



UNIVERSIDAD CARLOS III DE MADRID

Working Papers in Economic History

October 2006

WP 06-11

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JEL classification: N13, N23, N43, E50, E62**Keywords:** Portugal; Gold standard; Government debt; Financial policies

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THE POWER OF PERIPHERAL GOVERNMENTS: COPING WITH THE 1891 FINANCIAL CRISIS IN PORTUGAL¹

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Forthcoming in *Historical Research*

ABSTRACT

In 1891 a financial crisis led Portugal to abandon the gold standard and to partially default by cutting interest payments on domestic and foreign debt. As a consequence, the country was banned from borrowing in international financial markets, until an agreement with foreign bondholders was reached in 1902. That financial crisis was the result of large current account and government deficits. Yet the abandonment of the gold standard and default were not imposed by financial difficulties only. This paper shows that such options were taken because of the growing domestic consensus regarding the need for a change in monetary policies. The concern about the domestic economy was more important to the Portuguese governments than the fear of a negative reaction of foreign bondholders. Insufficient information about the sustainability of government debt and lack of cooperation between borrowers left the Portuguese governments with space to manoeuvre according to their domestic political interests.

I

After half a century marked by turmoil, military coups and a civil war, in 1851 Portugal's political life was pacified and entered a period that became known as the *Regeneração* which would last for four decades. Monetary stabilization was achieved immediately after, and in 1854 the country joined the gold standard. Two years later, Portugal was once more able to borrow in the international capital markets. The ability to borrow abroad was a major contributing factor towards Portuguese governments' failure to prioritize the need for balanced budgets, despite the innumerable political declarations to the contrary.² Lurking behind the option to maintain budget deficits was the generally accepted idea that the country needed more infrastructures and the possibility that the government had to raise capital both at home and abroad by issuing bonds. The financial disequilibrium that marked the period of the *Regeneração* was also a consequence of the difficulties that the state experienced in increasing tax revenues, along with the need to expand the administrative functions and to invest in improving the country's infrastructure (as a result, Portugal's public debt, increased from 38% of GDP in 1854-59 to close to 81% in the 1880-89). In 1891, this period of easy borrowing came to an end with a financial crisis.³

Despite all the ensuing financial problems, the years from 1851 to 1891 were marked by a few positive features. Firstly, Portugal complied rather satisfactorily with the measures that were imposed by the gold standard and from 1854 to 1891 the convertibility of the currency was only suspended for a few days during a banking crisis in 1876.⁴ The high level of public debt, after all, did not represent an excessive burden for Portuguese capital markets, in the sense that interest rates were not particularly affected by public borrowing. In other words, the financing of the public deficit did not crowd out Portugal's private capital markets.⁵ Moreover, public investment in infrastructures, such as railways, roads and other

social overhead capital, stimulated the economy.⁶ After 1891 the economy kept its pace of growth, because of increased tariff protection, which was combined with effect of currency depreciation, and the enforcement of the system of imperial trade preference.⁷

The 1891 financial crisis was a consequence of the difficulties encountered by the Bank of Portugal in supplying gold in the manner set down in the monetary regulations governing the gold standard, and in the government's inability to fully honour the interest returns on the national and foreign public debt. The short-term causes for the crisis include, firstly, the fact that in the years since 1885, the trade deficit aggravated because of declining exports and a persistent raise in imports. Secondly, the crisis was due to a sharp fall in emigrant remittances from Brazil, due to high political instability and high inflation there. Thirdly, the crisis was also a consequence of the contraction of foreign capital markets in the wake of the Baring crisis.⁸

As a means of resolving its payments difficulties, the government decided to abandon the gold standard in 1891, and to forcibly reduce the interest on both national and foreign debts in 1892. As a consequence, between 1892 and 1902, Portugal was effectively banned from financing its public debts with loans raised on the international financial markets.

In order to understand why Portugal defaulted partially in 1892, we need to take into account two crucial factors. The first is that governments in Lisbon were not particularly concerned with the negative impact of default in the capacity of the state to borrow in the international capital markets. The second factor is that foreign lenders did not scrutinize closely enough government accounts across the world because the means to do so were far from well developed in this period and because foreign investors were competing among themselves.⁹

Bulow and Rogoff (1989) posit three reasons for countries to repay their foreign debt: the appropriation of collateral by lenders; sanctions imposed by lenders; and the ability to

keep borrowing in the future.¹⁰ Portugal's foreign debt did not involve collateral, so that was not a problem. Sanctions by debtors were hard to come by, as most foreign governments did not back private lenders. Moreover, most of the debt was placed in Paris and Berlin, and Portugal's largest trading partner was Great Britain. The only negative consequence of default was the inability to keep borrowing in the future. This paper shows that this was clearly a consequence that Portuguese governments feared less than domestic reactions to restrictive monetary policies. And the ability to borrow in the international markets was re-established after a decade with the agreement with foreign bondholders in 1902.

The article is structured as follows. Section 2 starts by reconstructing the historical circumstances that preceded the crisis, showing how changes in the government led to a sharp increase in the public deficit which went along with the increase in the credibility of the Portuguese state debt in foreign markets. Section 3 provides a description of the emergence of the crisis and we identify the different policies to cope with it. Section 4 shows the emergence of the consensus to solve the crisis in which the two main ruling parties and their political offshoots showed more concern with the domestic economy than with foreign creditors. The last section concludes by setting the Portuguese case in the appropriate international context in order to draw lessons for the functioning of the international financial markets.

II

The 1851 *Regeneração* military coup led to political pacification and inaugurated a period of development for Portuguese institutions in many domains, namely the political and legal systems, property and civil rights, and institutions related to trade and industry. Pacification also paved the way to developments in the construction of infrastructures, such as roads and railways, and higher levels of investment in education. The extent of these

developments was limited in comparative terms, as Portugal was by then the most backward country in western Europe, and remained in that position for a long period of time.

The coup also led to the emergence of a bipartisan regime, which was to be dominated by the *Partido Regenerador*, on the right, and the *Partido Histórico*, on the left, both founded in 1852. In 1876 the left regrouped in the new *Partido Progressista*.¹¹ The *regeneradores* were for most of the time in power, particularly after 1870, and on the left the *progressistas* were able to form government only during a brief period from 1879-81 and in 1886.¹² The electoral system was not fully competitive, as polls were called and organized by government and in every election during the years from 1852 to 1910, only twice did the ruling party lost elections.

Government decisions in Portugal's nineteenth century history were increasingly marked by the need to cope with the demands from different political groups within the country. Such evolution affected the way financial policy was conducted. In 1851 it was crucial for the coming government to regain the confidence of international markets in order to finance the government activity through foreign lending. Such confidence was achieved in 1856.

In 1886, the left came to power and remained there for the next four years, which was the longest period until then. After thirty years of dominance by the *regeneradores*, new priorities were set and the governments became more concerned in dealing with the increasing domestic political instability and foreign lenders were less of a threat for government stability. The government formed by the *Partido Progressista* had as Finance Minister Mariano de Carvalho, who showed from the very beginning that he wanted to change the financial system with which the right had ruled the country. At the presentation of his first state budget in Parliament, at the beginning of 1887, the new Minister outlined an ambitious plan that implied profound reforms of the three institutions that controlled the main sources of state

revenues. Firstly, he wanted to change the legislation concerning the taxation of tobacco imports and manufacture, which were the single largest item in state revenues. Secondly, the control of the government over the Bank of Portugal, the largest joint-stock bank in the country which had the monopoly of issuing notes in Lisbon, was to be increased. Thirdly, the *Junta do Crédito Público*, which was a committee that issued state bonds and made the payments to the public, was to be stripped of its supervising functions, which were seen as too independent from the government, and the supervision of the public debt was made directly dependent of the Ministry of Finance. These were three of the more important pillars of the financial system built by the *regeneradores* across several decades that Carvalho wanted to change.¹³

The change in the tobacco regime led to an extraordinary increase in government expenditures. Tobacco had been a monopoly sold to private contractors until 1865, when the government liberalized imports and manufacture and instead charged an excise duty on tobacco imports. From 1879 onwards, a tax on domestic tobacco production was also imposed. However, the tobacco industry's gradually developed into a *de facto* monopoly controlled by the *Companhia Nacional de Tabacos* (National Tobacco Company) which owned the larger factories in Lisbon and Oporto.¹⁴ In December 1886, the board of the tobacco company petitioned the government for the concession of a *de jure* monopoly. The concession of that monopoly would imply a substantial change in the administration of public finances and the leading financiers in Portugal were of course aware of that. The most pre-eminent Portuguese banker, of Belgian ascendant, the Count of Burnay, whose fortune was made during the decades of rule of the *Partido Regenerador*, expressed his interest in buying the tobacco monopoly, and demanded that the matter be put out to tender. But Mariano de Carvalho did not want Burnay to control the monopoly and decided to establish a state monopoly or *régie*, instead, which was a costly move. He had however full support from his party colleagues.¹⁵

The other two important changes that Carvalho imposed, namely the new statute for the Bank of Portugal and the end of the role of *Junta de Crédito Público* as a supervising board of the state debt, did not entail increase in public expenditures. The new law on the Bank of Portugal aimed at getting higher revenue for the government by instituting profit sharing, providing cheaper credit through a special current account for the Treasury, and give greater solidity to the banking system. But the reform of the Bank of Portugal and the *Junta de Crédito Público* also paved the way for a higher level of government's independence towards private capital owners, both large, as it was the case of the bank, and small, which was the case of the public that purchased government bonds from the *Junta*. That higher level of independence of the government towards the financial world would be crucial in the near future.

In order to provide the funds for the creation of the tobacco state monopoly, the Finance Minister had to ask for a parliamentary authorization for a public loan up to 7,200 *contos*.¹⁶ The lower chamber of the Parliament in which the government had a majority of vote approved this operation in May 1888. The total cost of indemnities paid by the government for the expropriation of the tobacco companies was slightly below the limit for the loan conceded by the Parliament but they nevertheless reached the astonishing sum of 6,333 *contos*.¹⁷ This implied the doubling of government deficit in just two years to 11,526 *contos* in the fiscal year of 1888-89 (see Figures 1 and 2). In this way, this budgetary heading increased to account for 23 percent of total state expenditure. In virtue of the fact that the loan that was contracted to finance the creation of the state's monopoly of the tobacco industry was not compensated by any increase in the state's revenues, the public deficit increased from 6,887 to 11,998 *contos*.¹⁸ This was the true cost of the change of power in one of the pillars in which the new *progressista* government wanted to touch. Carvalho was able to go ahead with his plan because his ultimate purpose was to use the revenues from the state monopoly to

fund the public debt.¹⁹ In no occasion at this stage was there any concern shown on the reaction of foreign creditors.

[FIGURES 1 AND 2 ABOUT HERE]

Mariano de Carvalho's revolutionary plans were ambitious but were met with little opposition from the *regeneradores*. This party was weakened by the death of its historic leader, Fontes Pereira de Melo, in January 1887, and by the ensuing internal struggles for succession. But the plans met little opposition apparently also because there was some consensus in relation to the need to step up the control of the state on the financial institutions that dealt with public debt and monopolies – at least that is what we can infer from the fact that Carvalho's reforms were kept even after the *regeneradores* regained full control of the government, ten years later. The reforms proposed by Mariano de Carvalho were a heavy financial burden, but the Minister could be less worried with that because he came to power in a period which was relatively favourable for state finances. In fact, in the beginning of 1887, the 3 percent bonds were quoted at 82.6 percent (which implied a real interest of 3.63 percent), which was an historic high. On September of the previous year the issue price was 69.6 percent (or a real interest of 4.31 percent).²⁰ The spread between the Portuguese and the British consols declined from the 1885 peak at 3.78 percentage points to 2.28 in 1887 (see Figure 3). Moreover, between the fiscal years of 1885-6 and that of 1886-7, the state's effective receipts increased by 10 percent, while the deficit decreased by 25 percent, from around 9,400 to 7,100 *contos* (see Figure 1 above). The markets reacted positively to the reforms and there was an improvement in the state's credit rating and the reasonable quotation for its funds. Between 1886 and 1889, the average price of Portuguese bonds in the secondary market in London increased by 33 percent and in Lisbon by 29 percent.²¹ The spread of Portuguese consols declined to an historical minimum in 1889 of 1.83 percentage points.

[FIGURE 3 ABOUT HERE]

Creditors abroad were only just becoming worried about the solvability of the Portuguese state. In 1885, the *Economist* warned that ‘in the interest of Portugal herself it would be well if her facilities for borrowing were now curtailed’.²² Portugal managed however to keep borrowing abroad because of a shift from London to Paris and then Berlin as main sources for capital.²³ The Portuguese government was taking advantage of the high degree of competition in the international financial markets, which was arguably one of the main reasons why investors did not exert a higher level of control on how their funds were spent. The government was also taking advantage of the fact that the mechanisms of assessment of the solvability of governments was still in its infancy. For example, it was only during the 1880s that *Crédit Lyonnais*, one of the largest European banks, inaugurated its *Service des études financières*, and thus began collecting information on foreign governments and rating their levels of solvability.²⁴

The Portuguese finance Minister did not have the time to carry out fully his plan on the tobacco monopoly because he was ousted from government in November 1889, following a financial scandal, and the whole government fell shortly after.²⁵ The government fell because of the ambition of the Minister of Foreign Affairs, Barros Gomes, who had provoked the British government by publishing a map – which became known as the rose-colored map – where the Portuguese southern African colonies were carved out from coast to coast, including the area that would become Rhodesia, and making some troop movements accordingly. That led to an ultimatum of the British government in January 1890 which was met in outrage in Portugal and to the fall of the government from the *Partido Progressista* and, ultimately, to the interruption for a decade of the bi-partisan system that had governed the country since 1870.

III

The fall of the *progressista* cabinet was followed by a period of increasing political instability, because there was a high level of unrest in the streets against not only the two main parties, but also against the monarchy, led by the emerging republican forces. But unrest was also a consequence of the fact that the right-wing *Partido Regenerador* was living a period of some instability. The death of the historical leader, Fontes, a few years before, gave place to fierce internal struggles within the party. The new leader, Serpa Pimentel, was an aging man that did not control the party. He ultimately was compelled to form a cabinet which included the three men that fought for his succession and it was no time before they made opposition to each other in Parliament and his government only lasted two months.²⁶ In October 1890, Serpa was replaced as Prime Minister by non-partisan General João Crisóstomo, an 80-year old army officer who had however been linked in the past to the left, that is to the *Partido Progressista*.²⁷ This was supposedly an independent cabinet, but clearly this was a time in which the *progressistas* were ahead in the race for power. Crisóstomo appointed as Finance Minister someone that was very close to the former *progressista* minister, Carvalho, Augusto José da Cunha. According to one observer, this was an attempt to ‘give a more Progressive colour to the situation,’ and he criticized the new Minister for accepting the position.²⁸

Thus, it was a fragile new finance Minister that had to face the emergence of the financial crisis, which as he later described in Parliament, appeared to him as follows:

When on 24 November last year [1890] I took control of the Finances, I saw the urgent and pressing need to obtain gold for the Portuguese market [...] and by the race that had been provoked against *Montepio Geral* [Portugal’s largest savings bank], that has obliged my honourable predecessors to use up all the Treasury’s credits in London and Paris. Thus, not only were there no resources ready with which to proceed to the payment of bills with the next earnings on account of the floating debt, which then was standing at 33,800 *contos*, but it was pressing and

urgent, in any operation that was made, to secure the means necessary to pay the external coupon that was due on 1 January.²⁹

In fact, the Bank of Portugal ceased, in 1890, to have the ability ‘to provide the market with all the exchange that was requested,’ which ‘came from the export of produce, from Brazilian remittances and from funds that the Treasury had obtained abroad through the realization of credit operations.’ By one account:

By the end of April [1890], the Bank had only managed to purchase £1,564,384 [7,040 *contos*] while it had sold £2,664,114 [11,989 *contos*]. Additionally, the foreign loans obtained by the Bank had declined by 2,000 *contos*.³⁰

As such, there was an excess demand for gold that amounted to 6,949 *contos*, including the 2,000 *contos* reduction in the Bank of Portugal’s credit ceiling abroad and 4,949 *contos* that was the result of the difference between the value of the gold that the Bank had provided to the market and the value that it had managed to purchase.³¹ In order to balance the external accounts, and in the absence of any other means of foreign payment, it became necessary to export gold. A country that, thanks to exports, emigrant remittances and to foreign credit, had traditionally been a receiver of gold coins was now forced to export 21,535 *contos* worth of gold. This was a considerable proportion of the country’s monetary circulation.³² Thus, suspension occurred because the state suffered a liquidity crunch in the spring of 1891 and had to ask the Bank of Portugal to issue notes in order to be able to lend it fresh funds. Since the Bank was unable to acquire additional gold for backing them, it had to suspend payments in gold, until the state paid back its debts, which never happened.

In a move to obviate the state’s difficulties, in November 1890 the Finance Minister attempted to arrange a foreign loan that could help pay the coupon that was due, but he was unsuccessful. In the meantime, the London stock-market had been shaken by problems being experienced by the Baring Brothers’ Bank, whose business was mainly with Latin American

countries, and which was the Portuguese state's main banker in the City.

It was at this moment that the Count of Burnay, the financier who had been excluded from the tobacco industry negotiation by Mariano de Carvalho, appeared with an offer which consisted of a 'temporary loan' of 13,500 *contos* that he had negotiated with the *Comptoir d'Éscompte*, and which was based on the mortgage of the state tobacco monopoly's revenues. The tobacco monopoly was again a central problem, as well as one way of solving Portugal's financial problems. Burnay was now seeking to secure indirect control of the tobacco contract.³³ Ironically or not, he proposed something that the 1888 tobacco law, which was made against his wish, had envisaged, one of the main purposes of the tobacco monopoly had been to underwrite state borrowing. As the finance Minister, Cunha, was later to declare in Parliament, Burnay's proposal was sufficient to service foreign short-term debt until 1 April 1891. This was not fresh money though, as it consisted of transferring credits that the banker had over the Portuguese state to the *Comptoir d'Éscompte* and adding to them the guarantee of the proceeds of the tobacco monopoly's earnings, which were state revenues. This was a rather typical financial operation at the time.

The new tobacco contract was to remain in force until 1926, during which time the contractors agreed to pay an annual fee of 4,250 *contos* (to be increased to 4,500 *contos* soon after) and made up to 36,000 *contos* available in loans to the state (these amounts would be reduced by commission fees), thus providing crucial breathing space for the Minister of Finance, who pointed out that this was a provisional contract from which the government could 'liberate' itself at any moment.³⁴

The tobacco contract was signed in February 1891. However, to avoid the opposition in the Chamber of Deputies and in the press, neither the Finance Minister sought parliamentary approval, nor the Prime Minister got any guarantee of support from the two main political parties. The main reason for the political discontent surrounding the contract was the fact that

the majority of the members of the monopoly's administrative body were foreigners.³⁵ Moreover, the Parliament, at the request of the contracting company, was obliged to prolong its session in order to pass the contract into law. In March 1891, the Chamber of Deputies' Finance Commission formally proposed the law and warned deputies that amendments to it were solely a 'ministerial matter.' In effect, what the government was saying was that it would resign before accepting any substantial alterations. Consequently, the contract was approved by a Law, dated 23 March 1891.

Two members of Parliament who were later to become Finance ministers reacted against the law on the tobacco industry. The first of these was Augusto Fuschini, a critic of the rule from the *regeneradores*, who introduced a somewhat gentle opposition to the project.³⁶ He criticized Cunha for placing the negotiations for foreign loans to the Portuguese state into the hands of one banker, attributing this to his lack of understanding of financial affairs. Fuschini went on to praise Mariano de Carvalho who, he argued, had managed correctly public finances against the 'bankers' interests'.³⁷ Some years later, Fuschini was to classify the Cunha's operation as 'one of the greatest errors committed during the constitutional administration'.³⁸

José Dias Ferreira, the second deputy to announce his opposition to the tobacco contract, accused Cunha of seeking to reward the Count of Burnay at a moment when there were alternatives to the contract being negotiated. According to him, Portuguese 3 percent public debt bonds were being issued at 58 percent, which implied a real interest rate of 5.17 percent. This enabled him to conclude that 'in no way did this suggest that there was a serious credit problem, making it difficult to understand the need to obtain a loan at 8 percent'³⁹ In his reply, the Finance Minister reminded Dias Ferreira that the government had to deal with a floating debt, the extent of which had not been seen since 1846. He went on to remind him that he had inherited the negotiations with the Count of Burnay from his ministerial predecessors. He concluded by stating:

I know only the following methods of contracting loans: a national subscription, the competitive tender between bankers or direct negotiations between the government and a syndicate. (...) It could perhaps be that the honourable deputy would like to see the Minister reduced to the condition of a beggar who knocks from door to door.

Absolving himself of all responsibility for this affair and preserving his image for the future of non-allegiance with the governments of either party, Dias Ferreira responded:

The two largest parties thus reserve for themselves the glory of responsibility for the approval of this measure, and leave those without parties the right to criticize and the freedom to vote.⁴⁰

With some difficulty, Crisóstomo's government managed to pay the interest on the external debt in 1891.⁴¹ However, there was no alteration in the total level of public debt and its respective charges. The Portuguese state's receipts from the new tobacco contract rose to 5,011 *contos*, in 1891-2, which represented a substantial increase relative to the last year of the free trade regime, during which the tobacco duty collected by customs totalled 2,829 *contos*. However, the state's total revenues remained unchanged because the remaining revenues declined by roughly the same amount.⁴² As a consequence of this, in May 1891 the government accepted the contingent need to suspend the currency's convertibility for a period of 60 days. This was to be Augusto José da Cunha's final act before Carvalho's comeback as the 'saviour', as Fuschini had predicted.⁴³

Mariano de Carvalho returned to the ministry of Finance in a government still led by João Crisóstomo, at the end of May 1891. The political situation was still far from clear. In fact, the *Partido Progressista* was represented by a man who was not in total agreement with the party's leader, while the *Partido Regenerador* had representation for all of its principal factions. Apparently, one of them (Lopo Vaz) got on well with Mariano de Carvalho, and

expected from him to solve the Treasury's situation without having to resort to default or swinging budget cuts.⁴⁴ This alliance kept the Cabinet in power for almost eight months, thus delaying the drastic measures that were to be taken by more radical members on the left later on.⁴⁵

Mariano de Carvalho started off again as a finance Minister by presenting an extensive new series of reforms to the Chamber of Deputies in June 1891. To his supporters, which were many, those measures were another demonstration of the Minister's ability to rule public finances. But he was also severely attacked in Parliament. One experienced deputy, José Frederico Laranjo, attacked the proposals for being over-ambitious, as the Minister wanted 'to reform at will almost every aspect of the public economy: the currency, the banks, taxes, payment for public works, the fishing industry, emigration, etc., etc.'. In fact, Carvalho wanted to revise once more the contract with the Bank of Portugal, to introduce silver coins and thus a bimetallic standard, and to restore a monopoly in the alcohol industry.⁴⁶ The plan was defeated in Parliament with an odd alliance across parties, with the leader of the Chamber, who belonged to the same party as Carvalho, voting against it, together with the *regeneradores* and the three republican deputies.

But the proposed reforms served as a cover up for more serious measures, which the Minister carried out anyway, because they did not need parliamentary approval. Moreover, the Minister was also backed by his alliance with a faction of the *regeneradores*. Thus, on 9 July 1891, he signed a decree that prorogued the suspension of Bank of Portugal banknotes' convertibility into gold or silver that had been introduced as a temporary measure two months earlier. This same decree confirmed the Bank of Portugal as the country's only issuing bank, and granted it the right to replace the Oporto banks' notes with its own. Portugal's abandonment of the gold standard opened the way for the state to finance itself through the emission of banknotes by the Bank of Portugal. Of all the measures to resolve the crisis that

Carvalho had at his disposal, this was probably the one that had the least domestic and external implications. His over-riding objective was to halt the steady decline in the Bank of Portugal's gold reserves (see Figure 4). In December 1891, a new statute increased the fiduciary circulation limit to 38,000 *contos* (which could be further raised by reinforcing the Bank's capital reserves). This same statute also increased the government's Bank of Portugal current account credit limit from 2,000 to 6,000 *contos* for the financial year 1891-2.⁴⁷ The change of the bank's law in 1887 was now making its effects.

[FIGURE 4 ABOUT HERE]

Mariano de Carvalho's time in office was running out, however. Lopo Vaz, who had previously been an ally of his, was involved in discussions with Oliveira Martins (the minister of Finance that would follow suit) and King D. Carlos to ensure a more direct political intervention that would put an end to the vicious circle into which Portugal's public finances had fallen. In order to remove Carvalho and General Crisóstomo's government from power, it was only necessary to recall that the Finance Minister had not sought the necessary government permissions to grant loans to the *Banco Lusitano* and the *Companhia Real dos Caminhos de Ferro*, both of which were controlled by syndicates led by two financiers (Marquis of Foz and the Count of Moser) who were politically sympathetic towards the Finance Minister, and who had, on several occasions, been in competition with the Count of Burnay. This was the pretext that led to Carvalho leaving the Cabinet in much the same way as he had in 1889.

IV

José Dias Ferreira was chosen to lead the next government, which included Oliveira Martins as Minister of Finance, as well as several other leading notables, almost all of whom were serving in government for the first time. The fact that the government depended on newcomers that had spent their days criticizing the financial policy of the two main parties for a

long time, paved the way to a radical solution. Ferreira and Martins did not want to see themselves identified with past policies and Martins had for long advocated radical changes in the conduction of Portugal's economic and financial policies. The events that were to occur during 1892 were the consequence of the new Finance Minister's deliberately chosen policies. Once again, the main challenge he faced was servicing the state's domestic and foreign debts. However, the path that Oliveira Martins decided upon was not the only option available to him, nor was it necessarily the best.⁴⁸

Oliveira Martins had spent several years contesting what he described as the *regenerador* or *fontista* policy that consisted in the maintenance of unbalanced state budgets that were financed through the public debt. According to him, this policy had failed to create the necessary wealth within the country, but it did serve to enrich bankers and government officials.⁴⁹ Now that he was Finance Minister, he saw the opportunity to break the vicious circle. His remedy consisted of increasing taxes to balance the state's accounts, rather than resorting to more debt issues. At the beginning of 1892, Martins put this plan into action by addressing the only immediately accessible and secure taxation source: the earnings of public debt bonds. It was a highly unpopular move that no-one had dared to venture. Through it, he delivered a profound shock to the Portuguese financial system changing rules that had been considered sacrosanct for almost 40 years. With this measure, the state's credit rating suffered, both inside the country and abroad, as did the monetary circulation, the banking system and thousands of individuals whose savings were held in debt bonds, purchased in the *Junta do Crédito Público*, and in public Treasury bonds acquired in the Lisbon stock-exchange.⁵⁰

During the presentation of the state budget in Parliament, in January 1892, when, as usual reforms were announced, Oliveira Martins provided a diagnosis of the situation, which led him to conclude for the need for drastic measures. He began by pointing out that the state accounts for 1890-91 showed a deficit of 11,550 *contos*, a figure that represented 29 percent of

all government receipts. He further estimated that, during the ten months to June 1892, the minimum level of the deficit was to mount to 10,000 *contos*.⁵¹ With respect to the Treasury, the Minister estimated that the floating debt had risen to 23,000 *contos*, $\frac{3}{4}$ of which held in the country, with the remaining being held abroad. He stated that the government did not have the funds with which to service this debt.⁵²

The government's margin for manoeuvre was not large, but there was still some flexibility. Although the tobacco monopoly's earnings had already been allocated, the state still had some secure earnings sources that could be used as loan guarantees. Still available too were the revenues from import duties (which were used to this end by Hintze Ribeiro's *regenerador* government in 1902 as a means to restore financial stability).⁵³ Despite all difficulties, the Portuguese governments were still able to oppose a more direct control of government accounts by representatives of foreign bondholders, contrarily to what happened to Greece some years later on. This was, nevertheless, a fate that Fuschini, during the December 1890 debate on the loan secured on tobacco revenues, had stated he feared may befall on Portugal. The advantage point of Portugal was not that it had a higher degree of solvency, but the fact that international political scene run in its favour.⁵⁴

Oliveira Martins went on in the Parliament to note that the state had large amounts of credit at its disposal from banks and other companies, credits that had been granted to assist these institutions during previous periods of crisis. The Marquis of Foz and Count Moser's Salamanca Syndicate owed the state 5,350 *contos*; the *Banco Lusitano* owed 500 *contos*; while the *Companhia Real de Caminhos de Ferro*, the largest railways company in Portugal, was indebted to the state to the tune of 4,390 *contos*; the Bank of Portugal received 1,044 *contos* worth of state guarantees to be used to fund loans to other banks; finally, the *Companhia da Mala Real Portuguesa*, the postal monopoly, owed the state 910 *contos*. In total, between all of the identified credits and guarantees, the Treasury was owed 11,210 *contos*, and had a further

1,796 *contos* in guarantees, what made a total of 13,006 *contos*. The Finance Minister concluded: ‘The large sum of Treasury credits is sufficient, in itself, to reduce the floating debt by half; however, this is not possible within any certain timescale.’⁵⁵ According to one contemporary observer, by his choosing not to exert pressure on the companies to repay their debt to the state, Oliveira Martins was repeating the policy which was adopted during the first phase of the 1876 crisis, during which the government sought ‘to save the two or three large companies in the country that had been compromised by the currency’s devaluation, and which were prevented from complying with urgent foreign agreements.’ Unlike in 1876, however, in 1891 the state was forced to seek assistance from the Bank of Portugal, using legal means to pay and increasing the fiduciary circulation.⁵⁶

To aggravate an already difficult situation, the 36,000 *contos* loan, which had been anticipated during the tobacco contract negotiated with Henry Burnay in February 1891, had failed to fully materialize, as the markets no longer wished to lend to the Portuguese state on the terms that it was able to offer.⁵⁷

Unwilling to recoup its credits and guarantees, which were worth 13,000 *contos*, and unable to seek recourse to domestic or foreign credits, the only alternative left to the Minister of Finance was to increase the state’s revenues. In order to do so, Martins recovered a law of 1880, and proposed to increase the tax on civil servants’ earnings, including those employed by corporations and charitable establishments, whether or not they were subsidized by the state, from 3 to 10 percent.⁵⁸ He also proposed to increase the tax on earnings from internal debt bonds and all the various types of credit titles, from 3 to 30 percent. Finally, he proposed a pact with the foreign creditors.⁵⁹ He concluded his exposition by listing the measures he intended to take:

The government calculates that the sacrifices demanded of the creditors, public employees and the tax-payers will raise a sum in excess of 8,500 *contos*; and that the administrative economies – the value of which cannot yet be determined, for

fear of creating anarchy within the services – when added to the tax earnings from the production of alcohol, matches and oils, will reach 1,500 *contos*.⁶⁰

The 10,000 *contos* deficit was thus resolved in this single set of measures. Apparently, Martins preferred to default, albeit only partially, on the domestic debt and to negotiate with the creditors afterwards.⁶¹

In Parliament, Augusto Fuschini proposed that there should be no interference in the interest rates payable on the external debt and that interest on the internal debt should not be taxed at more than 10 percent. It was possible, according to him, to balance the budget by ‘fixing the debt at a convenient level and seeking other, more just, taxes with greater coverage.’⁶² For this financier, reducing the public debt was not an absolute priority. He believed that it was more important to ensure that the sacrifices that were being imposed on the population in order to combat the financial crisis affecting the country were fair. Fuschini also believed that Martins’ proposal to tax the interest earned on foreign debt bonds would undermine the state’s ability to obtain new foreign loans. This was an opinion that was shared by other deputies, and which was eventually supported by the Parliament’s Finance Committee.

Fuschini highlighted another problem with Oliveira Martins’ proposed law. He stated that, ‘the laws regulating disentanglement forced a large number of religious and charitable institutions and establishments to transform their fixed capital into bonds...,’ concluding that, ‘the proposals under discussion, with their 30 percent tax on earnings from domestic debt bonds, will, therefore, unfairly affect the lower classes.’⁶³

Fuschini ended his intervention in Parliament by pointing out that France had successfully brought order to its finances after having been obliged to pay a large indemnity to Prussia following the French defeat in the war of 1870-71. The French, he said, had decided to increase other taxes, such as stamp duty, and argued that similar measures could be adopted in Portugal. Oliveira Martins was not convinced by this comparison to something that had

happened in France two decades earlier. His doubts were somewhat justified, for as well as being a much richer country than Portugal, France was also an important exporter of capital, a significant proportion of which was repatriated through increases in French interest rates: this effectively compensated France for the export of capital that had been imposed by the war indemnities. The Minister preferred to compare Portugal with other countries, especially Spain which, in 1876, reduced the interest payable on its internal public debt by two-thirds; Italy which, in 1863, reduced the interest on its internal debt by 8.8 percent; and Austria which had reduced the same interest rate by 16 percent.⁶⁴ However, with the exception of the Spanish example, all of these countries were making less drastic cuts than those that Oliveira Martins was proposing for Portugal.⁶⁵

Martins' budget was approved by the Chamber on 13 February 1892, following which it was passed to the Finance Committee, headed by João Franco, from the *Partido Regenerador*. Two days later, it was returned to the Chamber in the form of a Parliamentary Bill. The Finance Committee had limited the 30 percent tax to earnings from interest on the internal public debt it had exempted earnings from the foreign debt from taxation, and left all other national bonds subject to a 10 percent tax rate on interest earnings. With this important change, the Minister's Bill was accepted by the members of both major parties and passed into law on 26 February 1892. Only the three Republican deputies voted against it.⁶⁶ According to an observer: 'The politicians of all parties, being in complete agreement with public opinion throughout the country, recognized that the system of administering large deficits – which implied the need to seek credits – was the major cause of the [recent] financial and economic disasters.'⁶⁷ Such consensus was not new among Portuguese political parties. However, contrarily to previous consensus, this time it was not clearly exposed by the parties involved and many historians have failed to notice its existence.⁶⁸

The Prime Minister however wanted to go even further and Oliveira Martins left the

government in disagreement, at the end of May 1892, and Dias Ferreira himself assumed the Ministry of Finance. Immediately afterwards, Ferreira managed to gain the agreement of the Parliament's Finance Committee, controlled by the *regeneradores* that had been denied to Oliveira Martins. On 13 June 1892, Ferreira decreed that interest payments on foreign debt paid in gold should be reduced to one-third, with the remainder being paid in Bank of Portugal notes after the deduction of the 30 percent tax that had been applicable to all interest earnings paid in Portugal since February 1892. These combined measures reduced the nominal interest paid to foreign bondholders from 3 to 1 percent.⁶⁹ Unlike Martins, Ferreira made no reference to the rights of foreign creditors with whom Martins had attempted to reach an agreement in relation to that part of their interest payments that were now to be paid in Portuguese currency. The reaction in Paris was negative, particularly so given that, as Finance Minister, Dias Ferreira had prejudiced foreign creditors more (who saw their interest rates reduced by 66 percent) than he had domestic creditors (who suffered a 30 percent reduction), even although they were to be paid in gold.⁷⁰ The impact of Dias Ferreira's measures was huge and the price of Portuguese bonds sold abroad fell to 20 to 30 percent of the par value throughout 1892-1902.⁷¹

The *Partido Regenerador* finally returned to power in February 1893. Its leader, Serpa, was unable to lead the government and the younger Hintze Ribeiro was appointed as Prime Minister. In the meantime Hintze had 'made-up' with João Franco, who ensured that Fuschini, one of his important allies, was awarded the Finances portfolio (although he was replaced by Hintze in December of the same year).⁷² While in office, Fuschini attempted to, at least partially, satisfy foreign creditors.⁷³ However, he could not offer to consign to them the excise revenues received from colonial customs duties as requested without risking bringing down the government in the process due to the extreme public sensitivity in regard to the colonies. Instead, he confirmed Dias Ferreira's decree of 13 June that stated that one-third of the interest payments would be made in gold, and consigned half of all customs' revenues (in excess of

11,400 *contos*, excepting tax revenues from tobacco and cereals), and agreed to share any gains from the decrease in the gold premium, but only once it had fallen to less than 22 percent. This kind of procedure was a common request from the London based Corporation of Foreign Bondholders to other peripheral governments.⁷⁴ As the customs' revenues rose, foreign creditors received payments to the total of 2,446 *contos*.⁷⁵ Hintze Ribeiro's government remained in office until 1897 which was the longest serving government of the *regeneradores* since the death of Fontes, ten years before.

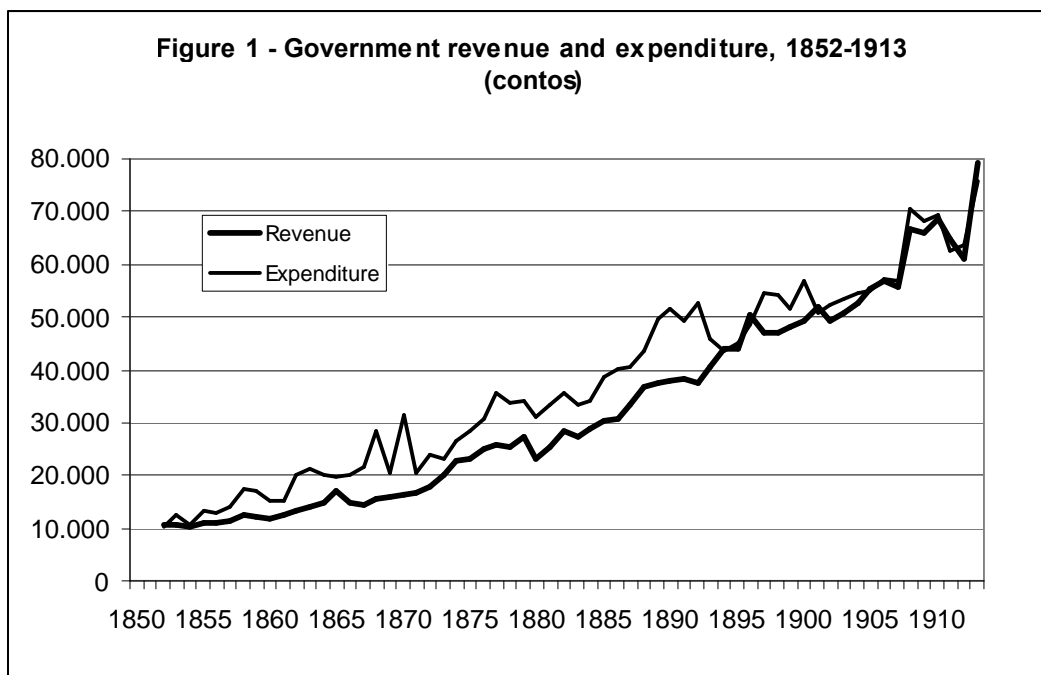
V

The most striking conclusion to which the analyses of the policy measures taken to surpass the 1891 financial crisis in Portugal leads is that in no moment of the political debate within the national government was there a serious concern of the reaction of foreign markets in relation to any of the measures taken. In order for the government to take the decision to default the payment of its debt to foreign bondholders, in 1892, there was a radicalization of political life. It all began with the accession to power of the *Partido Progressista*, in 1886, and the succession of Finance ministers of the left. These ministers wanted to revise the policy which had been followed for decades by right-wing *Partido Progressista* and to change the way public finances were conducted in Portugal. The radicalization of political life was further enhanced by the accession to power of Martins and Dias Ferreira, who had never been engaged directly in party politics and who followed policies that would radically change the way state business was conducted. When Dias Ferreira, following a first move by Oliveira Martins, decided to default on foreign bondholders, he showed no concern towards the effects that such measure would have in the capacity of the country to raise further loans in the international capital markets.

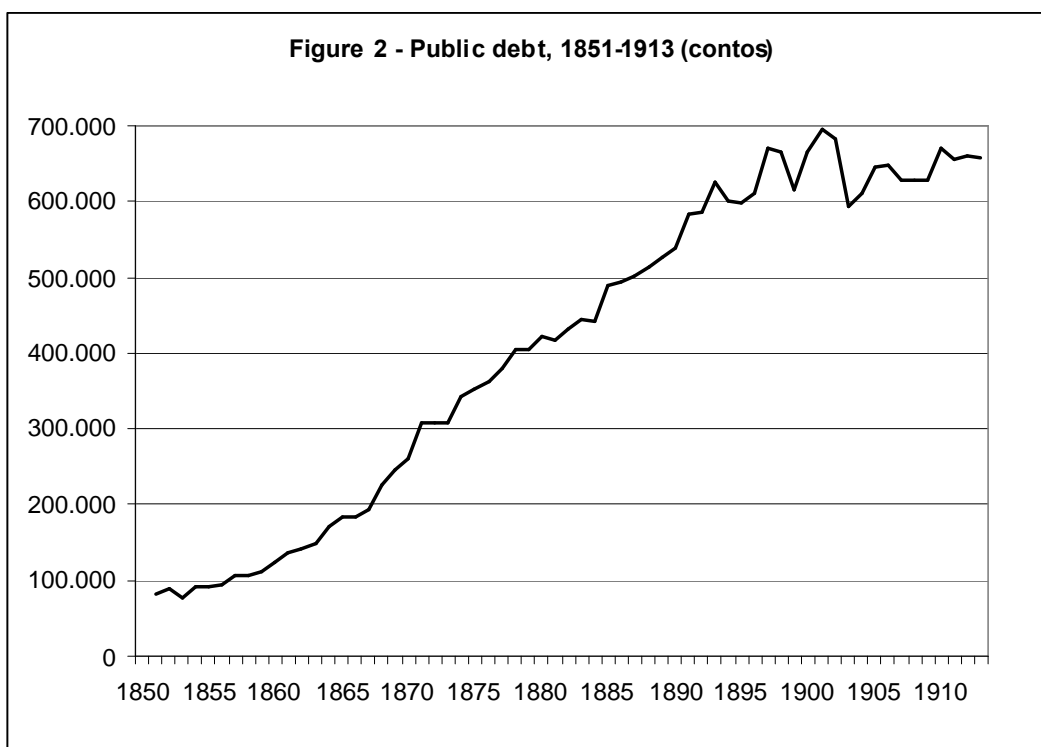
The Portuguese government had few options to choose from in order to solve the

serious payments crisis that the country faced in 1891. However, there other options than default. In order not to default, the government would have to impose the payment of many private debts to the Bank of Portugal, to increase taxation or to drastically reduce money supply. The alternative ways of resolving the crisis would have had even more serious consequences in the economy and thus more serious consequences in the political stability of the country. This was a time in which the public was less keen to accept a severe contraction in economic activity to satisfy foreign lenders. The decision to default was not uncommon within the governments in the periphery of the international financial system and the decision taken by the Portuguese government was not exceptional. This paper highlights the importance of domestic factors in that kind of decision.

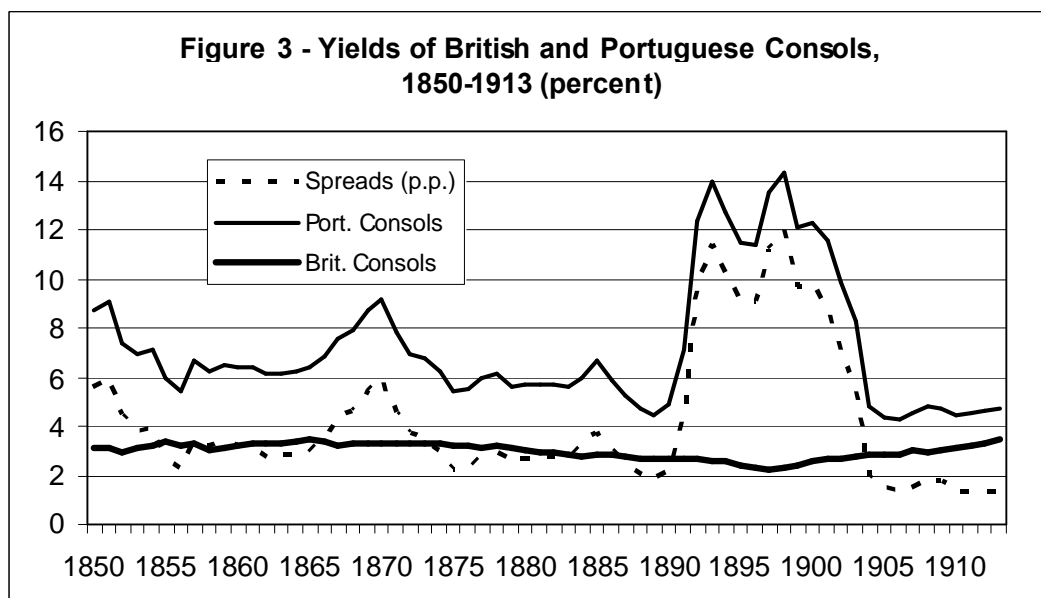
What happened in Portugal during the crucial years from 1891 to 1892 demonstrates how a peripheral government had the power to decide not to comply with the rules of the game. After all, the most powerful tool at the disposal of lenders was to suspend their loans to the governments that defaulted, as Portuguese foreign lenders were not backed by governments. The fact that a large share of Portugal's trade was carried with Britain, Brazil and Portugal's African colonies, whereas most foreign loans were raised in Paris and Berlin, diminished the possibility of retaliation by lenders through limiting access to international trade. Portugal's experience during the 1891-1892 crisis points to the weaknesses of the international financial markets in terms of enforcement of sovereign debt repayment. The government of a peripheral country could choose to default, if its consequences were politically less harmful than that of alternative measures that would impact more negatively on domestic economic interests.



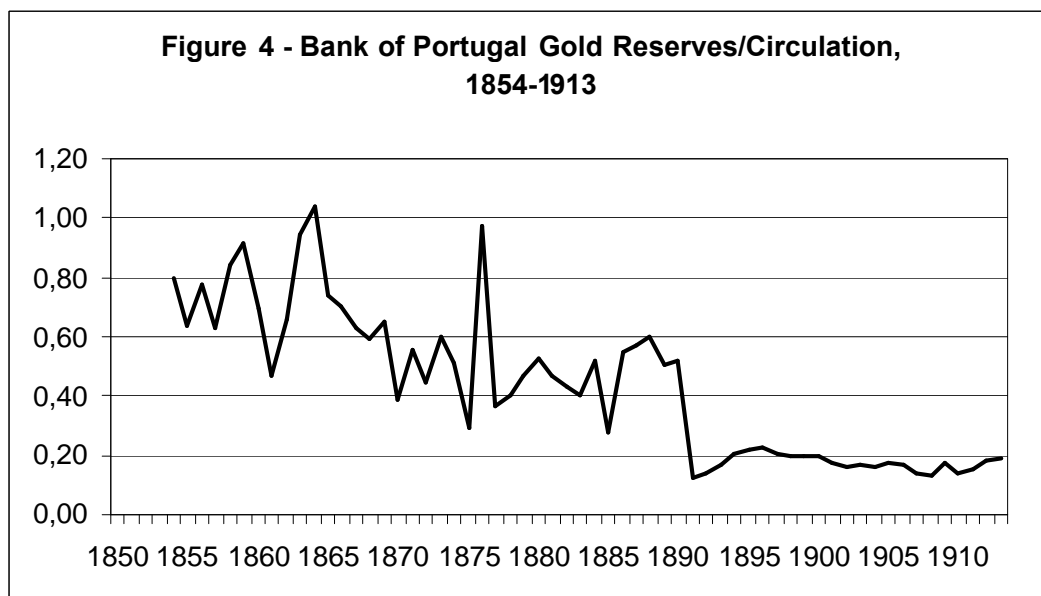
Source: E. Mata, 'As finanças públicas portuguesas da regeneração à primeira Guerra Mundial' *História Económica*, iv (1993), p. 175.



Source: E. Mata, 'As finanças públicas' p. 255.



Sources: Global Financial Data Database <http://www.globalfinancialdata.com/index.php3> and M. Flandreau and F. Zumer, *The Making of Global Finance 1880-1913* (Paris, 2004).



Sources: R. P. Esteves et all. 'Market integration in the golden periphery - the Lisbon/London exchange, 1854-1891' *Banco de Portugal Working Paper*, no. 15-05 (2005); J. Reis, 'An art, not a science? Central bank management in Portugal under the Gold Standard, 1854-1891', *Banco de Portugal, Working Paper*, no. 6-02 (2002); and M. Flandreau and F. Zumer, *The Making of Global Finance 1880-1913* (Paris, 2004).

¹ I would like to thank comments from Rui Pedro Esteves and Marc Flandreau. The usual caveat applies. Financial support from Fundação para a Ciência e Tecnologia is acknowledged (Project no. POCTI/HAR/44207/2002).

² The *Regeneração* period was however marked by other political crisis, particularly in 1868, 1870 and 1876, but none of these events compared in intensity with what happened before 1851.

³ See R. P. Esteves, 'Looking ahead from the past: the inter-temporal sustainability of Portuguese finances, 1854-1910', *European Review of Economic History*, vii (2003), 239-66. R. P. Esteves, 'Finanças públicas', in *História Económica de Portugal, 1700-2000*, eds. P. Lains and A. F. Silva (3 vols., Lisbon, 2005), ii, 305-335. See also *Currency Convertibility. The Gold Standard and Beyond*, ed. J. Reis (London, 1996); and J. Reis, 'The gold standard in Portugal, 1854-91', in *Monetary Standards in the Periphery. Paper, Silver and Gold, 1854-1933*, eds. P. Martin Aceña and J. Reis (London, 2000).

⁴ Reis, 'The gold standard'.

⁵ See R. P. Esteves, 'O crowding-out em Portugal, 1879-1910', *Análise Social*, xxxiv (2000), 573-618. The author concludes that Portugal's capital market was segmented and thus that there was little competition between private and public borrowing. See also P. Lains, *História da Caixa Geral de Depósitos, 1876-1910. Política e Finanças no Liberalismo Português* (Lisbon, 2002).

⁶ See E. Mata, 'As três fases do fontismo: projectos e realizações', in *Estudos e Ensaios em Homenagem a Vitorino Magalhães Godinho* (Lisbon, 1988).

⁷ See P. Lains, *L'Économie Portugaise au XIXème Siècle* (Paris, 1999). See also M. Villaverde Cabral, *O Desenvolvimento do Capitalismo em Portugal no século XIX* [1976]

(Lisbon, 1981); and A. Castro, *A Revolução Industrial em Portugal no século XIX* [1947] (Oporto, 1978).

⁸ On the Baring crisis, see among others, H. S. Ferns, 'The Baring crisis revisited', *Journal of Latin American Studies*, xxiv (1992), 241-73.

⁹ Portugal was no exception. Argentina also went on borrowing abroad, even after a short-term crisis in 1885 and the deterioration of the macroeconomic situation in the years that followed until the Baring crisis. See J.-H. Flores, 'Information structure and financial crisis: why didn't Lombard Street sound the alarm?' (Mimeo) (Madrid, Universidad Carlos III, 2005), and G. della Paolera, 'The true measure of country risk: a primer on the interrelations between solvency and the polity structure of emerging markets: Argentina 1886-1892', in *Growth, Institutions and Crises: Latin America from a Historic Perspective*, ed. S. Edwards (Chicago, forthcoming). See also *The International Debt Crisis in Historical Perspective*, eds. B. Eichengreen and P. H. Lindert (Cambridge, Mass., 1989); T. Kelly, 'Ability and willingness to pay in the age of Pax Britannica, 1890-1914', *Explorations in Economic History*, xxxv (1998), 31-58; and M. Flandreau, 'Caveat Emptor. Coping with sovereign risk under the international gold standard, 1871-1913', in *International Financial History in the Twentieth Century. System and Anarchy*, eds. M. Flandreau, C.-L. Holtfrerich and H. James (Cambridge 2003), 17-50.

¹⁰ See J. Bulow and K. Rogoff, 'A constant recontracting model of sovereign debt', *Journal of Political Economy*, xcvi (1989), 155-78.

¹¹ See P. Tavares de Almeida, *Eleições e Caciquismo no Portugal Oitocentista, 1868-1890* (Lisbon, 1991).

¹² The *Progressista* party was then under the new leadership of Luciano de Castro, after the death of its historical leader, Anselmo Brancaamp in late 1885. 'Fontismo' was far from a

homogeneous period. See M. F. Mónica, *Fontes Pereira de Melo* (Lisbon, 1999). See also F. Bonifácio, *O Século XIX Português* (Lisbon, 2002).

¹³ See ‘Relatório ...’ in *Diário da Câmara dos Deputados* (16 January 1888), pp. 121-23. See also Mariano Pina, *Os Planos Financeiros do Sr. Mariano de Carvalho* (Lisbon, 1893).

¹⁴ See R. Esteves dos Santos, *Os Tabacos. Sua Influência na Vida da Nação* (2 vols., Lisbon, 1974); and M. F. Mónica, *O Tabaco e o Poder. Cem anos da Companhia dos Tabacos de Portugal* (Lisbon, 1992).

¹⁵ See Lains, *História da Caixa Geral de Depósitos*.

¹⁶ 1 *conto* = 1 million réis = £ 222. Portugal’s currency unit was the *real* or *réis* (plural).

¹⁷ See Esteves dos Santos, *Os Tabacos*, pp. 114-23; Mónica, *O Tabaco e o Poder*, p. 23; and R. Ramos, *A Segunda Fundação, 1890-1926* (Lisbon, 1994), p. 129. See also M. de Carvalho, *A Questão dos Tabacos. Discursos proferidos na Câmara dos Senhores Deputados nas Sessões de 12, 13 e 15 de Abril de 1889* (Lisbon, 1889); and E. Mata, ‘As finanças públicas portuguesas da regeneração à primeira Guerra Mundial’ *História Económica*, iv (1993), pp. 157-59 and 218.

¹⁸ See Mata, ‘As finanças públicas’, pp. 53-54, 157-59, 189 and 218.

¹⁹ See Marnouco e Sousa, *Tratado de Ciência das Finanças* (Coimbra 1916), pp. 359-63.

²⁰ The average interest for public debt in the secondary market, in 1880-89, was 5.4% (domestic) and 5.6% (foreign), as compared to 3.0% for British consoles. The difference between these rates is a measure of the premium on Portuguese public debt, which had been declining since 1854-59 from a maximum of 3.7 pp. in the 1850s (for both domestic and foreign debt). According to an estimate, in the primary market the interest rate deviated substantially from that of the secondary market in 1890-99, reaching 11.9% (domestic) and 9.3% (foreign). The two markets converged thereafter. The domestic premium reached a minimum in 1900-10 at 2.5 pp., whereas the foreign premium, given by the exchange risk

after Portugal left the gold standard in 1891, was estimated at 3 pp. See Esteves, ‘Finanças públicas’, tab. 10.3.

²¹ Esteves, ‘The sustainability’. See also E. Mata, ‘As finanças públicas’, p. 189. See also Marnouco e Sousa, *Tratado*, i, p. 420.

²² The Economist (3 November 1885), p. 5 quoted in Esteves, ‘Finanças públicas’.

²³ See Esteves, ‘Finanças públicas’.

²⁴ See Flandreau, ‘*Caveat Emptor*. Coping with sovereign risk’. The author also points out to the fact that governments financial reports could be ‘filled with intended errors’, as was reported to the *Crédit* by a Portuguese official in 1898 (see pp. 31 and 47). See also M. D. Bordo and H. Rokoff, ‘The Gold Standard as a “Good housekeeping seal of approval”’, *Journal of Economic History*, lvi (1996), 389-428 and M. Flandreau and F. Zumer, *The Making of Global Finance, 1880-1913* (Paris, 2004). Argentina’s economic and financial situation also deteriorated since about 1885 and foreign lenders kept supplying funds to the government, until the 1891 Baring crisis. See Flores, ‘Information structure’.

²⁵ See M. Pinheiro ‘Portugal e Espanha: integração e ruptura. Os caminhos-de-ferro, 1850-1890’, *Ler História*, i (1987), pp. 56-7 and 68-71. Carvalho exceeded his powers as Finance Minister and promised to provide financial assistance to a bankers’ syndicate, without consulting the Prime Minister and head of his party, Luciano de Castro. That syndicate had been formed in 1881 with the aim of providing the city of Oporto with a direct link to the Spanish rail network, through Salamanca.

²⁶ The three contenders were Lopo Vaz, João Franco (Minister of Finance) and Hintze Ribeiro (Foreign Minister). Hintze Ribeiro was to be confronted, in the Chamber of Deputies, with a motion of support for the Progressive Party and the publication of Barros Gomes’s rose-coloured map’ in the Chamber of Deputies. This motion gained the support of some deputies

of the *Partido Regenerador* who supported Vaz's candidacy for Party leadership. See Ramos, *A Segunda Fundação*, pp. 185-86.

²⁷ He had been Minister for Public Works in 1864-5 and of War in 1877-81, under governments led by the *Partido Progressista*.

²⁸ See A. Fuschini, *O Presente e o Futuro de Portugal* (Lisbon, 1899), p. 108.

²⁹ *Diário da Câmara dos Deputados* (6 March 1891), p. 6.

³⁰ Rui Ulrich, *História do Banco de Portugal, 1846-1890* (mimeo) (Lisbon, [1946]), p. 227.

Imports of English sovereigns were one of the main devices with which the Bank of Portugal kept its commitments to the gold standard. See Jaime Reis, 'An 'art', not a 'science'? Central bank management in Portugal under the gold standard, 1854-1891', *Banco de Portugal Working Paper*, vi (2002).

³¹ Under the gold standard, the Bank of Portugal could expand its gold reserves by importing English sovereigns from London on credit or with assets that the Bank held in other private banks. According to Reis, 'An 'art' and not a 'science'', that was the most common procedure. After the Baring crisis, there was a retraction in overall lending to foreign banks of countries such as Portugal.

³² See J. Reis, 'A evolução da oferta monetária portuguesa, 1854-1912', *História Económica*, iii (1991); and Lains, *L'Économie portugaise*, p. 236.

³³ See Mónica, *O Tabaco e o Poder*, pp. 24 and 27. The negotiations were held during the brief occupation of the Ministry of Finance by João Franco, who had dispatched the Count of Burnay to Paris to negotiate the contract, and who would have a crucial role again later on. This was another episode where political alliances were made across parties and with one-time enemies.

³⁴ See *Diário da Câmara dos Deputados* (6 March 1891), p. 6. Esteves dos Santos, *Os Tabacos* relates the 1926 military coup, which ultimately led to Salazar's dictatorship, to tobacco interests.

³⁵ See Rui Ennes Ulrich, *Crises Económicas Portuguesas* (Coimbra, 1902), pp. 217-18. See also R. Ramos, 'A crise', in *Portugal Contemporâneo*, ed. A. Reis (Lisbon, 1989), ii, pp. 170-71.

³⁶ Who was then close to Oliveira Martins.

³⁷ *Diário da Câmara dos Deputados* (12 March 1891), p. 6.

³⁸ Fuschini, *O Presente e o Futuro*, pp. 99 and 101.

³⁹ *Diário da Câmara dos Deputados* (12 March 1891), pp. 20-22, 25 and 32.

⁴⁰ See previous note.

⁴¹ A. Oliveira Salazar, *O Ágio do Ouro e outros Textos Económicos, 1916-1918* [1916] (Introduction by Nuno Valério) (Lisbon, 1997), pp. 68-71.

⁴² See Mata, 'As finanças públicas', p. 136.

⁴³ See Fuschini, *O Presente e o Futuro*, p. 108.

⁴⁴ They were Júlio de Vilhena, João Franco and Lopo Vaz

⁴⁵ See Ramos, *A Segunda Fundação*, p. 203. See also F. Moreira, *José Luciano de Castro. Itinerário, Pensamento e Acção Política*, Masters Dissertation (Universidade Nova de Lisboa 1992), p. 268.

⁴⁶ See, respectively, *Diário da Câmara dos Deputados* (25 June 1891), pp. 2-3; (23 June 1891), p. 7; and (25 June 1891), p. 6.

⁴⁷ See *Legislação do Banco de Portugal* (Lisbon 1946).

⁴⁸ See Ramos, *A Segunda Fundação*, pp. 203-208.

⁴⁹ Ser, for example, Oliveira Martins, 'Aperçu sur la situation du Portugal' [1892], in Oliveira Martins, *Política e História* (2 vols., Lisbon 1957), ii, pp. 305-19.

⁵⁰ See Lains, *História da Caixa Geral de Depósitos*.

⁵¹ The 1890-91 deficit, according to Mata, 'As finanças públicas', p. 175, amounted to 10,968 *contos*, which was close to the value presented by the Minister; yet, in the following fiscal year, the deficit would be higher than he expected, namely, 15,190 *contos*, which was an historical peak.

⁵² At the time, public finances were supervised by the Treasury, which took care of the floating debt, the special debt and the 4% external loan of 1886. The *Companhia dos Tabacos de Portugal*, took charge of the foreign loans of 4.5% from 1891 (and later the 4.5% loan of 1896). And the *Direcção Geral da Dívida Pública*, which in 1887 had taken the role of the *Junta do Crédito Público* in the administration of the remaining long-term debt. See Mata, 'As finanças públicas', p. 36.

⁵³ See Esteves, 'Intertemporal sustainability'.

⁵⁴ On Greece, see Kelly, 'Ability and willingness', pp. 35-36. For Fuschini, see *Diário da Câmara dos Deputados* (13 March 1891), p. 13.

⁵⁵ *Diário da Câmara dos Deputados* (30 January 1892), pp. 18-19. See also Silva Cordeiro, *A Crise*, p. 63. Fuschini, *O Presente e o Futuro*, pp. 32-44, reports detailed information on the subsidies given to the chartered banks and companies, which the Treasury had given to him when he was Minister of Finance. According to the list he publishes, in 24 February 1893, the total debt on this account amounted to 12,275 *contos*.

⁵⁶ See Silva Cordeiro, *A Crise*, pp. 34-35. See also Castro, *A Revolução Industrial*, pp. 128-34.

⁵⁷ *Diário da Câmara dos Deputados* (30 January 1892), p. 20; (13 February 1892), pp. 18 and 20.

⁵⁸ That law had been drafted by Barros Gomes in the brief government of the *Partido Progressista* in 1880, but it failed to pass in the Parliament.

⁵⁹ It is not possible to detect the modifications by Oliveira Martins, and we can only trace those that the Financial Committee introduced. According to Anselmo Vieira, *A Questão Fiscal e as Finanças Portuguesas* (Lisbon 1905), pp. 10 and 115-16, taxes increased by 30% for domestic debt (and later on for foreign debt as well); and to 12.5% for wages of public servants. At the same time, additional taxes of between 12.6 and 15% were introduced to different direct taxes on property. These taxes were suspended at the end of 1892. See also Mata, 'As finanças públicas', p. 31.

⁶⁰ *Diário da Câmara dos Deputados* (30 January 1892), p. 20; (13 February 1892), pp. 18 and 20.

⁶¹ See R. P. Esteves, 'Pulsões financeiras: finanças públicas, moeda e bancos', in A. H. Oliveira Marques, *Nova História de Portugal* (Lisbon, 2004), x.

⁶² *Diário da Câmara dos Deputados* (11 February 1892), p. 24.

⁶³ *Diário da Câmara dos Deputados* (11 and 15 February 1892). See also Ramos, *A Segunda Fundação*, p. 171 and Lains, *História da Caixa Geral de Depósitos*.

⁶⁴ *Diário da Câmara dos Deputados* (15 February 1892).

⁶⁵ According to Martins however the distribution of bonds was less widespread than Fuschini contended. His data shows that the amount of debt owned by the lower classes and the welfare corporations was 60% of the total, and not 80%, as Fuschini suggested.

⁶⁶ See Fuschini, *O Presente e o Futuro*, Appendix, p. 56.

⁶⁷ Vieira, *A Questão Fiscal*, p. 11.

⁶⁸ For an interpretation of the episodes of consensus among political parties in Portugal, see J. M. Sardica, *A Regeneração sob o Signo do Consenso. A Política e os Partidos entre 1851 e 1861* (Lisbon, 2001).

⁶⁹ These bonds could be exchanged by domestic debt bonds of 3%, the income of which was taxed by 30%, according to the decree of 26 February 1892.

⁷⁰ See Comte de Burnay, *Quelques Considérations sur la Situation Financière du Portugal* (Paris, 1897), p. 6. This was to remain unresolved until the future *regenerador* government led by Hintze Ribeiro. See Silva Cordeiro, *A Crise*, pp. 156-7.

⁷¹ See Esteves, 'Finanças públicas'.

⁷² Serpa refused to form, government because he was allegedly ill but he only left the party leadership, to Hintze, in 1900.

⁷³ See Hintze Ribeiro, *Dois Discursos 1906. Publicação feita por um Grupo de Amigos e Admiradores do Conselheiro de Estado* (Lisbon, 1907); and Augusto Fuschini, *Liquidações Políticas. Vermelhos e Azuis* (Lisbon, 1896), pp. 135-38. The efforts to redeem public finances are fully acknowledged in the report of the British consul in Lisbon. See H. G. MacDonell, 'Report on the finances of Portugal for the year 1894-95' in *Diplomatic and Consular Reports on Trade and Finance. Portugal*, No. 1645 (London, HMSO, 1895).

⁷⁴ See Kelly, 'Ability and willingness', p. 42. However, only in 1897 were the conditions met for payments based on that source.

⁷⁵ See Comte de Burnay, *Quelques Considérations*, pp. 6-8.