

The Public Finances of Mexico

BY

WALTER FLAVIUS MCCALED PH.D.

*Author of Present and Past Banking in Mexico
Vice President and Manager, The Brotherhood of Locomotive Engineers
Co-operative National Bank of Cleveland; Formerly Vice Chairman
(active), Federal Reserve Bank of Dallas; Editor, English Edition
René Stourm's "Le Budget"; Sometime Lecturer on
"Money and Banking" in Columbia University*

Under the Auspices of
THE DOHENY FOUNDATION



HARPER & BROTHERS PUBLISHERS
NEW YORK AND LONDON

HJ
800
M12



PUBLIC FINANCES OF MEXICO

Copyright, 1921, by Harper & Brothers
Printed in the United States of America

C-7

To
VAN A. WEBSTER
who once more in a disordered world
has proven the worth of a friend

gift
Arthur Prund
5-26-30

CONTENTS

CHAP.	PAGE
PREFACE	ix
INTRODUCTION	xiii
I. UNDER THE SPANISH REGIME	1
II. INDEPENDENCE TO THE FALL OF ITURBIDE	21
III. THROUGH THE FIRST ENGLISH LOAN	33
IV. THE TERM OF GUADALUPE VICTORIA	47
V. TURMOIL AND THE WAR WITH TEXAS	59
VI. INDEMNITIES AND DEFICITS	75
VII. DEBT AND THE MEXICAN WAR	89
VIII. FINANCIAL CHAOS OF THE 'FIFTIES	100
IX. COMONFORT TO THE END OF MAXIMILIAN	112
X. THE REFORMS OF BENITO JUAREZ	127
XI. THE RISE OF PORFIRIO DIAZ	143
XII. THE HACTENDA UNDER LDMANTOUR	161
XIII. THE GOLD STANDARD TO THE FALL OF DIAZ	175
XIV. THE CRASH OF MADERO'S REGIME	193
XV. HUERTA'S RULE	203
XVI. CARRANZA AND HIS CURRENCY SCHEMES	223
XVII. THE ECONOMIC CHAOS IN MEXICO	240
INDEX	259

PREFACE

THE difficulty in getting accurate data on the public finances of Mexico is truly very great. The enormous mass of manuscripts in the archives of Mexico, bearing directly and indirectly on the subject, has scarcely been touched. To dig through them would be a matter of years. Indeed, the official publications dealing with the Hacienda, or Treasury, have been only partially sifted. Much remains to be done; but the way has been blazed for another to give us a comprehensive study of the public finances of Mexico.

Great use has been made of Matias Romero's *Memoria de Hacienda y Crédito Público* of 1870. It has supplied, in large part, the data for the first fifty years of Mexican financial history. It is needless to say that the *Memorias*, the *Anuarios Estadísticos*, the *Memorias de las Instituciones de Crédito*, after 1870, have served as mines whence data have been drawn for the narrative covering subsequent years.

PREFACE

Secondary sources, such as Macedo's *Tres Monografías*, Labastida's *Leyes Federales*, Leroy-Beaulieu's *Le Mexique au Début du XX^e Siècle*, and other studies, have been relied upon to some extent.

In this place an expression of my thanks is due David Muirhead, Esq., for valuable aid in the Carranza period. Also I am indebted to a prominent Mexican banker for data supplied. Nor may I pass without expressing my obligations to Señor Rafael Nieto, formerly Subsecretary of the Hacienda, who gave the necessary instructions to heads of departments to supply me with all possible data. It was no fault of his if that data failed of materialization. It did not exist.

It is a pleasure to acknowledge the consideration given me by the officials of the Public Library of New York City, the Library of Congress in Washington, and the Bancroft Library of the University of California. To Dr. Herbert I. Priestley and to Dr. H. E. Bolton of the Bancroft Library I owe a debt of gratitude which mere words will not liquidate. Mr. Harold Walker supplied me with certain facts drawn from his private files, which aided in clearing some of the difficulties of the Carranza period and for which I am grateful. Miss Elizabeth Brisenden, in a secretarial capacity, rendered

PREFACE

me service not to be forgotten. Finally I have to thank Dr. Norman Bridge for suggestions, and Mr. Edward L. Doheny for the enterprise with which he has pursued his purpose of giving to the world a series of impartial studies on Mexico.

WALTER FLAVIUS McCaleb.

INTRODUCTION

THE history of the public finances of Mexico is of interest to the United States because our own economic life—not to mention the social and political aspects of the case—is vitally involved in the account. Our investments in Mexico run into the hundreds of millions, and prior to the revolution of 1910 we had sixty-odd thousand American citizens working within the boundaries of that republic. Further than that, the Western World cannot fail to follow with concern the attempts which shortly must be made to solve the problems of the Hacienda. With a funded debt in excess of P1,000,000,000,¹ with open accounts and claims for losses under the recent revolution running into the hundreds of millions, the gravity of the situation is all too evident. This is heightened because

¹ We shall indicate peso, the Mexican unit of value, by P. It must be borne in mind that, subject to exchange fluctuations, the \$ and P were equivalents until the demonetization of silver in the United States. This relationship was further affected on the passage in 1906 of the Gold Standard Act by Mexico. The peso is now equivalent to \$.50.

INTRODUCTION

of the position assumed by the United States under the Monroe Doctrine, which may bring us eventually into conflict with foreign countries. Unless the practices which they have invoked in dealing with negligent and defaulting minor Powers shall be abandoned, troubles lie ahead. It cannot be lost to sight that the Mexican debt to Europe runs into the hundreds of millions of pesos.

Unless the world is prepared to desert the capitalistic theory of property rights, Mexico will have to account for the losses of property and capital due to the series of revolutions which have shaken that country during the past ten years. Be that as it may, the history of Mexico for a round century has been a story of revolution. With the exception of a score of years, chaos stands bald above the doors of the Hacienda. Somewhere it has been written that the story of a state is reflected in the history of its finances. This truth is clearly borne out in the case of Mexico.

We have here attempted to do a little more than strip out the budgetary data for exhibition. We have tried to fix the course of Hacienda in a setting of political and economic elements, so that an impression of the progress or retrogression of the country would be in evidence. In some respects this book is novel

INTRODUCTION

—it is neither history nor economics, but rather a chronological account into which both are brought. The writer is convinced that the substance of the history of a country lies buried in its economic records; hence, he has not been able to eliminate the elements which some of our historians have been too prone to ignore.

With this in mind he has deemed it essential to devote a few pages to conditions as the Spaniard found them at the time of the conquest (1521), and to make an inquiry into the methods and mechanisms employed by the Europeans in their government of the country until 1810.

It would be difficult to draw a picture of the desolation and disorder which permeated to the remotest limits of Mexico at the moment of its independence in 1821. Chaos was everywhere, as may be supposed, after eleven years of war. Economic, social, and political order were terms unknown in Mexican life. But if there were confusions and chaos in the realms of society there were corresponding confusions in monetary matters. Nor were they improved to any extent until the coming of Maximilian and the French. After the fall of the Empire conditions were again to revert to normal until the coming of Diaz a second time into power. Then only after a terrible struggle was he able,

INTRODUCTION

with his wise Ministers, to draw the country out of its orgy of fifty years.

But the abnormality of the Diaz rule has been proven through the decade of disillusion which has followed his overthrow. Far as he had brought the country in economic, social, and political ways, it required but a day to fall back again into turmoil, confiscation, and loot. And it may be said fearlessly that the conditions which prevailed in Mexico during the five years of the Carranza regime have in some respects quite eclipsed the darker eras of earlier and more somber times. It is to be hoped that this study may shed some light upon an all too tortuous course, and that the future may be to some extent discounted through the witnesses of other times.

The recent overthrow of the Constitutionalists by de la Huerta and Obregon is of too recent date to venture a guess as to the future. The matter of the Constitution of 1917, which attacked the bases upon which the policies of the government of Diaz had rested, must be soberly approached. One may not believe that the world is ready to adhere to the revolutionary measures incorporated in the 1917 Charter of Government fathered by Venustiano Carranza, and which had been brought to supplant the Constitution of 1857.

INTRODUCTION

In the last resort, if the future really grows out of the past, the course of Mexican history—fiscal, social, and political—may be dimly discerned, unless, indeed, there shall arise in that broken country another superman of the type of Diaz. If he shall fail, who can say what the attitude of the Powers will be when a final reckoning is made? The problems involved are complex enough; what with economic prostration and political uncertainties and an impoverished people, what with the loss of confidence in the functioning of government in financial matters, Mexico faces an era of adjustment which will put to the test the strength and will of its people.

THE PUBLIC FINANCES OF MEXICO

THE PUBLIC FINANCES OF MEXICO

I

UNDER THE SPANISH REGIME

THE story of Mexico from the earliest times has been characterized by demoralizations. The Spaniards took advantage of local conditions and conquered the country piecemeal, by setting tribe against tribe. Once it was in their possession, it was but natural they should appropriate the machinery they found at hand to collect tribute for the support of the new authorities. We shall hurriedly scan the scheme, rudimentary, to be sure, which the Spaniards found ready for adaptation.

When Cortez had finally (1521) planted himself in the capital of the Meshicas, he faced the difficult problem of making rules and laws for a rude and belligerent people—a people torn

THE PUBLIC FINANCES OF MEXICO

by tribal feuds, and respecting only the power of might. From the remotest times, according to their own historians, the Indian tribes, from which modern Mexico has sprung, practiced the wildest cruelties in their wars, and dedicated themselves to religious and military exercises which disgusted even the hardened Spaniards.

The king, the priest, the general, the noble, were regarded by the tribe as divinities. They exercised their powers accordingly. To the masses the sacrifice of human beings seemed just and necessary; they were surrounded by enemies who daily sought to take their lives and their property; they were subjected to famine and pestilence, and they became, perforce, fatalists. Notwithstanding this stressful life, the Meshica found leisure to study astronomy, medicine, and some of the rudimentary sciences, and to cultivate the dance and music. Their ideas of morality and law can be considered but primitive; and yet they highly respected their judges and their elders; and while they practiced slavery, the son of a slave became a free man. But the social and political progress of the leading tribes had not outstripped their economic development. It was indeed a raw land the Spaniards found—a land inhabited by tribes barely emerged from the nomadic state.

UNDER THE SPANISH REGIME

There were but the crudest financial mechanisms. For each tribe the needs of the king and his court and the religious hierarchy were met by forced tribute from the people. In this rudimentary feudal society there were classes—including nobles, the military, and church functionaries—which were exempt from taxation. The situation at that early date with respect to exemptions from taxation is one which has varied little through all the years of Mexican history. The tribute in kind exacted by the Aztec kings became, in later generations, the forced loans of Iturbide, Santa Anna, and Carranza.

In fiscal matters the king ruled, assisted by a council of four, one of whom discharged the functions of Minister of the Treasury. But the treasury of that day was a different institution from that of the present time. The treasury of Moteczuma was not filled with specie and paper credits, but with agricultural and mining products and manufactured articles; and those individuals possessed of neither of these classes of goods contributed their personal services to the king.

In the modern sense, then, Mexico had no circulating media. Various substitutes, inconsiderable in volume, were employed; but barter held sway in the economic life of the people.

THE PUBLIC FINANCES OF MEXICO

The tribute in kind—grain, precious metals, etc.—levied by the tax gatherers of the king, was collected in great storehouses, whence it was dispensed by virtue of royal authority. These storehouses were, in a sense, veritable treasuries, finding their counterpart in early European societies.

Among taxes, there was the civil impost, or tax in kind, and the religious tax of a tenth. It is hardly necessary to add that from the early records the people were from time to time hard pressed by the two groups of tax gatherers. Four times in each year of eighteen months tribute was collected.¹ Burdensome as such a regime must have been, it is to be suspected that some of the descendants of the tribes—who have until recently been compelled to pay their taxes every two months, and often in advance—would welcome the ease of that earlier time.

Such, in brief, is the large fiscal outline of things which Cortez found—Cortez, who soon was to inaugurate a rule in many respects more beneficent than the Meshica had known. It is not possible to chronicle here the story of the romantic conquest, nor of the events immediately following in its wake. It must suffice for our purposes to sketch the origins of the Real Hacienda, the royal Treasury.

¹ *Macedo, Tres Monografías* (Mexico, 1905), p. 337.

UNDER THE SPANISH REGIME

On February 5, 1504, Ferdinand and Isabella issued a royal cedula commanding that all of their vassals in the Indies should pay to the officials of the royal Treasury one fifth of the net product of gold, silver, lead, quicksilver, or other metal.¹ For the Indians of Mexico, instead of the tribute which had been levied by their own kings, there now came to be collected the "fifth," which was claimed by their new sovereign over the seas.

The quota of precious metals falling to the lot of the royal Treasury at the time of the conquest has been variously estimated. Bernal Diaz figured it at P600,000; Prescott, P6,300,000; Ramirez, P3,469,000.² But whatever the sum—as though indicative of ultimate catastrophe—the gold consigned to Ferdinand, the king of Spain, fell into the hands of the corsair, Juan Florin.³

Cortez was made governor and captain-general of Mexico in 1527. The first Real Audiencia proposed a tax schedule, establishing an *almojarifazgo* tax of $7\frac{1}{2}$ per cent on merchandise.⁴ In 1531, the miners had the fifth (*quinto*) tax reduced to a tenth, which was a recognition of the embarrassing burden.⁵ Another item of interest is disclosed in the

¹ Macedo, *Tres Monografías* (Mexico, 1905), p. 338. ² *Ibid.*, p. 343.

³ *Ibid.*, p. 347.

⁴ *Ibid.*, p. 349.

⁵ *Ibid.*, p. 349.

THE PUBLIC FINANCES OF MEXICO

reference to *reales* in the tax schedule, which is indicative of the introduction of Spanish coins.

Under the viceroyalty, territories beyond the limits of the Mexico of to-day were brought under the Spanish yoke. From far-away Texas to the Californias the Indian tribes were everywhere subjected and ruled by an iron hand. There were superimposed upon them Spanish laws and Spanish forms of government; the cumbersome machinery of Hacienda, or Treasury, was dragged along with every conquest. In the language of Pablo Macedo:

Alcabalas, prohibitions, diezmos [tithes], tributes, monopolies, church properties, everything calculated to impede social and fiscal development, and which provoked first a state of chronic bankruptcy and afterward civil and foreign wars, were but the repercussion of a system profoundly rooted, and the extirpation of which was to be a work not only of generous patriots, but of illustrious economists.¹

The Council of the Indies was early charged with the control of Mexico. From it emanated rules and ordinances, directing not only the civil, but ecclesiastical, bodies. Toward the end of the seventeenth century, however, its power decayed, until it was quite swept away—so far as matters of finance were concerned—in the regime of *Intendentes*. In the viceroy

¹ Macedo, *Tres Monografías* (Mexico, 1905), p. 350.

UNDER THE SPANISH REGIME

was centered responsibility for the royal Treasury, the distribution of lands, and the tribunal of accounts.¹

The picture above, given by Macedo, is possibly too darkly drawn, for, although under the viceregal authority corruption and bureaucracy flourished—reaching its apogee about the time of the visit of José de Gálvez (1765)—it should not be judged save in the light of the times. Gálvez established the tobacco monopoly, executed orders for the expulsion of the Jesuits, and reorganized the machinery of the Treasury. So effective was this reorganization that the revenues were tripled and splendid economic results were obtained.² But so entrenched were the courts, the Church, the employees of the Treasury, and the bureaucrats, that scarcely had the great Gálvez gone ere they greedily came again into their own.

We have nowhere, as may be supposed, a budgetary history of the viceroyalty of Mexico, but fragments there are shedding dim light on the course of fiscal affairs. As for a budget, the most that can be exhibited is a statement of revenues and expenditures for a common year, assumed to be typical, deduced from a quinquennial report for the years 1785–89. It is taken from the *History of the Real Hacienda*,

¹ Macedo, *Tres Monografías* (Mexico, 1905), p. 353. ² *Ibid.*, p. 353.

GENERAL REVENUES

(IN PESOS)

Various Sources	Total Value	Expenses of Administration and Purchase of Materials for Monopolies	Net Returns	Individual and General Costs of the Kingdom	Foreign Costs	Surplus
Duties on assaying.....	78,292	51,072	27,220	11,258	....	15,962
Duties on gold.....	13,314	.....	13,314	.....	....	13,314
Duties on silver.....	1,800,546	.....	1,800,546	.....	....	1,800,546
Duties on jewelry.....	14,161	400	13,761	.....	....	13,761
Coinage of gold and silver.....	1,573,701	353,347	1,220,354	3,717	1,244	1,215,393
Alum, copper, tin, and lead.....	3,132	400	2,732	125	....	2,607
Tributes.....	815,437	23,820	786,617	89,630	....	696,987
Rentals.....	1,326	.....	1,326	.....	....	1,326
Trades.....	33,718	.....	33,718	1,891	....	31,827
Chancery fees.....	3,252	1,397	1,855	.....	....	1,855
Stamped paper.....	59,765	3,334	56,431	19	....	56,412
Semiyearly incomes.....	59,530	4,354	55,176	.....	....	55,176
Duty paid in lieu of military service.....	19,483	430	19,053	.....	....	19,053
Occupation taxes.....	504	.....	504	.....	....	504
Sales, purchases, and adjustments of lands.....	1,540	17	1,523	.....	....	1,523
Grocery stores.....	68,677	492	68,185	.....	....	68,185
Confiscations.....	3,024	659	2,365	.....	440	1,925
Cochineal, indigo, and vanilla.....	41,387	.....	41,387	.....	....	41,387

THE PUBLIC FINANCES OF MEXICO

UNDER THE SPANISH REGIME

Wine, spirituous liquors, and vinegar	57,812	23,602	34,210	2,616	....	31,594
<i>Nieve</i>	28,823	.....	28,823	.....	.....	28,823
Leathers.....	4,615	301	4,314	.....	.....	4,314
Cock-fights.....	42,489	804	41,685	.....	.....	41,685
Powder.....	451,909	291,241	160,668	97,038	.....	63,630
Lottery.....	134,096	46,387	87,709	25,739	.....	61,970
Ninth part of tithes.....	178,111	165	177,946	26,391	.....	151,555
<i>Alcabala</i>	3,546,715	395,506	3,151,209	23,637	.....	3,127,572
<i>Pulgues</i>	816,820	58,906	757,914	20,893	.....	737,021
Navy and <i>averia</i>	10,094	258	9,836	179,320	3,420	.....
<i>Almojarifazgo</i>	600,579	.....	600,579	.....	.....	600,579
Port dues.....	14,641	34	14,607	69	.....	14,538
Other port dues in Vera Cruz.....	25,025	12,582	12,443	.....	.....	12,443
o Salt and salt works.....	201,033	109,537	91,496	378	.....	91,118
Supplies.....	32,969	10,502	22,467	.....	.....	22,467
Results of accounts.....	6,288	1,115	5,173	887	.....	4,786
Donations.....	4,818	.....	4,818	2,702	.....	.....
Unclaimed goods.....	352	.....	352	.....	.....	352
	10,747,978	1,395,662	9,352,316	491,810	5,104	9,032,190

Less excess expenditures in the departments of the navy and donations..... 176,788

Surplus..... 8,855,402

Assigned and exported..... 8,011,664

Remaining for the expenses of the kingdom..... 5,843,738

THE PUBLIC FINANCES OF MEXICO

by Urrutia y Fonseca, as reproduced by Romero in his *Memoria de Hacienda* for 1870.¹ (The table of revenues is shown on pages 8 and 9.)

It is not surprising that the Spaniards failed to exhibit their statistics in modern budgetary form, nor that it required five years in which to audit the accounts for a single one, nor that they deliberately avoided the introduction of the double-entry system of keeping books. At the end of the eighteenth century budgetary practices, even conceptions of budget, were only slowly crystallizing in France and England; and as for the United States, we still persist in our blundering budgetless policy.

The revenues account, set out in the above table, is interesting because of its definiteness and for the further reason that the sources may be discovered of practically all the modern taxes of Mexico. Among these sources may be mentioned stamped paper, which has been developed into a general stamp act. Originally it produced an insignificant sum, but during the past forty years it has come to assume great importance. It is worthy of comment that the cost of collecting the gross revenues of P10,-747,978 was P1,395,662, or about 13 per cent.

The operation of the monopolies of quick-

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 62.

UNDER THE SPANISH REGIME

silver, cards, and tobacco produced a gross return of P6,899,830, but the costs of administration and purchase of supplies reduced this by P3,080,304. There were other charges to be deducted from the total revenues, but more than P3,300,000 were finally forwarded to Spain,¹ leaving for the general administrative purposes of the viceroyalty P5,843,738. And, remarkable enough, after the costs were paid, there remained in the Treasury P1,753,000.²

M. Romero, in his admirable *Memoria de Hacienda*, published in the year 1870, has given us a searching account of the public finances of Mexico under the Spanish regime. He points out that obviously the first purpose of Spain was to enrich the metropolis at the expense of the colony, and that all higher considerations in the functioning of states were subordinated to this one desideratum. (This, however, is but the typical Mexican publicist's attitude.) In pursuit of this end there were devised four large heads or divisions for the classification of revenues. They were as follows:³

I. The *comunes*, or ordinary, which served to cover the expenses of the viceroyalty.

II. *Remisibles*, or those which were to be forwarded to Spain.

¹ Macedo, *Tres Monografías* (Mexico, 1905), p. 358.

² Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 63.

³ *Ibid.*, pp. 61, 62.

THE PUBLIC FINANCES OF MEXICO

III. *Particulares*, or individual, dedicated to special purposes.

IV. *Ajenos*, or revenues outside the Hacienda proper, but associated with it for administrative purposes.

The ordinary revenues were derived, as is disclosed in the table, largely from taxes on precious metals and the *alcabalas* (an internal tax on commerce), the totals, respectively, amounting to P3,483,146 and P3,546,715. Besides, there were direct taxes in the form of *tributos* totaling P815,437, and a tax on *pulque* yielding P816,820. After deducting the costs of collection there remained a net sum of P8,855,402.

Branch II, the *remisibles*, had its origin in the monopolies enjoyed by the crown on quick-silver, playing cards, and tobacco. These yielded, respectively, per annum, P620,411, P125,076, and P6,147,341. The cost of administration, plus the purchase price of the articles consumed in the monopolies, amounted to P3,080,303. The sum finally remitted to Spain averaged annually approximately P3,351,328.¹

The taxes *particulares*—Branch III—pertaining chiefly to the Church, were collected under a schedule entitled *Bulas de la Santa Cruzada*. This tax was called a *diezmo*, tithes

UNDER THE SPANISH REGIME

of a tenth. The total yield was P530,425, of which P111,063 were sent overseas¹

Branch IV, *ajenos*, over which the government exercised administrative or trust functions, had to do with a score or more of taxes, from temporalities to *montepio militar*. The total raised was approximately P1,897,128. The expenditures in connection with the service amounted to P1,700,955, leaving a margin of only P196,172.²

In scanning in detail the statement of revenues (*gabela*) it will be found that there are approximately eighty different heads or taxes, with names in some cases defying analysis. What we know, however, is that these taxes were paid by the people; and when it is considered that the Church, owning possibly half the properties of Mexico, contributed nothing, the injustice of the situation is apparent. Besides, the lack of circulating media rendered the case more difficult still. It must also be borne in mind that the budgetary principles involved in the Spanish program were none too advanced. To illustrate: A need arose for funds. At once—even as in our present American practice—a revenue measure was devised, with design to produce the necessary balance,

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 63.

² *Ibid.*, p. 64.

THE PUBLIC FINANCES OF MEXICO

and it can readily be seen what constant confusions must have arisen both in administrative ranks and in the ranks of the taxpayers.

These disorders shocked the distinguished Conde de Revilla - Gigedo, an appointee of Charles III. In his report on the Real Hacienda, Revilla-Gigedo scored the system. He animadverted that the thing was difficult to remedy, "while there were so many exactions, and some of them so complicated."¹ He recommended the reduction of the number of taxes and their simplification; for the people, he asserted, could not be supposed to know when and where and how the scores of tax levies were to be paid.

So much for the revenue side of the budget. Scarcely of less interest is the expenditure side, for there one may look for display of wisdom as well as for evidence of character of government. Indeed, the expenditure account of any government—if that account be truthfully rendered—may well serve as the outline for the history of a people. It is not an exaggeration to assert that the main tale of social, economic, and political progress inevitably lies hidden in budgetary statements, and chiefly on the side of expenditures.

As we saw from the previous statement, out of the total revenues for the year there re-

¹ Macedo, *Tres Monografías* (Mexico, 1905), p. 362.

UNDER THE SPANISH REGIME

mained to cover the expenses of the kingdom of New Spain, but P5,843,738. The budget of expenditures by department follows:¹

GENERAL EXPENDITURES

Administration of justice.....P	124,294
Regular and reserve troops...	1,339,459
Militia.....	169,140
Presidios (Outposts).....	1,053,707
Missions.....	42,494
Various expenditures.....	54,482
Pensioners.....	92,439
Criminals.....	47,268
Arsenal of San Blas.....	98,316
Warehouses.....	93,005
General costs of war.....	185,894
Expenditures for the kingdom.	104,551
Debits of former reigns.....	86,893
Interest on the same.....	11,592
Annuity fund.....	1,897
Banco Nacional.....	4,140
Temporalities.....	72,728
Costs of the Treasury.....	508,389
<hr/>	
Total.....	P4,090,688
Surplus remaining after pay- ment of above items.....	1,753,050
<hr/>	

P5,843,738

The outstanding items in the table are the sums for the army and presidios (military out-

¹ Macedo, *Tres Monografías* (Mexico, 1905), p. 360.

THE PUBLIC FINANCES OF MEXICO

posts), totaling, respectively, P1,339,459 and P1,053,707. Besides, there were the payments to militia, of P169,140; to missions, P42,494; to the Arsenal of San Blas, P98,316; to general costs of war, P185,894, bringing the grand total of expenditures on account of the army to approximately 60 per cent of the entire budget assigned to the colony, and to more than 70 per cent of the expended portion of the revenues. It may not be out of place to observe that this is not out of harmony with present-day conditions; nor, indeed, is it out of harmony with the story of Mexican history from the earliest times. Always there has been the vicious circle coiling about itself—the government supported by the army, the army supported by the government. The Spanish dominion was dependent on the sword and every regime which has followed has leaned on the sword. From century to century Mexico has marched along its disordered ways, accompanied by the rattle of the saber.

The wise recommendations of Revilla-Gigedo for reforms were ignored, but had they been followed the situation could not have been saved, for the country raced onward to the abyss. In September, 1810, the revolution broke with the *Grito de Dolores*, and almost immediately the revenues became tremendously

UNDER THE SPANISH REGIME

reduced, and in time almost a negligible item in the national coffers. The rabble that gathered behind Hidalgo had a common purpose—to free itself from the foreign tax gatherer and to win for itself that illusory thing called independence. Agriculture, commerce, and industry—all were paralyzed in the struggle. Mexico had no business but that of revolution.

The viceregal government was forced, at an early date, to suspend shipments of precious metals to Spain. To make ends meet it was driven quite to the other extreme. Loans were forced, donations were accepted, and taxes were raised. The most fruitful items in the calendar had been the *alcabala* (the tax on commerce), taxes on gold and silver, and the monopolies of tobacco—and these promptly fell off heavily in their returns. Mine after mine was forced to close, because of the high cost of materials and labor—a condition startlingly similar to that existing to-day, except that the present high prices for silver and copper have aided in keeping mines open which otherwise would have closed.

The endless stream of silver and gold exported to Spain may be said to explain largely the slow progress made in the creation of capital in Mexico. In the beginning the forms of wealth in the country were largely limited to

THE PUBLIC FINANCES OF MEXICO

lands and trifling stocks of goods of one sort or another, and precious metals. Apart from mining and agriculture there was small opportunity for the creation of wealth—there was no foreign trade to speak of, and little internal commerce. Industries were practically nonexistent, nor were there means of communication save over the trails worn smooth by the feet of Indians. There was built, in time, a highway (*Camino real*) from Vera Cruz to the capital, and still another to the north; but, after all, the country was without roads and without means of distributing its products. Each community was dependent in large part upon itself—self-contained as it were.

The conquering regime was chiefly concerned with exacting its tribute, whether that tribute took this form or that—and, indeed, it took many forms. The inherent riches of the country is startlingly attested when it is remembered that for three hundred years it bore up under the selfish processes of the Spanish monarchy. The story would have been different had the Spaniards, who came out to America, brought with them monies or credits—but, as a rule, the newcomers were adventurers or ecclesiastics, and both animated by a common purpose. Between the two the Indians were in desperate case, as between the upper and nether mill-

UNDER THE SPANISH REGIME

stones, because in time the adventurers came to appropriate the larger part of such properties as the Church failed to absorb, as, indeed, the latter did absorb more than half the property of the country.

According to Sierra,¹ in 1810 the property of the Catholic Church was valued at P200,000,000, while the income was estimated at P12,000,000 per annum. (Humboldt, in 1790, had estimated the wealth of the Church at only P44,500,000.) If Sierra is correct, the income of the Church exceeded by P1,500,000 the total of the viceregal budget, and by P2,500,000 the emolument going to the Crown of Spain.

The Spanish authorities, through the regency, under date of April 12, 1813, took note of the Mexican situation, in the belief that economic conditions lay at the bottom of the revolt.² With a view to effecting beneficial changes, instructions were sent to Felix Maria Calleja, viceroy, ordering that a *junta* of three, called "Direccion General de la Hacienda Pública," be installed to succeed the secretaries having in charge the public finances. This *junta* was authorized to direct all branches having to do with revenues, to examine proj-

¹ Sierra, Justo; *Mexico, Its Social Evolution*, vol. ii, p. 18.

² *Gata de la Hacienda de la República Mexicana* (1826), vol. i, p. 291.

THE PUBLIC FINANCES OF MEXICO

ects, plans, and reports; in fine, to assume complete control over fiscal matters. Calleja, who had now earned the title of "butcher," on account of his bloody ways in dealing with the revolutionists, published this order in Mexico, October 13, 1813, with the evident intention of carrying out the proposed reforms; and, indeed, the *Vocales* were appointed, and many of the more odious taxes were abolished, but nothing could avail in the disintegrating circumstances. The overlordship of Spain was doomed. Nothing short of independence would satisfy the Mexicans—be that independence worse tyranny than Spain imposed.

II

INDEPENDENCE TO THE FALL OF ITURBIDE

THE independence of Mexico dates from the Treaty of Córdoba, celebrated August 24, 1821. The character of that treaty and the circumstances which brought it forth are alike foreign to our purposes, but it may be said to have been a triumph for the wealthy creole group. It was not a triumph of reactionaries, for nearly every step taken by the ruling coterie in the early stages of the independent government was away from the beaten roads of three hundred years of experience under Spanish rule.

On September 27, 1821, Augustin Iturbide—who had played a clever role in the revolution—entered the capital at the head of the Trigarante army, carrying the slogan of the three guaranties of religion, independence, union. The following day the actual exercise of the functions of the Constitutional Monarchy of Mexico were initiated. Ferdinand VII had been chosen king, and pending his arrival there

THE PUBLIC FINANCES OF MEXICO

was named and installed a regency composed of Iturbide, Manuel de la Bárcena, Isidro Yañez, Manuel Velasquez de León, and Juan O'Donojú. The last had come out from Spain as viceroy, and had played a conspicuous part in ending the war for independence. He became a party to the Treaty of Córdoba, and although it was repudiated by the Spanish sovereign, its effect had been final. O'Donojú died October 8th, and was succeeded in the regency by Antonio Joaquin Perez.

This regency faced almost hopelessly difficult problems, social, political, and economic. Pablo Macedo, in his capital study, *La Hacienda Pública*, says that the Treasury of Mexico was conceived in original sin—that it was born a bankrupt. Certain it is that the first national authority found but empty coffers and clamorous creditors at its doors.

During the eleven years through which the struggle for independence had been waged, the Royalists—or *Gachupines*, to use the opprobrious epithet applied by the Mexicans—had left nothing undone to raise moneys for the purpose of suppressing the insurgents. So paralyzed had been all revenue sources of the government, their yield had shrunk into insignificance. In order, therefore, to make ends meet, the government resorted to forced loans

INDEPENDENCE TO THE FALL OF ITURBIDE

and donations, and appropriated to its uses whatever funds it could reach.

The insurgents, for their part, were equally extravagant in their modes of procedure. Many patriotic devices were resorted to, and beyond that they issued fiat currency, confiscated the property of the enemy, and carried out all measures which occurred to them as likely to result in their winning the relentless war for independence. During these years the entire tax machinery of the country was prostrate. Even the *alcabala* ceased to exist. The royalist government, in order to make up part of its deficit, established several new taxes, such as that of *convoy*, war, and *alcabala eventual*¹—but all to no avail.

During the eleven years of revolution the fiscal records for 1819 alone are fairly complete. This is explained by the fact that the pacification of the country appeared at that date almost to have been achieved. It may be interesting to note that in that year the revenues amounted to P9,646,657, and the expenditures to P10,212,373. In order to cover the deficit, recourse was necessary to forced loans, loans from the mint (Casa de Moneda), church bodies, and individuals. These advances eventually totaled P12,600,000.²

¹ Macedo, *Tres Monografías*, p. 373.

² Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 65.

THE PUBLIC FINANCES OF MEXICO

It must be said, however, that effort was made to curb extravagances, and that expenses in all avenues of government were reduced as far as possible. In Mexico City alone the expenditures for the viceregal government fell from P5,004,345 to P2,982,349 between the years 1812 and 1814. But at length the country became so thoroughly convulsed it cannot be said to have had a national government. The revenues almost ceased to exist, and the armies of the factions preyed on the land.

The problem which the Mexicans faced on the attainment of independence was a most difficult one, and we have little reason to marvel that they missed the narrow path leading to the regeneration of their country. A people once torn from the old moorings may drift anywhere. Such, in short, was the case with Mexico when it suddenly found itself floundering in the midst of its new-found freedom. It was like a child suddenly possessed of a gigantic toy, with its puzzling mechanism. The Mexican people were dazed in contemplation of their independence.

The statement made by Iturbide of the conditions existing in Mexico at the time of his final triumph is worth repeating in part.¹ In

¹ *Guta de la Hacienda de la República Mexicana* (1826), Parte Legislativa, vol. i, p. 298.

INDEPENDENCE TO THE FALL OF ITURBIDE

his opening paragraph he said that it was now time "that the worthy inhabitants of this country began to feel what a difference there is between the condition of a people enjoying political liberty and that of one subject to a foreign yoke"—a yoke which had reduced his "unhappy fellow citizens to misery."

With the object of alleviating [he continued] as far as possible the pitiful state to which all classes have been reduced by the unbearable series of exactions inflicted upon them, and being persuaded that to increase taxes on merchandise and industrial effects would only hinder the activities and the progress of these two important branches of prosperity and not produce for the national treasury the desired increase, but, on the contrary, would impoverish and annihilate it, I have seen fit to command:

First, that beginning now, and until the National Congress shall establish a permanent system of finance, all temporary subsidies and direct taxes for war purposes are hereby abolished, as well as convoy taxes, the 10 per cent tax on the value and rent of houses, the *cisa* [sise, or poll tax] . . . in a word, all those extraordinary imposts with which the government of Mexico has oppressed the people for the past ten years; and the *alcabala* tax is reduced to 6 per cent, which is the quota charged before the beginning of the revolution.

Iturbide further announced that all goods and merchandise should be appraised at the time the tax is paid, and that all goods hence-

THE PUBLIC FINANCES OF MEXICO

forth were to pay but 6 per cent without distinction.

He further declared that the civil status of the Indian had changed, and since all special privileges were repugnant to the system of equality, there should in the future be no distinction with respect to paying the *alcabala* according to the quota specified. The tax on alcoholic liquors was abolished, and they were placed under the permanent *alcabala* in the class with other merchandise.

He ended his beautiful decree with the pronouncement that "none will deny the obligation of every citizen to help according to his means in paying the expenses of the government." With this he announced that he had drawn up a plan for "spontaneous and general contributions," which, he added, would be used for the support of the army.

Romero remarks that the Mexicans, in the face of these conditions, instead of endeavoring to increase their revenues and to reduce their expenditures, took the opposite course.¹ On November 22, 1821, by decree, all taxes on mining and quicksilver and powder were suppressed, and a 3-per-cent tax on the values of gold and silver products substituted.² These

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 67,

² *Ibid.*, p. 66,

INDEPENDENCE TO THE FALL OF ITURBIDE

measures were followed December 15th by a decree materially reducing the customs dues.¹

By January 2, 1822, the needs of the Provisional Governing Junta were such as to evoke the authorization for a loan of P1,500,000. The great scarcity of circulating media, occasioned in part through the revolutionary troubles, was accentuated through the emigration of many Spanish adherents of the old regime. So serious did the withdrawal of gold and silver become that on January 17th a decree was published prohibiting their further exportation; even the sums which might be transferred between cities were limited, and permitted only under government sanction.² This was followed on the 23d by a decree authorizing the minting of P500,000 of copper coins of various values³—all of which measures indicated heavy pressure on the Treasury. However, despite this, early in February, the prize of P1,000,000 was voted Iturbide, together with twenty square leagues of land in Texas, for his part in the Revolution.⁴ And a decree was issued on February 23d, authorizing pensions for the widows, fathers, and mothers of soldiers in the

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 67.

² *Guía de la Hacienda de la República Mexicana* (1826), Parte Legislativa, vol. i, p. 24.

³ *Ibid.*, p. 26.

⁴ *Ibid.*, p. 363.

THE PUBLIC FINANCES OF MEXICO

army, and the next day the first Mexican Congress assembled.

Iturbide, with some of his associates, had, in the winter of 1821, set about the study of tax problems, and on March 11, 1822, issued an order to all representatives of the government in the department of taxes, calling upon them to render reports on general and particular taxes collected in their special provinces. Further, they were to report the revenue for each five-year period and the number of employees under their jurisdictions, the amounts of money paid out by the Treasury, with the balance or deficit for each month. These agents were also requested to offer suggestions and observations.¹

Those in power—although realizing that their operations promised to develop an annual deficit of P3,600,000²—continued to reduce taxes and to augment expenses. On February 24, 1822, a decree was published putting an end to the tobacco monopoly, which had proven, under Spanish rule, a most profitable source of income.³ At the same moment, in keeping with the disintegrating program, Iturbide so increased his army that he was spending money at

¹ *Guía de la Hacienda de la República Mexicana* (1826), Parte Legislativa, vol. i, p. 241.

² Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 64.

³ *Ibid.*, p. 68.

INDEPENDENCE TO THE FALL OF ITURBIDE

the rate of P20,000,000 per annum.¹ Conflicts now arose between the Junta and the Congress.

Notwithstanding the weighty problems with which the government had to grapple, and the yawning abyss ahead, it continued to propose new measures of tax reform. Also new plans were devised for the improvement of the Hacienda. The chief recommendations covered questions of direct taxation and measures to amortize the public debt, which had as yet not been officially recognized. It was further resolved by the Junta that there should be no increase whatever in the taxes on corn or on any other staple article; that the publishers of newspapers should not be obliged to use stamped paper, and that stamped paper for orders should no longer be required; that the *contribuciones de patriotas*, a form of forced loan, should not be re-established, and the Ministry of Hacienda was instructed to end as soon as possible the disorders they had occasioned.

Maldonado, the first Minister of Hacienda—serving from October 9, 1821, to June 30, 1822—reported to Congress, February 28, 1822:

Since my incumbency of the Ministry I have known the necessity of bringing together such data as would give me an idea of the public revenues, of the yield, of

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 70.

THE PUBLIC FINANCES OF MEXICO

the employees in its administration or collection, and of the expenses which are incurred or which the state ought to incur. . . . I have only discovered the sad truth that there is a considerable deficit to cover in the general estimates.¹

Things, going from bad to worse, were not bettered through the elevation of Iturbide, as Agustin I, to the post of emperor. This took place May 18, 1822, and was made possible through Spain's complete repudiation of the Treaty of Córdoba.

In their pressing need for funds, Iturbide and the Congress bethought them of borrowing abroad, and on June 25th the emperor was authorized to negotiate for a loan of P25,000,000 or P30,000,000, to be secured by the hypothecation of all the dues of the nation.² Maldonado had already estimated the revenues for the year 1822 at P9,328,740, and the expenses of the government at P13,455,377, anticipating a deficit of P4,126,637. Succor from abroad was not to be counted upon at once, so it was proposed to cover the deficit by forced loans or through the issue of paper money.³

The decision finally rested with the fiat paper currency experiment, and on December 20th a decree was published by Agustin I, authorizing

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 9.

² *Ibid.*, p. 69.

³ *Ibid.*, p. 71.

INDEPENDENCE TO THE FALL OF ITURBIDE

the issue of P4,000,000 of notes, in denominations of P1, P2, and P10, and with such marks and seals as were necessary to prevent counterfeiting. These notes were to be sent out by the government to the financial offices of the Empire, where they were to be used in the ratio of P1 in paper to P2 in silver coin, in payment of all government obligations. It was further provided that anyone paying sums into the Treasury might make one third of said payment in notes and two thirds in coin, and it was expressly prohibited to make the whole payment of any contribution in coin. This rule held through all business transactions, and heavy penalties were to be exacted on the refusal of any citizen to receive notes in the ratio fixed in the settlement of any obligation whatsoever, so long as the total exceeded P3.

On the 23d of December the emperor issued a supplementary note dealing with the currency issue. He set out further that the notes should be amortized monthly, and all notes paid in should be forwarded to the general treasury in the capital, where they were to be burned with due formalities.

The promulgation of this decree carried with it a collateral ruling with respect to the tax on tobacco. This tax, in certain districts, had been assigned to Indian tribes; now, however,

THE PUBLIC FINANCES OF MEXICO

it was decided that one half of it should be devoted to fomenting the cultivation of tobacco throughout the Empire.¹

The forces which had called Iturbide into authority now conspired against him. The hoped-for things failed to materialize. Distress held sway throughout the land, as the reorganizations of society slowly went on. Not only were there new political mechanisms to be developed, but the body social, even as the body economic, had to suffer a complete overhauling. And these labors were not matters of days, but of years and years. It is, indeed, not too much to assert that the processes are still in the unfolding—that the present chaos is, in large part, due to unsettled social and economic problems.

Agustin I came to realize that he could not master the situation. He and Congress became deadlocked, and he dismissed it, only to be forced to summon it again. At length, uprisings at various ends of the Empire brought Iturbide to abdicate. He tendered his resignation as emperor, but Congress refused to accept it. The date of his fall was March 19, 1823, and finally, on a pension of P25,000 per annum, he was permitted to sail for Italy. Thus ended the first Empire.

¹ *Guía de la Hacienda de la República Mexicana* (1826), vol. i, p. 195.

III

THROUGH THE FIRST ENGLISH LOAN

THE Mexican Congress, which had refused to accept Iturbide's resignation on the ground that it had not voluntarily elected him emperor, immediately formed a provisional government by creating an Executive (*Poder Ejecutivo*), composed of three of the great revolutionary leaders, Bravo, Victoria, and Negrete. The Plan de Iguala was disregarded, and the Treaty of Córdoba ignored by the Congress, which set about forming the bases for a Republic.

The Congress grappled with the various problems as best it might, and with a degree of intelligence scarcely matched in subsequent Mexican affairs. The difficulties which had beset the issue of a fiat currency—and which had been a contributing cause in the overthrow of Iturbide—received early consideration. On April 11, 1823, a decree was published discontinuing the printing of notes and

THE PUBLIC FINANCES OF MEXICO

their issue.¹ The government came to appreciate the fact that fiat paper, with no redemption features, could not be kept in circulation—a lesson the Carranza regime was slow to learn.

On May 16th a further decree dealing with the paper currency was issued. The holders of such money were allowed the prerogative of paying with it one sixth of whatever dues they had to pay. Another unusual announcement in this connection was to the effect that the government would sell at auction to the highest bidder the rural and urban properties of the Inquisition which had been abolished, and certain of the temporal properties of the Church, allowing a preference to those tendering paper currency in payment.

The need of the government, however, was not appeased by mere legislation, and in May authority was again granted for the negotiation of a foreign loan to net P8,000,000.

But still there flowed no immediate result from these proposals. What could be done to bring revenues into the Treasury? In answer there was formulated on June 27, 1823, a rather interesting document. By virtue of a decree a yearly tax (poll) was established, to

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 72.

THROUGH THE FIRST ENGLISH LOAN

be paid by all individuals regardless of sex, said tax amounting to the income or wage earned for three working days.¹ This was a strange transplanting of a mediæval rule which had universally been provocative of irritation wherever employed. Of course, modifications of it were universal in Europe; and even in the United States, down to recent times, many of the states had similar laws. But in so unorganized a society as that of Mexico it can readily be imagined what confusions and bickerings were occasioned by the attempt to enforce this rather extraordinary measure. The calculation of the earnings or income was to be left to the individuals themselves, and the tax was to be paid at intervals of four months. The thing was gone about in a surprisingly exhaustive way. Commissioners were assigned to certain districts, lists of names were to be made, and the lists were to be duly filed with the Hacienda; receipts were to be issued, and so on.²

Two days after the promulgation of the law, a fairly pathetic appeal was made by the executive power to the people on the score of this tax:

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 72.

² *Cata de la Hacienda de la República Mexicana* (1826), Legislative Section, vol. i, pp. 266-270.

THE PUBLIC FINANCES OF MEXICO

The grave necessities of the Treasury [ran the circular letter] brought about by the insufficiency of the present diminished taxes and the exhaustion and ruin of the country's most productive branches of income (the nation being weighed down with debt by the insatiable and all-devouring administration of past governments, without credit or resources with which to pay off the army and other matters indispensable to the state, although the utmost limit has been reached in adopting economies), have obliged the supreme executive authority to apply to Congress for the absolutely necessary remedy for this situation. That sovereign body, being convinced of the need for adopting prompt and extraordinary measures, has established the moderate direct contribution expressed in the attached decree of the 27th of the present month.¹

The perfect candor of these leaders is fascinating when contrasted with the hypocrisy of such men as Santa Anna and Carranza, who were to follow in due course. The case of the government was desperate, and they said so plainly. They had no revenues, and admitted it. In such a plight were they that on August 27th a law was passed, supplementing that of May 1st, authorizing the negotiation of a loan for P20,000,000,² and, as we shall see, soon they were to be successful.

Medina succeeded Maldonado on July 1,

¹ *Guta de la Hacienda de la República Mexicana* (1826), Legislative Section, vol. i, p. 274.

² Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 73

THROUGH THE FIRST ENGLISH LOAN

1822, only to be succeeded by Illueca, and he in turn by Arrillaga. In a *Memoria* of September 3, 1823, the latter pointed out a number of possible projects for the raising of revenues. But nothing came of them. An item in his report is of interest in passing. He refers to the heavy drain to which Mexico had formerly been subjected in contributing to the support of other Spanish colonies. He cites P6,500,000 in one account as having gone to the Treasuries of Guatemala, Havana, and Puerto Rico.

While the struggle went on to make ends meet, to the credit of those in authority be it said, attention was given to the question of the floating debt. In a *Memoria* of November 12, 1823, another report on the finances of the Republic was made by Arrillaga. In his table he shows the debt of the country prior to independence to have reached the total of P27,090,606. Interest had accumulated on this debt to the extent of P9,765,799; loans without interest were P3,297,153—a grand total of P40,153,558.

On July 28, 1824, a law was passed recognizing the debts of the viceroyalty up to September 17, 1810 (the date of Hidalgo's revolt), and divers other debts incurred during the revolutionary period.¹ But claims of approxi-

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 78.

THE PUBLIC FINANCES OF MEXICO

mately P35,000,000, growing out of dispensations by the viceregal governments, were denied.¹ The law of July 28th fixed the bases for the recognition of the debt as Arrillaga stripped it out. The following are the chief categories into which the debt was divided:

- I. Debts of the viceregal governments up to September 17, 1810.
- II. Debts contracted by generals declared *beneméritos*.
- III. Debts created forcibly with Mexican citizens by the viceroyalty, from September 17, 1810, to the entry of Iturbide into the capital in September, 1821.
- IV. Debts created by the independent leaders (*Jefes*), from the date of the Plan of Iguala to September 28, 1821.
- V. Debts of the established governments after the pronouncement of the Plan of Iguala.

The Mexicans have asserted with much pride that they recognized the debts of the Spanish colonial government—but the case is ill-founded, as has been noted above. Such debts of the viceroyalty as received recognition were owed mainly to Mexican citizens. The Creoles, now come into authority, were the chief beneficiaries. In short, while Mexican publicists with blare of trumpets have announced the assump-

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 76.

THROUGH THE FIRST ENGLISH LOAN

tion of over P40,000,000 of obligations, they have not mentioned that the funds were dropped like ripe fruit into the hands of the ruling faction.

While this laudable course of the administration was being registered, the matter of taxation had been giving the constituent Congress no small concern. In February, 1824, an attempt had been made to effect a compromise on the tobacco question. Instead of abandoning the monopoly altogether, as proclaimed, effort was made to save, under a modified monopoly, a portion of the taxes which formerly had proved so important an element in the revenues account.

At this time, too, a *modus vivendi* as between the states and federation was in process of formation under the Federal principle fixed in the Constitution. The Federal government reserved to itself the taxes on imports and exports, tobacco, powder, salt, mail, lotteries, national properties, taxes from the territories, and a form of tax on commerce of 15 per cent, plus one fourth added to the *alcabala* schedules of the states. All other taxes were left to the states,¹ and these included the important *alcabalas*—which had so much to do with the

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 77.

THE PUBLIC FINANCES OF MEXICO

trade relations of the country—and taxes on mining.

These unfortunate tax arrangements worked disastrous effects on the commerce of the country and on mining. The latter industry now sank to the lowest point in a century. The states, by virtue of these tax concessions, agreed to contribute what was called a contingent sum, to the Federal Treasury. This was estimated in 1824 to yield annually P3,136,875, and was to be divided proportionately among the states.¹ It may as well be added that this plan wrought only confusions and recriminations as between state and Federal authorities, and yielded but small returns.

An important reform was initiated by the constituent Congress in the matter of tax collection. Up to this reform, each tax had its own special director and auditor. The fiscal agents of the government were called *intendentes*—and they were suppressed by virtue of a law dated September 21, 1824. This law of November 16th, entitled "Organization for the Administration of the Public Treasury," has been characterized by so distinguished a student as Romero as the most complete and thoroughgoing financial law enacted in his country down to 1870.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 77.

THROUGH THE FIRST ENGLISH LOAN

This so-called Law of Organization extinguished the directors and auditors-general of the different taxes, centralizing these functions under the Minister of Hacienda. This department was charged not only with accounting functions, but also with the formation of budgetary estimates covering revenues and expenditures, which the Minister was obliged to present annually to Congress. The Hacienda was organized with the interesting title of "Treasury General of the Army and Public Treasury." It was ordered that all revenues of every character should be entered in the books of the Treasury, except the expenditures for the administration of taxes and those pertaining to the public credit. There was created under the Minister of Hacienda a central commission for war and navy, charged with the duty of examining the necessary data covering these two branches of the service. The Executive was authorized to send auditors to the offices of the Treasury.

Finally, there was established the General Auditor of the Treasury and Public Credit, charged with authority to examine and balance the accounts of the executives; this department was under the direction of the Chamber of Deputies. It was ordered that all of the bureaus of the Hacienda, including the Treas-

THE PUBLIC FINANCES OF MEXICO

ury itself, should send their original accounts to the secretary, so that he might formulate his statement to the Congress and exercise a vigilance throughout the administration.

The last act of Minister Arrillaga was to estimate the revenues for 1824 at a total of P15,254,601, and to figure the expenditures at P15,165,876, leaving a net treasury balance of less than P100,000¹—an equalizing of the budget not then attained, however, nor indeed until more than half a century had passed.

While the Congress was wrestling with measures of administration, and striving to raise funds for operations, negotiations for a loan were being carried on abroad.

With singular perspicacity the Mexicans singled out London as the point of departure in their loan transactions. The English attitude toward Mexico and the Spanish colonies in defiance of the Holy Alliance cannot be readily understood, short of penetrating the political alignments of the day. It must be remembered that the Monroe Doctrine had been announced, and the concert between England and the United States in recognizing the independence of Spanish America was at the moment severing the last political ties between

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 79

THROUGH THE FIRST ENGLISH LOAN

Spain and her colonies in the New World. A terrible war was threatened, and only the power of the two great democracies of England and the United States saved the world from a devastating struggle. There is scarcely a graver date in the progress of free peoples than that recording the surrender of the Holy Alliance. Spain, indeed, did not recognize the independence of Mexico until 1836.

It is a matter of no little interest to discover that the first considerable study of Mexican finances, called an "Analysis" of the public debt of Mexico, should have been translated into English and published in London.¹ The introductory note clearly forecasts the English attitude toward the new Republic. With respect to a Mexican bond issue the note contrasts strikingly the Spanish repudiations with the attitude of the Mexicans toward their debt. The writer says in part:

So far, indeed, has the opposite feeling been carried by the Mexican government in particular, that it has, with a magnanimous liberality, adopted the debt contracted by the Spanish royalist government, although at the time of doing so, and, unhappily, still, engaged in war with that government. Nothing better can be desired for the Mexican nation than a perseverance in such

¹ *Analysis of the Memorial presented by the Secretary of the Treasury to the first Constitutional Congress of the United Mexican States* (London, 1825).

THE PUBLIC FINANCES OF MEXICO

honorable and high-minded feelings, and that in measures of finance it may adopt and act up to the prudent and upright course marked out for it.

It is perfectly clear that the English attitude toward Mexico was decisively influenced by political and sentimental considerations when it came to acting favorably on the underwriting of a loan to that country. In short, England understood little of Mexico, its conditions, its peoples, and it was a "long shot" for her bankers to take on the loan tendered them in February, 1824. But they did feel that here was a land and a people just emerging from the yoke of an enemy.

Under the law of May 1, 1823, referred to above, Francisco de Borja Migoni sold in London P16,000,000 of 5 per cent bonds, on a basis of 50, pledging all the revenues of the country as security. The proceeds of the loan, P8,000,000, met the requirements of the May resolution, but from this sum there was at once deducted P2,301,000 to cover interest and amortizations. Mexico accordingly received but P5,698,300, a balance settled by drafts on London and by actual shipments of gold to Mexico.¹ By virtue of an Act of May 14, 1824, this loan transaction was approved by the Mexican authorities.

¹ Payno, *Cuestiones Financieras*, pp. 5-7.

THROUGH THE FIRST ENGLISH LOAN

Apart from this loan operation many important matters were transacted during 1824, but the Treasury records are not in existence.¹ Just what the revenues amounted to we are left to estimate on a basis of six months' experience of the preceding year. Figured from such starting point, the sum realized was P12,837,628. Arrillaga, Minister of Hacienda, counted on an increase of P2,416,972 in the revenues over the preceding year, which he figured would bring his total to the point of covering the expenditures, estimated at P15,165,876. It is noteworthy that he allowed, out of the proposed expenditures, P8,404,501 for the Department of War,² which was more than the cost of administering the viceroyalty under the Spanish rule.

An interesting sidelight on the financial operations of the time is furnished by Payno, one of the most distinguished Mexican authorities in the field of finance, who served several years as Minister of Hacienda. He wrote, with reference to the foreign loan of 1824, that several purposes were to be served through its negotiation. Not only were needed funds to be provided, but other ends equally desirable were to be achieved.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 79.

² *Ibid.*, pp. 78, 79.

THE PUBLIC FINANCES OF MEXICO

What led to the negotiation of the loan [said Payno] was the desire to acquire standing, to enter as an independent nation into the conduct of large affairs, and the erroneous idea held by those in authority that England would take a direct interest in our political fortunes once we were her debtors.

The Mexicans in power were not wrong in their diagnosis of the situation. The English were indeed immensely interested in the fate, not only of Mexico, but of all the Spanish Americas, which at the moment were struggling to establish their independence.

On November 3, 1823, the constituent Congress—composed of some of the best and wisest men known to Mexican history—had assembled in the capital. On January 31, 1824, a constituent act of federation was published, but it was not until October 4th that the Constitution itself was promulgated, a Constitution destined to mark an epoch in Mexican affairs. On October 10, 1824, Guadalupe Victoria—one of the revolutionary heroes—was inaugurated first President of the Republic, and he continued to exercise authority until April 1, 1829—thus completing the longest continuous constitutional rule prior to Porfirio Diaz.

IV

THE TERM OF GUADALUPE VICTORIA

UNDER President Victoria the constituent Congress grappled with numerous problems. On November 16, 1824, a fiscal period was authorized to run from January 1 to July 31, 1825. The Minister of Hacienda, José Ignacio Esteva, who came into office August 9, 1824, undertook to prepare a tentative budgetary estimate. On January 1, 1825, he stated in a *Memoria*:

Our political situation has dawned this year as dark as the last one closed. The condition of our natural resources remains unchanged; our industries likewise. Our agriculture shows no progress.¹

Esteva's picture of the situation was not overdrawn. This is further reflected in his so-called estimates of revenues and expenditures for the year 1825, which have the distinction of being the first effort made to strike

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 79.

THE PUBLIC FINANCES OF MEXICO

a paper balance in the national budget. His table of revenues is here given *in extenso*:

1. Duties on imports and exports.....	\$ 2,732,995
2. Duties on trade.....	1,618,223
3. Revenues from tobacco.....	1,029,671
4. Revenues from powder.....	178,546
5. Internal tax on tobacco.....	39,784
6. Profit on the mail service.....	342,533
7. Profit from lottery.....	95,858
8. Profit from salt mines.....	68,382
9. Revenues from the territories.....	16,147
10. Revenues from national properties.	66,692
11. Revenues from the ocho catedrales.	529,989
12. Revenues from the mitra.....	86,929
13. Revenues from the treasury of the church.....	8,194
14. Quota from the states.....	2,285,877
15. Ad valorem tax.....	169,664
16. Tolls.....	47,994
17. Mint.....	0
18. Open accounts.....	55,579
19. Foreign loan.....	1,317,543
<hr/>	
Total.....	\$10,690,608

Esteva has but a single table for revenues, whereas there were four under the colonial administration, but the striking thing is that the items in Esteva's table show, on the whole, small relationship to those in the colonial budget (see pp. 8-9), many heads having quite disappeared in the more recent compilation. In

THE TERM OF GUADALUPE VICTORIA

the latter we find import and export taxes for the first time; and *internacion*, a species of *alcabala*; and the *contingente* of the states. They were expected to yield, respectively, P2,-732,995, P1,618,223, and P2,285,877. It is significant that Esteva carried in his estimates, as an item of revenue, part of the proceeds of the foreign loan of 1824, amounting to P1,317,-543. The net revenue for the entire country was estimated at P9,770,372; expenditures at P21,078,429.¹ Of the latter he assigned to the Department of War P16,011,990, a figure he thought possibly might be reduced by P4,-000,000.² It will be recalled that under the viceroyalty the annual allowance for the army approximated but P2,500,000.

Esteva's estimate of expenditures in this department carries in it a delightful bit of uncertainty, which is splendidly illustrative of the open-handed way in which the government carried its affairs. In a word, it was not a

¹ Expenditures by departments follow:

1. State Department.....	P 105,737
2. Justice.....	77,220
3. War.....	16,011,990
4. Navy.....	2,934,533
5. Hacienda.....	1,083,143
6. Current Credits.....	865,804

Total.....P21,078,429

² Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 79-81.

THE PUBLIC FINANCES OF MEXICO

matter of great significance whether the army cost P16,000,000 or P12,000,000.

It is remarkable that the utterly desperate position of the government should apparently have failed of appreciation by these enthusiastic men. It was of no concern that the proposed expenditures for the army were alone much in excess of the total estimated revenues.¹ Already the country was in the grip of its armed forces. But apart from this the childish faith in the future is impelling in its sincerity. Without knowing whence were to be obtained the necessary funds for the maintenance of the government, measures were taken in the belief that moneys, like manna from the heavens, would somehow appear. Their first borrowing experience appeared to have brought on them a sort of distemper.

Scarcely had the news of the successful negotiation of the first loan reached Mexico ere a second was launched. In August, 1824, under authority of a law passed in August of the preceding year, a second loan was negotiated at the capital of Mexico. The purchasers on this occasion were Barclay, Herring, Richardson & Co., through their agents, Manning and Marshall. The issue of £3,200,000, or P16,000,000

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 80.

THE TERM OF GUADALUPE VICTORIA

of bonds, was made on an 86 basis, the rate of interest being 6 per cent.¹ The transaction was closed in February, 1825, and had been made possible through the fact that the bonds of the first issue, bearing only 5 per cent, were at the moment selling in the markets at from 75 to 79.

The proceeds of the second loan amounted to P13,757,410. However, the credit was at once reduced through amortizations required by Goldschmitt under the terms of his contract—to wit, one quarter of the new loan was to be applied to the redemption of the bonds of the first issue. Besides, certain amortizations and interest were deducted. When the operations were concluded the total outstanding bonded indebtedness of Mexico had been reduced to P26,407,000.²

Out of the residue standing to the credit of the Treasury the Mexican agent in London loaned the Republic of Colombia P315,000, and there was later a loss of P1,519,644 when the banking house of Barclay failed. Besides, the sums available for Mexico's account were further depleted through purchases of 70,000 muskets (at P10 each), several vessels, clothing, etc. Payno claims that Mexico got but P11,800,000 in round figures out of the two

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 80.

² *Ibid.*, p. 91.

THE PUBLIC FINANCES OF MEXICO

London loans, and complained that by 1862 this debt had grown to exceed P62,000,000.

These two English loans were closely related. Both have been subjected to much criticism by Mexican publicists—no less a writer than Pablo Macedo, among moderns, and Romero and Aleman have been critical of the terms. If the terms under which they were negotiated appear to us onerous, we must not lose sight of the fact that Mexico, at the time these loans were floated, was in a nebulous state, which all too soon events were destined to show. It was purely a speculation on the part of these early English houses to loan Mexico any sum whatsoever; and that they did so on such favorable terms, more is the wonder.

The loans must be viewed in the light of that rankly speculative age. France had just had her turn at high finance, and England was shaken with wild speculations and soon was to undergo perhaps the worst panic in her history, in the midst of which there crashed a number of the presumably strongest financial institutions of the country. Curiously significant, the agents who had handled the two Mexican loans came to an untimely end. The house of Goldschmitt & Co. failed in 1826, and that of Barclay followed in April, 1830.¹

¹ Payno, *Cuestiones Financieras*, pp. 6, 7.

THE TERM OF GUADALUPE VICTORIA

During this period there had been organized great ventures of many sorts—mostly bubbles—and the matter of mining in Mexico came in for exploitation on a considerable scale, with unfortunate results. However, the Mexican financial position was helped materially by these importations of capital. Mexico, to the European, was still a gilded place, and returning merchants wrote feverish accounts which tended still further to stimulate interest in that far country. It was then coincident with the organization of the great mining companies in England, destined for the exploitation of precious metals in Mexico, that the bonds of the Mexican government came into the London market.

England [says Payno]¹ was one of the European nations first to recognize the Mexican government and to establish with it relations of friendship and commerce. The ports of the Gulf and the South Sea were visited by multitudes of English vessels, and mining speculations were undertaken on a great scale by English companies abundantly provided with credit and money.²

The hazard attending Mexican investments was, of course, very great, as the English bond-

¹ Payno, *Cuestiones Financieras*, p. 1.

² But the London market made no preference of Mexican securities. The whole of Spanish America came to be the field of operations for London bankers. By 1840, Mexico, Chile, Peru, Argentine, Ecuador, Venezuela, Guatemala, had resorted to that great money center for funds, and had contracted public debts in the aggregate of P175,000,000. (Payno, p. 3.)

THE PUBLIC FINANCES OF MEXICO

holders came shortly to know. They faced not only the chance of failure to collect interest coupons, but the loss of capital as well. Indeed, interest payments ceased in 1827.¹ Besides, what better evidence is there of Mexico's inexperience in financial matters than that disclosed in the making of a loan by her London agent to the Republic of Colombia? While the amount of the loan, P315,000, was not considerable, it showed clearly that the Mexican authorities were but children when it came to money matters. The very idea of a country in debt better than P60,000,000—with clamorous creditors crying for reimbursement of advances long overdue—assuming the role of money lender and of succoring its neighbors! This was only another illustration of the sentimental temper of the times.

There has been, it would appear, no just occasion for the fervid outpourings on the part of Mexican publicists at the high-handed negotiations, as they pronounced them, which carried to consummation the first two loans made the Mexican Republic. To repeat, it is little short of extraordinary that any loan whatsoever was procured, and the fact that such negotiations were possible proves the more

¹ *Corporation of Foreign Bondholders, Annual General Report of the Council for the year 1903-04*, p. 256.

THE TERM OF GUADALUPE VICTORIA

conclusively that sentiment sometimes is the decisive factor in turning the tides of the world.

It is not surprising to learn that the proceeds of these loans tended to melt at every turn, but there can be no overestimating their value from point of moral and financial support. At the outset it was tantamount to serving notice to the world that Great Britain would support the government of an independent Mexico; and to those who stood at the helm in that storm-tossed country it evidenced the finding of a great friend. That in itself meant a vast deal. The Treasury, of course, was strengthened for the time being, through these loans, but its ultimate independence waited on the development of sound financial policies—and sound financial policies depended on an economic state which was still far in the future. The proceeds of these loans brought up the deficits of the years 1824–25–26, but the government in power at the time—they were excellent men who strove for the advancement of the country—faced colossal problems, problems not then to be surmounted.

Just how far Esteva was wrong in his estimates was soon to appear. In January, 1826, the results of eight months' operations left a deficit of P5,207,024, a deficit which was cov-

THE PUBLIC FINANCES OF MEXICO

ered in part by the second loan (1825) negotiated in London.¹

The second economic year was fixed to run from September 1, 1825, to June 30, 1826, and the estimates allowed P17,658,942 for resources, while the total expenditures were figured at P16,666,463, developing a surplus of approximately P1,000,000.² As has been stated, the foreign loans over the years 1824-26 supplemented the revenues and figured in the calculations.

On May 24, 1826, a law was passed reducing by one half the annual quotas which had been fixed on the states of the federation, nor did the Federal Congress take any steps to compensate for this reduction.³ The state governments were wrestling with their own tax problems and were seriously handicapped in their operations. Taxes were not to be had for the mere enactment of a law, nor were the states able to pay what they could not collect. Conflicts arose between the states and Federal authorities which created considerable disquietude throughout the Republic.

By the first of the year 1827, despite the roseate estimate which Señor Esteva had given on the budgetary situation, the government

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 81.

² *Ibid.*, p. 83.

³ *Ibid.*, p. 86.

THE TERM OF GUADALUPE VICTORIA

found itself in straits; and Congress, in November, authorized the Executive to negotiate a loan of P4,000,000, non-interest bearing, and to be repaid P100,000 monthly from customs dues and P35,000 monthly from the tobacco tax.¹

It was expected to pay out of these credits the interest on the foreign debt and to do a number of other things more or less urgent. But, as things have often turned out in Mexican affairs, the credits were only partially realized, and of these scarcely anything went to meet the ends in contemplation.

During the year 1828 many laws were passed dealing with taxation, and Congress was not a little concerned about the arrears on the public debt. A new special assignment of customs dues was made with a view to paying up the arrears. Also there was further tampering with internal taxation.

The close of this year brought also the close of the presidential term of Victoria. And it may as well be chronicled that his was one of the few thus rounded out. But Victoria had no peaceful paths, for he had been obliged to put down two rebellions, one led by no less a figure than Gen. Nicolas Bravo, the Vice-

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 90.

THE PUBLIC FINANCES OF MEXICO

President. And we have seen briefly to what straits the country was put to maintain any semblance of economic order. Deficits in all the departments of government, arrears in amortizations and coupons on the English debt, with the economic life of the people still terribly disorganized, Mexico was about to fall a prey to bitter factional groups, bent on selfish purposes.

Guadalupe Victoria was not one of these. He died soon after leaving office—a poor man.

V

TURMOIL AND THE WAR WITH TEXAS

PRIOR to the passing of President Victoria, a conflict had broken out between the Federalists, called "the Yorkinos" (adherents of the York rite), and the Centralists, dubbed the "Escoceses" (adherents of the Scotch rite). Thus Freemasonry, which had played a great part in the revolution, fell on evil ways, suffering from a schism. On the outside was the clerical, or Church, group, waiting for its chance to cast in its balance with the winning side. And its turn came in due season.

And so things ran on into the year 1829. On April 18th Lorenzo de Zavala assumed the rôle of Minister of Hacienda. During the month he estimated that the Treasury was showing a deficit annually of P3,000,000.¹ In recognition of this, on October 3d the Executive was authorized to negotiate a loan in Mexico or in some foreign country which should produce

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 96.

THE PUBLIC FINANCES OF MEXICO

P3,000,000 net, and for the security of the principal and interest they were to assign one quarter to one half of all customs dues collected at ports of the Republic, subject to certain modifications.¹ So distressing was the situation in some of the states of the federation that P600,000 were assigned to them from the national revenues in order to tide them over.²

But through the economic gloom there shone a cheery light, for Spain, which had never relinquished the hope of reconquering Mexico, landed in July a force near Tampico, only to have it thrown back beaten; and now for the first time a name came to the lips of Mexicans which was to be heard for many a year—Santa Anna. He had led the victorious forces.

The huzzas were soon swallowed up in discord, and still there came no respite to the distracted country. The government was much concerned in the amortization of the debt contracted in London and on October 28th a law was passed authorizing the capitalization of the accrued interest in the form of bonds bearing interest at the rate of 5 or 6 per cent per annum, according to whether the issue was of 1824 or 1825. But such solution was not

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 97.

² *Ibid.*, p. 97.

TURMOIL AND THE WAR WITH TEXAS

effected, nor was the interest paid this year, nor the following.¹

The accrued interest on the bond issues, together with amortization payments, were calculated by Mangino, who succeeded to the headship of the Hacienda with the accession of Bustamante to the Presidency, January 1, 1830. According to Mangino, the debt accruing from October, 1827, to June 30, 1829, reached P4,-178,529.

The year 1829 had been a particularly embarrassing one so far as concerned the Treasury, and so far, indeed, as the fate of the country was concerned. The government fell into such straits for money that it was forced to resort to heavier taxation and to forced loans, and to reduce the payments to all pensioners of whatever class. The states were compelled to make advances from their public funds, and if these were not sufficient to make up their Federal quotas the inhabitants of each several jurisdiction were compelled to pay in the balance.

The fiscal situation had been aggravated because of the Spanish invasion. The government had found itself menaced not only by the Spanish army on its border, but from internal

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 98.

THE PUBLIC FINANCES OF MEXICO

defections. It was but natural that the already disordered state of society should have been further complicated through the adhesion to the Spanish cause of many of the wealthy, together with many who believed in the principle of Spanish hegemony. The government handled the situation harshly, confiscating properties and funds. A special department in the Treasury was opened exclusively to provide ways and means of combating the Spanish invasion. It was at this time that a tax of 10 per cent on all products of city and rural properties having a value of more than P500 was laid, and an impost of P48 a year on all four-wheeled vehicles, and P24 on those of two wheels. And the license tax, which had been established in May, 1829, on stores and warehouses in the Federal district, was now extended to the entire Republic, and much widened in its scope, so as to cover drug stores, restaurants, theaters, cockpits, etc.¹

These various extensions of taxation proved very vexatious throughout the Republic, and there, too, was a deal of dissatisfaction, even bitter denunciation of the government for having seized, without warrant, many properties of corporations and persons. Accordingly,

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 102.

TURMOIL AND THE WAR WITH TEXAS

on February 15, 1831, a law was passed abrogating all these decrees and regulations which had been taken under the pressure of the Spanish invasion. Properties which had been occupied were returned to their owners. It is clear, of course, that these abrogations were not wrought wholly through pressure from within, but to a certain extent they were due to the relief which was experienced through the final expulsion of the Spaniards. And in this connection it may well be noted that there now appeared on the horizon of Mexico one of her most picturesque characters, a man destined to loom large in the affairs of the country—Santa Anna.

The history of this period in its political aspects is fairly well known, and with these facts in view it is daylight clear where the Carranza regime in Mexico found its precedent for taking over the properties of corporations and persons, and even now the country is entering the phase of the program set by Bustamante in that earlier time—*viz.*, that of restoring seized properties to their rightful owners.

There had developed in the first Congress of the Republic a sharp difference of opinion with respect to the character of organization which the Hacienda should take. Two distinct theories, radically opposed, were debated. The

THE PUBLIC FINANCES OF MEXICO

first held that the Department of Treasury should concentrate in itself not only the collection of the taxes, but their distribution as well. The second theory maintained that there should be two distinct, or nearly distinct, divisions, the one charged with collecting the revenues and the other with their disbursal.

Esteva, who should be considered the first man of prominence to occupy the Portfolio of Hacienda, was the protagonist of the first, and the department had actually been organized in conformity with his ideas; and from 1824 to 1830 the Treasury moved along these lines.¹ With the accession of Mangino, however, under a law passed on October 26, 1830,² the old Treasury mechanism was scrapped; and it was reorganized in line with his ideas—that is to say, a complete decentralization of the Treasury succeeded.

Whatever defects it had under the administration of Esteva—and there were defects—these were aggravated undoubtedly through the scheme which Mangino now put into operation. For example, under Esteva, the various departments were obliged, periodically, to send into the central office of the treasurer, reports and audited accounts. These were of two characters: in the first place, having to

¹ Macedo, *Tres Monografías*, p. 375.

² *Ibid.*, p. 377.

TURMOIL AND THE WAR WITH TEXAS

do with the collections of taxes; and secondly, having to do with the disbursements. On the basis of these reports the Secretary of Treasury based his statement of the budgetary situation to Congress, thus bringing unity into the Treasury statements. Under the rule of Mangino the various departments made their individual reports directly to Congress, save in some cases, where they were sent in to the Secretary. But under the rule instituted by Mangino all unity of operation in the Hacienda was lost, and the department of auditing and accounting was entirely divorced from the Treasury.

Carrying his reforms still further, on January 26, 1831,¹ Mangino established a general department of taxes. All branches of the Treasury were subject to inspection by this department, except that of mails and mints.

This department was further fortified by being empowered to suspend all quotas allowed by the Minister of Hacienda which might be considered illegal or pernicious. The power to exercise these negations was placed not only in the Director-General of Taxes, but in three of his subordinates, and it is easy enough to see that conflicts were inevitable. And in the furtherance of his organization, general com-

¹ Macedo, *Tres Monografías*, p. 379.

THE PUBLIC FINANCES OF MEXICO

missioners and subcommissioners, immediately dependent upon the Treasury, were distributed throughout the states of the federation. But the burden of this new organization was not a light one, and in August, 1833, the personnel, together with salaries, were very materially reduced. It may be ventured, however, that this was the best work of Mangino—this check on expenditures given into the hands of the Treasury. It is this very thing which has strengthened the budgetary machinery of Great Britain.

On January 22, 1831, Mangino rendered to Congress a statement of the economic year just closed. His statement allows a total of revenues of P14,103,773, and shows that the cost of effecting the collection reached P1,903,753. The net revenues, therefore, totaled but P12,200,020. On the other side of the account the expenditures are given at P11,924,738, showing a net balance in the Treasury as of June 30, 1830, of P275,281. In a further analysis, however, Mangino points out that P2,150,840—derived from temporalities, forced loans, and borrowings, and anticipated revenues—could not be counted on for any succeeding year, and ought by rights to have been deducted from the ordinary statement of income. Of other items there were two to be

TURMOIL AND THE WAR WITH TEXAS

deducted, so that Mangino figured that the ordinary revenues of the country for the year totaled but P9,752,725.¹

For the first time there makes its appearance in the budgetary statements the item of "anticipated revenues," which proved to be in time one of the most insidious evils with which the budget came to be afflicted. We shall have reason to refer to this in another connection. The internal debt of the country was calculated by the Minister, plus accrued interest, at P24,660,694.²

It was under the direction of Mangino that there came the great development in "anticipated revenues," with assignments of certain categories of taxes as security. While he had been critical of the introduction of this measure into the budgetary operations, he at once launched into similar measures. In his exposition of January 22, 1831,³ he showed that a loan of P2,570,324 had actually cost the government P700,000. Mangino, however, paid besides 15 per cent for funds for ninety days.

Much more bitter in his denunciation of the new Treasury practices was Corral, chief of the Hacienda, in a communication of his published in 1834,⁴ in which he characterized as

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 99, 100. ² *Ibid.*, p. 100. ³ *Ibid.*, p. 104. ⁴ *Ibid.*, p. 104.

THE PUBLIC FINANCES OF MEXICO

immoral and as pernicious all these operations.

In the meantime little concern had been given to the interests of bondholders in Europe. Payments were far in arrears, with little prospect of betterment. So in October, 1830, a law was enacted which was supplemented April 1, 1831, to the effect that all accruals and amortizations should be capitalized in a new bond issue, providing for maturities to the first of April, 1831, and half of the maturities to April 1, 1836, these issues to be capitalized at 62½ per cent on the 5-per-cent loan, and 75 per cent on the 6-per-cent loan. As a security for these loans, a sixth part of all the customs dues levied at Vera Cruz and Tampico were assigned, a deposit to be made of this quota at the moment of its collection. The sums so capitalized were, respectively, £639,255 and £945,270,¹ or approximately P3,196,275 and P4,726,350.

Mangino, however, was playing fast and loose with his budgetary estimates, and for the fiscal year 1831-32 he faced a probable deficit of P8,500,000.² Into such a state of demoralization did the fiscal machinery fall that when Bocanegra, who succeeded Mangino, wrote

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 11.

² *Ibid.*, p. 113.

TURMOIL AND THE WAR WITH TEXAS

his *Memoria*, May 15, 1833, he was obliged to say to Congress that there was no complete account of the finances for the preceding year. Other criticisms, too, were directed against this Bustamante-Mangino regime. Such, for example, as that they expropriated the assigned customs dues which were pledged to the bondholders of London, the total of which ran into several hundred thousand pesos.

The year 1832 developed great political difficulties, resulting in the overthrow of Bustamante. Disorders developed throughout the country, much to the dislocation of the public funds. So much so that the Executive was authorized by Congress to adopt such measures as he deemed fit for the pacification of the country and the raising of revenues. By virtue of this warrant new taxes were imposed and old ones were increased. By a decree of November 15th, the *alcabalas* were augmented by 3 to 4 per cent, depending on their character.¹ On December 7th a door and window and balcony tax on buildings was laid in the City of Mexico; all of which decrees, however, were soon nullified by the incoming administration.²

The new Minister of Hacienda—Bocanegra,

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 122.

² *Ibid.*, p. 123.

THE PUBLIC FINANCES OF MEXICO

in the *Memoria* above referred to—gave an estimate of revenues for the year 1833–34 as approximating P13,000,000. On the side of expenditures he figured a minimum of P16,000,000, leaving a deficit of P3,000,000. Bocanegra suggested the imposition of new taxes, as well as the putting into effect of economies, but Bocanegra remained in power too short a time to have the opportunity of witnessing the results of his proposals.¹

It may be interesting to note that for this current fiscal year the cost of collecting the revenues amounted to 6.27½ per cent. It may be well to contrast this with the cost for the third economic year, which amounted to 16.60 per cent.² This great reduction in the costs of collecting the revenues was surely a mark of progress in the budgetary development of the country, and the low figure would stand favorable comparison with corresponding charges in other countries.

It was at this time, in their casting about for ways and means, that the ports in the province of Texas found themselves suddenly in the hands of Mexican customs officers. While the returns paid into the Treasury from these outlying customs districts were insignificant, they

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 124.

² *Ibid.*, p. 126.

TURMOIL AND THE WAR WITH TEXAS

proved most vexatious to the newly arrived Anglo-American colonists, and led in the end to misunderstandings which contributed not a little to the causes of the Texas revolution.

Corral, whom we have seen revealed in an earlier connection, was intrusted with the rôle of Hacienda under Santa Anna, and set about him to destroy the hold of the extortionists or profiteers, whom he had denounced on various occasions. To his chagrin, however, he found it necessary to deal with these very men, and in a negotiation for P600,000, the terms they laid were so extravagant that, rather than authorize a contract with them, he resigned his office. This was May 4, 1834. In a manifesto, published¹ after retiring, he wrote:

Everybody brings notes and bills with which to pay their charges, and in Mexico they leave off paying their bills in order to pay their loans. . . . If this twisting of principles does not come in time to destroy the whole system of Hacienda, it will be the most extraordinary phenomenon.

Endless confusions congested the next two years. Not only was the country torn by factional differences, but economic pressures on the masses in no sense were relaxed. Santa

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 136.

THE PUBLIC FINANCES OF MEXICO

Anna, menaced with destruction from within, now sought to distract the people by raising the cry of war with the Anglo-Saxons, who had been invited to possess themselves of the province of Texas.

November 17, 1835, he ordered the suspension of the payment of all orders to date drawn against the customs of the sundry ports of the country, and on the 20th the Treasury was advised of this order.¹ A little earlier in the month he had been authorized to borrow P1,000,000, paying, if need be, a premium of 4 per cent monthly, provided the loan should not run longer than five months.² Out of his great need for funds, on the 21st of the month he placed an extraordinary war levy of 1 per cent on all city property, payable in three installments, twenty days between. But the resistance of the public to all new imposts was so great that it was decided to treat this one as a loan, bearing interest at the rate of 6 per cent annually, and the capital of which eventually would be liquidated.³ On the 23d of the month Santa Anna was authorized to raise P500,000 by the means least onerous, which sum was to be dedicated exclusively to the subjugation of Texas, then in revolt. In Janu-

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 153.

² *Ibid.*, p. 153.

³ *Ibid.*, p. 153.

TURMOIL AND THE WAR WITH TEXAS

ary, 1836, the Executive was authorized to use, if need be, half the entire rents of the country during the term of the war with Texas.¹ But still the financial needs were unsatisfied, and on February 8, 1836, the Executive was authorized to negotiate a loan for P600,000, paying 3 per cent monthly, the only restriction being that the customs dues should not be pledged for its security.²

On April, 1836, a most interesting decree was published, advising that Mexico would be indemnified for its losses and expenses in putting down the rebellion in Texas through the confiscation of the goods of the revolutionists.³ This decree had undoubtedly been given out for the purpose of pacifying the people of Mexico, and it looked reasonable at the moment that it might be fully carried into effect, for Santa Anna, with his army, had already crossed the Rio Grande and possessed himself of San Antonio after the memorable siege of the Alamo. He was, indeed, at the moment, fast on the heels of the flying Texas army, and the Mexicans were jubilant over the reports sent back by Santa Anna of the brilliant victories falling to Mexican arms.

On April 21, 1836, while the Mexicans at

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 153.

² *Ibid.*, p. 154.

³ *Ibid.*, p. 155.

THE PUBLIC FINANCES OF MEXICO

home were rejoicing, Santa Anna's army was being slaughtered at San Jacinto. Even the Dictator of Mexico himself was left a prisoner in the hands of the Texans. The proposed indemnities which were to have been laid on the Texans had vanished like many another fine scheme—a rather consummate piece of irony, and interesting by way of interlude in the almost indefinable morass of Mexican economic history.

VI

INDEMNITIES AND DEFICITS

THE news of the disaster which had befallen Santa Anna created mixed emotions in Mexico. His enemies were rejoiced, but the country at large was dismayed at the triumph of the Texans at San Jacinto. A few days earlier the Anglo-Saxon colonists had been marked for slaughter, as, indeed, they had been slaughtered at Goliad—now they held Santa Anna a prisoner, and instead of selling the goods of the rebels to defray the costs of the war, the Mexican authorities, to make ends meet, were obliged to order a forced loan of P2,000,000!

On the fall of Santa Anna there followed a mixed conflict for the Presidency. On April 19, 1837, Bustamante was installed in the chief office, and managed to maintain himself until March 20th, two years later. During this period seven incumbents of the post of Minister of Hacienda strove to make headway against the eternal deficits, but in vain. For some time

THE PUBLIC FINANCES OF MEXICO

the country seemed irresolute, so great was the demoralization that permeated every avenue of the government.¹

To add to the internal confusions, over an extended period the various parties which had risen to power in their great need had authorized the issuance of copper coins at more than double their intrinsic value. These issues lent but little succor to the governments authorizing them, and before long rose to smite in their turn. They carried in themselves the germs of their own destruction. The chief element working the defeat of these expedients was that of falsification. Counterfeiters, on account of the profit to be derived, developed at all ends of the Republic, and in 1837 it became indispensable that an end be put to the copper malady, for already silver and gold coins had all but disappeared. Business was accordingly brought to a standstill.

On January 17th a national bank was authorized; its principal purpose was to amortize the copper issues. But the expected result was not forthcoming, and on March 8th a law was passed reducing the legal value of the copper coins 50 per cent.²

¹ There are no published statistics available covering the fiscal year ending June 30, 1836.

² Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 167, 168.

INDEMNITIES AND DEFICITS

Such a course of repudiation on the part of the government could but mark its extremity and its helplessness in the face of a comparatively simple monetary problem. Such action was taken with utter disregard of the rights of innocent holders of the national currency, albeit warranted by the exigencies of the time. Eighty years later Carranza's regime of repudiation found here perfect precedent.

In the midst of these internal troubles, on February 19, 1838, Gorostiza, a man of unusual ability, succeeded to the rôle of Minister of Hacienda. He at once addressed himself to a solution of the problem of refunding the foreign debt, as authorized under decree of April 12, 1837.

His announcement to Congress, July 7, 1838, exhibited the foreign debt as follows: The 5-per-cent loan (1824), with interest, totaled P19,374,232; the 6-per-cent loan (1825), with interest, totaled P29,657,846; or a total foreign debt of P49,032,078.¹

The Minister, in his analysis of the debt, displayed ingenuity and intelligence. He found cause to criticize past fiscal operations of the government, and pointed out that Mexico, through having failed punctually to meet its interest payments, had lost its standing; its

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 159.

THE PUBLIC FINANCES OF MEXICO

credit had been impaired, if not destroyed. He contrasted the pitiful Mexican situation with that of England. The latter, with a debt of £53,681,076 in 1714, had been able in 1822 to carry satisfactorily £827,984,498, or the equivalent of P4,139,922,490.¹ Gorostiza very properly termed this vast figure "frightful" (*espantosa*), but he remarked that even this load had not impaired the resources of the English government nor impoverished the nation. Why, therefore, he asks, should Mexico, with all its riches, be bankrupt?

If Gorostiza were living to-day, with what self-complacency might he observe that the course of England from that time on has been characterized by uprightness in its fiscal operations, and that its credit standing has been approached only by the United States. Besides, the contrast made at that early date still holds true. The hopeless situation of Mexican finances to-day looms dark beside that of England. This, indeed, despite the fact that the ponderous burden of the World War has been largely borne by the latter Power.

At the moment of Bustamante's coming into office, there loomed on the horizon a cloud of trouble which the Mexicans disregarded, or

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 160.

INDEMNITIES AND DEFICITS

held lightly. As early as 1825 the French government had made representations to the authorities in Mexico with respect to damages sustained by her citizens during the war for independence. Other European states, too, had laid claims. The United States had also made representations, and President Jackson but recently had pressed for their settlement with his usual vigor. It now came to pass, however, that the French were to exceed Jackson's measures by the employment of force. Finally, in the summer of 1838 (the Mexican government, because of its inability to meet the French requirements, had refused further to proceed in the matter) the Gulf ports were blockaded by war vessels.

This blockade by Bazoche, however, brought no financial results; and many of the Mexican public officials chuckled, thinking that a war with France would serve to distract the people and might even work out profitably for the coffers of the state through the raids of privateers upon French commerce. Such was the childish argument sent broadcast over the country. It had not occurred to the authorities that they had no privateers.

By the fall of 1838 the French decided to take more strenuous measures—the blockade had got them nowhere. Presto! the castle of

THE PUBLIC FINANCES OF MEXICO

San Juan de Ulúa was captured, and Vera Cruz laid under the guns of the fleet.

Such was the state of affairs when Pakenham, the British representative in Mexico, entered as intermediary. The struggle was closed by a treaty of peace and a convention, signed March 9, 1839, stipulating the payment of an indemnity of P600,000. But the French got no payment of old debts, nor, indeed, of debts of any kind, for many a day.

During the controversy with the French—Vera Cruz being closed—Tampico developed its first significance as a port of entry; but even so commerce fell to negligible proportions. The direct loss to the government of customs revenues at Vera Cruz exceeded the sum demanded by the French in the settlement of their claims. And it is almost incomprehensible that any governing authority could have been so short-sighted as to precipitate so indefensible a conflict. It was plain stupidity, fiscal as well as political.

The American claims for adjustment of losses exceeded in volume the French claims, but they were destined, yet awhile, to be ignored by the Mexican authorities. These claims were finally referred to a commission, and were partially adjusted, although the chapter was not closed until the Treaty of Guadalupe Hidalgo,

INDEMNITIES AND DEFICITS

in 1848, at which time their payment was assumed by the United States.

The refunding, in a single issue, of the loans floated in London in 1824 and 1825, which had been authorized April 4, 1837, was delayed through negotiations and counterproposals. Finally, however, a compromise was reached. One half of the total was to be classed as active bonds, bearing 5 per cent from October, 1837; the other half was called deferred bonds, and was to bear the same rate from October, 1847. The 1824 loan, with all arrears, was converted at par, while the 1825 loan, with arrears, was converted at 112½. The deferred bonds were to be received in payment for waste lands in certain states, notably in Texas and California, which was an intimation that there was already a feeling as to the insecurity of these outlying domains. Beyond this, too, was the design to establish a strong English barrier in those regions. The experience with Texas was still fresh, and while Mexico had not abandoned title to the revolted province, the problem of its reconquest, like an unconscionable ghost, stalked abroad at all hours. How could it be brought about? If the English might somehow be involved! And there were not wanting signs of definite fruitions on this score. The interesting rôle played by England in the Texas case

THE PUBLIC FINANCES OF MEXICO

cannot here be entered upon. Negotiations were indeed opened, but nothing came of them.

There was pledged to secure the refunding issue one sixth of the customs receipts for the ports of Vera Cruz and Tampico, and it was further provided that, in event of failure to pay the coupons, customs certificates receivable for duties might be issued and sold in London. It may as well be added that the coupons came to maturity and were unpaid, and for a time the cash receipts at the customs houses were reduced through payment of dues in the certificates above provided for. In this manner only did the English bondholders receive payment of interest—and then only at heavy discounts.

Mexico had possibly complied as far as was in its power with the obligations incurred in the creation of its foreign debt. With the best of intentions the government committed itself to a program hopeless of attainment. It was inevitable that coupons would mature and be defaulted. It was also patent that, as on previous occasions, the government would find itself reduced to the expedient of seizing the customs dues held in trust for the bondholders—dues collected at Vera Cruz and Tampico—with no regard to the stipulations of the contract with its bondholders. Fine fictions were these,

INDEMNITIES AND DEFICITS

and the sentimentalists of the Canning school of the '20's, who foresaw marvelously organized republics in Spanish America, might, having in mind the facts, have smiled at their erroneous judgments.

Over the year Bustamante and Santa Anna strove for supremacy; the country was still torn by revolution; and it faced an appalling deficit, estimated by Gorostiza for the year 1839 at P15,947,318.¹ Just how it was to extricate itself from these hopeless financial mirings, no one in Mexico could perceive. Ministers of Hacienda were more numerous, indeed, than Chief Executives, for the overthrow of the Constitution in 1835 by Santa Anna had only rendered the tenure of the Ministers more uncertain. They were expected to do the impossible. Turn as they might, they were everywhere faced by bristling demands of pensioners and creditors. Pretty nearly all of the Ministers inveighed against the scheme of "advances against revenues," and yet, one after the other succumbed to the necessity of making bargains as best they might with that type of Mexican profiteer denounced by officials as extortionists, *agiotistas*. More than one Minister charged these money lenders with acting in

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 184.

THE PUBLIC FINANCES OF MEXICO

concert, with a view to impounding the capitals of the country, withdrawing them from commerce and industry, for the purpose of extending credits to the government at usurious rates. Some of these borrowings were so notorious that they became subjects for Congressional investigation; as, for example, the case of Tomás Worrall. In this instance the Mexican government contracted a debt of P2,600,000, with an annual interest payment of P130,000 for the original loan of P650,000.¹ Nor was this one of the most flagrant cases.

In September, 1841, Bustamante was overthrown by Santa Anna, and for the next two years chaos continued to reign in the Hacienda. So much was this true that no effort was made to print what might purport to be statements of revenues and expenditures. Some data are extant, setting out partial figures only, touching the budgets during these years, and for each a deficit of better than P10,000,000 is evident.

A report by Minister of Hacienda Trigueros, on July 8, 1844,² regarding the preceding year, is somewhat illuminating. It is shown, for example, that the customs dues yielded revenues in that year of P5,892,661; the tax on internal commerce, P4,299,445; the direct tax on prop-

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 191.

² *Ibid.*, p. 207.

INDEMNITIES AND DEFICITS

erty and income, P1,054,598; revenues from extraordinary enterprises, P5,184,132; sundry branches, a total of more than P7,000,000—a grand total of P23,995,776. The cost of collection reached P2,772,288, or about 12 per cent. As a matter of fact, of the total revenues, only P12,000,000 can really be strictly so classified. The other entries were from extraordinary sources. But, every item considered, there was still left a deficit for the year of P7,837,661.

The year 1842 had seen quite an advance in the matter of the development of a general tax scheme. In April, the stamp tax, with some modifications, was extended to new bases. On May 31st the tax styled *avería*, of 2 per cent of the import taxes, was placed, covering the port of Vera Cruz, and the yield from this tax was assigned to the construction of a railroad from Perote to San Juan. On June 27th playing cards were made a monopoly, and toward the end of July it was ordered that from August 1st a monopoly would be created of sulphur and saltpeter. On September 23d the *Banco de Arío*, which had been established in October, 1830, was ordered extinguished. Other acts effective in October, 1842, were the establishment for the first time of rates covering the cost of the transmission of mail in the Republic; the incorporation in the national Treasury of the properties

THE PUBLIC FINANCES OF MEXICO

belonging to the clergy of the Californias; the establishment of an *avería* tax for the port of Tampico; and, finally, an effort was made through the promulgation of a law under the name of *Pauta de Comisos* to regulate the interior commerce of the country. This was a stroke aimed at the intolerable *alcabala*, and was premonitory of more active measures.

An interesting résumé of tax legislation was made by Trigueros, July 18, 1844, in a report to Congress; in this connection, too, he sums up the revenues and expenditures for the five fiscal years, 1838 to 1842. Covering this term he figures that there was collected as revenues but P41,552,424, and for the same period there was expended P105,645,869, showing a deficit of P64,093,445, or more than P12,000,000 per annum. Trigueros goes on to formulate his budgetary statement for the fiscal year ending June, 1844. A rather surprising total for revenues is attained in P34,138,581, from which, however, the costs of collection, P4,815,158, are to be deducted. From this, too, must be deducted P10,902,039, derived from forced loans and from sundry other sources, leaving a net effective income of only P18,421,383, as against an actual grand expenditure for the Republic of P29,526,623. The deficit, however, for the year, counting in the forced loans, was reduced

INDEMNITIES AND DEFICITS

to approximately P203,199, which is perhaps the narrowest margin to which the budgetary balance had been brought since the origin of the Republic.¹

In his analysis of this situation the distinguished economist, M. Paul Leroy-Beaulieu,² is quite in error in his interpretation of the figures, inasmuch as he made no allowance for the approximate P11,000,000 of revenues which figured on the resource side, but which had been derived from forced loans and other extraordinary processes. The scholarly Frenchman further shows his confusion by setting out that during twenty-three years—1822 to 1844, inclusive—the Mexican Treasury had recorded as revenues P449,668,000 against P435,580,000 of expenditures, which left a book balance of P14,000,000 on the credit side. This is far from a correct commentary on the Mexican account. In the first place, M. Leroy-Beaulieu omitted any record of the foreign borrowings of the Mexican government; and in the second place, he made no allowance whatever for an approximate P150,000,000 which had been raised by extraordinary and unlawful measures. The picture drawn, therefore, by M. Leroy-Beaulieu

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 233.

² Leroy-Beaulieu, *Le Mexique au Début du XXe Siècle*, Paris, vol. ii, p. 117.

THE PUBLIC FINANCES OF MEXICO

is distorted, and can but excite astonishment. To have left the impression that Mexico was operating with budgetary precision, that the revenues were in excess of the expenditures, without analyzing the sources of the revenues, is little short of inexcusable.

As a matter of fact, over all these years Mexico had been little better than a bankrupt, if, indeed, such characterization may not be all too mild for application to a Power which every year had been forced to resort to extraordinary and unlawful measures in order to establish its budgetary equilibrium. It would have been a simple matter for M. Leroy-Beaulieu to have ascertained that the interest on the public debt had been met with no semblance of punctuality, that it had indeed lapsed over long periods, and even the P600,000 which the Mexican government had agreed to pay to the French by virtue of the Treaties of 1839 and 1843 was still an unliquidated obligation. Enthusiasm, therefore, for the character of financing which had distinguished the operations of the Mexican government from its foundation in 1821 is not a thing to be developed from the facts in the case. Mexican students have always been apologetic on the score of their financial history, and we can well imagine what the attitude of the next generation will be.

VII

DEBT AND THE MEXICAN WAR

THE Trigueros statement of July, 1844, to which reference was made in the preceding chapter, disclosed several points of interest. First, a marked increase is shown in the customs dues, the total reaching P6,589,948, plus P354,000 raised by a special import tax of 30 per cent laid on cotton. This brought the total of customs dues to almost P7,000,000. At the same time the appraised value of the imports amounted to P23,455,159.¹ On exports during the same period the tax amounted to P573,365, with a total export value of products approximating P12,104,539, leaving an outstanding trade balance against Mexico of P11,350,620.²

These figures served to start a controversy among Mexican statesmen as to the advisability of levying a high protective tariff, a matter which, much earlier, had received attention at the hands of the politicians. But

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 235,

² *Ibid.*, p. 236,

THE PUBLIC FINANCES OF MEXICO

up to this date there had been aroused no sharp rivalry as between the two schools of free trade and high protective tariff. Mexican governments had come and gone without so much as giving the subject a moment's consideration. With these governments it was solely a question as to how much revenue could be raised through taxing both imports and exports. The fine points of economic dogma touching these subjects were unknown to the men who assigned the port receipts to secure bond issues, and immediately appropriated them to their uses as the occasion demanded.

Now, however, there appeared the nuclei of partisan groups, more or less synchronized with the development of tariff controversies throughout the world. The question of free trade for Mexico was now asserted to be vital, and it assumed more or less the aspects of the problem in the United States. There were Mexicans who advanced the arguments uttered over and over again in the councils of our own Congresses—*viz.*, the necessity for protecting infant industries. And, on the other hand, the apostles of free trade were loud in their fulminations against the high-handed measures of the capitalists who sought to enrich themselves behind high tariff walls.

The high-tariff leaders triumphed in Mexico

DEBT AND THE MEXICAN WAR

for a time, and laws were passed prohibiting the importation of cotton and also of cotton and woolen goods. But in line with Mexican inconsistency, by a law of April 12, 1843, a private company had been permitted the exclusive right to import 60,000 quintals (1 quintal=100 kilograms) of cotton on the payment of a tax of six pesos on the quintal.¹

In this year, too, the government came to exercise itself in the matter of making payment to the citizens of the United States of P2,500,000 for damages which had been assessed against the Republic by the commission appointed under the Convention of April, 1839. It will be remembered that the claims of the United States were being vigorously pressed by Jackson at the time of the French intervention. In order to make the payment above indicated, a law was passed in April, 1843, laying a forced loan on the various Departments of the Republic. (It will be remembered that Santa Anna, as Dictator, had obliterated the states, creating Departments instead, more or less after the manner of the French.) This sum was apportioned, as, indeed, was the habit of the Mexican authorities, among the Departments, according to wealth and population.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 238.

THE PUBLIC FINANCES OF MEXICO

The quota falling to the Department of Mexico was P588,000, and the lowest sum was assigned to Chiapas in a total of P7,000. These quotas were to be paid quarterly over a period of five years.¹ It is scarcely necessary to add that there were vexatious delays on the part of the Departments, and that the sums promised under the terms of the Convention were not met, and that eventually the matter was finally cleared through adjustments made in the Treaty of Guadalupe Hidalgo, February 22, 1848.

In 1843 the Mexican government became a party to an unusual transaction. In order to meet its obligations falling due April 1st, the authorities proposed to the house of Lizardi & Co., its agent, to pay half the dues in money and the other half in bonds, at their face value. Lizardi made a counterproposal. He would accept one third in cash and two thirds in bonds—an arrangement which was carried through. The total involved was £876,032, plus £200,000 in the form of a commission to the said house of Lizardi & Co. The interesting feature of this transaction lies in that it was clandestine—that is to say, the public was not advised, nor do the laws of the Republic of Mexico show record of it, although it is alleged

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 240.

DEBT AND THE MEXICAN WAR

to have been approved in a decree of July 28, 1843. At all events, while no interest was ever paid upon these bonds, they were recognized and brought into the conversion of 1886.¹

At the end of 1843, Murphy, the English representative stationed in Mexico City, figured the total of the public debt as follows:²

25,550 active bonds.	£ 5,500,000
Deferred bonds declared active February 22d.	91,650
Deferred bonds carrying similar letters and numbers to the first.	4,654,000
<hr/>	
Total.	£10,245,650
Debentures or obligations emitted on the 50-per-cent basis, covering eight interest coupons on the debt of P998,192, amounted to.	499,096
Active bonds issued in payment of commission to Lizardi & Co.	£200,000

According to this same authority, the annual cost of carrying this debt amounted to P11,286,300. From these data it is obvious that the Mexican foreign debt had more than doubled in twenty years, and that the carrying charge had come to be no mean sum. It may further be observed that the now grand total had been

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 244.

² *Ibid.*, p. 244.

THE PUBLIC FINANCES OF MEXICO

largely made up of funded delinquent interest payments, amortizations, and commissions—in the main having risen out of the original loans made in the years 1824 and 1825.

Foreign bondholders were clinging with as much tenacity as they might to the shreds of their Mexican credits. During this period the active 5-per-cent consolidated issue of 1837 fluctuated around 35, while the deferred bonds of the same issue were quoted around 14,¹ which is clearly indicative of the uncertainty which existed in the public mind as to the ultimate values of the Mexican obligations. In short, the bonds at the moment had largely a speculative interest, and were not destined to fall into the classification of investment until two-score of years later, when, under the administration of President Diaz, the finances of the country were put on a substantial basis and the government met with punctuality its commitments.

In September, 1844, the execrable administration of Santa Anna was brought to an end by a revolution which banished him from the country. He had been in power from October 10, 1841, and during almost the whole of his tenure there had been financial uncertainty and worse than confusions. He had put tobacco,

¹ *Bankers' Magazine* (London, 1844).

DEBT AND THE MEXICAN WAR

cards, powder, sulphur, and saltpeter under monopoly; he had prohibited foreigners from trading in the country; he had promulgated a tariff schedule lowering all the taxes, and soon thereafter had raised them again; he had alienated the principal salt mines of the Republic, the temporal properties of the country, and the government shares in the mines of Fresnillo; he had suspended all payments on debts adjusted by earlier administrations, compelling new arrangements; he had levied forced loans; he had conceded odious or indefensible monopolies; and although the legislation of the time took no cognizance of the money lender, that baneful type had made great progress during the course of Santa Anna's administration.¹

On July 8, 1845, Luis de la Rosa, the new Minister of Hacienda, rendered a budgetary statement. He reported a grand total of revenues for the year of P31,873,019, or a net yield of P25,905,348. The first items of interest to us are those showing the increased revenues derived from customs dues and taxes on internal commerce. The former was figured at P7,418,081, the latter at P5,088,975. The direct property tax passed P3,000,000, but there still appeared the unfortunate head of "ex-

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 254.

THE PUBLIC FINANCES OF MEXICO

traordinary income," with the infallible earmark of forced loan. According to De la Rosa the effective revenues for the year reached a total of P13,016,502. The total expenditures for the year were P26,181,484.¹

Such, then, was the condition of the Hacienda when, on June 4, 1845, the Mexican Congress declared war against the United States on account of the admission of Texas into the Union. In spite of the fact that the Texans had for ten years maintained their independence, Mexico persisted in refusing to admit the *fait accompli*, and prepared for war. It is needless to say that to her political and financial embarrassments were now added the graver difficulties of carrying on a struggle which a more sensible people would have recognized as lost from its inception. With a depleted Treasury, with an army poorly equipped, just what those in authority expected to achieve in a conflict with the United States must be left to the imagination.

During the years 1845, 1846, and 1847 the budgetary figures are very indeterminate, except for the last-mentioned year. Under the administration of Prieto, De la Rosa, and others, the Treasury floundered in its customary ways, growing from bad to worse as

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 251, 252.

DEBT AND THE MEXICAN WAR

the American armies under Taylor and Scott succeeded in occupying the country. The customs revenues were reduced to negligible sums almost at once through the blockading of the Mexican ports, and since this had been one of the most productive schedules on the resource side of the budget, extraordinary measures to make up the deficits were continually resorted to.

Just prior to the war steps had been taken looking to the refunding of the foreign debt, a portion of which had matured. Agreements, indeed, had been reached with the bondholders early in 1846, but these arrangements were disrupted through the capture by the Americans of the Mexican ports of Vera Cruz and Tampico. Another matter of moment had engaged the attention of Farías, acting President, and that was the abolition of the *alcabalas* throughout the Republic after December 6th, the states being prohibited from re-establishing them in any form whatsoever. In order to compensate them for the loss of revenues, the states were relieved from a forced loan decreed September 17th, and they were assigned one third of the increased tax on tobacco. Some other taxes on property were allowed the states by way of additional compensation.

As the war went on, higher taxes, together

THE PUBLIC FINANCES OF MEXICO

with the heavy demands made on the Church, created vast discontent throughout the country, and Santa Anna, profiting thereby, overthrew Farías and returned to power. He proceeded at once to overturn tax schedules, adding to the universal demoralization. However, he carried forward the levies on Church properties, raised taxes, and laid forced loans; he executed a treaty (July 17, 1847) with representatives of Spain, agreeing to pay damages to Spanish subjects for losses incurred during the divers revolutions of the country; and a little later similar agreements were entered into with both France and England, all of which arrangements came to be styled Diplomatic Conventions. They were eventually to lead to the intervention of these foreign Powers in 1863.

Santa Anna concentrated in himself all the virtues and vices of his people. Ignorant, he issued, *ad libitum*, revolutionary decrees touching financial and political matters; loyal, he was animated with a pseudopatriotism; arbitrary, he was moved by a false pride; impetuous, he led his army to destruction before the onslaught of the Americans. He came finally to bow to the exigencies of the time; he was driven from Mexico City by the American army, and was overwhelmed in the ruin he had himself created.

DEBT AND THE MEXICAN WAR

The Treaty of Guadalupe Hidalgo, celebrated February 2, 1848, put an end to the desolating struggle, and the forces of the United States were withdrawn. Mexico was left to her own devices. To be sure, the results of the war were not satisfactory to the Mexicans, so far as territorial questions were concerned, but the bankrupt Treasury welcomed the \$15,000,000 which the United States agreed to pay for the cessions of California, New Mexico, and Arizona. Of this sum \$3,000,000 was to be delivered in Mexico City upon the ratification of the treaty; the balance was to be paid in installments of \$3,000,000 a year, with 6 per cent interest.

The United States also assumed the payment of the claims of its citizens against Mexico for the damages which had been adjusted under the Conventions of 1839 and 1843. And thus after many years Americans whose fortunes had been destroyed were paid their debts; but so long had some of them waited for adjustments that death had intervened. A similar situation exists to-day. Through revolutions since the fall of Diaz great losses have been incurred by citizens of the United States, nor does there appear so much as a shadowy chance of these claims being liquidated within any reasonable space.

VIII

FINANCIAL CHAOS OF THE 'FIFTIES

AT the end of the Mexican War the condition of the country was most pitiable. It was but a shambles, social, political, and financial. What with internal dissensions (the struggle for supremacy went on unabated) and the complete prostration of economic life, the people can scarcely be blamed if they regretted the withdrawal of the American forces, which left them again a prey to the predatory army group.

On June 3, 1848, Herrera came into possession of the government, and continued in power until January 15, 1851—two years and a half. And during that time there were no less than sixteen heads in the Ministry of Hacienda. Among these were two really able men, Riva Palacio and Manuel Payno.

Palacio, in July, 1848, rendered an important summary of the public debt:¹ that contracted in London, P56,329,075; that incurred prior to

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 304, 305.

FINANCIAL CHAOS OF THE 'FIFTIES

independence, including interest, P39,606,695; debts contracted since independence, to the payment of which 26 per cent of the customs dues had been assigned, P15,030,466, with interest on this sum to the end of June, 1848, figured at P1,844,120; the debt assumed through the amortization of copper coin, P2,083,205, with interest of P450,000; indemnities and contracts, P3,500,000; debts owing to the civil and military employees and pensioners, P25,000,000. The grand total, covering foreign and internal obligations, was, therefore, at this date fixed at P143,843,561.

It was a situation to challenge the best endeavor of men, but Mexico shortly returned to its old confusions. It is not possible in this study to pursue events in chronological order. So much, indeed, are they alike that one might easily rise out of the preceding. Such a state of things continued for several years—indeed, it is scarcely too much to say for more than a score of years. We may, however, scan with profit the tables of fragmentary data, for occasionally a change appears.

Esparza, who succeeded to the post of Hacienda, September 2, 1851, published an important *Memoria*, dated February 23, 1853. In this he covered the fiscal year ending June 30, 1851, giving a detailed summary of the reve-

THE PUBLIC FINANCES OF MEXICO

nues, which yielded that year but P8,485,901. Of this total customs dues, covering imports and exports and other dues, reached P3,967,718 only. The next largest head fell under lottery with a total yield of P679,580. Other heads, turning in better than P500,000, were the 2-per-cent *ad valorem*, and the tobacco tax.¹

From the years just prior to the Mexican War there had been a recession in the yield of duties. This is reflected, too, in the great falling off in commercial transactions. However, soon the results of the reorganizations instituted by Payno during the short time in which he held the Portfolio of the Treasury, began to bear fruit. He reorganized the bases for taxation under four distinct headings:²

- I. Taxes on commerce and mining.
- II. Taxes on property.
- III. Sundry stamp taxes.
- IV. Divers revenues.

Under heading I were three divisions, touching (1) import and export and port dues, (2) taxes on gold and silver, and (3) taxes on mining proper.

Under heading II there were also three divisions, one being a 5-per-cent tax on the products

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 337.

² *Ibid.*, pp. 333, 334.

FINANCIAL CHAOS OF THE 'FIFTIES

of all urban and rural properties in the Republic; (2) a 5-per-cent tax on the values of all urban and rural properties; and (3) a residence tax.

Under heading III there were eight groups, as, for example, stamped paper, tobacco, cards, mails, lottery, mints, salt works, and tolls.

Under heading IV there were the revenues from national properties, unoccupied lands, the contributions from the states, fines, etc.

With the exception of the two taxes of 5 per cent on products and 5 per cent on the values of urban and rural property, all of the above taxes were in existence. Some of them, however, were changed in rate, as, for example, that on cotton. The quotas to be paid by the various states to the Federal government were fixed at 10 per cent of their revenues. On this basis it was figured that the total yield of revenues for the entire country would reach P11,-919,500 per annum, a sum scarcely exceeding that under the viceroyalty fifty years earlier.

Esteva, who, February 19, 1851, succeeded Payno, was free to admit that he saw no way to make ends meet short of appropriating the capital and credits of the Church. It was not a novel idea on the part of Esteva, for the reason that as early as 1833 plans were discussed for rehabilitating the credit of the state through

THE PUBLIC FINANCES OF MEXICO

the expropriation of the properties of the clergy. And from time to time factions had had recourse to the Church coffers. It was not to be doubted that soon or late harsh hands would be laid on the wealth of the Church corporations, but Esteva, at the end of fifteen days, found that his suggestion had been premature. He was forced into retirement.

The foreign debt of Mexico had been a matter of concern for several years. As stated above, a refunding program had been agreed upon just prior to the war with the United States, and the agreements reached at that time came to be substantially the bases for the refunding operations which were carried to a close in the years 1850-51. It is needless to say that the bondholders in England had been especially clamorous when the terms of the Treaty of Guadalupe Hidalgo became known and Mexico found herself suddenly and unexpectedly in the possession of \$15,000,000. The bondholders very naturally felt that now was the time for them to strike.

The new London debt was capitalized at £10,241,650, and was to bear interest at the rate of 3 per cent. This total was divided as follows: The active bonds of the 1837 issue, with arrears, were converted at 90, the total for this class rising to £5,032,635; the deferred

FINANCIAL CHAOS OF THE 'FIFTIES

bonds and debentures of the 1887 issue were converted at 60, the total approximating £3,074,000. There was left, then, for the purposes of the Mexican government in the new issue, a margin of £2,134,965. Besides this concession by the London bankers they had permitted a scaling down of their entire debt from £11,241,375 to £8,106,685; and later, Esteva, the Minister, boasted that he had achieved in the transaction a saving for the Mexican government of P25,000,000. The interest which had accrued on the debt held in London was paid by draft on the United States government for P2,500,000. The security pledged in this re-funding contract was 25 per cent of the import duties, and 75 and 5 per cent of export duties levied, respectively, at the Pacific and Gulf ports. The amortization of these bonds for the first six years was to come from any surplus yielded by the assigned revenues. Subsequently there was to be an annual remittance of P250,000. The interest accruing over the first three years was apportioned over a period of ten. But even with this arrangement no further payments were made, and by July, 1863, the arrears totaled £2,918,870.¹

¹ *Corporation of Foreign Bondholders, Annual General Report for the Year 1903-04*, p. 256, et seq.; Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 339.

THE PUBLIC FINANCES OF MEXICO

In spite of the satisfactory readjustment which the Mexican government had been able to effect with respect to its foreign indebtedness, the demands on the Treasury of the country were so unrelenting that the governors of the various states were summoned to meet in convention at the capital, with a view to developing new ways and means to meet the ever-increasing deficit. They met in August, 1851; but no plans were evolved. Each governor had his own views, his own complaints, and the difficulties of the situation were only heightened, inasmuch as it developed that there were many petty local jealousies and political rancors. The views of some of these governors, however, shed no uncertain light on the economic status of their several states. The governor of Jalisco, for example, observed that his state was without revenues; that the system of collecting taxes was inadequate, the state suffering through the fact that the tax collectors were agents of the central government; that the quota of taxes to the states was insufficient; that through reducing the share allowed the states new taxes were obliged to be levied, with disastrous consequences. He argued at length that the *alcabala* should be left to the states; that the tax on industries should belong to the states; that the poll tax was odious, difficult,

FINANCIAL CHAOS OF THE 'FIFTIES

to collect, and an ancient measure, and should be abolished. The governor of Vera Cruz also observed that there was not a just distribution of taxes as between the Federal and state governments. He also objected to the poll tax.¹

The result of this conference of governors was *nil* so far as the development of any positive financial program was concerned. It did, however, serve to heighten the distrust and friction as between the states and the Federal government. The conference of governors had been but a straw in the wind, and, if anything, tended further to complicate the political and economic situation of the country through the opening up of jealousies and resentments.

Bad as we have seen conditions to have been in other and earlier periods of Mexican history, the country was now on the eve of plunging into the darkest abyss which thus far had lain in its path. A full decade was spent by the Mexican people in futile gropings in the labyrinths of deceit, corruption, and treachery. What with the hopeless economic situation of the country, the feuds and civil wars, and the clamorings of foreign creditors, the marvel is that Mexico should not entirely have lost her nationality.

¹ *Exposición de Hacienda, Leído en Consejo de Ministros, etc., August 17, 1851 (Mexico, 1851).*

THE PUBLIC FINANCES OF MEXICO

One of the most exasperating of the foreign claims, and perhaps one of the least meritorious, was that of Spain, which had been recognized by the Convention of November, 1851, admitting a total indebtedness on the part of Mexico of P7,500,533, a portion of which antedated the independence of the country. Some of it, however, had been admitted subsequently, some of it was still unfunded, and a portion of it at the moment was the subject of negotiation. One item in the Spanish account was the famous Padre Moran claim of P145,000. Then there was the debt of Montgomery, Nicod & Co., of P2,000,000, which had been authorized in October, 1840, and sundry other demands of individuals were being pressed from one angle or another.¹

The year 1853 found the government tottering, and within the space of four months there had been as many administrations. Finally, April 20th, Santa Anna for the eighth time seized the reins of the government as Dictator. This was, indeed, his last turn, although many years later this indomitable character endeavored again to grasp the supreme authority of the state.

Almost the first thing he did was to issue his

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 375, 376.

FINANCIAL CHAOS OF THE 'FIFTIES

celebrated twenty-two bases for the administration of the Republic, which involved in large part the overthrow of the existing schedules in all departments of the government. Haro y Tamariz became his first Minister of Hacienda, and concerned himself as far as he might with important negotiations touching the foreign debt; the matter of paying interest on the internal debt; the formulation of new tariff schedules, in the first of which the taxes were raised, only to be lowered a little later; the project for a national bank, which had been suggested by Escandón; the re-establishment of the *alcabalas*, the poll tax, and other taxes decreed by Santa Anna. He continued the foolish system of leasing the mints, which had been begun in 1839, and which was not abandoned until July, 1857, by order of Juarez, when he had succeeded to the constitutional headship of the state.

Santa Anna's purpose in re-establishing and raising taxes was made necessary in order to maintain the great army which he had assembled, for the cost of this army reached in this year P32,397,135. In his view it would be easy enough to maintain himself, provided he could support his army, and he could support his army only by levying unheard-of taxes upon the people. The plan was not wholly visionary,

THE PUBLIC FINANCES OF MEXICO

because he did, indeed, succeed in maintaining himself in power until August 15, 1855.

However, in spite of his reactionary tax measures and the energy with which they were pressed forward, it was clear at once to his Minister of Hacienda, Haro y Tamariz, as set out in his statements,¹ that the most that could be hoped for in the way of net revenues was P15,383,975, whereas their needs were for vastly bigger sums. Therefore, when the opportunity came to renew negotiations with the United States on the question of readjusting the northern boundary, it was eagerly seized by Santa Anna, and the Treaty de la Mesilla, or the Gadsden Purchase, was negotiated under date of December 30, 1853, being finally promulgated June 20th of the following year. Certain territories were involved, as is well known, in this treaty, but, so far as Santa Anna was concerned, he had an eye single to the \$10,000,000 which were to be paid Mexico by way of compensation, which funds he proceeded at once to disburse.

In a little more than a year Santa Anna had called to office six heads of Hacienda, the sixth being Olazagarre, who has left behind some data of interest. For example, he reports that

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 401, et seq.

FINANCIAL CHAOS OF THE 'FIFTIES

the customs dues from July 1, 1853, to June 30, 1854, amounted to P8,339,208, which is a considerable showing, particularly when it is well known that Santa Anna had adopted repressive measures with respect to foreign commerce. He figured that the public revenues for the fiscal year would amount to P17,519,128.¹ But for the succeeding fiscal year no data are extant, and the \$10,000,000 procured from the United States, plus whatever other revenues had fallen to the Treasury, vanished in revolutionary smoke. As finally illustrative of the tactics of Santa Anna, the \$3,000,000 which the United States was to keep in its hands until all the terms of the Gadsden Purchase Treaty were carried into effect, were not allowed to escape the clutches of the hungry officeholders in Mexico. This sum was discounted heavily in advance, and in due course occupied but a blank space in the national ledger.

And so at length Santa Anna the spectacular, Santa Anna the clever, Santa Anna the malignant, was forced from power. His expulsion meant the triumph of the Liberals in Mexico, and events now rapidly marched toward the crystallization of a new Constitution and a new regime.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 417.

IX

COMONFORT TO THE END OF MAXIMILIAN

IGNACIO COMONFORT—author of the Plan of Ayutla, who had worked the undoing of Santa Anna—succeeded to the headship of the state. His was a stormy reign, civil war continuing without interruption.

For the fiscal year 1856–57 there are neither estimates covering revenues and expenditures, nor landmarks to guide. The whole story of this period is more or less blank, so far as financial data are concerned. But Comonfort dedicated himself to certain reforms, besides undoing many of Santa Anna's reactionary measures.

Among the forward-looking achievements of the Liberals under Comonfort must be mentioned the formulation of the Constitution of February 5, 1857. It carried in its text certain revolutionary dogma which were destined to convulse the country at the time, and still in this day to be the subject of controversies. One measure in particular, which forbade civil

COMONFORT TO THE END OF MAXIMILIAN

and religious corporations from owning real property, served as a preamble to the far-reaching measures put into effect by Juarez in the confiscations of Church properties. Possibly, too, they served to establish a precedent for the sweeping confiscatory clauses aimed at all foreign investments in the Carranza Constitution of 1917.

Under the decrees of October, 1850, and September, 1854, the quotas of customs dues for the years 1851-56—which were assigned as security to the foreign loans—produced P7,-266,077, a sum distributed as follows:¹

Remitted to London.....	P3,956,049
Cost of remitting said sums.....	71,280
Sums taken by the government from the customs depots.....	3,238,748

The interesting fact developed in this statement is that Comonfort was making an effort to meet the foreign obligations. It was a matter of small moment that the government should have appropriated almost half the sum collected, all of which had been duly assigned as security for the foreign debt. The wonder is that the whole of it was not taken, as, indeed, it had been on many another occasion.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 464.

THE PUBLIC FINANCES OF MEXICO

The year 1858 saw two events of significance in Mexico. One was the rise to power of Benito Juárez. The other was the first definite step on the part of foreign Powers to enforce the collection of their debts. The diplomatic representatives of France and England were outspoken in their demands, nor could they be in any way misinterpreted.

In an effort to secure funds Comonfort sold P12,508,900 of internal bonds for the trifling sum of P623,682.¹ It may be well to explain that in November, 1850, P40,000,000 of internal bonds had been printed. The Hacienda had held these, but between April, 1853, and December, 1857, there had been squandered P27,491,100,² leaving the sum above mentioned, which in its turn went like fat in the fire. This sale precipitated an issue, for when Juárez reached the City of Mexico in January, 1861, he immediately declared the P40,000,000 to be illegal, even as Carranza pronounced the Huerta bonds.

Juárez, before establishing himself in the capital of the country, had promulgated the "Laws of Reform," nationalizing the properties of the Church. It was by this act that he completely set the Church against him, and

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 489.

² *Ibid.*, pp. 489, 490.

COMONFORT TO THE END OF MAXIMILIAN

paved the way for intervention, which speedily appeared on the horizon.

Juarez found himself bound to deal with the ugly situation in the Treasury created through the iniquitous *Peza y Peza* bond issue of P80,000,000. The net proceeds of this transaction had brought the Treasury no relief. The famous bond transaction with Jecker & Co., totaling P15,000,000, part of the P80,000,000 issue, had far-reaching effects, in that failure to keep faith on the part of the Mexican government was taken as a cue by France for inaugurating a move for intervention. But even if Juarez had been minded to accede to the wishes of France and the other Powers pressing for the liquidation of claims, it would have been impossible to have satisfied the demands. The Hacienda was bankrupt.

In a *Memoria* by Mata, Minister of Hacienda, dated May 5, 1861, directed to the President of the Republic, it appears that the public debt stood at a total of P157,000,000. It was divided as follows: Foreign debt, P51,208,250, with accumulated interest of P11,000,000. The interior debt, as recognized by the department of Public Credit, November, 1857, totaled P27,470,000. By virtue of the English Convention an additional P4,475,000 were set down, and the Convention of Padre Moran figured at

THE PUBLIC FINANCES OF MEXICO

P525,000. The Spanish Convention was put down at P6,680,000, the French at P200,000. Interest on the internal debt was calculated to be P2,491,395. The floating debt was estimated at P17,000,000. From 1856 to May, 1861, it was figured that the internal debt had increased to P60,000,000. The grand total debt for the country had now mounted to P181,049,745, less P24,000,000 which had been paid, leaving the net debt at P157,000,000.¹ This summary is interesting in connection with Mata's estimate of the total wealth of the Republic, which he placed at P1,500,000,000, divided almost equally between urban and rural property.²

On July 17, 1861, a far-reaching measure, affecting the Hacienda and the country, was enacted by Congress. For two years no customs dues would be paid on the foreign debt. A *junta*, charged with liquidating the public debt, had set about its business, and the above law resulted. Clearly it was the purpose of the government to infract some of the special concessions or assignments which had been granted under earlier bond contracts—all because of imperative Treasury needs. The Ministers of England and France resident in Mexico immediately notified the officials that if the law

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 536, 537.

² *Ibid.*, p. 525.

COMONFORT TO THE END OF MAXIMILIAN

were not annulled, they would leave the country. The law was not annulled, and they, accordingly, toward the end of July, withdrew.

On October 31, 1861, a treaty was signed in London between England, Spain, and France, in which the three nations agreed to intervene in the affairs of Mexico, so as to secure payment for the debts of their citizens. Mexico, in November, when it had become clear that armed intervention was close at hand, revoked the July law, which had proven so offensive. Her action succeeded in withdrawing England from the Convention. At the same time there was under negotiation a treaty with the United States, in which that government agreed to loan P11,000,000 to Mexico,¹ but it was already too late to forestall the intervention of Spain and France. Spain, however, was soon placated and divorced from the expedition; France alone pressed forward, intent on vindicating what she considered her rights, although we now know that the ambition of a reckless king, Napoleon III, was at the bottom of it.

In March, 1862, according to Payno, one of the best-versed men in the finances of Mexico, the total of the English debt was P69,311,657, of which sum P13,231,793 was accrued interest.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 553.

THE PUBLIC FINANCES OF MEXICO

He figured that the total of the Spanish debt, principal and interest, was but P9,460,986; the French debt but P2,859,917. According to the same authority, Mexico had, up to March, 1862, paid its foreign creditors P41,518,079.¹

Of course, the sum figured by Payno as foreign debt did not include the P15,000,000 of bonds issued Jecker, nor did it include the P12,000,000 claimed by French subjects in the way of damages; and, besides, a number of other claims, both Spanish and English, were not allowed in the totals, some of which were in the end recognized and liquidated.

Without discussing the merits of the case, the French proceeded to enforce their demands, and Juarez, with the same dogged determination which animated him to the end, refused to yield on certain points, although he did hold a conference at Soledad with the invaders. But he was driven ever more and more to extremities. By degrees the French succeeded in overrunning the country, and as they widened the territory under their control, that left to Juarez was correspondingly narrowed; and, in due time, beaten from pillar to post, with a handful of men, he took refuge at the Presidio del Norte, high up on the Rio Grande.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 555-557.

COMONFORT TO THE END OF MAXIMILIAN

So far as Juarez was concerned, his government in Mexico, viewed in the light of international law, was non-existent. The French army was in complete control of the country, and we have, in fact, to recognize that Mexico was an empire under the authority of Maximilian. It is, therefore, necessary to devote a few paragraphs to the financial measures instituted by the French. For, in a very definite sense, they were the financial masters of Mexico, as organized under a *de facto* government.

A wholly anomalous situation was presented. On the one hand was a constitutionally elected President; on the other, an Emperor sustained in power by force of arms. Very grave questions, of course, are involved in a discussion of the rights as between the Interventionists and the Republic of Mexico. The financial dispensations of Maximilian were overthrown in large part, but with what measure of justice we shall not here debate. There can be no doubt at all of the fact that, had it not been for the United States, the course of history in Mexico might have run differently.

It is needless to say that to the French type of mind the machinery of government found in Mexico was both inadequate and antiquated. They at once set about reconstructing it after French design. Some distinguished experts at-

THE PUBLIC FINANCES OF MEXICO

tacked the fiscal reorganization, and were making steady progress when the knell of French intervention was sounded through the announcement by the government of the United States that the presence of foreign armies in Mexico was regarded as unfriendly. It was not far from that message to the hill of the Campanas at Querétaro, where Maximilian was shot.

To return to the Empire under Maximilian, he very soon found that the current revenues of the country were utterly insufficient to meet the ordinary operations of the government. He was forced, accordingly, almost at the outset of his rule, to float a loan in Paris, which was carried into effect by a decree of April 11, 1864. The total of the flotation was £8,000,000, or approximately 201,600,000 francs, or P40,000,000. These bonds bore interest at 6 per cent, coupons payable April 1st and October 1st. One per cent of the capital was to be amortized annually, and the bonds were to be emitted on a .63 basis. One third of the entire amount was issued to the French government in payment of expenses in connection with the intervention enterprise. The French government also was paid 12,000,000 francs for the purpose of satisfying certain of the French claims.¹

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 601, *et seq.*

COMONFORT TO THE END OF MAXIMILIAN

On September 27, 1865, there was celebrated in Paris another contract for the purpose of converting the first loan, but the details of it were not carried into effect until the following year.

In the fall of 1865 a rather interesting negotiation was undertaken by General Carvajal on behalf of Juarez, with the house of Corlies & Co., of New York, for the flotation of a bond issue of P30,000,000.¹ This has point from the fact that the Americans, while perfectly aware that already Juarez had been beaten and was in flight toward the far north, were still friendly to Mexico—so friendly, indeed, that Corlies disposed of P2,925,450 of bonds, out of which he kept P1,000,000 for his commission.²

The foreign debt contracted alone by Maximilian ascended to P172,238,592. The foreign debt of the Republic prior to intervention had been but P81,632,561;³ the grand total debt had been but P181,049,745.

It may be of interest to study briefly one of the estimates of the Empire, covering resources and expenditures, in June, 1865. A budgetary balance was struck at a total of P39,026,565.⁴ This estimate, however, was not put into execution until the following year. A more detailed statement of a budgetary program was

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 656. ² *Ibid.*, p. 657. ³ *Ibid.*, p. 669. ⁴ *Ibid.*, p. 684.

THE PUBLIC FINANCES OF MEXICO

given out by César, acting chief of Hacienda.¹ A few of the items in the expense accounts, for instance, were the Civil List, which allowed the Archduke P1,700,000; costs of administering the Hacienda, P1,956,855; provision for paying the interest and amortization on the English, Spanish, and Padre Moran debts of P1,081,173; provision for the foreign debt on account of loans and Conventions of Miramar, P10,967,118. The annual quota paid the French army was P4,807,692. There were other items in the total account bringing the final sum to P26,896,108. In April of this year an additional estimate was given out which carried credits payable to various persons on account of contracts totaling P773,365; then, covering expenses of the Ministers of State, Foreign Affairs, Public Instruction, and War, P20,594,392; or a grand total for the year of P48,263,870. On the other side of the account we have an estimate of the income totaling P43,073,611, of which P22,200,000 remained from the Paris loan of the preceding year. Other items in this account were customs dues on foreign commerce, P12,635,000; customs dues on internal commerce, P5,125,000; direct taxes on real estate, mercantile, and industrial

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 685, *et seq.*

COMONFORT TO THE END OF MAXIMILIAN

establishments, P1,445,611; mining taxes, P685,000; stamp tax, P983,000—producing a normal deficit of P27,390,259.

It is believed by Señor Romero that a very reasonable allowance for the legitimate revenues covering the period in question, would be P8,660,000 annually.¹ Maximilian made a serious effort to curtail his expenses, but even so the expenditures of the country would easily have exceeded by P12,000,000 the legitimate revenues under normal circumstances.

Referring again to the total of the Mexican debt, Señor Payno, in his *Memoria* of November, 1868, gave the following exhibit:²

In London according to the conversion of 1850.	P51,208,250
Interest accrued January 2, 1869.....	21,948,240
The English Convention capitalized account in December, 1861.....	P4,175,000
Payment made in June, 1867.....	637,836
Leaving a net due on the English Convention of.....	3,537,164
The Spanish Convention—the capital account.	6,633,423
Accrued interest to February, 1867.....	2,481,657
In the hands of agents covering accrued inter- est from 1863 to 1867.....	1,098,899
Leaving a net, therefore, due on interest of....	1,382,768
The Convention of Padre Moran in 1867, capi- tal account.....	743,000
The grand total of the foreign debt therefore reached.....	P85,452,845

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 687.

² *Ibid.*, pp. 692, 693.

THE PUBLIC FINANCES OF MEXICO

It is worthy of comparison to figure the debt at the beginning of 1862:

The London debt amounted to.....	P51,208,250
English Convention to.....	4,175,000
Spanish Convention to.....	6,633,423
Padre Moran Convention to.....	825,000
The French Convention to.....	190,845
Or a total of.....	<u>P63,032,518</u>

The debt of the Empire at the end of 1866 was as follows:

Three loans negotiated in Paris.....	P100,000,000
War costs and costs of the French army...	64,000,000
The French claims.....	8,712,000
Jecker bonds.....	<u>14,450,555</u>
The total increase of the debt under Maximilian reached.....	<u>P187,162,555</u>
The grand total of the Mexican debt at the end of the Empire was figured at....	¹ P250,195,073

The interest on this debt at 6 per cent would at that time have exceeded the annual net revenues of the country, a situation from which there could have been no escape. The debts of the Empire were, of course, repudiated—almost in their entirety.

A comparison of the debt of the country for various periods may not be without interest. It follows:²

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 693.

² *Ibid.*, p. 695.

COMONFORT TO THE END OF MAXIMILIAN

In 1822.....	P 76,286,499
In 1823.....	83,000,000
In 1831.....	62,000,000
In 1838.....	76,000,000
In 1848.....	100,000,000
In 1850.....	135,000,000
In 1852.....	83,933,515
In 1856.....	109,597,890
In 1863.....	184,263,455
In 1866.....	307,391,351
In 1868 the foreign debt of the Republic was.....	85,202,845
The consolidated, the interior, and the floating debt totaled, in 1868, approximately	80,000,000

Señor Romero ventured a general criticism of the Empire's management of financial matters:

Ignorance of the conditions of the Republic and its resources; total blindness with respect to the results which would necessarily follow the fiscal measures of the Empire; desire to systematize the Hacienda in Mexico on European models, without taking into account the great diversity of circumstances; absolute submission to French influence.¹

Romero was only partially right. While the Empire in due time came to grief, there is no gainsaying the fact that the system instituted by the French in the finances bore excellent

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 698.

THE PUBLIC FINANCES OF MEXICO

fruit. Some of the men trained under the French accountants remained behind, and the extraordinary work in the large problem of systematizing taxation prepared the way for Señor Romero himself, and for Limantour. M. Corta, who came out as a special representative of the French government, reported that Mexico could easily raise P40,000,000 of revenues a year.¹ Clearly, he was not basing his judgment on the possibilities of the then condition of the country, but on Mexico, free to pursue peaceful ways; nor was he wrong, for within a comparatively few years his prediction had been fulfilled.

¹Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 698.

X

THE REFORMS OF BENITO JUAREZ

WHEN the rule of Juarez was restored, and he had reoccupied the capital, his Congress very soon busied itself with some fundamental legislation. In April, 1869, a number of important laws were introduced, among which were the following:¹

1. Freedom from taxation of all exportations of gold and silver, with a tax of 5 per cent only on the production of the mines.
2. An increase in the stamp tax.
3. Abolition of the *alcabalas* in those states which still preserved them.
4. Establishment of a tax on inheritances.
5. Freedom from taxation on all exports of national products.
6. A property tax, which it was thought would facilitate exploitation—perhaps even subdivision—of large holdings.
7. The question of emitting P18,000,000 in Treasury bills.
8. The question of amortizing the internal bond issues through certain operations of nationalizing property.

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 777,

THE PUBLIC FINANCES OF MEXICO

Nearly all of these measures, save that of the emission of Treasury bills, were put into effect. The question of the issue of paper currency created a decided alarm at the moment.

Another weighty matter was undertaken by this Congress, and that was the clearing up of the Mexican debt, which had been terribly confused through the operations of the Empire. Some large international problems had arisen with respect to certain of the bond flotations of Maximilian, and the question was how far the Mexican government should recognize the indebtedness created under him, and how far, indeed, it should go toward refunding the Mexican debt which had existed prior to the coming of Maximilian, and which he, during his term, had refunded, as, for example, the English debt. At first the attitude assumed by Juarez was untenable—it looked toward a general repudiation of all debts of whatever character with which Maximilian had dealt. Finally, however, after various interchanges of communications between the Minister of Hacienda and the agent for the bondholders, an agreement was reached whereby the original English debt was duly recognized.

Another salutary measure had been taken by the Juarez administration—*viz.*, that of fixing a limit for the funding of the floating debt.

THE REFORMS OF BENITO JUAREZ

By a law of November 19, 1867, one year was allowed in which all claims must be filed. At the expiration of the year, however, the time limit was extended for eight months, with the understanding that that would be the final date for the liquidation of all claims against the government.

On January 15, 1869, we have for the first time in all essentials an estimate of revenues for the country, covering the fiscal year beginning July 1st and ending June 30, 1870, and this estimate was drawn by Romero. It carried a total of P15,536,363. The revenues were divided into two large heads, one the yield of the customs, the other the yield from various classifications. Under the first, by all odds the most important item, was the tax on imports, which Romero figured would yield in this fiscal year P5,153,337.¹ His estimate of expenditures for the fiscal period above mentioned was finally adopted by Congress in May. By departments the totals were as follows:²

1. Legislative.....P	754,300
2. Executive.....	46,365
3. Judicial.....	265,090
4. Department of Foreign Affairs....	148,540
5. Department of State.....	1,437,700

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 816.

² *Ibid.*, p. 819.

THE PUBLIC FINANCES OF MEXICO

6. Department of Justice.....	737,643
7. Department of the Interior.....	3,096,180
8. Department of the Treasury.....	4,870,722
9. Department of War.....	6,967,932

Total.....P18,324,472

It is to be noted that on the face of it a deficit is figured, which is, to say the least, not the most scientific way in which to establish a budgetary balance. In operation there too often developed excess expenditures, even where all matters had been carefully weighed in advance, but to allow at the outset that the expenditures are to outweigh the resources is a fundamental weakness. However, the care with which these estimates were made evinces a high purpose on the part of the government to bring financial equilibrium into the Hacienda.

In a lengthy summary, Romero¹ makes comparison of all the revenues collected—also setting out their character, whether ordinary or extraordinary, and here we find not a little light shed on the story of the Hacienda. He shows that from independence through the fiscal year 1868–69 that the total revenues for the Republic had amounted to P861,537,605; that the costs of collection had approximated

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 833–836.

THE REFORMS OF BENITO JUAREZ

P95,831,174; and that of the total revenues collected only P501,949,970 had been normal or ordinary revenues. In short, P360,000,000 had come into the Hacienda as the result of extraordinary operations, such, for instance, as forced loans.

Romero calculated¹ that over the space of forty-five years following the independence of Mexico, there had been an actual deficit in the Treasury of P299,675,708, or an average of approximately P6,659,460 annually. So the future for the Liberals loomed dismal enough.

Juarez was not long left in peace. Revolutionary uprisings broke out here and there, tending much to disturb the formulation of his extensive program of reform. But in spite of troubles, the Hacienda under Romero made progress. Serious effort was given to meeting the past-due payments on the public debt. Between August 6, 1867, and June 13, 1868, amortization payments were made on the interior debt in the sum of P952,880; and between July 1, 1869, and June 30, 1870, these payments reached P401,222.² Also during this period P271,215 were applied on the English Convention debt, and P3,559 on the Spanish Convention debt.³

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), p. 871.

² *Ibid.*, pp. 888, 889.

³ *Ibid.*, p. 896.

THE PUBLIC FINANCES OF MEXICO

But the situation of the English debt as a whole was still in an unsatisfactory condition. There had been weighty differences between the parties, but an agreement was reached, as stated above, in May, 1870, touching the main points at issue. It will be remembered that the chief differences had risen through the re-funding operations of Maximilian. At first Juarez was inclined to repudiate all debts which Maximilian had handled at all. Eventually, however, he was brought to accept the equities and the following bases were finally agreed to:

1. Recognition of the London debt contracted under the Law of October 14, 1850.
2. Interest accrued and unpaid from the date of that Convention in 1850 to December 31, 1870.
3. Recognition of certain of the bonds issued in London without authority of the Law of October 14, 1850.
4. Recognition of the capital and accrued interest of the extinguished English, Spanish, and Padre Moran Conventions.

The active bonds were to run at 6-per-cent interest annually, and were to draw at that rate from January 1, 1871. The deferred bonds were to run for ten years without interest. There was a refusal on the part of the Mexican government to recognize the so-called Lizardi bonds and the deferred certificates issued in

THE REFORMS OF BENITO JUAREZ

London. The total of the English debt actually admitted by the Mexican government figured at P66,435,660.¹

While Mexico was busy straightening out her financial obligations, it became necessary to treat with the United States on account of damages suffered by her citizens from 1848 onward. A treaty was celebrated between the two Powers on July 4, 1868, which dealt not only with fiscal, but with political matters as well. Mexico had reason to see that the attitude of the United States alone had saved that country from a possibly permanent foreign yoke. This friendship of the United States for Mexico was abundantly shown, not only in official documents, but in acts of material assistance. And we may well believe that Juarez exerted himself to the utmost to satisfy the claims that were being pressed by the citizens of the United States for damages. But the Treasury still was depleted and the administration was forced to temporize.

The budgetary estimate prepared by Romero

¹ Romero, *Memoria de Hacienda y Crédito Pública* (Mexico, 1870), pp. 918, 919.

In a general statement of the position of the government as to the English debt, three classifications were made:

1. That part fully recognized totaled . . . P10,392,542
2. That lost or prejudiced 82,920,585
3. Unrecognized 22,471,217

THE PUBLIC FINANCES OF MEXICO

covering the fiscal year 1872-73, carried an estimate of P15,860,561 on the revenue side. The details are set out in the note below.¹ The expenditures, by departments, ran as follows:²

Legislative.....	P	771,920.00
Executive.....		48,172.40
Judicial.....		313,440.00
Foreign relations.....		194,180.00

¹ Art. 1. The budget of revenues of the Federal Treasury for the fiscal year, July 1, 1872, to June 30, 1873, was as follows:

Imports, customs duties, frontier and maritime.....	P5,063,181.33
29 per cent of material improvements.....	998,761.82
16 per cent from railroad shares.....	749,057.01
10 per cent of storage.....	499,445.32
25 per cent of <i>contraregistro</i>	1,248,746.34
Exportation of coined silver.....	1,449,304.10
Exportation of silver bullion.....	6,857.60
Exportation of coined gold.....	15,647.53
Construction woods.....	51,991.31
Tonnage, lighthouse, and anchorage.....	83,879.51
Impost per <i>bullo</i> instead of weight.....	449,070.54
Products of the administration of revenue in the district and surroundings.....	1,378,768.45
Of the stamped paper.....	553,164.62
Federal tax on state taxes and municipalities' taxes...	1,448,049.43
Direct taxes in Federal District.....	477,820.93
From nationalized property.....	614,735.92
Smelting, coining, and assaying.....	252,662.54
Public instruction.....	77,573.27
Tax on carriages.....	11,934.23
Postal.....	107,348.85
Tax on sales, transfers, of unimproved lands and other minor branches.....	322,660.59
Total.....	P15,860,561.29

² *Proyecto de Presupuestos de Ingreso y Egresos del Erario Federal para 1872-73* (Mexico), Imprenta del Gobierno en Palacio, 1871, p. 62.

THE REFORMS OF BENITO JUAREZ

Government.....	1,879,698.00
Justice and public instruction.....	974,130.01
Fomento, colonization, and industry.....	4,363,255.11
Hacienda and public credit.....	4,495,493.44
War and navy.....	10,039,154.48
	<hr/>
	P23,079,443.44

This statement of proposed budgetary action was far from satisfactory, showing as it did a deficit of P7,218,882. One interesting item in it, however, was that apportioning P4,363,255 to colonization and industry. The inevitable expense for army continued to make its appearance, nor was the quota to be reduced for some years to come.

The deficit above indicated did not include the interest due on the public debt of fully P1,500,000, nor did it take note of the arrears of interest approximating P9,000,000. The attitude of Juarez toward the public debt cannot be said to have followed the sharp cleavage between the right and the wrong. He expressly apologized in an exposé sent to his Congress, when he stated, "Past circumstances have justified Mexico in not paying its national debt."¹ His characterization clearly cannot be defended, for the reason that no circumstances

¹ *Exposición del Ejecutivo Federal al Congreso de la Unión* (April 1, 1871), p. 4.

THE PUBLIC FINANCES OF MEXICO

whatsoever would ever *justify* a country in not paying its debts. The most that could have been said by Juarez was that there were mitigating circumstances which might have excused the country from meeting punctually its obligations.

By a law passed December 1, 1871, Juarez was authorized to impose forced loans, and to adopt any other recourse which he found necessary. He was sincere in his effort not to resort to this expedient and in his purpose to bring his country out of chaos. He formulated his plan of action under ten distinct heads. The first department to be assigned revenues was that of war. It was his purpose to pacify the country at all costs. Under other headings he pronounced for rigid economy in the collection of taxes—an economy in all possible departments of expenditure. He emphasized the necessity for supporting the forces at work in the economic evolution of the country, urging the removal of restrictions on mining, industries, and agriculture. He planned further to execute wherever possible special arrangements with individuals for the advance of moneys, which he hoped would avoid the imposition of new taxes. Finally, he ordered the absolute cessation of trade relations with all sections of the country occupied by revolutionists, and that

THE REFORMS OF BENITO JUAREZ

measures should be taken to recover as far as possible all taxes paid to revolutionary leaders.¹

But, in spite of his high resolves, he permitted his Congress to waste moneys which were painfully needed in the rehabilitating processes. Law after law was passed, appropriating funds to meet some special case, fully in line with the log-rolling tactics pursued in our own American Congresses. Over this space of five years, from the time of his return to the capital, his budgetary estimates had increased from P18,600,000 to P23,100,000, whereas it is very doubtful whether the population or the wealth of the country or its resources had made any appreciable degree of expansion. There had, indeed, been for the five years very slight variations in the total revenues collected, the maximum being P15,389,000, the minimum P14,216,000. With this clear line of departure as guide, to have made appropriations exceeding by from five to eight millions the revenues was nothing short of financial blundering.

The ways and means of the government were sharply attacked by Payno, formerly Minister, and now serving as a Deputy from the District of Tepic.² He pointed out very succinctly a

¹ *Exposición del Ejecutivo Federal al Congreso de la Unión* (April 1, 1872), p. 4.

² *Voto Particular del Sr. Manuel Payno, etc.* (Mexico, 1872), p. 12, *et seq.*

THE PUBLIC FINANCES OF MEXICO

number of the shortcomings of the administration. In fact there is, for this period, nowhere a more careful exposition of the financial status than is found in Señor Payno's observations.

In spite of criticisms—some well grounded, to be sure—under the guidance of Romero the status of the Treasury assumed a different air. At the outset he attacked with vigor the machinery of the Hacienda, and lopped off certain unnecessary combinations and gears. The articulation of the Treasury was made more effective, and finally responsive to the Minister of Hacienda. He abolished special accounts, and compelled the closing of the Treasury books at the end of each fiscal year—June 30th. These changes were not accomplished without serious opposition from the bureaucrats, but eventually the authority of the Minister was acknowledged, and a uniformity was brought into the accounts which it had not known at any time in its history. It was now entirely possible to prepare an annual statement of estimates covering revenues and expenditures. As a matter of fact, over the fifty years of Mexican history, such a thing as striking a Treasury balance had not been seriously attempted. Administration after administration had come into power, passing no receipts whatever from one succeeding official to another. The incoming administra-

THE REFORMS OF BENITO JUAREZ

tion was not concerned with what had gone before nor with commitments. It was concerned with what funds the Treasury contained.

On any number of occasions these new officials have set down in rather great disappointment that the Treasury was found, on their taking office, to contain but so many pesos. For example, Lombardo, who took office under Santa Anna in May, 1839, complains that on the day he entered upon his duties the Federal Treasury contained but P616 and 7 reales, and that "not one collection agency could bring in a half real more."¹ As a further illustration of the distressing confusions prevailing in the Treasury in December, 1852, Prieto, who succeeded to the rôle of Minister of Hacienda, wailed: "The Federal Hacienda, my dear sir, is an inextricable chaos." And Corta, under Maximilian, when he found it impossible to combine the figures on the revenues from his predecessors, lost his mind, and in a dying condition returned to France.

Prieto goes on in his letter—which, by the way, is addressed to a governor—to affirm that there is a most lamentable rivalry as between the states and the Federal government. He says that lack of perfect intelligence with re-

¹ *Memoria de Hacienda* (Mexico), Impreso por Ignacio Cumplido (1840), p. 22.

THE PUBLIC FINANCES OF MEXICO

spect to the principles of the Federal system, and the difficulties which have arisen through inexperience in putting such principles into operation, have further obfuscated the minds of men and clouded the contacts and natural limitations of the Federal sovereignty and of the states. He complained that the states, confident in the belief that the central government would not permit them to perish, were contented with the revenues which the laws provided, but that when these failed, partly through their own shortcomings, they roundly complained.¹

These experiences of Prieto and Lombardo were not anomalous. They were, without exception, the experience of every man who took the Portfolio of Hacienda. Out of the long file of men who assumed the rôle of Minister of the Hacienda—which, during the space of forty years, reached a total of 205 incumbencies—there were developed comparatively few minds of real significance. And characteristically the best minds developed were often those whose tenure was shortest. It is scarcely too much to say that even the most brilliant economist must have failed in the presence of the hurricane conditions prevailing in that blown-about Republic.

¹ *Instrucción que deja Guillermo Prieto . . . á su Sucesor, José María Urquili* (Mexico, 1851), pp. 24-34, inc.

THE REFORMS OF BENITO JUAREZ

When Romero undertook his sweeping reforms, already the winds were somewhat abated, and the dragged and beaten peoples were recovering slightly their composure. For two generations almost—as generations then ran in Mexico—there had been disorders, and the strong hand of Juarez, for the time being, was holding sway and laying the foundations for the regime of Porfirio Diaz.

A much more enlightened view was taken by the ruling powers, and the Tariff Act passed January 1, 1872, gave expression to the principle of freedom of trade which had hitherto been unknown in Mexican economics. The right to export gold and silver, as well as the regulation for the first time of trade in transit across the national territory, together with the export of ores, were matters which came up for solution. Another matter of prime importance developed under the law passed December 31, 1871, which brought about the abandonment of the tax on stamped paper, and in lieu of that imposed a stamp tax on new bases—a tax which from the moment developed rapidly and became in due time the second most important revenue-producing source for the country. Insignificant were the immediate returns, but the total increased from year to year. This tax produced about P40,000,000

THE PUBLIC FINANCES OF MEXICO

annually under the last years of Carranza, in spite of the delimited area of the national domain.¹

As indicated over and over again, the volatile Mexican peoples, unable to distinguish between leader and politician, rose and thrust Romero from power in June, 1872, and it is almost needless to add that many of the measures for which he had stood sponsor followed him into eclipse. Juarez died July 19th, thus ending the revolution which had been raised against him by Diaz. Lerdo de Tejada succeeded to the headship of the state, and a new era of reform opened in Mexico.

¹ Tax statement supplied by Señor Lozano, chief of the Tax Bureau under Minister of Hacienda, Cabrera.

XI

THE RISE OF PORFIRIO DIAZ

LERDO DE TEJADA had been a staunch adherent of Juarez. He had been one of the "immaculate" twenty-two who had followed Juarez to Paso del Norte, and had returned one of the heroes. Soon he was elected president of the Supreme Court, and on the death of the great Indian, Benito Juarez, came by virtue of the Constitution of 1857 to the headship of the government.

He pressed forward the reforms so well begun by his predecessor. The influence of the Church was further curtailed, and at last the Imperialists, who had hung on desperately to the machinery of government, were quite beaten down. From Iturbide, through Santa Anna to Maximilian, there had been a more or less imperfect succession. A nearly common ideal of centralization in government had lain at the bottom of their programs. Nor has any other form of government really proven successful in that helpless country. The real paragon of

THE PUBLIC FINANCES OF MEXICO

imperialistic expression was indeed soon to appear on the stage in the person of Porfirio Diaz.

President Lerdo de Tejada was an able man—and one of the best qualified thus far called to the helm of state. Indeed, his progressiveness accounted in large part for the rapid economic advance of the country. The establishment of banks had begun under Maximilian,¹ and now the building of railroads under the stimulus of government protection was begun, and in every department of human activity there was progress.

And yet, with it all, there still went a bankrupt Hacienda. Deficits in the budgets were as certain as the years, and the holders of the bonds of the country were more clamorous than ever they had been. All issues certifying to the public debt—whether internal or external—were in arrears. Coupons for interest, amortizations of principal, all were neglected. The administrations which followed Juarez were as impotent as those which had preceded. They could not raise revenues enough to maintain the ordinary functions of government, much less pay interest on foreign obligations.

Into this chaos of economic confusion, after four years of Lerdo de Tejada, came Porfirio Diaz, a new light on the horizon, the figure

¹See McCaleb's *Present and Past Banking in Mexico*,

THE RISE OF PORFIRIO DIAZ

standing out *par excellence* as a luminary of the first class in the administrative history of Mexico.

Scarcely had Diaz seated himself in power when, in connection with tariff schedules, he addressed himself to the fundamental problem of developing the commerce of the country. He reversed, to a large extent, the policy which had been pursued for much the greater portion of the time the Republic had been independent. He realized at once that the fate of Mexico depended upon the establishment of right trade relations with the outside world, through developing the natural resources of his country and through that development securing the employment of the masses of his people, thereby adding to the national wealth and national well-being. In short, he knew, and his advisers knew, that there was only one way really that Mexico could advance economically, and that was through the work of the masses and a mutual interchange of products, and through the bringing in of foreign capital. The fundamental law was clear to him that Mexico could not continue to import goods unless in turn an export trade were developed. In short, goods had to be paid for, and there were only two ways a trade balance could be settled, first, through direct export of gold and silver, or through the export of commodities.

THE PUBLIC FINANCES OF MEXICO

His efforts were not unavailing. During the fiscal year 1876-77 the exports were appraised at P28,313,744. During the three succeeding years this volume was increased by P4,250,000. For the fiscal year 1882-83 the totals mounted to P41,807,595. By the fiscal year 1888-89 exports had climbed to P60,158,712. During the world-wide panic of 1893-94 exports declined; but by 1896-97 the totals had taken a further stride to P111,346,494.

During the year 1896-97 imports totaled P42,204,095.¹ On the face of it Mexico had developed a trade balance of better than P69,000,000. But all of this, and more, was needed to equalize the adverse balance made up of sundry elements chiefly rising out of investments. It must not be lost to sight that very large sums of foreign moneys were annually being carried into Mexico. Dividends and interest payments on these foreign investments came in time to be a material item in the total footings for the country.

It is interesting to trace the relation between the budgets of the Republic and the volume of trade, showing how vitally they were inter-related, the one, in fact, depending on the other, and the whole economic fabric of the country interwoven withal. It is stating a perfectly

¹ *Anuario Estadístico (Mexico, 1894)*, No. 2, p. 7.

THE RISE OF PORFIRIO DIAZ

bald truth to assert that, given the volume of foreign trade in Mexico, it is comparatively easy to fix the budgetary estimates of the country, provided the borrowings of the government are listed.

The fiscal year 1876-77, the first one in which Diaz actually came into authority in Mexico, showed revenues of P18,409,000, and this was not net revenues, for the reason that P1,083,249 had come into the Treasury through forced loan transactions. Commenting on these figures, Leroy-Beaulieu¹ states that this total of revenues is less than was developed during the period 1830-1850. He refers, of course, to the totals, but so far as the net revenues are concerned he is in error. The difference in totals is explained through the employment of the forced loan in that earlier period. The actual revenues of the country were higher in the later period.

Diaz, in his early days, faced conditions quite as difficult as those faced by any of his predecessors. The Treasury was suffering embarrassments at home and abroad. He found it extremely difficult to control his Congresses, which were disposed to appropriate moneys for divers purposes, with no consideration for the condition of the Treasury. The general dis-

¹ *Le Mexique au Début du XX^e Siècle*, vol. ii, p. 120.

THE PUBLIC FINANCES OF MEXICO

locations in the national machinery of government gave him no end of trouble, for the reason that some of the states still regarded their places in the Federal union as being more or less tentative, and this condition was heightened through the ambitions of governors. However, Diaz continued to foster the development of commerce, of agriculture and mining; he urged the organization of banks, and turned his attention to the problem of constructing roads and railways.

Possibly the most searching paper ever prepared by any Mexican executive was now scattered abroad by Diaz.

There can be no doubt¹ [he wrote] that for a series of causes to which it is not opportune to refer, the nation is completely impoverished; many of its inhabitants are unable to find lucrative occupation because of the paralysis of business, and others obtain such a miserable wage that it is scarcely enough to supply them with what is indispensable for satisfying the most dire necessities of existence.

This situation produces numberless evils, among which may be counted a depreciation of property values, a depreciation in labor and in the price of its fruits, and as a consequence of all this a condition of poverty which is general.

In the opinion of the President, what the country most needs is the construction of cheap roads; for he believes

¹ *Annex No. 3, Memoria (1877-78).*

THE RISE OF PORFIRIO DIAZ

that once a system of railway lines has been established with low freight rates for national products, the exportation of various products which can be yielded by our rich soil will be profitable; and in a short time this ruined country may be regenerated. Inspired, therefore, by these patriotic ideas, he proposes to do everything in his power to bring about the construction of railway lines in Mexico. . . .

The economic situation of Mexico involves, then, social and political questions of the highest importance for her well-being and her future; this economic situation has occupied the attention of the public, and the Executive would not fulfill his duty did he not endeavor to bring about a satisfactory solution of those problems upon which depends the development of lucrative production, which is the cardinal basis of all progress.

The President believes that during his period in office efforts should be made to satisfy those social necessities upon which depends the progress of the nation, which must be brought about by the great capitalized interests, and the labor of the country, so as to multiply the opportunities for profitable investment by the former, and extend, as a consequence, the activities of the latter.

To attend these ends it is necessary to build upon a firm foundation of reliable data, and the first labor of the Executive is to consist in obtaining such data.

The President, being desirous of promoting the well-being of the laboring classes, has considered it his first duty to get in touch with the sponsors for those classes—that is to say, with farmers, miners, industrials, and merchants of the country, to the end that they themselves make known their necessities and the best means for satisfying them.

THE PUBLIC FINANCES OF MEXICO

The President considers that so complex a problem as is offered by the present economic situation in Mexico, and principally by its lack of means of communication, will not be solved by mere deductions from abstract principles that cannot be adapted to our present necessities and circumstances.

The action of the Executive must be inductive as well as practical. Without espousing, in an absolute manner, the principles of either one of the economic schools of free trade and protection which are wrangling for supremacy, the Executive must proceed with prudence, consulting experience based upon facts and the special necessities of the nation.

It will not, therefore, be possible to inaugurate an era of progress until there is assured to the greatest possible number of inhabitants of the Republic, regardless of sex or age, the benefits of honest and lucrative labor. The means for satisfying this imperious and important necessity constitutes an economic problem which is very difficult to solve.

None saw more clearly than Diaz, and he lost no time in driving toward his goal. His diagnosis of the situation was sound, and his deductions hold true to-day. While a great advance was made under his administration, each advance is but a stage for still another.

On the score of railways, Diaz's predecessor, Lerdo de Tejada, had made a conspicuous beginning, and during the '80's and '90's, under the administrations of Gonzalez and Diaz, the

THE RISE OF PORFIRIO DIAZ

great trunk lines binding Mexico to the United States were constructed.

In order correctly to view this great constructive period in the Mexican program, it cannot be divorced from the history of the United States during this particular term, for it was then that the great trunk lines threading the Union were extended from east to west and from north to south. It was part and parcel of the tremendous economic awakening which suddenly thrust the New World into a new era. In the main, the movement had a continuity which state lines could not divide.

For Mexico, however, even as it had been for many of the states of the American Union, the construction of railways meant a great sacrifice, either in the form of cash bonuses or donations from the national domain. In Mexico large areas of land were assigned in some cases, and again the Republic committed itself to the payment of heavy subsidies—subsidies which certainly came to maturity and which often entered to confound the budgetary estimates and to weigh heavily upon the Treasury. There has been no question, however, as to the wisdom of the course pursued by the coterie of men surrounding Diaz, who saw the necessity of transportation in the economic unfolding of their country. Without transportation com-

THE PUBLIC FINANCES OF MEXICO

merce would dwindle into insignificance. Without commerce there could be no progress, no revenues, and no government. That had spelled the chaos of the sixty years preceding. Hence, this governing coterie launched into these internal improvements at heavy cost, to be sure, but insignificant compared with the national gain in point of wealth and solidarity. When Diaz gave up his office of President to Gonzalez, in 1881, the work he had inaugurated was continued. The men whom Diaz had called around him carried on his program. So it was easy for him to resume the reins four years later.

Diaz's first term of office ran from 1877-78 to 1880-81; and these years, so far as national budgets were concerned, were unique in the history of Mexico, for the reason that with the exception of the second year there developed a surplus of revenues over expenditures. The deficit covering the whole period amounted to only P245,000. The budget had balanced, or practically so, around the figure of P20,500,000, in which total, however, we must not lose sight of exceptional resources, such as loans.

Diaz succeeded in reducing expenditures for 1879-80 below those of the preceding year. By departments the estimates follow:¹

¹ *Presupuesto de Egresos* (1879-80), section 4, p. 95.

THE RISE OF PORFIRIO DIAZ

Legislative.....	P 980,242.00
Executive.....	48,832.40
Judicial.....	347,878.00
Foreign relations.....	176,660.00
Government.....	2,488,296.30
Justice.....	1,103,862.20
Fomento.....	1,849,722.00
Hacienda.....	3,895,116.57
War.....	8,004,589.18
<hr/>	
Total.....	P18,895,198.65

Diaz not only attacked the budgetary problem, but early set about ways and means of dealing with the foreign debt. This took a new turn in 1880 with the appointment of a commission to make a special study of the public debt and to present a scheme for its consolidation. It reported on June 30th that the total debt amounted to P191,385,781, distributed as follows: P144,953,785 in the form of principal; P46,431,996 of interest.¹

But nothing could be done at the moment. Scarcely could the Hacienda meet the needs of the government. The holders of the bonds of the country were destined, yet awhile, to wait for recognition.

When Diaz relinquished office to Gonzalez the country had made surprising progress in many lines. Banks had been organized, rail-

¹ Labastida, p. 71.

THE PUBLIC FINANCES OF MEXICO

ways built, agriculture and mining encouraged through tax exemptions—in short, a broad stream of capital had begun to flow into the country in response to the invitation of the President. And an improved condition of the masses was the immediate result.

The upward turn in the revenues of the country continued without interruption under the administration of Gonzalez, reaching the highest point thus far known in 1884, totaling P37,442,625. At the same time, however, expenditures marched onward with dogged tread—a condition which has been persistent in Mexican history. As may readily be seen from the following table, under Gonzalez the Treasury deficit drifted from bad to worse, and in his last year reached a total exceeding P14,000,000.¹

	Revenues	Expenditures
1882-83.....	P30,320,222.60	P30,595,891.40
1883-84.....	32,808,265.26	37,582,604.18
1884-85.....	37,442,625.88	42,714,229.29
1885-86.....	30,350,637.66	44,407,386.22

In extenuation of this poor budget record, it must be said that the deficits grew out of subsidies to railway companies and in general to

¹ *Anuario Estadístico de la República Mexicana formado por la dirección general de Estadística a cargo del Dr. Antonio Peñañiel* (Mexico, 1895), Año II, No. 2, for year 1894 and for year 1900, p. 15.

THE RISE OF PORFIRIO DIAZ

public works—undertakings largely planned by Diaz.

Such was the condition of the Treasury when Diaz again became President. Of the total deficit P10,751,000 were due the banks of the country; a considerable sum was past due in the form of bonuses or subventions to railroads; and besides, probably P5,000,000 of demand bills were due to individuals. Furthermore, the civil employees were several months behind with their pay; and all the revenues of the Federal district were pledged to the *Banco Nacional* as a guarantee on a P4,000,000 loan. There remained to the national government but 12.63 per cent of all its customs dues—the rest had been pledged to creditors. The situation was acute, and Diaz immediately introduced the most rigorous economies. All supernumeraries in the government service were released. The salaries of those remaining were reduced. All pensioners, civil and military, were for the time being unpaid. Sweeping reforms in the entire public administration were put into effect. Negotiations were undertaken with the *Banco Nacional*—very favorable, indeed—in which the bank released its assignment of certain of the public revenues, and other negotiations were carried on with creditors, very much to the relief of the tension prevailing. Diaz set

THE PUBLIC FINANCES OF MEXICO

himself earnestly to the task, first, of bringing the national debt into a semblance of order; second, he centered his attention on the large undertakings which meant the development of his country.

An important law had been passed during his first administration on May 30, 1881, which had to do with the liquidating and closing of all the accounts of the Treasury covering the earlier years. In a word, it was an act far-reaching in its effects. It was the sponging off of the slate, as it were, so that the government could know precisely where it stood in the matter of its accounts. It was a very salutary operation, resulting in a clarity which theretofore had not existed in the Mexican Treasury. A corollary to this action was the centralization of the accounting functions in the hands of the Treasury under the direction of the Minister of Hacienda. Through this concentration it was made possible to develop in the accounting department the revisory function, as well as to establish preventive operations in the liquidation of accounts. Through these measures closer rein could be kept on all expenditures. It made possible the scrutiny of all charges against the Treasury in so far as legality and correctness of operations were concerned. Again it made possible the prevention of exces-

THE RISE OF PORFIRIO DIAZ

sive payments under a particular appropriation—a matter of no little moment, as all students of budgetary programs are aware.

In 1884, prior to the return of Diaz to power, there was a congressional authorization for the consolidation and conversion of the national debt; but it was one thing to authorize the conversion and another thing actually to convert it, for the reason that the credit of Mexico had fallen very much into disrepute, because of the unfortunate way in which the country had handled its affairs. In 1886, however, an arrangement was made for the refunding of part of the London debt, with the exception of the liabilities incurred under the Maximilian Empire. A new series of bonds was to be issued to bear 1 per cent interest for 1886, $1\frac{1}{2}$ per cent for 1887, 2 per cent for 1888, $2\frac{1}{2}$ per cent for 1889, and 3 per cent thereafter.¹ They were issued on the following basis: for a £100 bond of the 3-per-cent 1851 issue, with arrears of interest from January, 1867, a £109 bond of the new issue was to be exchanged, and so on through the entire transaction. There were still outstanding some of the unpaid certificates of the 1851 conversion. The government retained the right up to December 1, 1890, to purchase these bonds on the market or redeem

¹ Macedo, *Tres Monografías*, p. 445.

THE PUBLIC FINANCES OF MEXICO

them by drawings at the rate of 40 per cent of their nominal value. After December they were to be subject to redemption by drawings or purchase at one half their nominal value.

Obviously this arrangement with the London bankers brought no great relief to the Treasury. It provided no new funds whatsoever, and the London bankers were deaf to appeals on this score. At the moment they would no more of the Mexican debt.

Thereupon the Mexican agents turned to Berlin, and in March, 1888, made a contract with a group of bankers, chiefest of whom was Bleichroeder. The sum arranged for was £10,500,000, running seventy-two years, at 6 per cent, and guaranteed by 20 per cent of the net export and import duties and the total net proceeds of the direct taxes collected in the Federal District. This loan was issued on a basis of 78.5, and the first offering was for £3,700,000. Of the balance, A. Gibbs & Sons were the chief distributors. The primary object of the loan was to extinguish the interest-bearing floating debt of 1886, in line with the arrangements of that year. The principal of the entire obligation was redeemable at par, through a cumulative sinking fund of $1\frac{1}{2}$ per cent of all revenues which began to run April 1, 1893. The entire issue was converted in 1899.

THE RISE OF PORFIRIO DIAZ

This was one of the most successful financial arrangements which Mexico had celebrated, for the reason that there was no sound business excuse for bankers to undertake the flotation of a Mexican credit under any circumstances. For sixty years Mexico had been a constant defaulter in meeting her obligations, and the conditions at the moment were not roseate and gave small promise of change for the better. Diaz was still, so far as Europe knew, an experiment.

With the funds thus provided, some of the more pressing floating debts of the Republic were liquidated and the tension eased in the Treasury. The situation was improved the next year when a Tehuantepec Railway loan for £2,700,000 at 5 per cent was floated in London and Berlin. These bonds were sold on a basis of 77.5. They were redeemable at par in fifty years, by half-yearly drawings. Fifty per cent of the gross receipts of the railway were assigned for the service of the loan, the government agreeing to make up any deficiency. These bonds likewise were included in the conversion of 1899.

With the conclusion of this transaction the situation of Mexico was very much improved. There was everywhere developed confidence in the administration and in its ability to work out the financial destinies of the country.

THE PUBLIC FINANCES OF MEXICO

There had been a profound change in the situation since the first entry of Diaz on the scene. At that time the United States representative in Mexico, Foster, one of our distinguished diplomats, in a communication stated that "on all sides is felt the frozen breath of the want of confidence; the poverty of the Treasury . . . produces a panic in an administration which . . . should continue in tranquillity the great work of reconstruction."¹

¹ *Papers, Foreign Relations of the United States* (1878), p. 591.

XII

THE HACIENDA UNDER LIMANTOUR

WE have already intimated that serious financial difficulties were foreshadowed through fluctuations in the price of silver. It was evident that the whole economic life of the people would have to be adjusted to a fluctuating standard. Nor was the problem a local one. For the next twenty years Mexico faced the difficult program of keeping pace with the leading nations on the score of monetary standards.

Mexico, by tradition, had been a silver country, primarily because of her great stores of that metal. Her people were accustomed to the use of silver; the Spaniards had introduced silver coins, among them the dollar, which came almost to be the standard of the world. It was but natural, therefore, in the evolution of things, that silver should have come to be predominantly the money of the country, and that its free coinage was a fundamental law.

In this very modern world, with its machinery and attributes, Mexico could not live alone.

THE PUBLIC FINANCES OF MEXICO

Relations were, perforce, to be maintained with other Powers, relations involving the economic well-being of the country. Among the matters involved were trade balances and exchange, and it was here that Mexico felt the pinch. Silver was the leading export, and when the price of the commodity throughout the world began to fall in the early '80's, the whole country felt the effects. The price of the metal continued to drop, reaching the bottom during the crisis of 1893 at the moment of the demonetization of silver in the United States. And the situation was further aggravated through the closing of the mint of India to the free coinage of silver.

The financial troubles of Mexico on the score of silver were rendered more acute through the failures of crops over the years 1892 and 1893. This forced, naturally, a much heavier importation of foodstuffs, while at the moment there was a great recession in the values of Mexican exports. It is obvious that this would result in a tipping of the scales, and soon it was clear to the government that recourse must be had to foreign credits or else the whole machinery of government would be shaken through inability to meet its obligations.

In 1890, the government—still intent on pressing the construction of railways, indeed, having bound itself by contracts—floated an

THE HACIENDA UNDER LIMANTOUR

issue of silver currency bonds in a total of P6,700,000 bearing 6 per cent. London and Amsterdam absorbed these bonds on a 65 basis; the principal and interest were payable in silver, the proceeds were to be used in the construction of the Monterey Tampico Railway.

During this same year there had been issued a loan of £6,000,000, bearing 6 per cent, and the same had been placed at 93.5 on the condition that a $\frac{1}{4}$ -per-cent sinking fund be maintained and secured by 14 per cent of the proceeds of customs dues, and on the further condition that this assignment should maintain a margin of 10 per cent over and above the sum needed to cover the sinking fund and interest. This issue was converted in 1899.

In 1893—a panic year involving every state more or less throughout the world—the Mexican government was fortunate in being able to place bonds to approximately £3,000,000 on a 68 basis, the loan bearing 6 per cent and being secured by 12 per cent of the customs dues. This loan also was converted in 1899.

With these two flotations of 1893, the peak had been reached in Mexican financial troubles. Conditions bettered at once, so much so that in 1895 the Mexican budget showed for the first time in its history a *bona fide* revenue credit balance; and at the end of 1896 Presi-

THE PUBLIC FINANCES OF MEXICO

dent Diaz was able to state in his message to Congress that there were no longer floating debts in the country. This certainly was an extraordinary statement, for during the seventy-five years of Mexican independence there scarcely had been a day in which the Treasury of the country had not suffered embarrassments.

The fiscal year 1895-96 showed on the revenue side P50,521,470. On the expense side the total reached P45,070,123, leaving a net surplus on operations for the year of P5,451,347. The following year both receipts and expenditures rose slightly, but the net surplus in the Treasury again was increased by P3,170,123. The fiscal year 1897-98 brought similar results. There were increases on both the resource and expenditure sides of the ledger, but there remained a net of approximately a million for the surplus account. The fiscal year 1898-99 showed an even more roseate situation. The revenue accounts produced P60,139,212 against an expenditure of only P53,499,541, leaving a net surplus of P6,639,670; and now, indeed, the finances of the country began to impress the outside world so favorably that in 1899, by virtue of a refunding operation, a number of the outstanding issues were consolidated.

This operation worked a great saving to Mexico through reductions in the rate of in-

THE HACIENDA UNDER LIMANTOUR

terest to 5 per cent. The loan itself totaled £22,700,000, redeemable at latest in forty-six years. It was secured by an assignment of 62 per cent of the national import and export duties. The loans of 1888, 1890, 1893, and the bonds of the Tehuantepec Railway, were retired in the refunding transactions.

During the next several years the same record of progress continued. There was uniformly a surplus of revenues over expenditures. In the fiscal year 1900-1901, there resulted a net of better than P3,500,000 for the surplus account. The following year the revenues reached P66,147,048, which eventually sufficed to carry a total of more than P3,000,000 to the now steadily mounting surplus. Of the total of revenues, approximately P28,000,000 were contributed from customs dues. Of this sum only about P691,000 had its origin in export taxes.

The problem of taxation on exports in Mexico is one on which economists have been much in dispute. But the Spanish American states—as indeed all countries heavily exporting raw products—have hesitated between taxing exports and the policy of sending them out free of duty. Brazil, particularly of the South American countries, receives large revenues from her tax on coffee.

The second important tax in the Mexican

THE PUBLIC FINANCES OF MEXICO

catalogue is the stamp tax, which produced, in the fiscal year above indicated, P24,630,000. The development of this tax since 1875, from the insignificant one which we had reason to note in an earlier section, has been possibly the most interesting feature in the Mexican fiscal program. The stamp tax is precisely what its name indicates. Stamps must be bought of the government and affixed to contracts of all sorts: drafts, checks, bills of lading, and so on. On the whole, as we have indicated heretofore, this appears to be one of the most equitable of the Mexican tax measures. Of course, it is vitally at issue with the tenets of the school of physiocrats, but it is in harmony with much of the world's tax legislation at the moment, and undoubtedly forecasts a type of tax likely to prevail in the future. The world unquestionably has drifted from its old moorings, where dependence was placed on indirect levies. The direct tax has come to have a fixity in schedules never before known. It is distinctly in accord with the theory that men should contribute to the government in proportion to their earnings, or according to their ability.

Another tax, that of the Federal contribution, paid into the Treasury P6,400,000. This sum represents the quotas from the states raised by property tax. There is no equivalent

THE HACIENDA UNDER LIMANTOUR

of this tax in the United States, although during the period of the Confederation the tax quotas assigned to the states are reminiscent of the Mexican scheme. The *contribución federal* finds its nearest counterpart in the German Empire, where the member states had certain definite tax relations, and actually, prior to the World War, they contributed almost one third of the entire revenues.

Another item entering the national tax schedule was that which fell on the Mexican territories and on the Federal District. This tax, in the budget for 1901-02, yielded P3,288,000, and came from successions, occupation tax, tax on flour, etc. The national lottery returned P614,000 in revenues to the government. National properties brought in P425,000. Such, in the main, were the leading heads constituting the revenues side of the budget.

The tax on mining was fixed on so reasonable a basis that a great stimulus was experienced in the development of that field. There was displayed new vigor in all departments of industry. Not only were railroads extended, agricultural lands developed, manufacturing industries established, but schools were planted, war vessels purchased, and the country revamped from end to end.

The results of the combined tax schemes of

THE PUBLIC FINANCES OF MEXICO

the Republic were, indeed, so satisfactory that the customs dues for the fiscal year 1899-1900 had been lowered from 9.16 to 6.68, and the stamp taxes in certain categories for the same period had been reduced from 5.33 to 4.17. Further than this there had been a much higher degree of efficiency and economy observed throughout the branches of the government having to do with the levying and collecting of taxes. It goes without saying that the great development of railways, post offices, telegraph, and banks all played rôles of varying degrees of importance in rendering effective the operations of the governmental machine.

When Limantour, in 1892, came into office as assistant to Romero, who had been called again to the Hacienda, his studies in economics had already brought him to see the absolute need of banking institutions, if the native resources of his country were to be developed. After Romero had been returned to Washington and Limantour had succeeded to the Portfolio of Hacienda, he moved forward with his plans. He realized clearly the practical impossibility of the nation's carrying on its ordinary daily transactions without the necessary distributing machinery of banks. We cannot know whether the plan originated with him or with President Diaz, but at a very early date

THE HACIENDA UNDER LIMANTOUR

bank plans were in process of formulation, which eventually were to take shape in a general Act, under date of March 19, 1897. Diaz was heartily in favor of the development of credit institutions, for the reason that his own administration had probably been saved from the rocks through advances made by the *Banco Nacional*, which enjoyed a Federal charter. So important, indeed, had been the financial services it rendered the government, that, in 1884, the charter of the *Banco Nacional* was amended so that, while it was not in name a state institution, it was in effect the National Bank of the Republic.

The general Banking Act of March, 1897, provided for three classes of institutions: (1) banks of issue; (2) mortgage banks; (3) refaction (auxiliary) banks; all designed to facilitate credits in distinct fields of economic endeavor. And the part played by these banks in the unfolding of the resources of the country cannot be overestimated.¹ The Hacienda under Limantour appreciated the potentialities of credit institutions in their influences not only upon the national life, but upon that of individuals as well.

The annual report of Limantour, as of December 14, 1903, covering the fiscal year which had expired June 30th, carried a most flattering

¹ See *Present and Past Banking in Mexico*, by W. F. McCaleb (1920).

THE PUBLIC FINANCES OF MEXICO

statement. The revenues from normal budgetary sources had reached a total of P76,023,416. The expenditures had been P68,222,520, leaving a net gain on operations for the year of P7,800,896. During this year there had been spent on public works approximately P5,000,000, all of which had been paid, and a neat balance remained to be carried to the Treasury surplus.

So great, indeed, had been the excess of revenues over expenditures that Limantour felt constrained to offer an explanation, on account of the inequilibrium shown by the balances. He was ready to admit that it was not a fine budgetary performance to disclose at the end of a fiscal year; revenues approximately 10 per cent in excess of estimates. He was too familiar with English and French experience not to know that he would be criticized by such disclosure. He well knew that the budgets of both these countries, exceeding greatly his own in the sums involved, were, as in the case of Great Britain, balanced each year within a few thousand pounds. So it was that Limantour explained that in his estimates he had allowed for a serious falling off in customs dues, a contingency he had provided for through the adoption of a sliding scale which was, in case of need, to be invoked to meet the fluctuations

THE HACIENDA UNDER LIMANTOUR

in the rates of exchange. He said he could not tell how far the climb in the values of silver might operate to offset the shrinkage in imports. Hence, he had taken no chances in the premises, and the results had exceeded his expectations. There had also been an unexpected improvement in the revenues derived from stamp taxes and from the Federal contribution; and, further, the 3-per-cent tax on precious metals and coinage dues had much augmented the receipts. The extraordinarily healthy condition of the Treasury was shown in the balances carried at the end of the fiscal year under discussion—P2,708,785 in gold and P28,208,232 in silver.¹

Limantour's summary of the public debt, as of June 20, 1903, is as follows:

1. Debt payable in foreign money.....£ 22,554,600
2. Debt payable in silver currency....P160,512,001
3. Floating debt in silver currency.... P4,269,883

During the fiscal year 1902-03 the internal debt had been increased substantially through the issue of subvention bonds for the Vera Cruz and Pacific Railway, and through the issue of 5-per-cent redeemable internal bonds, fifth series, P11,580,400 of the latter having been

¹ *Corporation of Foreign Bondholders, Annual General Report, year 1903-04*, p. 256, et seq.

THE PUBLIC FINANCES OF MEXICO

issued in liquidation of sundry public works, including harbors and railways.

In the same report Limantour made his estimates for the fiscal year 1904-05. He figured a yield of P33,378,000 from taxes on foreign commerce; P31,500,000 from Federal internal taxes; P8,609,000 from the taxes of the Federal District and territories; P4,573,000 from the public services, such as post office and telegraph; P1,905,000 from national properties—making a grand total of P79,965,000. The other side of the budget carried for expenditures the total of P79,562,157, leaving a net surplus on operations of P402,843. And, indeed, when the final balances were struck, the results for the year under discussion were not very different from Limantour's estimate. By departments the expenditures ran as follows:¹

Legislative power.....	P 1,161,052.70
Executive power.....	282,341.11
Judicial power.....	452,862.10
Foreign Relations.....	1,516,528.23
Dept. of Interior.....	11,132,749.38
Dept. of Justice and Public Instruction..	4,796,496.11
Commerce, Colonization, and Industry..	1,564,972.40
Communications and Public Works.	10,209,605.21
Hacienda and Public Credit.....	33,570,895.04
War and Navy.....	16,373,575.80
Total.....	P81,061,078.08

¹ *Memoria de Hacienda y Crédito Público, 1904-05 (Mexico, 1906), p. 6.*

THE HACIENDA UNDER LIMANTOUR

It may be of interest to contrast with the above the expenditures by departments for 1894-95. The table follows:¹

Legislative.....	P1,005,638.00
Executive.....	50,977.30
Judicial.....	478,171.50
Foreign Relations.....	516,965.50
Government.....	2,560,741.70
Justice.....	1,547,824.54
Fomento.....	615,610.06
Communication and Public Works.....	4,455,097.15
Hacienda and Public Credit.....	24,000,570.85
War and Navy.....	10,378,683.32
Total.....	<u>P45,610,279.92</u>

In another connection we have discussed the matter of the bond issue of P40,000,000, which was floated during the fiscal year 1904-05. The net yield of this flotation, P33,583,368, was largely absorbed in extraordinary expenditures, which totaled P29,979,448, the bulk of it going into public works. The above table for 1904-05 discloses important unfoldings in the Department of Public Works, in the extension and development of education, in the increased scope given to scientific institutions, military and naval establishments.

In no way could the great progress of the country in its economic well-being be more

¹ *Ley de Ingresos y Presupuesto de Egresos (1894-95)*, p. 299.

THE PUBLIC FINANCES OF MEXICO

clearly shown than in the statement of its foreign trade. For the fiscal year 1904-05 imports reached a total of P75,901,750. For the same term there had been exports of various products aggregating P197,728,968, of which sum more than one half was made up of metals. Exports had increased by P37,825,645 over those of the preceding year. Apparently all was well with Mexico.

XIII

THE GOLD STANDARD TO THE FALL OF DIAZ

THE statement of Limantour, setting out the results of his economic measures, is a convincing commentary on the soundness of the principles controlling the budgetary operations of the government. There was at the moment but one disturbing factor on the financial horizon—a factor which was giving Limantour no little concern—*viz.*, fluctuations in the price of silver. For a number of years acute stages had developed from time to time in international business relations on account of violent fluctuations in the exchange rate. These had sufficed to make it appear imperative that Mexico should at last join the important Powers in the matter of adopting a common monetary standard. In 1902 a commission had, indeed, been appointed, composed of three of Mexico's distinguished business men and bankers—Enrique C. Creel, Luis Camacho, and Eduardo Meade—to undertake negotiations with a similar committee appointed in the United States,

THE PUBLIC FINANCES OF MEXICO

composed of Hanna, Jenks, and Conant. It was hoped that agreements might be reached touching the questions of the relation between gold and silver, and the establishment of a basis for common ratios regarding monetary standards.

More than ten years earlier, indeed, a number of commissions acting for European governments had been engaged in studying the problems underlying the establishment of monetary standards, with no definite conclusions. In the very nature of things there were no common grounds on which large economic programs could be placed. And after all, the problems involved in the premises were not wholly problems of standards of value, nor of the relations of standards as between the Powers of the world, but were rather great fundamental economic problems in which monetary matters were incidental.

The trouble with Mexico arose not so much from the fluctuations in her silver standard of value as in the price of her silver bullion in foreign markets. It may well be debatable whether Mexico greatly profited through having come, in 1905, to adopt a gold standard. The truth is, and must be confessed, that, spite of all the wise talk indulged, there remains a deal to learn about monetary phenomena and

THE GOLD STANDARD TO THE FALL OF DIAZ

its functioning. The question of standard is of vast significance, and frankly, one should not hesitate to say that with respect to Mexico the adoption of the gold standard was probably a tremendous blunder. As a matter of fact, from that date forward troubles began to multiply for the administration, notwithstanding the apparently successful operation of the law. There was developed a bitter undercurrent among the masses, through being deprived of silver in their daily business transactions—this deprivation ate like acid, slowly but surely, into the social and economic fabric of the country.

While the price of silver was but one of the items entering into the great economic considerations of the time, it was for Mexico a matter of the highest moment. Almost P100,000,000 was now being exported annually. But spite of this, each year considerable sums of gold had to be situated abroad for the purpose of liquidating accrued interest and amortizations on the public debt; and it was this transaction, appearing on its face to work heavily against the interests of Mexico, which furnished the immediate pretext for the enactment of the gold-standard law. The budget for 1888-89 had carried an item of P729,178 to cover the cost of converting the funds placed in London to pay the interest on the public debt. The bud-

THE PUBLIC FINANCES OF MEXICO

get for 1890-91 showed an entry of P2,314,477; the following year a total of P3,225,246; and for 1892-93 the sum involved rose to P5,101,223. There is no gainsaying that these were apparently heavy losses to the public Treasury, but one should not lose sight of the fact that these were incidental or accidental, and not fundamentally involved in the economic processes of Mexico, and their payment in the form of exchange worked but trifling hardships.¹

When Limantour came into office in 1892 the silver question had reached an apparent crisis. In February of the following year a commission had been appointed with the distinct charge to formulate plans for the solution of the monetary problem of Mexico. This commission pursued its studies and made extensive reports; and there were conferences at home and abroad over a number of years. But the large scheme of bringing the Powers into concert of action failed.

Limantour thereupon prepared his own plan, which was introduced in Congress; it became a law December 9, 1904. On March 25, 1905, a new monetary regime went into effect.² The main features of the new law were:

A unit of value was adopted in the gold peso,

¹ See Zayas Enriquez, *Los Estados Unidos Mexicanos* (New York), p. 33.

² *Memoria de Hacienda y Crédito Público, 1904-05* (Mexico, 1909), pp. 7-16.

THE GOLD STANDARD TO THE FALL OF DIAZ

containing seventy-five centigrams of pure gold. The silver peso in circulation was to have an equal legal value, and both were made legal tender in any sum. The subsidiary silver coins were made legal tender up to twenty pesos. The Mexican peso was, therefore, given a distinct value with respect to the American dollar, which contained one hundred and fifty centigrams of pure gold. Free coinage of silver was abandoned, and the reimportation into Mexico of silver pesos which had gone into circulation in foreign countries was prohibited through the levying of a heavy duty.

Here was involved a rather delicate point, but Limantour was saved from possible embarrassment on this score, through the rise in the price of silver to a point which precluded all possibility of reimportations.

It may well be supposed that the mining interests of the country, predominantly silver, were greatly alarmed, fearing the possible effects of this summary legislation. So the government at once issued a number of decrees, relieving the mines of taxation in a gross total estimated at P3,500,000 annually. This would, in a sense, compensate them for any further lowering of the price of silver which might result through the suspension of its free coinage; but, as stated above, happily foreign de-

THE PUBLIC FINANCES OF MEXICO

mand for silver actually increased its commercial value, so that the mines temporarily profited by the reform—at least to all outward appearances.

The logic of Limantour's scheme for maintaining exchange rates was apparently sound enough, and his Commission on Exchanges and Money (*Comisión de Cambios y Moneda*), through the instrumentality of the *Banco Nacional*, for a time actually had the situation well in hand. In short, the plan of maintaining a parity as between the Mexican peso and the American dollar and the European standards, involved a simple banking trick, and so long as the government was able to maintain adequate balances in New York it could be manipulated successfully. It was an expensive proposition, however, for the government. Spite of Limantour's perfect camouflage, the cost of maintaining his commission, plus the cost of operations in actually effecting exchanges, doubtless in the end exceeded the annual tolls charged against the Treasury for converting the foreign commitments into gold. Limantour could not have succeeded in his enterprise but for the fact that he had been able to establish a large credit in New York through a borrowing operation which was precedent to the inauguration of his scheme,

THE GOLD STANDARD TO THE FALL OF DIAZ

First of all, in the spring of 1904 he borrowed on two-year Treasury notes P6,000,000 at $4\frac{1}{2}$ per cent, from the banking firm of Speyer & Co. These notes had been issued under authorization of a law passed in May of the preceding year, and were part of a total issue of P18,500,000, gold. They had yielded the government 97 per cent of their face.¹ Secondly, during the fiscal year 1904-05 Limantour had floated a bond issue in New York for P40,000,000, bearing 4 per cent on a basis of 89.² This arrangement had been made in conformity with a law passed in November, 1904, and was a distinct part of Limantour's program.

A scheme, however, such as this could function successfully only under favorable conditions. We have had a splendid illustration of the breaking down of just such governmental institutions in the effort made by the *Comisión Monetaria* under the Carranza regime, to stabilize the values of the *infalsificable* currency, and, indeed, to a certain extent, to stabilize exchanges. We know the results of both operations. They have been attended by perfect failures. It is not far to discover the reasons. They were, in the first place, due to inability

¹ *New York News Bureau Bulletin*, April 16, 1904, No. 52.

² *Memoria de Hacienda y Crédito Público, 1904-05* (Mexico, 1909), pp. 4, 5.

THE PUBLIC FINANCES OF MEXICO

on the part of the government to create foreign credits; and, secondarily, to want of confidence and faith in conditions. Indeed, the exchange operations of the Carranza government have been ineffectual and costly, for the reason that no credit resources of any character have been extended by foreign banking institutions to the ruling Powers.

The one substantial result achieved by Limantour in his monetary reform measure was the apparent stabilizing of business transactions in general. At least, this has been affirmed over and over. It is alleged that a stability and uniformity in values was obtained which theretofore had not existed in Mexico. And on the surface the allegation appears to be sound enough. Merchants could buy and sell with a definite knowledge that to-morrow approximately the same prices would hold, save, indeed, as higher rates might rule in the business marts of the world; banks could operate to better advantage through realizing that the peso they loaned would be returned to them, and not a peso of less value; and so on through the ramifications of the business communities of the Republic. But, as a matter of fact, there was no uniformity in the price range, and the flight of silver from circulation left the masses in worse condition than before. It was better

THE GOLD STANDARD TO THE FALL OF DIAZ

to have a peso with a fluctuating purchasing power than to have no peso at all.

Singularly enough, there appeared to be unusual activity in business of all types, during the fiscal year 1904-05, which saw the inauguration of the gold standard. But this can partly be explained as the rebound from the depression of the preceding two years. The national revenues, which had been estimated by Limantour at P79,965,000, actually reached P92,666,445. The largest single item in this total had its origin in customs duties and foreign commerce, but in all departments the revenues had exceeded the estimates, save in that of alcohol. The internal taxes, and those from public services, were all noticeably increased.¹

During the succeeding fiscal year the condition of the country appeared favorable enough. The national revenues for the year amounted to P102,752,751, while expenditures were kept down to P79,466,911. The government expended in public improvements more than P17,000,000, and there was more or less feverish activity in many of the industries of the country. There was only one intimation of a recession, and that was shown in the internal taxes, the yield of which fell P1,164,160 under the estimate of the Secretary of Hacienda.

¹ *Memoria de Hacienda y Crédito Público, 1904-05*, p. 3.

THE PUBLIC FINANCES OF MEXICO

The general efficiency everywhere prevailing in the Hacienda is shown in the fact that the customs dues were this year collected on an expense basis of 4.62 per cent; stamp taxes were collected on a basis of 5.16 per cent; the taxes of the Federal District came into the Treasury on a cost basis of 4.43 per cent.¹ It is interesting to reflect that over long periods of Mexican history the average cost of collecting the taxes of the country had ranged from 12 to 16 per cent.

The condition of the Treasury, as reflected in its statement at the close of the fiscal year 1905-06, abundantly testifies to the adequacy of the financial measures which had been imposed on the country. That statement discloses the following items:

1. Cash in the Federal offices.....	P 5,073,098
2. In the office of chiefs of Treasury....	201,639
3. In foreign offices.....	170,417
4. In the hands of agents.....	168,859
5. In banks and banking houses.....	51,686,184

If we deduct certain sums authorized and spent by the Executive, totaling P3,424,772, a net balance was exhibited by the Treasury sheets of P53,875,427.²

¹ *Memoria de Hacienda y Crédito Público*, for the fiscal year 1905-06, p. 3.

² *Cuenta del Tesoro Federal, 1905-06*, pp. 5, 6.

THE GOLD STANDARD TO THE FALL OF DIAZ

In a statement of December 14, 1907, Limantour gave utterance to a pessimistic statement with respect to the financial outlook. There was apparently a general shrinkage in business. The excess of exports for the fiscal year ending June 30, 1907, had been but P30,800,000,¹ which he set out as being entirely insufficient to meet the accruing foreign indebtedness. He was frank enough to admit that even the excess of P51,000,000,² accumulated over the fiscal year 1905-06, had been inadequate. In order to explain the position of the Republic, he reiterated that the bonds of the public debt were held abroad, and that the service alone on that debt called for at least P24,000,000 a year; and that, in addition to the obligations of the Federal government, some of the states and municipalities had created debts abroad carrying an annual charge of P1,000,000; that the railway companies, through payments of interest on their securities, were obliged to remit at least P25,000,000 a year; and that the banks distributed annually millions of pesos in dividends outside the pale of the Republic. In addition to these items, profits sent out of the country by private corporations exceeded, doubtless, in the aggregate, the international

¹ *Memoria de Hacienda y Crédito Público* (Mexico, 1909), p. 25.

² *Mexican Year Book, Exports and Imports*, p. 3.

THE PUBLIC FINANCES OF MEXICO

trade balance! In such a state of affairs he pointed out that the equalizing element had come through importations of new capital from foreign sources, seeking investment in Mexico.¹

Large quotas of this capital had gone into railroads and telegraph lines. But all was not well in the realm of railways. While the government had fostered and encouraged the building of these lines of transportation, there had been from the first more or less jealousy as between foreign and Mexican laborers, and as between foreign and Mexican officials, of these roads; and, strangely enough, even the Mexican government, headed by Limantour, is believed to have feared a merging of the leading lines of the Republic under American domination, with subsequent dangers of one sort or another. So, Limantour at a fairly early date, began to deliberate as to ways and means of carrying into effect an operation whereby the government could secure control of the railways, and eventually he was enabled to bring such measure to pass. His first step in this direction was to buy the debentures of the Interoceanic in a total of £1,000,000, which gave the Mexican government a controlling voice in its affairs. A little later, after a good deal of negotiation, Limantour undertook the

¹ *Mexican Year Book* (1908), pp. 223, 224.

THE GOLD STANDARD TO THE FALL OF DIAZ

merging of the more important lines of the country. And this measure was carried out, and the government put its credit behind more than P100,000,000 of railroad bonds.

It is not clear just what was in Limantour's mind when he proposed and achieved his railway merger, but be his fears what they may, he was not blinded as to the absolute need of securing a continuous flow of foreign moneys into Mexico. Only in this wise could the annual deficits be met. Nobody saw this truth more clearly than he, and the history of Mexico since 1912, if additional proof were necessary, testifies in unmistakable terms to the correctness of his diagnosis, which is distinctly at odds with the shibboleth of the Carranzistas—that "Mexico is sufficient unto herself." The conspicuous financial blundering of the Carranzista government stands emblazoned in marked contrast to the regime of Limantour.

The troubles which Limantour foresaw at the end of 1907 were, indeed, already upon the country, and not his country alone, for the reason that the whole world was affected by the panic which reached its acute stage in New York City in the fall of that year. It was inevitable that Mexico should suffer, and sharply, through the curtailment of exports and through the lower prices for products, which everywhere

THE PUBLIC FINANCES OF MEXICO

prevailed. It was, furthermore, certain that the government would be criticized—as all governments inevitably are criticized when troubles arise, whether they be guilty of works of commission or of omission; and the bickerings and discontent which now rapidly worked through the country were but the forerunning clouds before the storm.

The fiscal year ending June 30, 1907, and that ending June 30, 1908, saw the foreign trade balances dwindle, respectively, to P15,788,000 and to P20,983,000, far below the minimum requirements of the country, and the necessities of the Hacienda were at once apparent.¹ The volume of trade, however, was large. Over a period of ten years the imports had grown from P78,785,878 to P232,229,578, while the exports for that period had increased from P110,022,480 to P248,018,010, and this latter figure was P23,000,000 odd under the high point of the preceding year. Hard times worked inevitable curtailments in imports, and during the fiscal year ending June 30, 1909, the totals shrank to P156,533,000, while exports came down to P231,101,000, but the margin of trade balance was more satisfactory than the history of Mexico had shown to that date. It

¹ *Boletín Estadística Fiscal, Ministry of Hacienda, No. 292* (Mexico, 1907), p. 73; *Mexican Year Book* (1913), Exports and Imports, p. 3.

THE GOLD STANDARD TO THE FALL OF DIAZ

had increased by more than P50,000,000 over the preceding year.¹

The expenditures of the government for the fiscal year ending June 30, 1909, reached P104,040,316,² while the normal revenues amounted to only P98,775,510, which reflected an unsatisfactory condition, viewed in the light of earlier budgetary records and in the light of business. It must be added in this connection that there were brought into the Treasury for the year in question, from borrowings and extraordinary sources, P11,437,788, but this last sum, while establishing an apparent balance in favor of the Treasury, was merely the admission of an unhealthy condition.³

At the height of his difficulties, Limantour, nothing daunted, brought to a successful fruition a refunding transaction which not only saved his country millions a year on interest, but which stamped him irrevocably as one of the ablest Finance Ministers the New World has produced. The year 1910 was the centenary of Mexican independence, and President Diaz for a long time had been making plans for its due celebration. It was in the midst of these preparations that Limantour

¹ *Mexican Year Book* (1913), Exports and Imports, p. 3.

² Peñañel, Antonio, *Cuadro Sinóptico Informativo de la Administración, hasta 1909* (Mexico, 1910), p. 92.

³ *Cuenta del Erario Federal*, fiscal year 1908-09, Estado No. 2.

THE PUBLIC FINANCES OF MEXICO

took up the matter of his refunding operation and proposed a 4-per-cent foreign gold loan of £22,200,000, designed to convert the 5-per-cent loan of 1899. The loan is redeemable at latest in January, 1945, or may be retired by purchase or drawings at par. The security for this loan is 62 per cent of the customs duties, which amount had been previously assigned to the 1899 loan.¹ Its success was instant, the issue being largely sold on a basis of 97.625. But the large refunding operation was halted when about half completed, by the revolution.

Thus a part of the foreign debt of the Republic had been funded on a 4-per-cent basis. How far, indeed, had the condition of the Treasury advanced? Once the Mexican governments had paid any rate required to secure funds, and, failing in such enterprise, forced loans had been resorted to. And yet once again this era of chaos was to come to Mexico, as we shall see.

In the fiscal year ending June 30, 1910, the administration succeeded in reducing the expenditures by more than P6,000,000 from the preceding year. The year ending June 30, 1911, the expenditures totaled P102,294,030,² a con-

¹ *Forty-third Annual Report, Council of the Corporation of Foreign Bondholders* (London), p. 247.

² Peñañel, Antonio, *Cuadro Sinóptico Informativo de la Administración, hasta 1909* (Mexico, 1910), p. 92.

THE GOLD STANDARD TO THE FALL OF DIAZ

siderable item of which was chargeable to the War Department, for it will be remembered that the revolution of Madero had begun the preceding November. The revenues of the country reached a total of P111,142,401, which was not an ill showing, in that the actual returns had exceeded the estimate by better than P10,000,000.¹ But it must be borne in mind that when these figures were finally tabulated, already Porfirio Diaz had abandoned his native country and taken refuge in Europe.

Let us look briefly at the Diaz achievements with respect to Hacienda. When he came into office for the first time, Mexico had had more than fifty years of financial chaos. It is to be doubted whether any state of the proportions and pretenses of Mexico ever experienced so topsy-turvy and turbulent a half century. The very term of "budget" was practically unknown, and as for order in fiscal matters, it was non-existent. There was no such thing as an end to an economic year with a final wiping out of odds and ends and closing of books. All accounts whatsoever remained open indefinitely. It was, indeed, a happy-go-lucky system so far as the Treasury was concerned. From a decrepit, bankrupt state, careless of its obligations, Diaz galvanized Mexico into a

¹ *Memoria de Hacienda y Crédito Público*, fiscal year 1910-11, p. 5.

THE PUBLIC FINANCES OF MEXICO

hopeful and punctual Republic—one looming large on the horizon of the Western World. He found a Treasury empty to the last peso, and clamoring creditors at home and abroad; he left the Treasury filled to overflowing, and the credit of his state at the highest point it had ever known—indeed, superior to that of any other Latin Power, and ranking high in the European markets. So firmly, indeed, had he fixed the place occupied by the Mexican Republic in the confidence of the money-lending nations, that it was only very slowly, and many months after he had gone away, that they began to awaken to a realization of what the revolution actually meant in Mexico. The world could not well conceive how so apparently substantial a structure as that he had created, over the more than thirty years of this rule, could be despoiled and crushed into a shapeless heap.

But the revolution, so called, was in effect only a restoration of the normal course of Mexican history. Diaz, through his great power and through the co-operation of Limantour, had drawn Mexico out of her wild ways and forced upon her, as it were, a term of peace. It was failure to appreciate, in its true concepts, the full meaning of the Mexican character, and the story of Mexico, which caused the world to miss its judgments.

XIV

THE CRASH OF MADERO'S REGIME

THE provisional Presidency of De la Barra, who succeeded Diaz, ran from May 25, 1911, to October 1st, on which latter date Madero succeeded as the constitutionally elected chief executive. Under De la Barra the affairs of the Republic remained more or less in *status quo*, although the triumph of the revolution had produced disquieting effects far beyond the borders of Mexico. The possibility of the overthrow of Diaz and the regime he had instituted had nowhere been contemplated. Even the thought of such an event had entered the minds of few. And yet here was the patent fact—Diaz an expatriate, and the revolutionist, Madero, in his seat!

It is not surprising, therefore, if the wealthy classes in Mexico, and the conservatives, should have shown more or less nervousness under the conditions. Many of those most keenly alive were not slow to make their plans for leaving

THE PUBLIC FINANCES OF MEXICO

the Republic, and a quiet exodus began—an exodus which eventually came to be so serious that steps were taken to put an end to the withdrawals of moneys, for such subtractions promised shortly a complete prostration of the metallic resources of the country.

The results of the fiscal operations for the year 1910-11 on the side of trade, as reported by Echegaray,¹ showed for the year an excess of exports approximating P87,880,000. And in the same report for eleven months of the fiscal year 1911-12 he gave the imports as P168,645,000, the exports as P275,891,000, leaving an excess of P107,246,000 to figure in the trade balance. The imports had shown a rather local decline for the last year—a decline resulting, perhaps, as much from industrial conditions as from revolutionary considerations, for, as a matter of fact, the business world was beginning to settle down to the conclusion that Madero was, after all, not so much a revolutionist as a politician, and that he had seen the handwriting on the wall with respect to his ultra-revolutionary pronouncements. There was ground for such convictions in the congressional conflicts which soon arose. Madero did not fail to take up the cudgels of con-

¹ *Boletín de la Dirección General Estadística, No. 1, Sección de Fomento, Colonización y Industria* (Mexico, 1912), chap. iii, p. 31.

THE CRASH OF MADERO'S REGIME

servative, as against some of the more radical proposals of his radical Congress.

The operations of the general budget for the fiscal year 1910-11 had been estimated by Limantour on the resource side at P100,793,000, and he had provided for expenditures in a total of P100,306,267.¹ This did not take into account, however, the inroads made into the Treasury reserves, due entirely to the revolutionary conditions. This inroad amounted to P9,414,119, with the result that the Treasury reserves were reduced to P64,671,595. Of this total the Treasury and government establishments held P34,918,207, and the balance was deposited in banks.²

The Treasury reserves were further impaired by a congressional act of December 18, 1911, when the Executive was authorized to take P5,500,000 for sundry purposes, P2,000,000 of which were to be used in developing the water supply for the capital.³ This was in addition to the sum authorized on May 30th of the preceding year. Other withdrawals from the reserves during these troublesome times were used in constructing the legislative palace and school buildings, plus approximately P4,000,-

¹ *Iniciativa de Presupuestos*, fiscal year 1910-11, p. 61.

² *Mexican Year Book* (1912), p. 12.

³ *Diario Oficial*, vol. cxvii, p. 631.

THE PUBLIC FINANCES OF MEXICO

000 spent up to June 30, 1911, in liquidating the costs for the army which was endeavoring to pacify the country.

From July 1, 1895, to June 30, 1911, there had developed in the Treasury a surplus of P157,000,000. Out of this total there had been spent for public works and improvements P81,000,000.¹ It cannot be charged, therefore, with any degree of success, that the administration of Diaz had been niggardly in spending the funds which had accumulated in the form of reserves. If there was in the Treasury at the time of his expulsion a considerable balance, it cannot be lost to sight that a large fund was necessary to be held in reserve in order that the financial transactions of the Republic might go on from day to day undisturbed. Such working balance is necessary in the operations of states, as, indeed, in all operations where continuity is vital.

Madero came into power on October 1, 1911, and the estimates covering his first fiscal year, expiring June 30, 1912, carried a total for expenditures reaching P105,432,346. The largest single item was that covering service on the public debt, P25,850,815. The next large head was that for army and navy, P21,307,409. The third large item was that under communi-

¹ *Mexican Year Book* (1912), p. 7.

THE CRASH OF MADERO'S REGIME

cation and public works, with an appropriation of P16,051,156.¹

Notwithstanding the apparently comfortable position occupied by the Hacienda of Mexico, technically the position was unsound. In the first place, the disorganizations resulting from the change of administration, the ousting of officials in all ends of the Republic, the uncertainty of the economic future, the withdrawals of moneys from the country, and the attitude of the administration toward industries, began to be reflected in the tax reports and in the customs service. Apart from these, too, here and there over the country were disorders more or less pronounced, eventuating in the early rebellion of Orozco in Chihuahua. Even De la Barra, while still provisional President, had deemed it necessary to strengthen the Treasury position by borrowing \$10,000,000 for two years through Speyer & Co., of New York. The rate was to be 4½ per cent, payable semiannually from September 1, 1911, with the right of redemption at par and interest on thirty days' notice. This loan was to be represented by Treasury bills issued through the Monetary Commission. The explanation made at the time of the negotiation of this transaction was that the sum advanced was merely a temporary ex-

¹ *Ley de Ingresos y Presupuesto de Egresos* (Mexico, 1911), p. 347.

THE PUBLIC FINANCES OF MEXICO

pedient, occasioned through the need of developing a gold fund abroad, which was, in fact, the case—a condition which had been superinduced through the partial paralysis of business due to political conditions.¹ The immediate pinch, however, had developed through the heavy drain put upon the resources of the banks by unprecedented transfers to the United States and Europe. De la Barra's action had been taken to support the exchanges.

By the spring of the ensuing year rumor was busy with respect to the condition of the Treasury. And so derogatory were the reports that Ernesto Madero, Minister of Finance, issued a statement emphatically denying that the Treasury had been looted, or that the administration was actually in need of funds. In confutation of the denial, however, May 31, 1912, an additional loan of \$10,000,000 was floated in New York on a 4½-per-cent basis.²

But conditions continued to run from bad to worse under the Madero administration, and during the fiscal year 1911-12 the Treasury reserves were again raided, P3,135,052 having been absorbed in further protecting the water supply in the City of Mexico and in the construction of sundry buildings; and under de-

¹ *Bulletin*, Dow, Jones & Co., New York City, August 8, 1911, No. 68.

² *New York News Bureau*, May 31, 1912, No. 28.

THE CRASH OF MADERO'S REGIME

crees, from April, 1911, to May, 1912, there were expended on account of pacification and the army more than P18,000,000 in addition. A grand total up to June 30, 1912, of P22,792,240 had been withdrawn from the reserves of the Treasury, since the advent of Madero. On that date the balance in the reserve account carried but P30,010,421.¹

The situation of the Madero government was obviously becoming more and more difficult. He had developed a congressional hostility which boded ill. His proposals of one character or another usually met with bitter opposition. This was particularly the case in his large financial measures. It is perfectly clear that some of this opposition was purely political, because, to a certain extent, there remained in the Congress an old *científico* element, which had made up its mind to encompass the overthrow of Madero and perhaps thereby bring about a restoration of the old regime.

In making his estimates for the fiscal year 1912-13, Ernesto Madero, the Minister of Hacienda, placed the revenues at P109,257,500, and expenditures at P109,245,944.² At the time, however, this estimate was laid before

¹ *Council of the Corporation of Foreign Bondholders* (London), Fortieth Annual Report, p. 227.

² *Iniciativa de Presupuestos* (Mexico, 1911).

THE PUBLIC FINANCES OF MEXICO

Congress, Ernesto Madero must have known that the revenues would not rise to anything like the point indicated, and already there were evidences that military operations would very much exceed the limits set for them. And so it worked out.

The estimates for the fiscal year 1912-13 had been made at the end of 1911, at the time the Executive was authorized to use, if need be, P14,000,000 of the Treasury reserves for military purposes. And in the spring of the following year¹ authorization was granted to issue Treasury certificates on a term of five years, up to P20,000,000, on the condition, however, that no revenue income or property of the Federal government be especially set apart to guarantee the obligation. The Executive was instructed to subscribe for the Treasury, out of its reserves, sufficient to cover the unsubscribed portion, the proceeds to be expended in the purchase of military supplies, the payment of troops, etc. Here were desperate financial measures, and Madero must soon have found himself at the end of his resources.

On May 18, 1912, the *Comisión de Cambios y Moneda* was authorized to issue certificates for gold coin or silver pesos, which metallic was to be held in trust in the *Banco Nacional* or

¹ *Diario Oficial*, 120, p. 75.

THE CRASH OF MADERO'S REGIME

other institution to be named by the government. These certificates were to be admissible as part of the metallic reserve of banks with Federal charters.

But nothing came of this. October 30th an additional vote of P20,000,000 of certificates was passed by Congress, under the same terms as the preceding law of May 7th. But these certificates were not absorbed by banks or public—there was no market for them—and when the Treasury was called upon to take the unsubscribed portions, at once it was developed that there were no reserves in the Treasury beyond the fund needed to support exchange operations. In short, there was no way out of the situation, save through the placing of a loan, which at once was recommended. The state of the Treasury at the moment ¹ showed:

1. Deposited in the Treasury.....	P 7,200,000
2. Deposited in the <i>Caja de Préstamos</i>	8,000,000
3. Deposited in the Bank of England...	1,200,000
4. Deposited in the <i>Comisión de Cambios</i> <i>y Moneda</i>	19,000,000
5. Deposited in various offices.....	4,000,000
6. Deposited in foreign banks.....	1,500,000
7. Deposited in banks.....	1,400,000

Making a grand total of. P42,300,000

¹ *Diario Oficial*, 122, p. 345.

THE PUBLIC FINANCES OF MEXICO

The year 1912 ended with various negotiations pending on the score of loans. The year 1913 found conditions still more imperious. Many of the states were facing bankruptcy, having defaulted on their interest payments, and the Federal government, in an effort to support them, authorized, February 4th, a loan of P2,000,000 on the Treasury reserves to be distributed among half a dozen of the commonwealths for the exclusive use of debt service. While the financial situation loomed black enough, revolutionary conditions turned blacker still.

The situation could not be saved, and on February 18th, after ten days of bloody fighting in the capital, Madero, the President, was taken prisoner; and on the 19th Victoriano Huerta succeeded him. A few days later, Madero, the deposed, was killed, and thus ended his regime.

XV

HUERTA'S RULE

THE economic conditions, which indirectly had served to destroy Madero, at once gripped Huerta in their merciless gins. The problems which Madero had failed to solve, and which, indeed, still press for solution, were quite too much for even so clever a man as Huerta, particularly when his whole regime had been doomed through the denunciation pronounced by the President of the United States.

Notwithstanding the sinister combinations, Huerta, with his advisers, immediately took up the threads of the finance negotiations where they had been dropped by Madero. On April 25th an export tax of 10 per cent was laid on gold in an endeavor to stem the tide of outward-bound metallic currency, for now, indeed, all who could were endeavoring to escape the country with such portions of their wealth as were quickly convertible into specie.

In May, 1912, authorization¹ had been

¹ *Diario Oficial*, 126, p. 362.

THE PUBLIC FINANCES OF MEXICO

granted by Congress for the placing of a loan of £20,000,000, the guarantee being 38 per cent of the import and export duties. The needs of the government were urgent. There were the maturing Treasury certificates of P41,000,000 which had been sold by Madero in New York; railroad subventions past due of P1,264,000; past-due indebtedness for public works in a total of P6,000,000; deficiency appropriations totaling P8,384,000; past-due debt to the *Banco Nacional*, P4,000,000; arrears on debt service, P12,000,000; interest on the bonds of the national railways, guaranteed by the government, P4,738,000! Besides this, it was figured that thirty-odd millions were needed in connection with the military establishment. And, remarkable as it may seem, Huerta did in time practically dispose of this £20,000,000 issue of bonds, as we shall see in a subsequent paragraph.

Huerta endeavored faithfully to comply with the conditions imposed by foreign creditors with respect to the assignments of customs dues. For example, under decree of date July 9, 1913, he required the payment of import and export duties in special certificates to be issued by the Hacienda, said certificates to be handled by the *Banco Nacional*, and the proceeds of their sale to be distributed in special

HUERTA'S RULE

accounts, 62 per cent of the total to be assigned for the interest and amortization of the consolidated foreign debt of 1899 and the foreign debt of 1910; 38 per cent, or the remaining portion, was to cover the Treasury bonds of 1912. The certificates so purchased by traders were to be received by the customs agents in lieu of cash.

As the summer wore on, Huerta's financial needs became ever more pressing. In an effort to raise additional funds, import duties were increased; and in striving to augment the available funds in the Treasury, merchants were advised that on all customs certificates purchased prior to November 6th they could secure a rebate of 10 per cent. Only an insignificant yield, however, came from this appeal, and from day to day Huerta's financial difficulties were multiplied.

In his dilemma it was but natural that he should turn to the banking institutions of the country. He at first invited a number of bankers to meet him in conference, which was done. At this conference it developed at once that Huerta meant that they should contribute moneys to the Treasury—only the mode remained to be settled.

Then on August 26th he took another turn.

¹ *Diario Oficial*, 127, p. 580.

THE PUBLIC FINANCES OF MEXICO

He published a decree prohibiting the export of gold and silver. In issuing this he took refuge behind the law of December 9, 1904, which had been drawn by Limantour, it will be remembered, before the promulgation of the law announcing the adoption of the gold standard.

In the midst of his troubles Huerta, on September 16, 1913—Independence Day of the Republic—addressed the Congress in rather sanguine mood. He stated that the revenue derived from foreign commerce for the year ending June 30th had amounted to about P30,000,000, an increase of P8,000,000 over the preceding year. He admitted in this connection that P2,300,000 of this total had been yielded by the extraordinary surtax of 5 and 10 per cent. The stamp taxes had produced about P38,500,000, an increase¹ of approximately P5,800,000 over the results of the year before, which increase, however, had wholly been derived from taxes imposed during the current year. Huerta admitted that on account of disturbed conditions total figures were not available, but he declared that the revenues had not fallen short of P120,500,000, P15,300,000 more than in the preceding year.

On the score of expenditures he was frank

¹ *The Annual Report of the Council of the Corporation of Foreign Bondholders* (1913), pp. 230, 231.

HUERTA'S RULE

enough to say that during the first eight months of the year P75,000,000 had been spent, but that in his opinion the final Treasury statement would not show a deficit. Extraordinary expenditures during the current year totaled P49,800,000, which had been covered by cash in the Treasury, amounting on July 1, 1912, to P55,200,000, plus the unexpended balance of P10,000,000 of Treasury bills of June, 1912. The Treasury balance on February 21, 1913, amounted to but P33,000,000, a sum regarded as the minimum reserve on which the government could operate. At this time Huerta felt confident that the £20,000,000 loan authorized in May, 1912, would be underwritten by French bankers, and De la Lama, Minister of Hacienda, was at that time in Europe endeavoring to commit these bankers in the matter.

Thirty days after Huerta had read his fairly optimistic paper to Congress, he forced the Catholic Church to advance him P1,000,000, and had borrowed from the *Banco Nacional* P500,000; and further than this, he had already launched into his drastic currency innovations.

On October 1st Huerta issued a decree forbidding the demonetization of gold and silver coins;¹ and on November 5² a far-reaching decree was entered, declaring the fifty-centavo

¹ *Diario Oficial*, 128, p. 340.

² *Ibid.*, 129, p. 35.

THE PUBLIC FINANCES OF MEXICO

silver piece (tostón) and the bills of the *Banco Nacional* and the *Banco de Londres* unlimited legal tender. The banks were forced to keep up their metallic reserves to guarantee their bills as in the past, but the law compelling their redemption was set in abeyance during the life of the decree, fixed at one year. Huerta further stipulated that the bills emitted by state banks or their branches should circulate as legal tender in such states only. The same reserve and redemption privileges were accorded the bills of the state banks as those of the *Banco Nacional* and the *Banco de Londres*.

On November 19th,¹ on account of the fact that silver subsidiary coins were rapidly disappearing, and on account of the complete disappearance of the silver peso, the banks were authorized to issue bills of one and two pesos. But all specie had tended to hide, and soon the scarcity of small coins greatly hampered business transactions. Furthermore, it was discovered that the mere proposal to put into circulation paper currency of one and two pesos only stimulated the hasty retreat of the remaining silver coins, and the decree was repealed January 7, 1914. But the mischief had been done. A chill had been sent through the business world.

¹ *Diario Oficial*, 129, p. 102.

HUERTA'S RULE

It has been stated that this step of declaring bank bills legal tender and the creating of a moratorium as against their redemption were measures taken in behalf of the *Banco de Londres*, which was rumored to be in straits, and which indeed was in straits, for the *Banco Hipotecario* had extended it considerable lines of credit. But it is not true that Huerta's course was determined by the condition of this banking institution. It appeared to be the only way out for him, and was preliminary to his already developed scheme of involving the banks in his own hurried monetary plans. It may be true that the course he chose apparently favored the banks, but there was no other way to save them and himself. The banks were in the same predicament that the banks in New York City and throughout the United States had been in the fall of 1907, when almost without exception they suspended specie payments. Currency to meet withdrawals could not be had. So, to be sure, it was no novelty in the history of banking that a moratorium should have been declared. While one had not been expressly promulgated in the United States during the panic of 1907, the action of the banks and of the clearing houses was tantamount to a self-imposed moratorium and clearly in violation of law. Nor had the government of the

THE PUBLIC FINANCES OF MEXICO

United States interposed special objection. It had been a life-and-death measure.

Vitally related with these decrees dealing with bank currency lay Huerta's plan of making the banks his cashiers. He was reduced to the expedient of raising money through forced loans and through internal borrowings. Out of the £20,000,000 loan authorization, less than £6,000,000 had been sold. Huerta soon discovered that this issue might be made the basis for currency operations, and he was not long in bringing the banks of the country within the scope of his operations. The banks had been authorized by the President to expand their circulation of bills in a three-for-one ratio, instead of the two-for-one ratio fixed by law. That is to say, for each dollar of specie held in its vaults a bank was now entitled to issue three dollars in paper currency, under the new decree. While three dollars might be issued, this new additional dollar was to be floated by Huerta, and the banks were to be compensated for their services by receiving into their vaults a *quid pro quo*, an equal sum of bonds of the May, 1913, issue. And this the banks did, under protest, to be sure—a protest which in some cases landed bankers in jail.

In this manner Huerta was enabled to tide himself over the crisis which had been threat-

HUERTA'S RULE

ened, and to make a little headway in the matter of pacifying the country. From time to time the banks were required to emit additional sums of bills, and received in their vaults still additional sums of the now famous bonds. There were, in all, nine issues, but the banks figured in them only to the extent of P37,358,789.

The question of the legality of this issue has been raised. Carranza, while chief of an inconsiderable contingent of revolutionists in the north, issued a memorandum declaring that all of Huerta's financial measures would be declared void, and such was his steadfast attitude while he was in authority. He persisted in refusing to recognize all bonds issued under the Huerta regime. There can be little question, however, as to what the attitude will be of foreign governments and our own, for that matter, when the time shall come for the final appraisals of Carranza's executive acts. There can be no doubt of Mexico's being held responsible for the payment of all obligations fixed by Huerta, because at the moment he was the *de facto* and the *de jure* President of Mexico, and controlled not only the Federal Congress, the army and navy, but practically the entire territory of the Republic.

The bank bills which Huerta thus so cleverly

THE PUBLIC FINANCES OF MEXICO

got into his coffers, while vastly helping him for the moment, were not sufficient to satisfy the needs of the Hacienda. Quite apart from the foreign debt, the demand for funds to meet current and maturing home obligations was imperative. With this situation in mind, on December 18, 1913,¹ the Executive was authorized by Congress to issue bonds, called the 5-percent amortizable national debt of 1913. They were to be sold for the following purposes:

1. To pay subventions to railways.
2. To convert special obligations.
3. Public works.
4. To indemnify the Chinese government for the massacre of Chinese subjects in Torreon, as per Convention.
5. To liquidate claims growing out of the 1910 revolution.
6. To pay contracts for equipment and supply of the army.

The first issue was authorized for P20,000,000. They were bearer bonds, exempt from Federal, state, and municipal taxation, coupons to be accepted for all Federal Treasury payments. During the first ten years of the life of the bonds the government committed itself only to the payment of interest. The period of amortization ran for fifty years.

¹ *Diario Oficial*, 129, p. 453.

HUERTA'S RULE

In December, too, the Mexican Congress had given extraordinary powers in fiscal matters to Huerta during the recess. These powers covered general needs of the Federation and authority to amend all tax laws, including the stamp tax, and taxes on tobacco, alcohol, and petroleum.¹

Notwithstanding all this, Huerta's financial difficulties were rapidly coming to a head. The situation was developing certain features of panic when on December 22d he decreed a legal holiday from that date to December 31st, inclusive, for banks of refaction and mortgage, for banks of issue, and for the clearing house as well. On January 1st legal holidays were extended to January 15th; and it may as well be added that the legal holidays thus inaugurated by Huerta have continued down to the present time, with only slight modifications.

Driven by necessity, Huerta now jumped from one expedient to another, and on January 6th the bills of the state banks of issue were made unlimited legal tender throughout the Republic, whereas formerly they had been restricted to the several states of the parent banks. In order to afford a measure of guarantee for the paper circulation the banks were required to maintain a safety fund, adminis-

¹ *Diario Oficial*, 129, p. 438.

THE PUBLIC FINANCES OF MEXICO

tered by a board of four, which fund was to be used to redeem the bills of any failed bank. The following day Articles 16 and 20 of the law for institutions of credit were amended to read as follows:

Article 16. The issue of bank bills shall not exceed three times the paid-up capital stock, nor shall it, together with deposits payable on demand or subject to withdrawal at not more than three days' notice, exceed twice the holdings of the bank in cash and gold and silver bullion. Nevertheless, the Department of Finance may authorize such banks as requested, during the lives of their charters, to increase their circulation up to three times their holdings.¹

By the turn of the year, the need of making interest payments had come sharply to the fore, and through negotiations conducted by Turrettini, manager of the *Banque de Paris et des Pays Bas*, and the Mexican Minister of Finance, De la Lama, negotiations were completed whereby the January maturities were liquidated. New York, London, and Paris bankers took in this connection £5,900,000 of the 1913 bond issue. This was a very creditable transaction on the part of Huerta and showed his disposition at the moment to keep faith as far as possible with the commitments of his government.

¹ *Diario Oficial*, 130, p. 66.

HUERTA'S RULE

There arose during the conferences of the foreign bankers with De la Lama an important point which may eventually come to be most vital, to wit: How shall the matter of handling the customs dues be approached in the event of default on the part of the Mexican government, since the whole of the customs dues are pledged to secure the various outstanding bond issues of the country, and since a very large percentage of these issues are held by the citizens of foreign countries? The position was assumed that these governments might, in the interest of their subjects, take possession of the customs ports and appropriate for their use and benefit such revenues as may be derived from the commerce of the country. If the history of Mexico can be depended on at all to afford criteria for new judgments, these foreign Powers will assume just this attitude, and we shall doubtless be called on to join in the arrangement. Here hangs, then, by a delicate thread, one of the difficult problems which may determine the fate of our relations with Mexico. We are, indeed, not wholly divorced from France and England in the premises, for the United States controls large quotas of Mexican bonds; and our claims for damages due to the revolution are heavy indeed.

It required a vast deal of courage for Huerta,

THE PUBLIC FINANCES OF MEXICO

in the midst of his troubles, to have prepared a table of estimates for revenues and expenditures for the fiscal year 1914-15. On December 13, 1913, these estimates were given to Congress. On the revenue side customs dues were figured at P57,875,000, while internal taxes were counted on to produce P57,761,000. Taxes in the Federal District and territories were put down at P14,432,000. Public service was set down at P7,500,000, national property and minor sources P8,389,000—or a grand total of P145,957,000.

On the expenditure side he figured a total of P152,204,898, of which sum he allowed for army and navy P55,165,428; service on the public debt, P31,187,066.

It was, indeed, a piece of bravado to prepare so preposterous a program. Huerta was perfectly aware that customs dues had fallen off heavily, and that there was every prospect of further shrinkages; that the yield from certain taxes had been tremendously reduced; and that the disturbed areas were rapidly extending, which meant further and further reductions in the sources of revenue. He knew, too, that the stamp taxes would suffer accordingly. His only chance to survive, he well knew, lay in floating securities abroad, in order to make ends meet; and his ability to do this, he was soon to learn,

HUERTA'S RULE

had forever been forfeited through the antagonism of President Wilson.

During the fiscal year 1912-13 Mexico religiously met its obligations on the public debt. There was even a capital payment of P6,070,538 and an interest payment of P18,890,086. The total public debt on June 30, 1913, payable in foreign money, amounted to P310,105,945. The debt payable in silver currency outstanding on the same date amounted to P134,197,810, and the floating debt was estimated at P1,023,833.¹

But already the eclipse of Mexican credit was coming on to totality, so far as the outside world was concerned. Of the May exterior debt of £20,000,000, £5,900,000 had been taken by Paris, New York, and London bankers, and out of the sum realized from this flotation the two issues of Treasury notes in sums of \$10,000,000 each—largely held in the United States—were retired, but when the Paris bankers endeavored to rid themselves of these new Mexican bonds, they found the market very dull indeed. So far as American investors were concerned, they were wary. Our bankers were secretly jubilant at having liquidated their Treasury certificates. They now refused to underwrite any portion of the bond issues, perhaps under suggestion of our government. The

¹ *Mexican Year Book* (1914), p. 9.

THE PUBLIC FINANCES OF MEXICO

bonds went poorly, although the rate was high. The bankers of Paris came in for sharp criticism in their own country for having undertaken to float the Huerta bonds, when Huerta himself had been pilloried by the United States government. The matter went so far that an interpolation was threatened in the Chamber of Deputies, and it was determined that the government would use its efforts to prevent any further extension of credits to Mexico, so long as Huerta was regarded as a usurper by the United States.¹

On January 8th a 6-per-cent issue of interior debt bonds in a total of P25,000,000 was authorized. At the time it was expected that the nation would secure control of the Mexican National Packing Plant, which was to be paid for with these bonds. This deal had been negotiated by one De Kay, who, realizing the better values of the May issue, soon induced Huerta to pay him in these bonds, and in this connection there developed the worst criticism of the Huerta administration.

Almost coincident with this distressing affair, Huerta was forced to face the bitter exit of acknowledging national bankruptcy. On January 12, 1914, he realized that it would be impossible to pay the interest on the public debt,

¹ New York Sun, August 1, 1913.

HUERTA'S RULE

the term of which had passed on the 1st, so he declared a suspension of the debt service for six months, and ordered that all customs duties should be paid in cash.

This was, of course, a complete breaking of faith on the part of the administration with regard to those importers who had purchased certificates under his earlier plea. In his need, and under the powers granted him by Congress, he at once levied a tax of 1 per cent, effective from date, on all capital except public and private charitable institutions and institutions of credit, this tax to be paid with the ordinary revenue stamps. And he at once placed export taxes on vanilla and coffee. An export tax on cattle of approximately forty pesos a head was authorized on March 3d.

On March 30th authority was granted to pledge Treasury ten-year bonds to the amount of £400,000, as a guarantee of the principal and interest accrued on the issues of the national railway lines, on the condition of the recognition of the obligation contracted by the Executive under an agreement of June 8, 1913, with the French bankers, who had retained an option on the balance of the £20,000,000 issue. The bonds were to be pledged at 85.¹

The news soon reached European capitals

¹ *Diario Oficial*, 132, p. 259.

THE PUBLIC FINANCES OF MEXICO

that Huerta (when he could no longer count on procuring funds abroad, the French bankers had refused to exercise their option) proposed to make use of the residue of bonds authorized in May, 1912. This report stirred the bankers and brought a protest from the French government. This protest was issued at the time of Huerta's announcement of a suspension of the interest payments due in January, 1914. The French government took the position that the 1910 loan differed in character from that of 1913. The first of these was secured by an assignment of 62 per cent of the customs dues, and this loan had secured the formal approval of the French government, which had authorized the listing of the bonds on the Bourse. The Foreign Office, therefore, protested against Huerta's putting all bonds in one classification and having declared default of interest.

But little did the Foreign Office understand or appreciate Huerta's difficulties; and it may be that already the World War was casting its shadow before. Huerta would have been the last to order nonpayment of interest; only dire necessity compelled the course he pursued. The Foreign Office uttered a second protest at the request, and on behalf of the French bankers who had taken over a portion of the £20,000,000 loan, against which customs dues had

HUERTA'S RULE

been assigned in a total of 38 per cent. In its note the French government announced that it might enforce its option of collecting the customs duties at the Mexican ports.¹

On March 31, 1914, 6-per-cent Treasury bonds were authorized in a total of P30,000,000 to pay current debts; and on July 6th amortizable 6-per-cent Mexican gold bonds of 1914 were created in the sum of P60,000,000, out of which it was expected to meet the interest on the national debt, the national railway coupons, the bonds of the *Caja de Préstamos*, and the needs of the war which now appeared certain with the United States. They were to be amortized at the rate of P6,000,000 a year. Against these bonds, deposited as security with the *Comisión de Cambios y Moneda*, the Executive was authorized to issue provisional obligations (notes) of the Federal Treasury, to the extent of 85 per cent of the value of the bonds deposited. The amount of this fiat currency to be placed in circulation was limited to P10,000,000 per month. It was further provided that these so-called provisional obligations, which were, in short, but fiat paper currency, should be accepted as legal tender in all commercial transactions. These provisional obligations were to be issued in series of one peso,

¹ *Commercial and Financial Chronicle* (New York), January 24, 1914.

THE PUBLIC FINANCES OF MEXICO

five pesos, twenty-five pesos, fifty pesos, and were to have behind them ostensibly bonds carrying a margin of 15 per cent; but intrinsically these provisional obligations were the plain notes of the country, and were as clearly fiat as the original greenback issues of the United States. The bonds were no better than the notes, from point of security—both depended on the credit of the country. And yet we have here a vicious illustration of reasoning in a circle with the obvious end in view of befuddling the public. But Huerta had no time in which to reap his whirlwind.

This was the last important financial act of Huerta's administration. What with his tampering with banks, his authorizations of sundry currency issues—all of which had been declared legal tender—the floodgates were opened wide for the currency deluge which was to break over all walls with the advent of Carranza. Mexico was about to embark on a tempestuous monetary sea, with neither compass nor guiding star.

Early in July, 1914, Huerta perceived that he had run his gamut, and that nothing remained for him but the route which Diaz and many another of far less renown had traveled during the preceding century. So he betook him to Puerto México, where he embarked on the 19th for Europe on a German vessel of war.

XVI

CARRANZA AND HIS CURRENCY SCHEMES

CARBAJAL, who succeeded Huerta in the Presidency, remained in office less than a month, and all that was left of the old regime retired on Carranza's entry into the capital on August 15, 1914. It is not too much to say that at this time there was scarcely a semblance of a national government in Mexico. The disorder and confusion prevailing were as abysmal as ever they had been in the century following independence. There was no Congress. There was no Treasury. There was no national army. In a strict sense there were no state governments. There was nothing save a distracted country, with factional army chieftains controlling as they might starving peoples. As for a centralized government, the term had no application in Mexico. Carranza, who at the moment appeared the most conspicuous of the Mexican leaders, dominated only such territory as his ragged retainers could reach with their

THE PUBLIC FINANCES OF MEXICO

guns, and that was but a fraction of the national domain.

At this time, it will be remembered, Vera Cruz was still occupied by the American forces, and the *impasse* which had been developed as between Huerta and the United States was not changed. Carranza, for political reasons, merely took Huerta's place. The conditions which had called the American fleet into action at Tampico and Vera Cruz remained as they were, nor gave promise of change. The American authorities in these ports had collected customs dues according to Mexican regulations, and these funds were carefully held in trust; and, it may be added, they were funds which had been coveted by Huerta, nor less by Carranza, who now appeared on the horizon as the most prominent candidate for the Mexican Presidency.

Carranza was a native of Coahuila. He had served for some twenty years in the Mexican Congress, under the Diaz regime; but during the whole of that period his name is linked with no measure of importance. In his own state he had conducted an insignificant business with mediocre success; but he had, indeed, mastered the technic necessary to political advancement in the Mexican Republic. Soon after Huerta's assumption of authority, Carranza—for reasons more or less in dispute—

CARRANZA AND HIS CURRENCY SCHEMES

rose in revolt, but almost at once he found himself without funds and hotly pursued by the Federal forces. So rapidly, indeed, was he compelled to make way northward, that at one stage of his course he fled away from his insignificant military force, and returned only when danger had past.

In an effort to provide ways and means for the maintenance of his army, on April 26, 1913, he decreed the issue of P5,000,000 in paper currency, to be known as the Monclova issue.¹ This decree set out with a characteristic statement:

Considering it the duty of all Mexicans to contribute proportionally toward the expenses of the army until the re-establishment of constitutional order, and considering finally that the best way to achieve these ends, without causing direct and material injury to the people of the country, lies in the creation of paper money, I have seen fit to decree the following:

Article I. The creation of an internal debt in the sum of P5,000,000 is authorized.

Article II. In order to put into operation the above article, legal-tender notes shall be emitted in a total mentioned in the above article, and the payment of which is guaranteed by this constitutionalist government, according to Article IX of this decree.

Article IV of the decree declared that all the inhabitants of the Republic were obliged to

¹ *Diario Oficial*, June 29, 1917.

THE PUBLIC FINANCES OF MEXICO

receive these notes as legal tender, and at their face value, in all operations, civil and commercial.

Article V—penalty for refusal; first offense one month in jail, six months for any subsequent offense.

Article IX stated that as soon as order was re-established in the Republic, laws would be promulgated looking to the redemption of the bills which had been issued.¹

The net of it all was that the plan gave Carranza a paper license to prey on the country as he advanced. It was a species of camouflage, a sugar coating to a bitter dosage which was to purge that stricken country for years.

Carranza early displayed symptoms of genuine sagacity. It was easier to fool the people through indirection. In short, he showed great progress in technic over the ways and means employed by most of his predecessors who had risen to power in Mexico. Instead of applying the blunt rule of forced loans and other direct and indirect methods to raise funds wherewith to keep his forces intact, Carranza learned the advanced lesson of employing a fiat paper currency, which, after all, was a respectable way of levying forced loans.

As Carranza's armies advanced, they every-

¹ *Diario Oficial*, June 20, 1917.

CARRANZA AND HIS CURRENCY SCHEMES

where carried with them bundles of paper money, which had been declared legal tender; and everywhere the people—the rancher for his cattle, the merchant for his wares—were forced to accept it and forced to continue its circulation under heavy penalties. And the lesson once learned was easy of application by every would-be general or president. From the northern to the southern limits of the country issues of paper currency made their appearance. It has not been possible to take into account the many issues—estimated at 200—nor has effort been made to trace in detail the “order,” which also took on characteristics of currency “orders” given out by commandeering generals. These latter doubtless one day will have need to be reckoned with, when compensation is made for properties appropriated on the strength of a scrap of paper bearing the signature of some putative general.

Carranza's method, and the method of other revolutionary leaders of the day, differed in no essential from the methods pursued by the revolutionary leaders—Iturbide, Bustamante, Santa Anna, and the rest. Some differences, of course, there are in details, but at bottom they were all based on confiscatory measures. They were essentially violative of the fundamental rights of property. The moral strabis-

THE PUBLIC FINANCES OF MEXICO

mus afflicting the Carranzista adherents was only a little more marked than that of any of the preceding groups. The earlier revolutionists were inclined to be apologetic, and showed some disposition to make restitution. The Carranza group attempted to justify its position under the special plea of restoring the national domain to the people and of returning to the masses the properties of which they had been despoiled. This flagrant obliquity of vision reflects the most sinister aspect of the Carranza regime.

When the Constitutional army entered the capital of Mexico in August, 1914, there were displayed as curiosities in the show windows sundry Carranzista paper notes; but within the space of twenty-four hours the city was flooded with this very same paper currency, and even the copper pennies took refuge in flight. Under Huerta the silver pesos had gone and much other specie had burrowed out of sight, but a certain amount of subsidiary coinage had remained in circulation. This now, to the last centavo, disappeared, and the public was forced to devise cardboard tickets in order to effect exchanges. Bank bills, too, which had fallen steadily in the markets after the Huerta decrees, went into hiding. So precipitate, indeed, was the flight of specie, that within

CARRANZA AND HIS CURRENCY SCHEMES

twenty-four hours after the advent of the Constitutionalists nothing was to be found in the streets save Carranza currency.

This had been the invariable experience in all the invaded districts. The operations of Gresham's Law were being faithfully recorded—good currency driven out by bad. Only in Tampico, where American currency was in circulation to some extent, could specie be found. This had come about through force of business circumstances, which the Carranza authorities inclined to respect. But even there fluctuations grew from day to day with a constantly depreciating market for the fiat money of the Constitutionalists. Mexico, as far as Carranza could bring it, was on a paper basis.

Before he had reached the capital, Carranza began to utter decrees dealing with taxation. On July 21, 1914, it was fixed that after August 1st the tax on crude oil should be paid in specie at the rate of ten centavos the ton, and the exchange rate should be on a basis of two pesos for each dollar.¹ On the 10th of the month he issued a decree abrogating the stamp taxes which Huerta had fixed on capitals, and reaffirmed the tariff laws of 1906 as modified by Madero. He at once declared that taxes on mining, alcohol, wines and beers, textiles,

¹ *Decretos, Circulares, etc.*, book 1, p. 224.

THE PUBLIC FINANCES OF MEXICO

tobacco, as fixed by the Constitutionalist government, were in force, abrogating those of Huerta.¹

On September 1st, soon after his arrival in Mexico City, he issued a decree relative to payment of customs duties on goods imported through Vera Cruz. Merchandise which had paid duties at that port to the American authorities was to be exempt from further taxation. The Mexican custom house had been removed from Vera Cruz to Orizaba. Duties were there adjusted on all goods which had passed through Vera Cruz. To Carranza's demand for the taxes collected, the American government made it plain that it would not turn over moneys until the acts of the provisional government were legalized and assurances given that the sums would not again be collected.²

But spite of all his measures financial difficulties began to oppress Carranza. If he and his aids had imagined that their monetary schemes would endure, they were headed for a rude awakening. Soon or late they were to realize that figs would not grow of thistles. As for their paper currencies, almost from the

¹ *Decretos, Circulares, etc.*, book 1, p. 237.

² *Commercial and Financial Chronicle* (New York), September 5, 1914, October 10, 1914.

CARRANZA AND HIS CURRENCY SCHEMES

first they were involved in difficulties. There was no way to curb the rapacity of generals, nor to dam the flood of fictitious prints which came into circulation both from within and from without; nor could even the Constitutionalist leaders devise a way to give intrinsic value to mere sheets of printed paper.

Although government officials stated that the Monclova issue was limited to the sum indicated, it was patent at an early date that fraudulent issues were flooding the country, particularly those sections overrun by Constitutionalist troops. Wherever a printing press could be found, currency came forth. From far away New York great stacks of money were turned out, and shipped posthaste to the ports of Mexico, there to be exchanged for whatever thing of value could be found.

The totals to which the Monclova issue expanded can never be known. By decree of November 28, 1913, the circulation was officially increased by P20,000,000. Then decree after decree followed, leaving ever more uncertainties and despair in their wake.

The confusions which had developed under Huerta were mild compared with the demoralizations which came trooping after the Constitutionalist. On August 27, 1914, Carranza issued a decree which set out that the Federal

THE PUBLIC FINANCES OF MEXICO

offices would accept all bills issued by banks, without limitation, in payment of taxes. Secondly, that the bonds (*bonos de Carbajal*) authorized by the Huerta administration would be accepted by the same offices. A third matter, indicative of Carranza's attitude toward the banks, was proposed in an investigation with respect to the recent issue of bank bills and bonds under Huerta, with a view to fixing the responsibilities of the banks.¹

While Carranza was thus marking out a course of action, things were far from rosy with him. After he had enjoyed the hospitality of the capital about three months, Villa and Zapata came down from the north, after the Aguas Calientes conference, and expelled him. They brought with them additional currencies. How much of this paper they introduced can never be known. They, of course, issued decrees against the circulation of the Carranzista money; and further than this, they endeavored in their brief stay in the capital to organize the Hacienda, and called together a group of bankers to advise them; but no progress was to be made, and in the course of sixty days they retreated, and Carranza, who had retired to Vera Cruz, came in again. Then for six months

¹ *Decretos, Circulares, etc., del Gobierno Constitucionalista*, book 1, p. 229.

CARRANZA AND HIS CURRENCY SCHEMES

there was fighting in and out of the capital, until finally, on August 1, 1915, the Constitutionalist forces occupied it, there to remain until 1920.

While in Vera Cruz, Carranza had kept his printing presses busy turning out a paper currency which became popularly known as *bilimbiques*. They were lithographed, and soon were counterfeited to some extent. But through the operation of well-known laws they continued to fall in value until it was no longer profitable to manufacture them. How many of these bills were printed is unknown—perhaps, in the aggregate, P1,000,000,000, according to careful estimates. Naturally, the exchange value of these paper pesos, with respect to American dollars and other foreign currencies, fell rapidly. In June, 1913, the rate in Tampico for the Monclova issue had been 5 to 1; by May, 1916, it had fallen to 63 or more to 1.

In the summer of 1915 the currency situation became so congested the ruling powers realized that relief must somehow be obtained, or else total collapse. So on July 21, 1915, a decree was published authorizing what is known as the *infalsificable* issue of currency. One clause in this decree read:

It is of urgent necessity to dictate necessary dispositions to unify in a definitive manner the paper money

THE PUBLIC FINANCES OF MEXICO

in circulation, in order to end the fears of the public, who, in the majority of cases, cannot distinguish between legal-tender notes and those which are not.

In Article IV reference was made to the matter of refunding the divers notes issued by military chieftains.

This important decree was followed on January 16, 1916, by one declaring the Monclova issue no longer legal tender. This had been preceded by another, voiding all bills put in circulation by the government of the Convention of Aguas Calientes. Also all bills fraudulently issued were declared void, and the Hacienda set about inspecting notes to determine their legality.

On April 20, 1916, an attempt was made to define what notes would be recognized by the government, and all such notes were to be presented to the Hacienda before July 20th, there to be exchanged for *infalsificable* notes on the terms and conditions to be fixed by the First Chief.

Under the decree of July 21, 1915, authorizing the *infalsificable* issue, a general retirement of all paper currencies was ordered; and on April 3, 1916, Carranza decreed the creation of a \$10,000,000 fund which was to regulate the values of *infalsificable* paper; the issue was to be limited to P500,000,000. This paper cur-

CARRANZA AND HIS CURRENCY SCHEMES

rency was to be put in circulation on the express guarantee of the government that the *infalsificable* notes would be issued with proper metallic reserves; but these were never materialized. In connection with the *infalsificable* it was decreed that payments of dues of every sort should be made in this currency.

Article II of the famous *infalsificable* decree read as follows:

The national government guarantees the value of 20 centavos *oro nacional* for each peso of the new *infalsificable* paper which it shall emit. This guarantee will be made effective through the direction of the Comision Monetaria.

Under this act the circulation of the two issues, Ejercito Constitucionalista and the Gobierno Provisional, was permitted until June 30, 1916. After this, if not redeemed, it would be void.

The *infalsificable* note was well made and was attractive in appearance, in striking contrast to the fugitive and shabby paper of earlier issues. In the spring of 1916 the bills began to arrive from New York, and in May, 1916, they were put in circulation at the decreed value of five *infalsificable* pesos to one peso of Mexican gold—the equivalent of fifty cents United States coin. And it was announced that the govern-

THE PUBLIC FINANCES OF MEXICO

ment had developed a gold and silver reserve of P10,000,000 in the United States to secure this issue; whereupon all other paper currencies were declared no longer legal tender.

When this special government issue of currency was put into circulation, a decree was issued prohibiting banks and individuals from dealing in exchange without special licenses from the government. In order to prevent this altogether, taxes were levied on such banks and individuals at a prohibitive figure. The government itself undertook to transact or direct the exchange business of the country, as it had formerly under the operation of the *Comisión de Cambios y Moneda*, an institution of Limantour's. Since the *infalsificable* was the only legal-tender paper currency, people who needed it had to go to the Monetary Commission, which had succeeded the *Comisión*, there to pay twenty centavos Mexican gold, or ten cents United States currency, for each peso of this paper money.

For two months the government was able to maintain itself in this way, and for a time it actually redeemed its own paper money on the scheduled basis, until, of course, the volume in circulation came to be so great that it could no longer maintain the established parity of twenty centavos to the peso of gold. Immediately the

CARRANZA AND HIS CURRENCY SCHEMES

infalsificable currency began to depreciate; the first transactions, of course, of this character, were clandestine, but later it came to be quoted in the markets and it was clear that a purchaser would not go to the Monetary Commission and pay twenty cents gold for a paper dollar, when it could be bought clandestinely through a broker—or *coyote* as they were locally called—for half the price.

The Monetary Commission realized the hopelessness of stemming the torrent, and asked confidentially three local banks to come to its assistance in an effort to maintain certain parities. These banks readily agreed to sell the government's exchange and to redeem its *infalsificable* currency at rates to be fixed daily by the government. For some weeks this arrangement continued in force, the rate fluctuating from $4\frac{1}{4}$ to $4\frac{1}{2}$ for *infalsificable* pesos. In August, 1916, however, a further decline set in, and by November the *infalsificables* had come to be worth one centavo per peso, and after that a fraction of a centavo, and thereupon the government abandoned efforts to support it.

It may be of interest to scan the course of Carranza's currencies. The following table indicates the ratio of the paper peso to the gold peso:

THE PUBLIC FINANCES OF MEXICO

	1913	1914	1915	1916
January.....	99	74	28	9
February.....	98	69	26	8
March.....	97	63	22	5
April.....	96	58	18	7
May.....	94	66	17	20
June.....	94	65	17	12
July.....	90	62	10	10
August.....	79	53	13	7
September.....	73	40	13	5
October.....	72	40	14	3
November.....	71	39	14	1½
December.....	71	37	12	....

By the middle of October exchange had begun to be quoted against gold and silver as between the banks. The government, realizing its failure, also permitted prices to be quoted in Mexican gold. Exchange rates began steadily to rise from the first quotation of 48.60 for the dollar, to par, or 50, early in November. From that date Mexican gold and silver continued at a premium as against the dollar, until the end of the World War.

The Mexican public came into the market approximately on December 1st, and, strange as it may seem, the *infalsificable* currency disappeared from circulation while still legal tender, and for a period there were two standard moneys. The government looked on and per-

CARRANZA AND HIS CURRENCY SCHEMES

mitted the anomalous situation to continue for some time, in which merchants were allowed to quote prices in *oro nacional* and in paper.

It is not possible in this connection to go into the indescribable confusions which attended this currency orgy. While originally it was the purpose of the government to issue only P500,000,000 *infalsificables*, a total of P99,329,321 in excess of that amount has been admitted;¹ and it is confidently believed and asserted that a volume vastly greater than has been accounted for was put in circulation. If one takes into account the hundreds of millions of paper currency—counterfeit and otherwise—issued at all ends of the Republic, it is likely that the total issues of “orders” and fiat paper currency during the years 1913–16 exceeded a total of P2,000,000,000!

The totals of the admitted Carranza currencies foot up approximately a billion and a quarter pesos.

The Carranza paper money issues:

I. Monclova.....	P 5,000,000
II. Ejercito Constitucionalista.....	25,000,000
III. Gobierno Provisional (Mexico City).	42,625,000
IV. Vera Cruz (Provisional government).	599,329,321
V. Infalsificable.....	599,329,321

¹ *Diario Oficial*, June 29, 1917.

XVII

THE ECONOMIC CHAOS IN MEXICO

TOWARD the end of 1916, with the complete failure of the government's plan to keep afloat its *infalsifiable* paper, the Carranza regime appeared to have reached the end of its financial tether. From an economic point of view the Republic was prostrate. The revenues were insufficient; the situation was well-nigh hopeless. Happily for the Constitutionalists they had managed to survive for three years on the strength of paper flotations—fictitious, worthless, one series after another having been declared illegal and forced out of circulation.

This chapter of Mexican history is quite unique in the annals of the New World. The amazing thing about it all is that even the semblance of economic order should have remained. Strange to say, the fiat-currency blight fell on the land like an early frost and then vanished. Traces of its effects are still visible, but the annihilation of things was not achieved.

It is difficult to understand how completely,

THE ECONOMIC CHAOS IN MEXICO

indeed, the whole Republic abandoned itself to wallowing, as it were, in the floods of paper currency that literally deluged the land. It was a feverish time in every department of human activity. Any man who came into possession of a handful of paper currency rushed around in the utmost haste to rid himself of it on the best terms and conditions he could make. A tremendous stimulus to speculation and to trade spurred men as never before. Debtors hurried about eager to acquire depreciated currency wherewith to liquidate their engagements. Mortgages and notes made on a gold basis were paid in paper currency, bought perhaps at one cent on the peso. Property of excellent worth was purchased at paper values. Fortunes were made and lost, and the wild excitement and speculation prevailed until, on a day in December, 1916, the *infalsificable*, the last of the paper issues in the Republic, was admitted to be worthless.

Remarkable as it may seem, up to the fall of Carranza the *infalsificable* had not been repudiated. The Carranza government required that all customs dues should be paid in *oro nacional*, accompanied by an equal sum of *infalsificable* bills, and thus eventually the issue was expected to be entirely withdrawn. In this manner the Constitutionalists pleased

THE PUBLIC FINANCES OF MEXICO

themselves to think that their obligation to the public would be satisfied. More than P400,000,000 of the issue are reported to have been destroyed by the Treasury, but the continuing low price for this paper does not as yet indicate any great scarcity in the markets.

It is plain that the ultimate losers in these multifarious and nefarious currency operations were the holders of the bills in the last resort. The result of it all is that the country at large supported the Carranza government for more than three years, and had nothing to show for it. Also a tremendous reduction has been effected in the national wealth, for the reason that production in the departments of agriculture, mining, and industry has been tremendously curtailed, where it has not, indeed, been wholly suspended.

In December, 1916, the Carranza government came to realize that new expedients must be employed other than paper flotations, to maintain itself intact. And what expedients remained? Already it has been shown that one of the early edicts of Carranza pointed to the banks like fatted calves lined up for slaughter. For had not these banks, indeed, lent their credit to Huerta? Had they not taken his bonds and permitted his issuing notes of the banks to the tune of millions of pesos? Were

THE ECONOMIC CHAOS IN MEXICO

not the banks, therefore, guilty of being a party to the usurpation of Huerta, and accordingly criminal? Had the banks not neglected the masses, even oppressed them? Was there not abundant evidence of the faithlessness of the banks, of their *científico* affiliations? And more than one of Carranza's Cabinet made free to declare that the government's attitude toward banks was circumscribed by political considerations. The government was slow to appreciate the fact that in destroying the machinery of credit the remaining fragments of the nation's credit also went by the board.

Carranza knew, as well as another, that the banks had been forced by Huerta to undertake the measures he prescribed. Carranza knew perfectly that bank officers and boards of directors had resisted the proposed innovations, that they had been jailed, and their lives threatened—but that was beside the issue. The point was that these banks held in their vaults metallic currencies—gold and silver—and these were sorely needed. The question was how to lay hands on those stores under color of law. A case had to be made against the banks.

And that was simple enough in the view of Carranza and the coterie of men back of him, led by Cabrera, Minister of Hacienda. On September 15, 1916, Carranza decreed that the

THE PUBLIC FINANCES OF MEXICO

concessions previously granted to the banks of issue were unconstitutional, and accordingly they were abrogated. Despite this ruling, the banks were given sixty days within which to bring up their reserves to the legal requirements, and in the meantime they were limited in their operations by intervenors for the Hacienda.

The Minister of Hacienda was authorized to appoint at his will boards of sequestration for each bank. It was a matter of small moment that the conditions laid were of themselves contradictory. The decree announced the proposition that the charters of these institutions were unconstitutional. If that were the case, why should the government have stultified itself by proposing that these banks should restore their reserves within sixty days to the legal requirements prior to the modifications made by Huerta? Did Carranza expect the banks to achieve the impossible? No. Clearly he knew that his decree was hopeless of fulfillment. But that was another step in his case.

On December 14, 1916, another decree followed which declared in liquidation the banks of issue which had not succeeded in bringing their cash reserves within the legal requirements. Not one of them had met the qualifi-

THE ECONOMIC CHAOS IN MEXICO

cation—first, because of general conditions; second, because the government's intervenor had interfered with efforts to realize on assets. Nothing could be done.

Thereupon the authorities took possession of the banks. On the fine pretext of protecting the depositors and the stockholders of these sundry institutions, the government, from time to time in the administration of the banks' affairs, appropriated from their vaults the millions of money which they contained. The totals so extracted reached, in February, 1918, P49,812,217.16.¹

Throughout the year 1917 the Carranza administration endeavored with all its might to pacify the country. The national government extended slightly its authority. A new Constitution was promulgated. A Congress had assembled, but the fiscal administration, so far as its national aspects were concerned, was little better than a groping in the dark. The sources of revenue of the country narrowed from day to day. According to a statement supplied in May, 1918, by Señor Lozano, Jefe of Taxation, the average monthly yield covering the six months of the previous year from

¹ General statement of the banks of issue as of February 28, 1918. See Walter Flavius McCaleb, *Present and Past Banking in Mexico*, p. 255.

THE PUBLIC FINANCES OF MEXICO

customs dues totaled P4,314,004. In addition to this sum, intervened properties yielded a few hundred thousand pesos, and the 3-per-cent consular tax on imports was estimated to return approximately P10,000,000 per annum. The special levies on mining and oil exports brought in an additional P2,000,000 monthly. The government also derived certain revenues from the operation of railways and from its telegraph service. But what these quotas amounted to is as yet a subject only for speculation. Data have not been rendered accessible. The whole Department of Hacienda was in a state of confusion. The estimates of revenues and expenditures for the fiscal year ending June 30, 1918, have been but sheets of paper. There was no budgetary program; there could be none under the circumstances; there were only monthly paper estimates. Government officials freely admitted that they could give no statement covering expenses. Such a thing as Treasury balances were unknown, if, indeed, they can ever be established. It was a matter of spending all that came into hand, and anticipating revenues as far as possible, and defaulters were everywhere. It is alleged that up to October 30, 1917, the Treasury had been looted of almost a million pesos by paymasters.¹ With

¹ *Excelsior*, October 30, 1917.

THE ECONOMIC CHAOS IN MEXICO

the government it was a hand-to-mouth policy. The reserves of gold and silver which it withdrew from the banks in a grand total of P54,253,658.95 were dissipated through utilization in covering the monthly deficits, which averaged from three to six millions. The balances created in New York through the exportation of the silver from the vaults of the banks only tended further to aggravate the exchange situation in Mexico, although, of course, they did succor the government in the emergency.

The circulating medium in the Republic probably did not exceed P80,000,000 in gold and silver and copper, and even this sum, in spite of increased coinage, tended ever to become further restricted. In November, 1916, the mint in Mexico City again was opened, and in that month P260,000 of gold and silver were coined. It has continued its operations, and up to June 1, 1918, it had coined a total of P64,705,000 in gold and P19,584,000 of silver, and to June 30, 1919, gold and silver minted equaled P68,421,600. It has added still other millions to the totals; but that affords only a slight clew to what the circulating media may be. Clear it is that a considerable volume of both gold and silver found its way out of the country, and much of that remaining went into hiding. Whether confidence in Obregon will

THE PUBLIC FINANCES OF MEXICO

coax it again into circulation remains to be seen. But he appears to have taken up seriously the problems of restoring the railroads and of opening the banks.

A striking contrast is afforded if we but turn to a budgetary statement of Cabrera's. With Machiavellian sang-froid he mentions that during a nine months' term the Treasury received from the railroads a "loan" of P5,700,000, and a further "loan" of P5,400,000 from the banks of emission! Also P7,200,000 was received as part of the proceeds of the sale of the Tehuantepec Railway.

The annals of Mexican budgetary history hold no blacker page than that in which, with brazen *éclat*, Cabrera recites that the railways and banks loaned "funds to the government." Nor was Santa Anna quite so robust when he went about discounting the deferred payments due from the United States under the treaty of Guadalupe Hidalgo, as was Cabrera when he sacrificed the interests of his country by selling out the Tehuantepec Railway for a fraction of its value.

But money had to be got. It was of no matter whence nor how. So the railroads were forced to pay over the last centavo without regard to the thousands of stockholders in Europe and America. The banks largely owned

THE ECONOMIC CHAOS IN MEXICO

abroad were compelled to yield their last peso, and finally the one remaining scrap of property of the nation which could be sold—the Tehuantepec Railway—was slaughtered. The rights of stockholders were as nothing to these Mexican patriots; nor were the trusts which had been created, as in the case of the customs dues and the funds from the street railways of Mexico City. No moneys upon which hands could be laid were sacred. Taxes were extended and raised until mining was crippled, spite of the high prices, and oil development slowed down through adverse rulings and laws. There is no way to compute the economic losses to which the nation has been subjected.

Still Cabrera, Minister of Hacienda, and President Carranza continued to front the world with financial statements which tended to show great progress for the country at large. The latter, in his message of September 1, 1919, to Congress, gave an estimate of revenues for ten months, which forecast a yield for the year of P162,000,000. The details for the ten-month term follow:

REVENUES	
Import dues.....	P 27,600,000
Export dues.....	6,450,000
Port dues.....	1,644,000
Stamp taxes on oils.....	13,100,000
Stamp taxes on metals.....	11,900,000

THE PUBLIC FINANCES OF MEXICO

Ordinary stamp taxes.....	11,550,000
Contribution Federal.....	27,100,000
Other sources.....	72,178,000
Consulate (by estimate).....	5,000,000
Mail and telegraph (approximately)...	7,400,000
From nationalized properties.....	730,000
Divers sources.....	649,000
Total for ten months.....	P135,301,000

On the score of expenditures he figured that they would total P199,000,000. But details he would not enter upon. Commentary is almost as unnecessary on the table of receipts. It is not to be believed that any such sum was collected. To hide P72,000,000 under the head of *Other sources* is a confession of deception. When the time comes and a thorough audit of the Hacienda is made, the prediction is ventured that the totals will shrink heavily; and further, that Treasury balances will not be established. The data are non-existent.

For 1920 the estimates of Carranza carried totals for revenues of P167,000,000. He thought import dues would reach P40,000,000 against P25,000,000 for the preceding year; mining taxes at P16,000,000 against P13,000,000; Federal taxes, P32,000,000 against P31,000,000.

Luis Cabrera, the facile and hypocritical Minister of Hacienda, published in the *Diario Oficial*, September, 1918, one of the most in-

THE ECONOMIC CHAOS IN MEXICO

teresting documents of the Carranza incumbency. He states with suave satisfaction that for the period from September 1, 1917, to May 31, 1918, the following resources, "in round numbers," were assembled in the Treasury:

TABLE OF REVENUES

Customs dues:

Import taxes.....	P22,600,000
Export taxes.....	7,800,000
Other sources.....	3,000,000
	<hr/> P 33,400,000

Stamp taxes:

On oil.....	P 5,900,000
On metals.....	7,500,000
Other sources.....	45,300,000
	<hr/> P 58,700,000

Miscellaneous:

Consulates.....	P 3,200,000
Postal service.....	3,999,999
Telegraph.....	2,000,000
National properties and intervened....	1,600,000
Divers heads.....	690,000
	<hr/>

Total.....P103,589,999

With such a record for nine months Cabrera figured that a year would have netted the Hacienda about P137,000,000. If to this sum were added the returns from the government and municipalities of the Federal District, estimated at P12,000,000, a grand total for the country would reach P149,000,000.

THE PUBLIC FINANCES OF MEXICO

It is of interest to note that in all the estimates of expenditures there is never a word about service on the public debt. And yet that debt is truly a matter of grave international concern.

The public debt is, first of all, divided into two classes—that payable in gold, with definite ratios established with foreign standards, and that payable in the Mexican silver peso. A summary of the gold debt is shown on page 253.

To this table must be added the ten-year Treasury bonds emitted by Huerta, in a total of P178,700,290. It will be recalled that this issue was for £20,000,000, and authorized by Congress (1913) under Madero, who did not live to see them placed on the market. If this sum is added, we have a total gold principal of P479,876,655. Past due interest will exceed P120,000,000, or a grand total in excess of P600,000,000 (in 1920).

In this connection we have a recent summary of the gold debt given by Minister Cabrera.¹ It has interest by way of contrast. It follows:

GOLD DEBT		
	Capital	Interest
1. Bonds, 5 per cent, 1899.	P 97,270,807	P28,027,423
2. Bonds, 4 per cent, 1910.	101,898,810	24,455,714
3. Bonds, 4 per cent, 1904.	74,312,800	17,864,787
Totals.....	P273,482,417	P70,347,924

¹ *El Heraldo de Mexico*, March 26, 1920.

SUMMARY OF OUTSTANDING FOREIGN GOLD DEBT¹

Issue	Yearly Rate		Total (Pesos)	Comment
Consolidated foreign.....	1899	5%	102,557,995	Interest unpaid since July 1, 1914
City of Mexico.....	1889	5%	15,546,634	Interest unpaid since April 1, 1914
Public debt.....	1904	4%	76,384,430	Interest unpaid since June 1, 1914
Loan (balance).....	1888	...	13,081	.....
Loan (balance).....	1890	...	3,905	.....
Loan (balance).....	1893	...	2,148	.....
Tehuantepec R. R.....	...	...	4,342	.....
External gold loan.....	1910	...	106,663,830	Interest unpaid since July 1, 1914
Grand Total.....			301,176,365	

¹ *Memoria de Hacienda* (1910-11), vol. 1, p. 11.

THE PUBLIC FINANCES OF MEXICO

The internal or silver debt is somewhat clouded. There have been recent issues in payment of services to employees, etc. The statement below was supplied by J. P. Camacho, under instructions of Señor Rafael Nieto, Sub-Secretary of Hacienda.

SILVER—INTERIOR DEBT

Interior Consolidada del 3 per cent	P 47,743,640
	(Principal, P42,385,775; Interest, P5,357,865)
Interior Amortizable del 5 per cent	117,910,625
	(Principal, P94,328,500; Interest, P23,582,125)
Compania Industrial de la Laguna 6 per cent	4,128,800
	(Principal, P3,176,000; Interest, P952,800)
Bonos del Tesoro 6 per cent	14,950,000
	(Principal, P11,500,000; Interest, P 3,450,000)
Bonos del Estado de Vera Cruz 5 per cent	954,880
	(Principal, P831,200; Interest, P123,680)
Del Estado de Vera Cruz 5 per cent	830,000
	(Principal, P664,000; Interest, P166,000)
Del Estado de Tamaulipas, 1st series, 6 per cent	912,875
	(Principal, P741,500; Interest, P171,375)
Del Estado de Tamaulipas, 2d series, 6 per cent	995,750
	(Principal, P796,600; Interest, P199,150)
Del Estado de Sinaloa 5 per cent	583,375
	(Principal, P466,700; Interest, P116,675)
Carbajal issue	10,000,000
Bonds to employees	27,000,000
	<hr/>
	P235,509,945

The following table appears credited to Minister Cabrera in *El Herald*, above quoted:

THE ECONOMIC CHAOS IN MEXICO

TABLE OF SILVER DEBT

	Principal	Interest
1. Interior Consolidated 3 per cent.	P 42,078,550	P 7,878,117
2. Interior Amortizable 5 per cent..	94,474,502	28,666,670
3. Vera Cruz bonds.....	831,200	255,492
4. Tamaulipas 1st series bonds.....	741,500	255,470
5. Tamaulipas 2d series bonds.....	796,600	234,150
6. Sinaloa bonds.....	466,700	142,080
7. Vera Cruz Port bonds.....	664,000	214,600
Totals.....	P140,053,052	P37,616,579
8. City of Mexico bonds.....	13,538,519	4,068,239

There is another body of debt, not inconsiderable, which carries the government's guarantee, and is therefore a state debt. The table follows (Cabrera, *El Herald*o, March 26, 1920):

GUARANTEED BONDED DEBTS

	Principal	Interest
1. Bonds issued by the Caja de Préstamos.....	P 50,000,000	P13,154,600
2. Bonds of the national railways...	101,497,150	14,209,601
3. Bonds issued without legal authorization under Huerta.....	32,649,750	.....
Total.....	P184,146,900	P27,364,201

It is interesting to note that the celebrated Minister of Hacienda whom we have been following takes count of still another class of debts. He admits the government's debt to the banks in a total of P54,253,658.95. Also, he admits claims presented for damages due to revolution, P24,375,000. He enters as an

THE PUBLIC FINANCES OF MEXICO

item, P10,125,000, due in gold for the redemption of Vera Cruz and *infalsificable* currency. Finally, he allows P100,000,000 to cover claims for damages—claims not yet presented. In short, Cabrera admits a total debt of almost P1,000,000,000.

But the figure is too low—far too low. He has left out of count the bonds issued by Huerta under the £20,000,000 authorization of the Madero Congress; and the internal bonds issued under a (July, 1914) decree of Huerta, carrying limits of P60,000,000. These have now doubtless all been issued. Finally, the estimate for damages is absurd. The claim of the banks of the Republic which were destroyed by the Constitutionalists will alone exceed P250,000,000. But how the matter will work out remains to be seen.

But a turn of the tide came, and in June Carranza and his regime were swept away.

The condition of the country is still desperate enough. The incoming political faction, headed by Alvaro Obregon, makes special pronouncements as to attitude toward investments and debt. But it will require time to heal the wounds of ten years of revolution. And the needs of the country are urgent. It still is afflicted through lack of adequate circulating media, and for capital to further the industrial

THE ECONOMIC CHAOS IN MEXICO

and agricultural development of the country. The most vital need of the country is for banks through which may flow the credits generated in the various departments of human activity.

In a recent address¹ Salvador Alvarado—the successor of Cabrera in the rôle of Minister of Hacienda—estimated that \$25,000,000, or P50,000,000, only were needed for the rehabilitation of the banks of Mexico. Such a statement could have been uttered only by one unfamiliar with the conditions. The banks have been thoroughly crushed. For other immediate uses in connection with railroads and general employment of the masses he estimated the need of P100,000,000. He was frank to admit that the army was costing the country P135,000,000 per annum, and that only P75,000,000 was being left for the conduct of the other departments of the government.

Minister Alvarado goes on to say that “the internal debt of Mexico amounts only to \$270,000,000,” or P540,000,000. He does not give details, but his information is incomplete. Also, we venture that his estimate of the revenues of the country are far in excess of the real figure.

The record of Mexico for a century as a debtor nation has been far from satisfactory.

¹ *A Message from Mexico*, an address, August 26, 1920, published by The American Exchange National Bank, New York City.

THE PUBLIC FINANCES OF MEXICO

For almost eighty years out of the entire period interest has been defaulted on the public debt. Bond issues have come to maturity only to be refunded at heavy discounts to the holders, or to stand overdue for years. Claim after claim has been made for just damages, and only after a generation or after a war have they found settlement. Obviously, fundamental ills afflict the body politic, but who can heal these chronic ailments? Palliatives may be administered, but final cures hang on events quite beyond the purview of this study.

Mexico is still a land of golden promise. It is worthy of the utmost consideration if the lives and happiness of men have value in our lurid times.

INDEX

A

- Aguas Calientes Convention, 232, 234.
 Agustin I. *See* Iturbide.
 Alamo, siege of the, 73.
 Alcohol tax, 183, 213, 229.
 Alliance, Holy, 42, 43.
 Alvarado, Salvador, Minister of Hacienda, 257.
 Anna, Santa, forced loans, 3; hypocrisy, 36; resists Spanish invasion, 60; Dictator, 63; and Texas revolt, 72, 73; disaster at San Jacinto, 74, 75; overthrow of Bustamante, 84; banished from the country, 94; résumé of his administration, 94, 95; return to power, 98; army destroyed, 98; again in power, 108, 109, 110; forced from power, 111.
 Arizona, cession of, 99.
 Army, Mexican, 15, 16, 21, 28, 50, 73, 74, 96, 98, 109, 135, 196, 199, 204, 223, 226, 227, 228, 257.
 Arrillaga, Minister of Hacienda, 37, 38, 42, 45.
Atto, Banco de, extinguished, 85.

B

- Bank bills, legal tender, 208, 209, 213.
 Bank funds, appropriated, 245.
 Banking Act of 1897, 169.
 Banks, established, 76, 109, 144, 148, 153; development, 168, 169; closed, 244, 245, 248, 256, 257; government debt to, 255; need of, 257.
 Bárcena, Manuel de la, 22.
 Barclay, Herring, Richardson & Co., purchase of Mexican bond issue, 50; failure, 51, 52.
 Barra, President De la, 193, 197, 198.
 Bazoche, blockade of Gulf ports, 79.
 Beer tax, 229.
 Berlin loan, 158.
 Bilimbiques issue of currency, 233, 256.
 Bleichroeder, and Mexican loan, 158.
 Blockade of Mexican ports, 79, 97, 224.
 Bocanegra, Minister of Hacienda, 68, 69, 70.
 Bondholders, foreign, 94, 104, 144, 153.
 Bond issues, Mexican, 43, 44, 50, 51, 60, 61, 68, 114, 120, 121, 157, 159, 163, 171, 173, 181, 204, 210, 211, 212, 214, 215, 217, 218, 219, 221, 258.
 Bonuses to railroads, 151, 154, 155.
 Bravo, Vice-President Nicolas, revolutionary leader, 33, 57, 58.

THE PUBLIC FINANCES OF MEXICO

- Brazil, tax on coffee, 167.
 Budgetary statements, 66, 67.
 Budgetless policy, 7, 10.
 Bustamante, President, 61, 63, 75, 78, 83; overthrow, 69, 84.
- C
- Cabrera, Luis, Minister of Hacienda, 243, 248, 249, 250, 251, 252, 254, 255, 256, 257.
 California, cession of, 99.
 Calleja, Viceroy Felix Maria, 19, 20.
 Camacho, J. P., 254.
 Camacho, Luis, 175.
 Capital, foreign, 145, 186, 187.
 Carbajal, President, 223.
 Cards, playing, monopoly, 10, 11, 12, 85, 95, 103.
 Carranza, Venustiano, xvi, 34, 36, 63, 77, 142, 181, 182, 187, 211; currency schemes, 223-239; economic chaos under, 240-258.
 Carvajal, General, 121.
 Cattle, export tax on, 219.
 Certificates, customs, 82; Treasury, 200, 201, 204, 217, 218.
 Church, Catholic, exempt from taxation, 3, 13; wealth of, 19; properties confiscated, 85, 86, 103, 104, 112, 113, 114; levies on, 98; influence curtailed, 143; loan to Huerta, 207.
 Clergy, properties of, incorporated in the National Treasury, 85, 86.
 Coffee, tax on, 165, 219.
 Coins, Spanish, introduction of, 6; copper, minted, 27, 76; amortized, 76, 101; legal value reduced, 76, 77; counterfeited, 76; disappear, 228.
 Colombia, Republic of, Mexican loan to, 51, 54.
Comisión de Cambios y Moneda, 200, 236.
Comiso, Pauta de, law, 86.
 Commerce, internal, 18; development, 152; foreign, 183.
 Commission on Exchanges and Money, 180.
 Commodities, export, 145.
 Communications, means of, 18.
 Comonfort, Ignacio, succeeded Santa Anna, 112; reforms, 112, 113; and foreign obligations, 113, 114.
 Congress, first Mexican, 28, 33.
 Constitution, Mexican, promulgated, 46.
 Constitutionalist, occupy Mexico City, 233.
Contribución federal tax, 166, 167.
 Convention debt, English, 131, 132; Spanish, 131.
 Conventions, Diplomatic, 98; French, 116; of Miramar, 122.
 Copper, high price of, 17.
 Cordoba, Treaty of, 21, 22, 30, 33.
 Corn, tax on, 29.
 Corral, Minister of Hacienda, 67, 71.
 Corta, Minister of Hacienda, 126, 139.
 Cortez, Hernando, military ruler of Mexico, 1, 4, 5.
 Cotton, importation prohibited, 91.
 Counterfeited, copper coins, 76; paper currency, 231, 233, 239.
 Credits, foreign, 162, 182.
 Creel, Enrique C., 175.
 Crop failures, 1892, 1893, 162.
 Currency, fiat paper, 23, 30, 31,

INDEX

- 33, 34, 128, 207, 208, 210, 213, 221, 223, 226, 227, 230-241, 256; counterfeited, 231, 233.
- Customs dues, pledged, 69, 155, 158, 163, 183, 184, 190, 204, 215, 220, 221; stoppage of payment of, on foreign debt, 116, 117.
- D**
- Debt: foreign, 60, 77, 93, 104, 106, 108, 109, 113, 114, 115, 116, 117, 118, 121, 122, 123, 131, 133, 153, 157, 185, 190, 212; public, 100, 101, 115, 116, 122, 123, 124, 125, 131, 135, 144, 154, 155, 156, 171, 177, 185, 217, 218, 252, 255, 257, 258; internal, 115, 116, 171; gold, 190, 252, 253; silver, 254; to banks, 255.
- Díaz, President Porfirio, xv, xvi, xvii; administration of, 94, 141, 144-160, 164, 196; overthrow, 99, 191, 193; revolution against Juárez, 142; favored development of banks, 168, 169; and centenary of Mexican independence, 189; refuge in England, 191; work not appreciated, 192.
- Dirección General de la Hacienda Pública, installed, 19.
- Dolores, Grito de, 16.
- Donations, 17, 23.
- E**
- Echegaray, Minister of Hacienda, 194.
- Education, extension and development of, 173.
- Empire, first Mexican, 30; fall of, 32.
- England, and World War, 78; intervention in Mexico, 117.
- English: debt, xiv, 78, 128, 131, 132; mining companies formed, 53; attitude toward Mexico, 42, 43, 44, 45, 55; loans, 44, 50, 51, 52, 54, 60, 81, 82, 94; Conventions, 115.
- Escandón, suggests National Bank, 109.
- "Escrotesca," conflict with the "Yorkinos," 59.
- Esparza, Minister of Hacienda, 101.
- Esteva, José Ignacio, Minister of Hacienda, 47, 48, 49, 55, 56, 64, 103, 104.
- Exchanges, stabilized, 181, 182.
- Executive (*Poder Ejecutivo*), created, 33.
- Exodus from Mexico, 194, 203.
- Expenditures, budget of, 15, 16, 49, 86, 87, 96, 129, 130, 134, 152, 153, 154, 164, 165, 170, 172, 173, 189, 216, 250, 252.
- Exports, 145, 146, 165, 174, 187, 188, 194.
- F**
- Farías, acting President, 97, 98.
- Federal contributions, 166, 171.
- Ferdinand VII, chosen king, 21.
- Ferdinand, King, fifth (*quinto*) tax, 5.
- Feuds, tribal, 1, 2, 3.
- Florin, Juan, corsair, 5.
- Fonseca, Urrutia y, *History of the Real Hacienda*, 7, 8.
- Foodstuffs, importation, 162.
- Freemasonry, 59.
- Free trade, for Mexico, 90.
- Freight rates, 149.
- French: claims for damages, 79;

THE PUBLIC FINANCES OF MEXICO

- raids upon commerce, 79; blockade of Gulf ports, 79; captured San Juan de Ulúa, 80; Vera Cruz under guns of, 80; Mexican indemnity to, 80, 88; intervention in Mexico, 115, 117; in control in Mexico, 118, 119; financial measures instituted, 119, 120, 125, 126; settlement of claims, 120; quota paid army, 122; Conventions, 116; bankers and Mexican loans, 218, 220, 221.
Funds, confiscated, 62.
- G
- Gadsden Purchase Treaty, 110, 111.
Gálvez, José de, visit to Mexico, 7.
Gibbs & Sons, A., and Mexican loan, 158.
Gold: tax on, 5, 17, 26, 127, 203; exported, 17, 44, 141, 145; exportation prohibited, 27, 206; standard adopted, 176, 177, 183, 206; loan, 190; coined, 247; in hiding, 247; debt, 252, 253.
Goldschmitt & Co., Mexican loan, 51; failure, 52.
Goliad, Anglo-Saxon slaughter at, 75.
Gonzalez, administration of, 150, 152, 153, 154.
Gorostiza, Minister of Hacienda, 77, 78, 83.
Guadalupe Hidalgo, Treaty of, 80, 81, 92, 99, 104, 248.
Guadalupe, Victoria, term of, 46-59.
Guatemala, Mexico contributes to support of, 37.
- H
- Havana, Mexico contributes to support of, 37.
Herrera, President, 100.
Hipotecario, Banco, 209.
Holidays, legal, 213.
Huerta, President Victoriano, administration, xiv, 202-222.
- I
- Illueca, Minister of Hacienda, 37.
Imports, 129, 146, 188, 194.
Independence, Mexican, 21, 43, 189.
Indian tribes of Mexico, 2, 6.
Indies, Council of the, 6.
Industries, non-existent, 18.
Infalsificable issue of currency, 233-241, 256.
Inheritance tax, 127.
Interest payments, suspension of, 220, 221.
Investments, foreign, 146.
Isabella, Queen, fifth (*quinto*) tax, 5.
Iturbide, Agustin, forced loans, 3, 30; leader in Mexican revolution, 21; appointed Regent, 22; abolished taxes, 25, 26; awarded prize, 27; study of tax problem, 28; raised to post of Emperor, 30; paper currency experiment, 30, 31; resignation, 32; pension, 32; overthrow, 33.
- J
- Jacinto, San, triumph of Texans at, 74, 75.
Jackson, President, presses American claims for adjustment of losses, 79, 80, 91.

INDEX

- Jecker & Co., bond transaction, 115, 118.
- Jesuits, expulsion of, 7.
- Juarez, President Benito, and leasing of mints, 109; rise to power, 114; laws of reform, 113, 114; and foreign claims, 115; driven out by the French, 118, 119; loan on behalf of, 121; rule restored, 127; and refunding of Mexican debt, 128, 132; and United States claims for damages, 133; attitude toward public debt, 135; declares for economy, 136, 137; shortcomings of his administration, 137, 138; death, 142, 143.
- K
- Kay, De, deal, 218.
- L
- Lama, De la, Minister of Hacienda, 207, 214, 215.
- Laws of Reform, 114.
- Lead, tax on, 5, 17.
- Le Mexique au Début du XX^e Siècle*, Leroy-Beaulieu, x.
- León, Manuel Velasquez de, 22.
- Leroy-Beaulieu, Paul, x, 87, 88.
- Leyes Federales*, Labastida, x.
- Limantour, José Yves, Minister of Hacienda, 126, 161-174, 175, 178, 180, 183, 185, 186, 187, 189, 190, 236.
- Liquors, alcoholic, tax on, abolished, 26.
- Lizardi & Co., house of, 92; bonds, 132.
- Loans:
Forced, 3, 17, 22, 23, 29, 30, 61, 66, 75, 91, 96, 97, 98, 131, 136, 147, 190, 210, 226.
- Foreign, 30, 34, 36, 42, 44, 45, 46, 50, 51, 54, 55, 56, 60, 77, 81, 82, 97, 104, 158, 159, 163, 164, 165, 190, 197, 198, 202, 204, 207.
- Lombardo, Minister of Hacienda, 139, 140.
- Londres, Banco de*, 208, 209.
- Lottery, National, tax, 102, 103, 167.
- M
- Macedo, Pablo, quoted, 6, 7.
- Madero, Ernesto, Minister of Hacienda, 198, 199, 200.
- Madero, Francisco I, revolution, 191; President, 193-204.
- Maldonado, first Minister of Hacienda, 29, 30.
- Mangino, Minister of Hacienda, 61-69.
- Manning and Marshall, agents, 50; failure, 52.
- Mata, Minister of Hacienda, 115, 116.
- Maximilian, Emperor, Mexico under, 119-126, 128, 132, 144.
- Meade, Eduardo, 175.
- Media, circulating, 3, 13, 27, 247, 256.
- Medina, Minister of Hacienda, 36.
- Memoria de Hacienda y Crédito Público*, Romero, ix.
- Meshicas, ideas of morality and law, 2.
- Mesilla, Treaty de la, negotiated, 110.
- Metals, shipments suspended, 17; tax on, 171; exports, 174.
- Mexico: under Spanish regime, 1-

THE PUBLIC FINANCES OF MEXICO

20; tribal feuds, 2; ideas of mortality and law, 2; practiced slavery, 2; treasury of the Moteczuma, 3; early taxation, 3, 4; origins of the Hacienda, 5; council of the Indies, 6; budgetless policy, 10; sources of revenue, 8, 9, 12, 13, 14; church, exempt from taxation, 13; army expenditures, 16; war for independence, 16, 17, 22, 23; foreign trade, 18; without means of communication, 18; wealth of church, 19; independence, 21, 24, 43; Agustin Iturbide, 21-32; regency installed, 22; fiat paper currency, 23, 30, 31, 33, 34, 221-242, 256; pensions authorized, 27; first Mexican Congress, 28, 33, 46, 63; tax reforms, 29, 40, 41; first empire, 30-32; provisional government formed, 33; yearly income tax established, 34, 35; Spanish debt recognized, 37, 38; first English loan, 42-46, 52, 55, 60; English attitude toward, 43, 44, 46; Constitution promulgated, 46; Guadalupe Victoria first President of the Republic, 46-58; second English loan, 50-52; loan to Republic of Colombia, 51, 54; importation of capital, 53; revolutions in, 57, 58, 94, 99, 131, 142, 191; Freemasonry, 59; Spanish invasion, 60-63, 117; Santa Anna, 60, 63, 71, 72, 75, 83, 84, 91, 94, 95, 98, 108, 111; President Bustamante, 61, 69, 75, 78, 83, 84; properties confiscated, 62, 63; war with Texas, 70-74, 81; copper coin issue, 76; counterfeiting, 76, 231, 239; National Bank authorized, 76; indemnities and deficits, 75-88; French intervention, 79, 117, 118; American claims against, 80, 133, 215; refunding transactions, 81, 82, 128, 155, 189; Treaty of Guadalupe Hidalgo, 80, 92, 99; profiteers, 83, 84; properties of clergy confiscated, 85, 86, 98, 103, 114; tariff controversies, 89, 90, 91; Lizardi & Co. transaction, 92; war with United States, 96, 221; Vera Cruz occupied, 97, 224; Diplomatic conventions, 98, 115, 116, 131; foreign intervention, 98, 117; Herrera at head of government, 100; new London debt, 104; indebtedness to Spain, 108; Gadsden Purchase, Treaty, 110, 111; Ignacio Comonfort, reign of, 112-114; Benito Juarez, 114-119, 127-142; foreign Powers enforce collection of debt, 114, 117; Jecker & Co. bond transaction, 115, 118; treaty with United States, 117; Empire under Maximilian, 119-126; Lerdo de Tejada at head of government, 142-144; railroad construction, 144, 150, 151, 162, 163, 186; rise and fall of Porfirio Diaz, 144-152, 155-160, 191, 193; Gonzalez administration, 152-154; Berlin loan, 158, 159; Tehuantepec Railway, 159, 165, 248, 249; Hacienda under Limantour, 161-190; Gold standard adopted, 175; government control of railroads, 186; revolution

INDEX

- of Madero, 191; provisional Naval establishments, 173.
 Presidency of De la Barra, 193; Navy, Mexican, 196.
 Madero's regime, 199-202; Victoriano Huerta's rule, 202-222; New Mexico, cession of, 99.
 legal holidays, 213; customs dues pledged, 216; Carranza and President, 223; Carranza and his currency schemes, 223-236; banks sequestrated, 244, 245; Alvaro Obregon, 247, 256; outstanding foreign gold debt, 253; silver interior debt, 254, 255; guaranteed bonded debt, 255.
 Military establishments, 173.
 Mines: forced to close, 17; speculation in, 53.
 Mining, taxes on, 40, 127, 167, 179, 229, 246, 250.
 Mints, tax on, 103; leased, 109; opened, 247.
 Monclova, paper currency issue, 225, 231, 233, 234, 256.
 Monetary Commission, 175, 176, 236, 237.
 Monetary standard, 175, 176, 177, 178, 179, 180, 181, 182.
 Money lenders, 83, 84, 95.
 Money, withdrawals, 194, 197, 198, 203.
 Monroe Doctrine, xiv, 42.
 Monterey Tampico Railway, bond issue, 163.
 Montgomery, Nicod & Co., debt of, 108.
 Moran, Padre, claim, 108, 115, 116, 122.
 Moteczuma, treasury of, 3.
- ### N
- Napoleon III, ambition of, 117.
 National Bank, 155, 169, 180, 200, 204, 207.
- Negrete, revolutionary leader, 33.
 Nieto, Rafael, Sub-secretary of the Hacienda, x, 254.
- ### O
- Obregon, Alvaro, xvi, 247, 256.
 O'Donoju, Juan, 22.
 Oil exports, 246.
 Olazagarre, Minister of Hacienda, 110, 111.
 Orcas, export, 141.
 Organization, Law of, 40, 41.
 Orozco, rebellion of, in Chihuahua, 197.
- ### P
- Pakenham, British representative in Mexico, 80.
 Palace, legislative, construction, 195.
 Palacio, Riva, Minister of Hacienda, 100.
 Panic of 1893-94, 146, 162, 163; of 1907, 187, 209.
 Paper, stamped, 10, 29, 103, 141.
 Paula de Comiso law, 86.
 Payno, Manuel, Minister of Hacienda, 100, 102, 117, 118, 137, 138.
 Pensions: authorized, 27; payments reduced, 61; unpaid, 155.
 Perez, Antonio Joaquin, 22.
 Peso, silver, value, xi; free coinage, 161, 162, 179; disappeared, 182, 203, 228, 247; coined, 247.
 Petroleum tax, 213.
 Peza y Peza bond issue, 115.
 Post offices, development, 168.

THE PUBLIC FINANCES OF MEXICO

- Powder: tax on, 26; monopoly, 95.
 Prieto, Minister of Hacienda, 139, 140.
 Privateers, raids of, upon French commerce, 79.
 Profiteers, Mexican, 83, 84.
 Properties confiscated, 62, 63.
 Property tax, 127, 166, 167.
 Public Works, Department of, 170; expenditures, 170, 173, 196, 197, 204.
 Puerto Rico, Mexico contributes to support of, 37.
- Q
- Quicksilver: tax on, 5, 26; monopoly, 10, 11, 12.
- R
- Railroads: construction, 85, 144, 148, 149, 150, 151, 153, 164, 162, 163, 186; development, 167, 168; foreign capital invested in, 186; government control of, 186, 187.
 Refunding transactions, 182, 157, 164, 165, 189, 190.
 Regency installed, 22.
 Revenues, National, 8, 9, 11, 12, 48, 67, 95, 101, 102, 113, 129, 130, 134, 137, 154, 163, 164, 165, 170, 183, 189, 216, 246, 249, 250, 257.
 Revilla-Gigedo, Conde de, recommendations for reforms on tax system, 14, 16.
 Revolutions in Mexico, xiv, 16, 17, 21, 23, 57, 83, 94, 99, 131, 142, 190, 191, 192, 193, 197, 202, 256.
 Romero, Matias, Minister of Ha-
- cienda, ix, 125, 126, 129, 130, 131, 134, 153, 141, 142, 168.
 Rosa, Luis de la, Minister of Hacienda, 95, 96.
- S
- Saltpeter monopoly, 85, 95.
 Salt works, tax on, 103.
 San Antonio, invested, 73.
 San Jacinto, Mexican army at, 74.
 School buildings, construction, 167, 195.
 Services, personal, contribution of, 3.
 Sierra, Justo, on wealth of church, 19.
 Silver: tax on, 5, 17, 26, 127; exported, 17, 127, 141, 145, 177; high price, 17, 171; exportation prohibited, 27, 206; fluctuation in price, 161, 162, 175, 176, 177, 179; demonetization of, 162; reimportations prohibited, 179; free coinage of, 161, 162, 179; in hiding, 182, 208, 228, 247; coined, 247; debt, 254, 255.
 Slavery practiced, 2.
 Spain: silver and gold exports to, 17; treaty with Mexico, 98; claims for indemnity, 108; intervention in Mexico, 117.
 Spanish America, independence of, 42, 43, 46.
 Spanish: regime in Mexico, 1-20; invasion, 60-63; Convention, 116, 131.
 Specie payments suspended, 209.
 Speyer & Co., Mexican loan, 181, 197.
 Stamped paper, 10, 29, 103, 141.
 Stamp tax, 10, 127, 141, 142, 166, 168, 171, 184, 213, 216, 219,