is the nominal value of all the bonds offered for sale by the issuing banks. However, because it is difficult to determine exactly how many bonds were actually sold, these figures should be handled with caution.

[b] These were the annual interest rates payable by the governments issuing the bonds. They do not include amortization.

[c] In the diferent bibliographical sources there are occasional discrepancies in the exact issue price. For several loans--Argentina (1857), Brazil (1859), Ecuador (1855), Guatemala (1856), Peru (1853)--the sources do not provide information on issue price. Because these loans were all conversions of old debts, it can be presumed that the latter were issued at par.

[d] Under "purpose" are broad categories that summarize the specific aims of the loans described in the loan prospectuses. However, only a detailed study of the financial archives of each borrowing government can disclose how the procceds were actually invested.

[e] The institutions listed here were the "lead banks" in charge of the overall management of the respective bond issue. They organized broad syndicates of banks, each of which assumed responsibility for the sale of a fixed portion of the securities. The abbreviation(s) following each institution indicates where the banks placed most of the bonds: (L) = London; (P) = Paris.

[f] These so-called "Mexican imperial loans" were issued in Paris on behalf of the government of Maximilian, who had been installed as emperor of Mexico by the French government of Napoleon III. The loans were used to pay the expenses of the French occupation army in Mexico (1862-67) and were therefore repudiated by succeding governments of Mexico.

[g] Not included here are two Peruvian loans brought out in Paris in the 1850´s, because there is only partial data on them; one was issued by J. Uribarren for approximately £1,800,000, the second was issued by Montané et Cie. For £800,000.

APPENDIX B

FOREIGN LOANS TO LATIN AMERICAN GOVERNMENTS, 1880-1890

Country and Govt. Entity[a]	Year	Nominal Value (£ thousands)	Interest Rate (%)	Issue Price	Purpose[b]	Bankers[c]
ARGENTINA						
National govt.	1881	2,450	6.0	91	Railways[d]	Paris/Bas; Comptoir d´Escompte (P); Murrieta (L)
	1882	817	6.0	90	Military[e]	Paris/Bas; Comptoir d´Escompte (P)
	1882	2,240	5.0	90	Refinance	N.I.
	1884	1,714	5.0	84	National Bank	Baring (L); Paris/Bas; Comptoir (P)
	1884	800	5.0	81	Port	Paris/Bas; Comptoir Cahen (P)
	1886	8,290	5.0	80/85	Ports and railways	Barings; Morgan (L); Paris/Bas; Comptoir Société Générale (P)
	1887	3,968	5.0	91/97	Railways	Murrieta (L)
	1889					
	1887	2,017	5.0	90	National Bank	Disconto; Norddeutsche; Oppeheim (B, A)
	1887	624	5.0	Par	Refinance	Murrieta (L)
	1887	5,263	4.5	87	Refinance	Barings (L)
	1889	5,290	4.5	90	Refinance	Deutsche; Disconto (B); Murrieta; Baring (L); Heine; Comptoir (P)
	1889	2,750	3.5	Par	Refinance	Stern (L)
	1890	3,000	5.0	NA	Railways	Cahen; Comptoir (P); Disconto (B)
Buenos Aires Prov.	1881	300	6.0	NA	Port[f]	Stern (L)
	1882	2,049	6.0	92	Provincial bank[g]	Barings (L)
	1883	2,065	6.5	NA	Railways	Morton, Rose (L)
	1883	2,254	6.0	94	La Plata City[h]	Morton, Rose (L); Société Générale; Comptoir, Paris/Bas (P)
	1884	2,000	5.0	NA	Railways	Morton, Rose (L); Mendelsohn (B)
	1886	2,502	5.0	80	Provincial bank	Deutsche; Disconto; Mendelsohn (B)
	1886	2,040	6.0	92	Provincial bank	Barings (L)
	1887	400	6.0	NA	Railways	Morton, Rose (L)
	1888	1,000	6.0	NA	Railways	Morton, Rose (L)
Catamarca Prov.	1888	600	6.0	95	Provincial bank	Banque Parisienne (P)
Córdoba Prov.	1886	595	6.0	89	Public works	Morton, Rose (L)
	1887	1,190	6.0	91/92	Provincial	Morton, Rose (L)
	1888	2,000	5.0	96	Provincial bank	Comptoir; Société Générale (P); Deutsche (B)
Corrientes Prov.	1889	1,000	6.0	92	Provincial bank	Société Générale (P)
Entre Ríos Prov.	1885	1,530	6.0	NA	Railways	Murrieta (L)
	1886	800	6.0	91	Refinance	Murrieta (L)
	1887	1,200	-	97	Provincial bank	Murrieta (L)

FOREIGN LOANS TO LATIN AMERICAN GOVERNMENTS, 1880-1890 cont.

Country and Govt. Entity[a]	Year	Nominal Value (£ thousands)	Interest Rate (%)	Issue Price	Purpose[b]	Bankers[c]
	1888	1,745	6.0	NA	Railways	Murrieta (L)
Mendoza Prov.	1888	992	6.0		Provincial bank	Cahen (P)
San Juan Prov.	1888	400	6.0	92	Provincial Bank	Cohen (L)
San Luis Prov.	1889	150	6.0	92	Provincial bank	Cahen; Heine (P)
Santa Fé Prov.	1883	1,434	6.0	90	Railways	Murrieta (L)
	1884	1,079	5.0	NA	Railways	Murrieta (L)
	1887	2,190	5.0	84/86	Railways	Murrieta (L)
	1888	390	5.0	90	Provincial bank	Morton, Rose (L)
Tucumán Prov.	1888	600	6.0	92	Provincial bank	Cahen; Heine (P)
Buenos Aires City	1888	1,326	6.0	Par	Public works	Cohen (L)
	1889	1,984	4.5	86	Public works	Barings (L)
Córdoba City	1887	198	6.0	95	Public works	Heinemann (L & P)
	1889	595	6.0	98	Public works	Heinemann (L & P)
Paraná City	1889	212	5.0	92	Waterworks	River Plate Trust (L)
	1889	198	6.0	95	Public works	Morton, Rose (L)
Rosario City	1887	198	6.0	par	N A	Heinemann (L & P)
	1888	992	6.0	103	Public works	Heinemann (L & P)
	1888	297	6.0	NA	Public works	Hambros (L)
Santa Fé City	1889	257	6.0	95	Public works	Heinemann (L & P)
BRAZIL						
National govt.	1883	4,599	4.5	89	Public works	Rothschilds (L)
	1886	6,431	5.0	95	Refinance	Rothschilds (L)
	1888	6,297	4.5	97	Railways	Rothschilds (L)
	1889	19,837	4.0	90	Refinance[i]	Rothschilds (L)
Bahia State	1888	200	5.0	96	Public works	Paris/Bas (P)
Säo Paulo State	1888	850	5.0	97	Public works	Cohen (L)
Rio de Janeiro City	1889	600	4.0	87	Public works	Morton, Rose (L)
Santos City	1888	100	6.0	100	Public works	Schröeder (L)
CHILE						
National govt.	1885	809	4.5	89	Refinance	City Bank (L)
	1886	6,010	4.5	98	Refinance	Rothschilds (L)
	1887	1,160	4.5	97	Nitrate[j] certificates	Rothschilds (L)
	1889	1,546	4.5	102	Railways	Deutsche (B)
MEXICO						
National govt.	1888	10,500	6.0	78	Refinance	Bleichröder (B); Gibbs (L)
	1889	2,700	5.0	77	Railways	Seligman (L)
	1890	6,000	6.0	88	Railways guarantees	Bleichröder (B); Gibbs (L)
S.L. Potosí State	1889	250	6.0	89	NA	Gibbs (L)
Mexico City	1889	2,400	5.0	85	Waterworks	Trustees Corp. (L)
URUGUAY						
National govt.	1883	11,127	5.0	50	Refinance[k]	Barings (L)
	1885	4,255	6.0	82	Public works and refinance	Barings (L)
	1888	2,000	6.0	79	Refinance	Barings (L)
Montevideo City	1889	1,400	6.0	100	Public works	Barings (L)

SOURCES: Corporation of Foreign Bondholders, Annual Reports (London, 1880-91); Henry L. Shepherd, Default and Adjustment of the Argentine Foreign Debt, 1890-1906, US Department of Commerce Trade Promotion Series, no. 145 (Washington, D.C., 1993); Carlos Marichal, "Los banqueros europeos y los empréstitos argentinos, 1880-1890", Revista ed Historia Económica (Madrid) 2, no. 1 (1984): 47-82; Jan Bazant, Historia de la deuda exterior de México (México, 1968), pp. 125-141; O. Onody, "Les invéstissements étrangers au Bresil", in Centre National de Reserche Scientifique, Colloque International sur l´Historie Quantitative du Brésil de 1800 á 1930 (Paris, 1971), pp. 302-307.

NA = Information not available.

[a] Not included in this listing are several small conversion loans - those of Costa Rica in 1886, £2,000,000; Guatemala in 1888, £887,000; Nicaragua in 1886, £285,000; Paraguay in 1886, £836,000; and Santo Domingo in 1888, £770,000. These did no represent new loans, but simply the exchange of new bonds for the old ones in default since 1873 or 1874. Also not included are the Cuban loans of the 1880´s because these depended on the Spanish Crown. For additional references, see footnotes to Table 5.

[b] The same categories for "purpose" as noted in Appendix A apply here; the categories of "railways" and "ports" refer to state-owned enterprises in this appendix.

[c] The following abbreviations identify where the banks sold most of the bonds: (L) = London; (P) = Paris; (B) = Berlin; (H) = Hamburg; (A) = Amsterdam

[d] All references to "railways" under Argentine national government loans are to the Central Norte and Andino lines.

[e] This loan was contracted to pay for expenses incurred in the repression of the revolt of 1880 led by Tejedor, governor of the province of Buenos Aires.

[f] References here is to the new port built near the city of La Plata.

[g] Reference here is to the state owned Banco de la Provincia de Buenos Aires.

[h] La Plata City, the future provincial capital, was built from scratch, financed through this and other loans.

[i] In 1889 the Brazilian government also issued a large volume of "internal" gold bonds that actually were placed in Europe.

[j] The Chilean nitrate bonds of 1887 were used to liquidate Peruvian debts that had originally been guaranteed by the nitrate fields conquered by the Chilean army in 1880. The Chilean authorities thus succeeded in placating the foreign bankers, who were now disposed to accept Chilean sovereignty over these rich districts.

[k] The 1883 Uruguayan loan actually consisted of a conversion of huge volume of internal debts into external bonds. For this reason the issue price was extremely low.

Appendix C

FOREIGN LOANS TO LATIN AMERICAN GOVERNMENTS, 1920-1930[a]

Country and Govt. Entity	Year[b]	Nominal Value (U.S. $ thousands)	Interest Rate (%)	Maturity Years[c]	Issue Price	Purpose[d]	Bankers[e]
ARGENTINA							
National govt.	1923	40,000	6.0	34	96	Refinance	Kuhn, Loeb; Blair
	1924	30,000	6.0	34	95	Refinance	Blair; Chase
	1925	45,000	6.0	34	96	Refinance	Morgan; Nacional City
	1925	29,700	6.0	34	96	Refinance	Morgan; Nacional City
	1926	20,000	6.0	34	98	Refinance and public works	Morgan; Nacional City
	1926	16,900	6.0	34	98	Public works	Morgan; Nacional City
	1927	27,000	6.0	34	98	Refinance	Morgan; Nacional City
	1927	21,200	6.0	34	99	Public works	Morgan; Nacional City
	1927	19,000	6.0	37	97[f]	Military	Hispano Americano (M)
	1927	40,000	6.0	33	99	Refinance	Blair; Chase
Buenos Aires Prov.	1925	14,472	7.5	22	99	Public works	Blair
	1926	10,600	7.0	26	96	Public works	Blair
	1928	41,101	6.0	33	96	Refinance	First National Boston; Hallgarten; Kissel
	1929	11,675	6.5	31	95	Public works	First National Boston; Harris, Forbes
Córdoba Prov.	1925	5,943	7.0	17	95	Public works	Harris, Forbes; First National Boston
Mendoza Prov.	1926	6,500	7.5	25	98	Refinance	P. Chapman; White, Weld
Santa Fé Prov.	1924	10,188	7.0	18	96	Public works	White, Weld; Dillon, Read
Tucumán Prov.	1927	2,122	6.0	23	94	Provincial bank	Paine, Weber
Buenos Aires City	1924	8,490	6.0	31	96	Public works	Dillon, Read, Harris, Forbes, Colony Trust
	1927	3,396	6.0	33	97	Public works	Blyth, Witter; Schröder
	1927	3,396	6.0	33	98	Public works	Blyth, Witter; Schröder
Córdoba City	1927	4,669	7.0	30	98	public works	White, Weld; Blyth, Witter
	1927	2,547	7.0	10	97	Public works	Ames, Emrich; Strupp & Co.
Santa Fé City	1927	2,122	7.0	18	94	Public works	Blair
Tucumán City	1928	3,396	7.0	23	96	Public works	H. Rollins & Sons.
BOLIVIA							
National govt.	1922	29,000	8.0	25	101	public works	Equitable Trust; Spencer Trask
	1927	14,000	7.0	31	98	Public works	Dillon, Read, Mendelson (H)
	1927	23,000	7.0	41	97	Refinance	Dillon, Read
BRAZIL							
National govt.	1921	50,000	8.0	20	98	public works	Dillon, Read; Blair; White, Weld
	1922	25,000	7.0	30	96	Public works	Dillon, Read; Blair; White, Weld
	1926	60,000	6.5	31	90	Refinance	Dillon, Read (NY); Mendelsohn (A)
	1927	41,500	6.5	30	92	Refinance	Dillon, Read; National City; Blair (NY); Schröder (L)
	1927	42,577	6.5	30	91	Refinance	Rothschilds; Barings (L)
Ceará State	1922	2,000	8.0	25	99	Refinance	Bache
Maranháo State	1928	1,750	7.0	30	94	Refinance	National City; Baker, Kellog
Minas Gerais State	1928	8,500	6.5	30	97	Public works and refinance	National City; Kissel, Kinnicutt; Schröder
	1928	8,500	6.5	30	97	public works	Rothschilds; Barings Schröder (L)

	1929	8,000	6.5	30	87	public works	National City; Kissel, Kinnicutt; Schröder
Paraná state	1928	9,720	7.0	30	98	Public works and refinance	Lazards (NY & L)
Pernambuco State	1927	6,000	7.0	20	97	Public works	White, Weld; First National Boston
Rio de Janeiro State	1927	9,374	5.5	22	Par	Refinance	Montagu (L)
	1927	10,218	7.0	37	97	Refinance	Montagu (L)
	1929	6,000	6.5	30	91	Public works and refinance	Rollins; Blyth; Bancamerica-Blair
Rio Grande do Sul State	1921	10,000	8.0	25	99	public works	Lee, Higginson; Landenburg, Thalmen
	1926	1,000	7.0	40	98	public works and refinance	Lee, Higginson; Landenburg, Thalmen
	1927	4,000	7.0	40	97	public works	Equitable Trust; J. G. White; Otis
	1928	23,000	6.0	40	94	Public works and refinance	White, Weld; National City; Lee, Higginson
Santa Catarina State	1922	4,704	8.0	25	101	Public works and refinance	Halsey, Stuart
Säo Paulo State	1921	29,190	8.0	15	97	Refinance	Speyer; Blair (NY); Barings; Rothschilds (L)
	1925	15,000	8.0	25	99	Public works	Schröder (L & A)
	1926	48,660	7.5	30	94/97	Coffe Institute[g]	Lazards (L)
	1928	32,000	6.0	40	94	Public works	Speyer; Blair (NY); Barings; Rothschilds (L) Schröder (L)
	1930	35,000	7.0	10	96	Coffe support[h]	Speyer (NY)
	1930	62,323	7.0	10	96	Coffe support	Barings; Rothschilds; Schröder (L)
Nitheroy City	1929	3,892	7.0	40	96	public works	Lazards (L)
Porto Alagre City	1921	3,500	8.0	40	99	Public works	Lee, Higginson; Landenburg, Thalmen
	1926	4,000	7.0	40	96	public works	Lee, Higginson; Landenburg, Thalmen
	1928	2,250	7.0	40	97	public works	Lee, Higginson; Landenburg, Thalmen
Rio de Janeiro City	1921	12,000	8.0	25	97	public works	Dillon, Read; Lee, Higginson
	1928	1,770	6.0	5	96	public works	White, Weld; Brown Bros.
Santos City	1927	10,990	7.0	30	97	Public works	Erlangers; Bank of London & Brazil (L)
Sao Paulo City	1927	5,900	6.5	30	97	Public works	First National Boston; Harris, Forbes; Stone, Webster

CUADRO I

PRESTAMOS EXTERNOS A GOBIERNOS LATINOAMERICANOS EMITIDOS EN INGLATERRA, 1822, 1824, 1825*

Fecha y prestatario	Valor nominal (libras esterlinas)	Precio al público	Intereses		Sumas recibidas [a] (Libras esterlinas)	Banqueros
			Nominales (%)	«Reales» (%)		
1822						
Colombia [b]	2,000,000	84	6	7.1	1,680,000	Herring, Graham & Powless
Chile	1,000,000	70	6	8.6	700,000	Hullet Brothers
Perú	450,000	88	6	6.8	396,000	Thomas Zinder an Everett, Walter & Co.
1824						
Perú	750,000	82	6	7.3	615,000	Fry & Chapman
Buenos Aires	1,000,000	85	6	7.0	850,000	Baring Brothers
Colombia	4,750,000	88.5	6	6.8	4,203,750	B. A. Goldschimdt & Co. Fletcher, Alexander & Co.
Brasil	1,200,000	75	5	6.7	900,000	Thomas Wilson & Co.
México	3,200,000	58	5	8.6	1,856,000	B. A. Goldschmidt & Co.
1825						
Brasil	2,000,000	85	5	5.9	1,700,000	N. M. Rothschild & Son
México	3,200,000	89.7	6	6.7	2,872,000	Barclay, Herring & Co.
Perú	616,000	78	6	7.7	480,480	Fry & Chapman
Federación Centroamericana	163,000	73	6	8.2	118,990	Barclay, Herring & Co.

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RESUMEN POR ESTADOS

Estado	Total de bonos emitidos en Londres, 1822-1825
Brasil	3,200,000
Buenos Aires	1,000,000
Centroamérica	163,300
Chile	1,000,000
Colombia	6,750,000
México	6,400,000
Perú	1,816,000
Subtotal	20,329,300

Fuentes: Carles Fenn, A Compendium of the English and Foreign Funds… (Londres, 1838 y 1879); J. F Rippy, British Investments in Latin America, 1822-1949 (Minneapolis, 1959); Irving Stone, «The Composition and Distribution of British Investment in Latin America, 1865-1913», Ph. D. Columbia University, 1962; London Times, 1822, 1824, 1825; Annual Register, 1822, 1824, 1825.

*Además de los citados, Fuentes contemporáneas proporcionan información acerca de los siguientes préstamos «latinoamericanos»: el empréstito de Poyais (inexistente reino de Centroamérica) de 1822 por 200,000 libras, de las cuales 160,000 fueron emitidas en Londres a un precio de 80 y una tasa de interés del 6 por 100; el empréstito de 1824 de Cuba (todavía colonia española) por 450,000 libras a un precio el empréstito de 91, tasa de interés 6 por 100, emitido por Wright and Co.; el empréstito de Guadalajara (estado mexicano) por 360,000 libras al precio de 60, emitido por Ellewand and Co. Debe señalarse que solamente un empréstito latinoamericano, el de Haití, fue colocado en París; éste fue un préstamo de 30 millones de francos emitido en 1825 por un consorcio de banqueros parisinos que incluía a las casas de Paravey et Cie., Lafitte, Rothschild, Hagerman y Blanc-Colin.

[a] «Sumas recibidas» se refiere a los fondos presumiblemente recibidos por los banqueros y/o contratantes de los préstamos, pero no refleja de ninguna manera cual fue el monto preciso de las sumas transferidas a los gobiernos latinoamericanos; estas últimas sumas eran invariablemente muy inferiores a las primeras.

[b] Colombia se refiere al gobierno de Gran Colombia (1820-1834), que incluía los futuros estados de Colombia, Venezuela y Ecuador.

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CUADRO II

MORATORIAS Y RENEGOCIACIONES DE LAS DEUDAS LATINOAMERICANAS DE LA DÉCADA DE 1820

País	Valor nominal de la emisión de bonos (Libras esterlinas)	Fecha de la suspensión de pagos	Renegociación y ajuste
Argentina	1,000,000	Julio, 1827	1857 – reanudación del pago de intereses de la deuda principal y emisión de 1,500,000 libras en bonos nuevos al 3% por atrasos de intereses
Chile	1,000,000	Sept., 1826	1842 – pago de intereses de la deuda reanudado y emisión de 756,000 libras en bonos nuevos al 3% por intereses atrasados.
México	6,400,000	Oct., 1827	1831 y 1836 – arreglos parciales pero incumplidos; 1850 – deuda principal e intereses reconocidos en 10,200,000 libras: 1854-63 – suspensión de los pagos de intereses, parcialmente renovados, 1863-67; sigue suspensión de pagos hasta arreglo final, 1888[a].
Perú	1,816,000	abril, 1826	1849 – pagos de intereses de deuda principal renovados y 1,800,000 libras de bonos nuevos al 3% emitidos por intereses atrasados.
Gran Colombia	6,750,000	Sept., 1826	
Deudas de Gran Colombia negociadas en 1834[b] Colombia	50% del total de los bonos		1849 – arreglos preliminares con banqueros no ejecutados; 1861-775,000 libras de bonos nuevos al 3% por intereses atrasados; 1872-reducción de la deuda a 2,000,000 de libras.
Ecuador	22% del total de los bonos		1856-1,800,000 libras en bonos nuevos para cubrir deuda principal; intereses atrasados pagados con certificación de tierras.
Venezuela	28% del total de los bonos		1859-1,700,000 libras en bonos nuevos para cubrir deuda principal y 770,000 libras en bonos al 3% por intereses atrasados.
Federación de Centroamérica	163,000	Feb, 1828	
Deudas de la Federación renegociadas en 1838[d]			
Costa Rica	8.3% del total de los bonos		1844- liquidación de la deuda principal al 85% del valor a la par.
Guatemala	42.0% del total de los bonos		1856 emisión 150,000 libras en bonos nuevos.
Honduras	16.5% del total de los bonos		1867- emisión 90,075 libras en bonos nuevos.
Nicaragua	16.5% de total de los bonos		1874 – liquidación deuda principal a 85% a la par.
El Salvador	16.5% del total de los bonos		1860 – liquidación deuda principal a 90% a la par.

Fuentes: Corporation of Foreign Bondholders, Annual Reports, 1873-1885; Fenn´s on the Funds (Londres, varias ediciones, 1838-1883); J. F. Rippy, British Investments in Latin America, 1822-1849 (Minneapolis, 1959; otras Fuentes consultadas incluyen H. Ferns, Gran Bretaña y Argentina en el siglo XIX (Buenos Aires, 1968), caps. 5-6; W. M. Mathew, «The First Anglo/Peruvian Debt and its Settlement, 1822-1849), Journal of Latin American Studies, 2, mayo de 1970, pp. 81-98; Robert Smith «Financing the Central American Federation, 1821-1838», Hispanic American Historical Review, noviembre de 1963, pp. 483-510; Jan Bazant, Historia de la deuda exterior de México, 1823-1946 (México, 1968).

[a] La renegociación de la deuda anglo-mexicana en 1888 establecía en sus cláusulas la emisión de 6 millones de libras esterlinas en bonos nuevos en reconocimiento de la deuda principal y atrasos de intereses de los empréstitos de 1824 y 1825.

[b] Después de 1834 la Federación de Gran Colombia fue disuelta y la cuantiosa deuda externa redistribuida según los porcentajes indicados en el cuadro.

[c] El valor real de los bonos vendidos era de 113,600 libras esterlinas, pero en 1828 los tenedores de bonos reclamaban 163,000 libras, que representaba la suma de la deuda original más los intereses atrasados.

[d] En 1838 la Federación Centroamericana fue disuelta, aunque Guatemala no reconoció este hecho hasta 1849.

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CUADRO III

PRÉSTAMOS EXTERNOS A GOBIERNOS LATINOAMERICANOS 1850-1875

Nación	Número de préstamos	Valor nominal total[a] (miles de libras esterlinas)	Objetivos *b*		
			Militares (%)	Obras Públicas (%)	Refinanciamiento (%)
Argentina	7	13.488	20	68	11
Bolivia	1	17,000	-	100	-
Brasil	8	23.467	30	13	57
Chile	7	8.552	37	51	12
Colombia	2	2,200	-	9	91
Costa Rica	3	3,400	-	100	-
Ecuador	1	1.824	-	-	100
Guatemala	2	650	-	77	23
Haití	1	1.458	-	-	100
Honduras	4	5,590	-	98	2
México [c]	2	16,960	70	-	30

Paraguay	2	3,000	-	80	20
Perú [d]	7	51,840	10	45	45
Sto. Domingo	1	757	-	100	-
Uruguay	1	3,500	-	-	100
Venezuela	2	2,500	-	30	70

TOTALES DE LAS DEUDAS EXTERNAS LATINOAMERICANAS POR SUBPERIODOS

Años	Total de Empréstitos	Total Valores Nominales (miles de libras esterlinas)	Objetivos		
			Militares (%)	Obras Públicas	Refinanciamiento (%)
1850-59	9	10.862	-	32	68
1860-69	20	56.705	41	12	47
1870-75	22	73,270	-	60	40

Fuentes: Corporation of Foreign Bondholders, Annual Reports, 1873-1880; C. Fenn, A Compendium of the English and Foreign Funds…(Londres, 1883); Irving Stone, «The composition and distribution of British Investments in Latin America, 1865-1913» tesis doctoral, Columbia University, 1962.

[a] Este cuadro registra los valores nominales aproximados de las emisiones de bonos externos de los gobiernos latinoamericanos. No obstante, debe advertirse que los valores nominales no son equivalentes a las sumas reales obtenidas mediante la venta de los bonos. Además, en las operaciones de refinanciación los bonos nuevos eran frecuentemente cambiados por los bonos viejos. Por consiguiente, la deuda externa real de cada país era sustancialmente inferior a la sugerida por las cifras «totales» que se incluyen en este cuadro.

[b] Estos cálculos se basan en los objetivos ostensibles de los bonos emitidos tal como se anunciaban en los prospectos. Por lo tanto, no reflejan el desembolso real de los fondos recibidos en última instancia. Solamente un estudio detallado, préstamo por préstamo, utilizando los informes financieros de los gobiernos latinoamericanos, proporcionaría información sobre el verdadero destino de los fondos.

[C] No se incluye aquí la renegociación mexicana de 1851 (que reconocía aproximadamente 10 millones de libras esterlinas en deudas anteriores) porque su ejecución fue sumamente irregular. Incluimos las dos emisiones de bonos «Imperiales Mexicanos» realizadas por el gobierno de Maximiliano, pero debe subrayarse que las mismas fueron repudiadas por el gobierno mexicano después de 1867, siendo consideradas totalmente fraudulentas dado que Napoleón III utilizó el dinero proveniente de los préstamos para financiar la invasión y ocupación de México.

[d] Faltan aquí un par de empréstitos peruanos emitidos en la década de 1850 en París, acerca de los cuales no poseemos datos suficientes. Véase el Apéndice I para información adicional.

CUADRO IV

MORATORIAS Y RENEGOCIACIONES DE LAS DEUDAS LATINOAMERICANAS DESPUÉS DE 1873*

País	Préstamos en suspensión de pagos	Valor Nominal Deuda principal no redimida (en miles de libras)	Fecha de Moratoria	Renegociaciones y arreglos de las deudas
Bolivia	6% 1872	1.654	1/1/1875	1880-tenedores de bonos reciben 793,000 libras esterlinas depositadas en el Banco de Inglaterra.
Costa Rica	6% 1871	940	1/11/1874	1885-2,000,000 de libras en bonos nuevos para los tenedores; venta de ferrocarriles estatales y tierras.
	7% 1872	2.362	1/4/1874	
Guatemala	5% 1856	73	1/2/1875	1882-ajuste preliminar no aceptado por el Congreso de Guatemala. En 1887, 887,000 libras en bonos nuevos emitidos para cancelar bonos viejos.
	6% 1869	469	1/4/1875	
Honduras	5% 1867	79	1/4/1873	La deuda externa de Honduras seguía en suspensión de pagos al inicio del siglo XX.
	10% 1867	901	1/1/1873	
	7% 1869	2.177	1/3/1873	
	10% 1870	2.243	1/1/1873	
Paraguay	8% 1871	957	15/6/1874	1885 – deuda reducida a 800,000 libras; 2 millones de hectáreas de tierra entregadas a los tenedores de los bonos.
Perú	5% 1869	265	1/1/1876	1890-tenedores de bonos británicos reciben valores de la Peruvian Corp., que se convierte en propietaria de ferrocarriles estatales, tierras y concesiones mineras.
	6% 1870	11.142	1/1/1876	
	5% 1872	21.547	1/1/1876	
Sto. Domingo	6% 1869	714	1/1/1873	1888-770,000 libras en bonos nuevos para acreedores.
Uruguay	6% 1871	3.165	1/8/1876	1879-se renuevan pagos de la deuda

Fuentes: Corporation of Foreign Bondholders, *Annual Reports*, 1873-1890, 1895, 1905; *Fenn´s on the Funds* (Londres, 1883); Hyde Clarke, «On the Debts of Sovereign and Quasi-Sovereign States, Owing by Foreign Countries», *Journal of the Statistical Society* (Londres), junio de 1878.

*No se incluyen aquí los incumplimientos y ajustes de los gobiernos anteriores a la crisis de 1873: Venezuela (1866), Ecuador (1868), México (1867). La información acerca de la resolución y ajustes parciales de estas deudas efectuadas mediante la emisión de bonos nuevos en los años de 1885-1888 puede encontrarse en los informes anuales de la Corporación of Foreign Bondholders.

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CUADRO V

PRÉSTAMOS EXTERNOS DE CINCO ESTADOS LATINOAMERICANOS, 1880-1890*

País y Entidad Gubernamental	Número de Préstamos	Valor Nominal (miles de libras esterlinas)
Argentina		
Gobierno Nacional	13	39.223
Gobiernos Provinciales	27	32.505
Gobiernos Municipales	10	6.261
SUBTOTAL	50	77.989
Brasil		
Gobierno Nacional	4	37.165
Gobiernos Provinciales	2	1,050
Gobiernos Municipales	2	700
SUBTOTAL	8	38.915
Chile		
Gobierno Nacional	4	9.524
México		
Gobierno Nacional	3	19,200
Gobiernos Provinciales	1	250
Gobiernos Municipales	1	2,400
SUBTOTAL	5	21,850
Uruguay		
Gobierno Nacional	3	17.382
Gobierno Municipal	1	1,400
SUBTOTAL	4	18.782

Fuentes: Las mismas que las citadas al final del Apéndice 2.

*Los cinco Estados incluidos en este cuadro recibieron aproximadamente el 90 por 100 de todos los empréstitos externos latinoamericanos de este periodo. Algunas repúblicas pequeñas llevaron a cabo operaciones de refinanciamiento, pero éstas no representaron sino conversiones de bonos viejos por nuevos: entre ellos, arreglos de Costa Rica en 1886, Guatemala en 1887/88, Paraguay en 1886, El Salvador en 1889, Santo Domingo en 1888, que en su conjunto no superaron cinco millones de libras esterlinas.
También debe notarse que Cuba contrató dos grandes empréstitos en los años de 1880, pero que caben en una categoría especial en tanto eran garantizados por la Corona española. Los dos empréstitos cubanos, de 1886 por 20 millones de libras y de 1890 por ocho millones de libras, fueron emitidos en los mercados de capitales españoles y en algunos otros puntos de Europa.

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CUADRO VI

RENEGOCIACIONES DE LA DEUDA EXTERNA ARGENTINA, 1890-1906

Año	Categoría y valor de la deuda renegociada	Objetivo	Bonos nuevos emitidos (libras esterlinas)	Banqueros	Comentarios
1891	Bonos del Gobierno Nacional (£40,500,000)	Pago de intereses	5,060,000	J. S. Morgan	Conocido como empréstito Morgan; contrato cancelado en 1893.
1893	Bonos de 14 empréstitos del Gobierno Nacional (£44,100,000)	Reducción de intereses, 1893-1899, a una suma global de 1.5 millones de libras por año	Ninguno [a]	Baring Brothers	Conocido como Acuerdo Romero. Servicio total de la deuda renovado en 1899.
1896	Garantías de ferrocarriles [b]	Para cancelar garantías de ferrocarriles	10,422,626	Baring Brothers	Bonos nuevos entregados a compañías ferroviarias extranjeras.
1896-99	Bonos provinciales (£22,000,000)	Para convertir bonos provinciales en bonos nacionales al 4%	17,778,813	Bancos de Londres y París [c]	Representó una pérdida de 6 millones de libras para los acreedores.
1897	Bonos del Municipio de Buenos Aires (£1,221,400)	Para convertir bonos municipales en bonos nacionales	1,527,778	Baring Brothers	Bonos nuevos a cambio de bonos viejos.

1899	Bonos del Municipio de Córdoba (£779,000)	Para convertir bonos municipales en bonos nacionales	779,500	Baring Brothers	No se cambiaron bonos viejos por nuevos, pero intereses correspondientes a 1890-1899 cancelados.
1900	Municipio de Rosario (£2,200,000)	Ibid.	1,853,317	Baring Brothers	Bonos nuevos a cambio de viejos, pero capital e intereses reducidos.
1905	Municipio de Santa Fe (£260,000)	Ibid.	300,000	Baring Brothers	Cancelados intereses atrasados.
1906	Cédulas Banco Hipotecario Provincia Buenos Aires	Conversión a bonos 3%	11,160,980	Baring Brothers	Inversionistas perdieron aproximadamente 1/3 valor nominal de sus obligaciones.

Fuentes: José B. Peña, *Deuda Argentina, recopilación de leyes, decretos, resoluciones, notas y contratos* (Buenos Aires, 1907), 2 vols.; Henry Shepherd, «Default and Adjustment of Argentine Foreign Debts, 1890-1906», Dept.. of Commerce, Trade Promotion Series, 145 (Washington, D.C., 1933).

[a] Los bonos viejos siguieron siendo válidos y recibieron las mismas tasas de interés y pagos del fondo de amortización después de 1899, de acuerdo a lo contratado originalmente.

[b] Las garantías de ferrocarriles eran subsidios otorgados a numerosas compañías ferroviarias privadas, la mayoría de propiedad británica. Las compañías exigían el pago de los subsidios impagados desde 1890 y demandaban una suma global adicional en bonos para la cancelación de las garantías.

[c] Un gran número de bancos de Londres y París, así como otros alemanes y holandeses, estuvieron involucrados en la emisión original de bonos provinciales y en las renegociaciones. (Véase Apéndice 11).

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CUADRO VII

PRÉSTAMOS EXTERNOS A GOBIERNOS LATINOAMERICANOS (1920-1930) [a]

País y Entidad Gubernamental	Núm. de préstamos	Valor [b]	Objetivo [c] Obras públicas (Miles de dólares)	Refinanciación (Miles de dólares)	Otros
Argentina					
Gob. Nacional	10	288,800	38,100	233,700	17,000 [d]
Gobs. Provinciales	8	102.601	52.878	47.601	2.122
Gobs. Municipales	7	28.017	28.017	-	-
Bolivia					
Gob. Nacional	3	66,000	43,000	23,000	-
Brasil					
Gob. Nacional	5	219.077	75,000	144.077	-
Gobs. Provinciales	21	343.939	110.212	87.744	145,983 [e]
Gobs. Municipales	10	78.302	62.302	15,000	-
Chile					
Gob. Nacional	10	228.788	176.696	52.092	-
Gobs. Municipales	3	24,000	24,000	-	-
Banco Hipotecario de Chile	5	90,000	-	-	90,000 [f]
Colombia					
Gob. Nacional	2	60,000	60,000	-	-
Gob. Provinciales	8	67,350	66,100	1,250	-
Gobs. Municipales	6	27.585	20.085	7,500	-
Banco Hipotecario Colombiano	5	21,840	-	-	21,840 [g]
Costa Rica					
Gob. Nacional	3	10,990	9,800	1,190	-
Cuba					
Gob. Nacional	5	155.973	40,000	79,000	36,973 [h]
Rep. Dominicana					
Gob. Nacional	2	20,000	15,000	5,000	-
El Salvador					
Gob. Nacional	3	21.609	-	21.609	-

Guatemala					
Gob Nacional	3	9.465	4,950	4.515	-
Haití					
Gob. Nacional	2	18.634	-	18.634	-
Panamá					
Gob. Nacional	2	20,500	4,500	12,000	4,000 [i]
Perú					
Gob. Nacional	5	105.814	57.366	48.448	-
Gobs. Provinciales	1	1,500	1,500	-	-
Gobs. Municipales	1	3,000	1,500	1,500	-
Uruguay					
Gob. Nacional	3	55.081	55.081	-	-
Gobs. Municipales	2	15.307	15.307	-	-

Fuentes: A. Kimber´s Record of Government Debts (Londres, 1929 y 1934 eds.); Corporation of Foreign Bondholders, Annual Reports (Londres, 1928-1935); Foreign Bondholders Protective Council, Annual Reports (Nueva York, 1934, 1936).

[a] Esta línea incluye únicamente emisiones de bonos externos a largo plazo de entidades gubernamentales latinoamericanas. No incluye las emisiones a corto y mediano plazo (de uno a cinco años).

[b] Todas las emisiones de bonos en divisas distintas a dólares estadounidenses (por ejemplo, libras esterlinas, pesetas o francos) han sido convertidas a dólares estadounidenses de acuerdo con las tasas de cambio contemporáneas. No obstante, las cifras presentadas aquí son sencillamente los cálculos publicados de los valores nominales de los bonos emitidos, pero no reflejaban necesariamente las sumas precisas vendidas, lo cual podría conocerse solamente mediante un detallado estudio de cada préstamo, utilizando aquellos documentos pertinentes que pueden encontrarse en archivos gubernamentales o bancarios.

[c] Las cifras incluidas bajo la categoría del «Objetivo» de los préstamos proporcionan una estimación general, pero ciertamente no precisa del destino exacto de los fondos prestados. Estas cifras se basan en los objetivos descritos en los contratos de crédito, pero sólo una meticulosa revisión de cada préstamo, utilizando documentos financieros del gobierno de cada país proporcionaría un informe estadístico completo y confiable del desembolso real de los fondos.

[d] Una emisión de bonos en España en 1927, por 100 millones de pesetas, para la compra de armamentos.

[e] Bonos emitidos a favor del Instituto del Café de São Paulo para el programa de valorización del café.

[f] Bonos hipotecarios del Banco Nacional de Chile, empleados ostensiblemente para desarrollo agrícola.

[g] Bonos del Banco Hipotecario Agrícola de Colombia, empleados ostensiblemente para desarrollo agrícola.

[h] Bonos del Programa de Estabilización de Precios del Azúcar emitidos en 1930 con garantía de la Corporación Nacional Cubana en Exportación de Azúcar.

[i] Bonos emitidos para fortalecer las reservas del Banco Nacional de Panamá.

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CUADRO VIII

RELACIÓN DE LAS MORATORIAS Y RENEGOCIACIONES DE LAS DEUDAS LATINOAMERICANAS, 1931-1950 [a]

País	Fecha inicial moratoria	Deuda externa b consolidada en 1933 (dólares USA)	Renegociaciones
Argentina	No hay moratoria	864,000,000	Intereses y amortización pagados regularmente hasta la liquidación final de deuda externa en 1946
Bolivia	Ene. 1931.	63,000,000	Moratoria continuadas hasta 1948 cuando empiezan negociaciones para cancelar intereses atrasados, pero no capital.
Brasil	Oct. 1931 (moratoria parcial)	1,239,000,000	Renegociaciones 1933, 1940, 1943. Con último acuerdo una porción del capital reducido en su valor.
Chile	jul-31	343,000,000	Durante algunos años pagos parciales de intereses. En 1948 arreglo con acreedores.
Colombia	Feb 1932 (moratoria parcial)	164,000,000	Pagos parciales hasta 1935. Sigue moratoria total. Renegociaciones 1940, 1942, 1944 y 1949 para reducción de pagos de intereses.
Costa Rica	Nov. 1932	21,000,000	1933 – bonos consolidados ofrecidos para cubrir intereses atrasados. 1935, nueva moratoria, que continúa hasta 1946.
Cuba	1933/1934 (moratoria parcial)	153,000,000	Pagos de intereses sobre parte de deuda externa suspendidos 1933-34, pero renovados posteriormente.

República Dominicana	Oct. 1931 (moratoria parcial)	16,400,000	Suspendidos únicamente pagos fondos amortización. Pagos de intereses continuaron regularmente.
Ecuador	Jul. 1931	23,000,000	Deuda permanece en moratoria total hasta mediados de década 1950.
El Salvador	Ene. 1933	4,000,000	Renegociación en 1936 para renovación de parte de pagos intereses. En 1946 arreglo final que cancela 50% de intereses atrasados.
Guatemala	Feb 1933 (moratoria parcial)	14,000,000	Moratoria parcial de fondos amortización, pero continúan pagos de intereses, 1946-1951, la deuda liquidada mediante amortización.
Haití	No hay moratoria	13,000,000	Pagos de amortización e intereses continúan regularmente bajo supervisión y control de los Estados Unidos.
Honduras	No hay moratoria	4,000,000	Pagos regulares bajo supervisión del National City Bank (N. Y.)
México	1914	684,000,000	Renegociación de la deuda en 1930, pero en términos incumplidos. Arreglo final de deuda externa nacional en 1942, y de deuda de compañía ferroviaria nacional en 1946. Según estos acuerdos, capital e intereses reducidos en 90%.
Nicaragua	No hay moratoria	21,000,000	Pagos amortización reducidos, 1932-46, pero pagos de intereses continuaron en su totalidad.
Panamá	Ene. 1932	16,000,000	Renegociación en 1933, pero moratoria parcial continúa hasta 1946.

Paraguay	Jun. 1932	3,000,000	Servicio de la deuda reanudado en 1938.
Perú	may-31	114,000,000	1934-37 reanudación parcial de pagos de intereses. En 1947 Perú ofrece arreglo basado en reducción pagos intereses. Plan de reajuste final en 1951.
Uruguay	Ene 1932 (moratoria parcial)	98,000,000	Pagos amortización temporalmente suspendidos, pero continúan pagos de intereses.
Venezuela	No hay moratoria	-	Había extinguido su deuda externa para 1933.

Fuentes: A. Kimber, Kimber´s Record of Government Debts (Londres, 1934 ed.); Corporation of Foreign Bondholders, Annual Reports (Londres, 1930-1952); Foreign Bondholders Protective Council, Annual Reports (Nueva York, 1934, 1936-1950).

[a] La información en este cuadro resumido debe complementarse con datos adicionales de fuentes citadas, así como en otras fuentes.

[b] Incluye bonos externos a largo plazo aún no redimidos. No incluye deudas externas a corto plazo o «flotantes».

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APENDICE I

PRÉSTAMOS EXTERNOS A GOBIERNOS LATINOAMERICANOS, 1850-1873

País y Entidad Gubernamental	Año	Valor nominal (000´s L) (a)	Tasa de interés (b)	Precio de emisión (c)	Propósito (d)	Banqueros (e)
Argentina						
Gob. Nacional	1857	1.263	3%	--	Refinanciamiento	Baring Bros. (L)
´´ ´´	1865-68	2,500	6%	72-75	Militar	´´ ´´
´´ ´´	1871	6.122	6%	88	Obras Públicas	C. Murrieta (L)
Prov. B. Aires	1870	1.035	6%	86-88	´´ ´´	´´
´´ ´´ ´´	1873	2.041	6%	90	Obras Públicas	Baring Bros (L)
Prov. Entre Ríos	1872	227	7%	90	Refinanciamiento	´´ ´´
Prov. Santa Fé	1874	300	7%	92	Banco y Ferrocarriles	C. Murrieta (L)
Bolivia						
Gob. Nacional	1964	1,000	6%	Fracaso	Ferrocarriles	London County Bank (L)
´´ ´´	1872	1,700	6%	68	Obras Públicas	Lumb, Wanklyn (L)
Brasil						
Gob Nacional	1852	1.041	4.5%	95	Refinanciamiento	N.M. Rothschild (L)
´´ ´´	1858	1.527	4.5%	96	Ferrocarriles	´´ ´´
´´ ´´	1859	503	5%	--	Refinanciamiento	´´ ´´
´´ ´´	1860	1.373	4.5%	90	Obras Públicas	´´ ´´
´´ ´´	1863	3,300	4.5%	88	Refinanciamiento	´´ ´´
´´ ´´	1865	6.963	5%	74	Militar	´´ ´´
´´ ´´	1871	3,460	5%	89	Refinanciamiento	´´ ´´
´´ ´´	1875	5,300	5%	96	Refinanciamiento	´´ ´´
Chile						
Gob. Nacional	1858	1.555	4.5%	92	Ferrocarriles	Baring Bros (L)
´´ ´´	1865	450	6%	92	Militar	Thomson, Bonar (L)
´´ ´´	1866	1.121	7%	92	Militar	J. S. Morgan (L)
´´ ´´	1867	2,000	6%	80	Refinanciamiento	´´ ´´
´´ ´´	1870	1.013	5%	83	Ferrocarriles	´´ ´´
´´ ´´	1873	1.227	5%	89	Ferrocarriles y Militar	Oriental Banking C. (L)
´´ ´´	1875	1.136	5%	88	Obras Públicas	´´ ´´

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