

**Carlos Marichal**

## **Foreign Loans, Banks and Capital Markets in Mexico, 1880-1910 <sup>1</sup>**

The history of foreign public debts is frequently analyzed as a specific function of government finance without taking into account other elements related to the overall evolution of financial markets. In this paper the emphasis is placed on the close relationship between public debts (internal and external), banking developments and the growth of capital markets. One of the central objectives of the research presented is to demonstrate that for the historical case under study, Mexico in 1880-1910, all of these factors – public debts, banks and capital markets – should be analyzed in conjunction in order to understand the dynamics and close links between public and private finance. In particular, this paper intends to explore the way in which the restructuring of the Mexican public debt influenced the development of money and capital markets at this critical juncture in the "takeoff" of modern capitalism in Mexico. We will begin with a general overview and then proceed to the analysis of the specific variables.

In the mid and late 1880s the restructuring and conversion of the outstanding Mexican public debt was successfully accomplished. The financial negotiations brought to a close six decades of conflict between the Mexican government and its foreign creditors. Indeed, it may be argued that these renegotiations were

---

1 For the preparation of this paper I received support from the Centro de Estudios Económicos of the Colegio de México. I also wish to acknowledge the assistance of Carlos Rodríguez in the compilation of data and of Enrique Vega in the preparation of the figures.

the most complex transactions undertaken by Latin American politicians and European bankers up until that date. The conversion of the Mexican external debt, however, should not be seen merely as an attempt to get the foreign bondholders off the back of the government by complying with their demands. Mexican public officials had long demonstrated that they could prove impervious to the demands of foreign creditors.<sup>2</sup>

The reasons for seeking to restructure Mexican public debts in the 1880s were linked to a set of new conditions. Most important was the need to raise capital both locally and abroad for public and private economic expansion. During the administration of General Manuel González (1880-1884) entrepreneurs and investors from the United States began to channel a significant flow of funds into Mexican railroads and mines, but European capitalists proved reticent to commit their finances in similar enterprises. The Mexican élite believed that by converting the *external* debt (mostly held in England) the government would facilitate access to European capital markets for new loans and additional direct investment. In addition, they felt that the conversion of the *internal* debt would stabilize public finances and make local sources of credit more readily available.

The urgency of reaching an agreement with local and foreign creditors became manifest by the end of 1883 as a result of ballooning government expenditures and deficits. However, in order to convince European investors that Mexico was a credit-worthy nation, public authorities were obliged to adopt new financial instruments that could guarantee the future service of the debt. The most important initiative taken in this regard was the establishment of the Banco Nacional de México (BANAMEX) in February 1884, which became the agency for trans-

---

2 Indeed, under the leadership of Benito Juárez in 1861, the Mexican government had proved willing to suspend payments on the debt at the risk of military invasion. The consequences of this fateful decision were clearly disastrous, as it helped spark the French armed intervention in Mexico in the years 1862-67. Nonetheless, from 1867 to 1885 no payments were forthcoming to European bondholders on the Mexican foreign debts.

fer of interest payments abroad.<sup>3</sup> The new institution not only had sufficient local capital resources to assist the government with short-term credits for the current accounts but also had excellent financial connections in Europe since the leading stockholders of BANAMEX were prominent financiers in Paris, London and Berlin.

The Mexican government subsequently authorized representatives of BANAMEX to initiate direct negotiations with the foreign bondholders in order to see if a debt conversion could be worked out. These transactions, however, were cut short by a fiscal and financial crisis that hit the Mexican state in mid-1885. The government was subjected to the vicious scissors effects of dropping revenues, which resulted from a decline in trade, and rising short-term debts, with the result that ordinary budgeted expenditures could not be met. Close to 80 percent of customs revenues were pledged to cover subsidies to private railroad firms or to BANAMEX, making it impossible to cover such essentials as the pay of army officers and soldiers as well as tax officials.

In the midst of this crisis Finance Minister Manuel Dublán ordered a freeze on the payment of short-term credits and the establishment of a general plan to convert the entire *internal* and *external* debt. Despite initial opposition, the debt conversion of 1885 proved a success and laid the groundwork for the issue of the great foreign loan of 1888 as well as a succession of foreign loans over the following two decades. In this regard, government policies were clearly successful in stabilizing national finances which had long been subject to extreme fluctuations. They were also instrumental in attracting a large flow of foreign capital to Mexico which many contemporaries considered essential to the overall economic expansion of the nation.

More difficult to answer is the question of whether these public debt policies contributed to the expansion of local capital

---

3 This bank was created by the fusion of the Banco Mercantil Mexicano and the Banco Nacional Mexicano, both of which had been founded in 1881. For details see Ludlow (1986: 299-345).

markets. That the Mexican banking system grew rapidly in this period and that this was closely linked to the stabilization of government finance seems clear. But the growth of banks implied essentially a modernization of local *money markets* dealing primarily in short and medium-term credits rather than the development of authentic *capital markets* oriented towards longer-term investments in public or private securities.

It is the purpose of this paper to explore some of these questions, beginning with an analysis of the somewhat singular nature of Mexican credit markets before 1880, the relationship between banking and debt reforms in the 1880s, and the subsequent expansion and diversification of financial activities in a period of rapid if uneven economic growth.

## 1. Mexican Money Markets Before 1880

Although it is possible to affirm that in Mexico a relatively "modern" money market began to be operative in the 1880s, it is important to keep in mind the considerable obstacles that had existed prior to this decade to the development of fluid credit transactions of the type one normally associates with a capitalist economy. The peculiarities of the monetary and credit system in Mexico during the first half-century after the Wars of Independence merit a brief commentary in order to grasp the profound impact of the financial and banking reforms that took place in the 1880s.

It should be noted, in the first place, that for decades Mexican finances were dominated by the quandary of public debts. With the exception of a few years the Mexican government remained from 1828 until the 1880s in a state of virtual default on its foreign debts.<sup>4</sup> The relationship between foreign indebted-

---

4 The Mexican government provided several payments to foreign bondholders in 1837, in the years 1848-50 and during the imperial government of Maximilian, 1863-67, but otherwise no service was forthcoming to foreign bondholders. For details see Bazant (1968).

ness and internal finances during this long period has been analyzed in a variety of recent studies which demonstrate that from the 1830s onwards, due to the lack of new foreign loans, Mexican Finance Ministers were obliged to rely on local sources of credit which provided funds at extremely high rates of interest. The result, as Barbara Tenenbaum has demonstrated, was that *internal* public debts became the major cause of government deficits.<sup>5</sup> In fact, the operations of Mexican money markets were largely determined and skewed by the great weight of these debts which forced most available liquid funds into the hands of the government and of the coterie of powerful money-lenders who largely controlled the state treasury. In the long run this meant that the stabilization of Mexican finances, including the conversion of old foreign debts, would depend upon the possibility of breaking out of the vicious circle of high-interest internal public debts which impeded the transformation and expansion of local money markets.

But what was the nature of the Mexican money market in this early era? It is worth pointing out in this context that although compared to, let's say, Argentina or Brazil, the Mexican economy was slow in adopting banking practices, money and credit markets of a rather special sort did function throughout the period 1820-1880. There developed, in fact, two quite different types of credit markets at the time. The first was the financial market directly linked to the supply of funds for the government, which we have already mentioned. The second were local credit markets mostly oriented towards the supply of funds for landowners, mine operators and some manufacturers.<sup>6</sup> Since we are interested in this essay in the analysis of public debts, we will limit our comments essentially to the first of the two financial markets mentioned, which had its locus of operations in the nation's capital.

---

5 The enormous impact of internal debts on government finance became manifest from the late 1830s. For details see Tenenbaum (1986b).

6 The only in-depth study of these local credit markets that we know of is the excellent study by Wiemers (1985: 519-545).

By the mid-century there had developed a money market in Mexico City which had some rather unique characteristics. In the first place, it should be noted that it was a highly oligopolistic market, controlled by twenty to twenty-five important merchant houses, involved in the import/export business as well as in mining and textile enterprises and, naturally, in the provision of loans for the impecunious government.<sup>7</sup> In fact, the bulk of credit transactions consisted in the buying and selling of a variety of government securities. Among these were short-term securities such as the "certificados de aduanas" (certificates that could be used to pay customs duties) which were popular among merchants because of their liquidity and the large demand that existed for them. The volume of "certificados de aduanas" that circulated from the 1830s onwards was large and continued to be so for decades (Tenenbaum 1986b: 60).<sup>8</sup> Other relatively short-term securities included a variety of treasury bills and bonds, "pagarés", "vales de alcance" and "vales de amortización" (mostly promissory notes of one kind or another), although it should be noted that much of this paper was relatively difficult to liquidate. Finally, there were longer-term government securities in which the moneylenders invested: these included shares and bonds of the Banco de Avío (a public industrial bank which operated between 1830 and 1840), stock of the tobacco monopoly (leased in the 1840s as a private enterprise), and shares in mining companies controlled by the government, such as the Fresnillo silver mines of Zacatecas.

Although the number and variety of securities sold was considerable in the 1830-60 period, it would be erroneous to conceive of these transactions in terms of a stable or open money market. This market was not free but rather closed, being limited on the supply side to a small group of firms (as previously

---

7 A number of cases studies of these merchant houses have been published. See Tenenbaum (1986b), Walker (Ms. 1981) and Cardoso (1978).

8 So considerable were these transactions that in 1836 the government created a special "Fifteen Percent Fund" which guaranteed the various holders of the customs certificates 15 percent of the annual revenues of all the Mexican customhouses. See Tenenbaum (1986b: 60).

mentioned) that had liquid cash and could make advances, and on the demand side, basically to one monopolistic entity that took the bulk of the loans, namely the federal government.

The effects of this situation on financial operations were striking. In the first place, *rates of interest* on virtually all loans were extremely high and volatile, ranging from 30 to 200 percent per year. These rates were conditioned mainly by two factors: (1) the extreme fluctuations of foreign trade, which affected both the income of the merchant houses doing the lending and that of the government, which relied mainly on customs revenues; (2) the extreme penury of the government, which required large amounts of cash to pay the army and the civilian administration. In the second place, the *risks* on most credits to the government were abnormally high, a factor which also explains both the high interest rates and the high level of bankruptcies among moneylenders from the 1840s. These risks were related to the highly unstable military and political situation, to the rapid turnover of Finance Ministers, to the extreme fluctuations in government income, and to an established pattern of temporary repudiation of debts in times of crisis or war.

At any rate, it is clear that while the money market of Mexico City in the first half of the nineteenth century did allow for a considerable volume of transactions in public securities, it did not constitute a capital market as such.<sup>9</sup> Apart from the high interest rates, the great risks involved, and the multifaceted collection of government paper and bills in circulation, it should be noted that by the 1850s a very large amount of the government debt was in a state of virtual moratorium, or non-payment. Two quite different solutions to this problem were sought by the moneylenders. The first consisted in transforming their holdings of internal government debt into external debts,

---

9 A review of notarial records of the period indicates that there were few transactions involving the sale of shares of firms since these were mostly family enterprises. Among private enterprises, it would appear that only mining companies, and to a lesser extent a few textile firms, actively promoted the sale of stock. On notarial records see Gonzalbo Aizpuru and Vázquez de Knauth (1985-87).

guaranteed by England, France or Spain.<sup>10</sup> The second lay in exchanging their bonds and other public credits for real estate resulting from the new legislation established in 1856-57 nationalized the properties of the Catholic Church. These transactions made the money and credit market more complex and undoubtedly broadened its realm of activities. Once again, however, there would appear to be some doubt as to whether this truly implied a process of modernization, or indeed if it had anything to do with the creation of an incipient capital market.

For the period 1860-1880 the paucity of secondary studies makes it unwise to make any categorical statements about the evolution of the Mexico City money market. Certainly the establishment of the Bank of London and Mexico in 1864 during the Empire of Maximilian suggests that some important changes were taking place, especially with regard to international financial traffic. But then again, this bank had a rather limited scope of activities and no other banking institutions followed in its steps until the 1880s. The risks of carrying on a regular banking business were still high, and therefore it may be presumed that most of local credit transactions continued to be handled by a handful of merchant houses. The latter firms, however, were, to a large degree, different from the moneylenders who had dominated prior to 1860.<sup>11</sup>

A somewhat different perspective can be garnered from the one existing case study of regional credit markets during this period. According to Eugene Wiemers, credit for landowners and farmers in Veracruz was available at relatively reasonable rates. He notes:

For most of the time before the railway was completed in the region, debt contracts for sale of property and for loans for agriculture were regularly liquidated and repayments were predictable....That the market functioned as well as it did, despite war-

---

10 These were the famous "Convention" debts, described, for example, by Wynne (1951,II: 55-62).

11 An interesting portrait of the "new" commercial and financial bourgeoisie of the capital can be found in Ludlow (1990).



fare and economic chaos at the national level, is remarkable. That later writers would have an interest in portraying conditions as much worse than they had in fact been is not remarkable, because this version of the past provided one of the chief rationales for porfirian economic policy (Wiemers 1985: 546).

Whether the situation here described was applicable to other regions of Mexico at the time is open to question. Nonetheless, it would be wrong to argue that money and credit markets did not exist or did not operate with relative fluidity before 1880. On the other hand, it is evident that money markets – particularly that of Mexico City – had numerous peculiarities which were a function of their intimate connection with the erratic finances of the federal government. As the Mexican economy began to experience a phase of sustained expansion from the 1870s, the pressures for financial and fiscal reform as well as for the creation of an authentic banking system gained strength.

## **2. The Creation of a Banking Network in Mexico City**

Historians have traditionally emphasized the role of foreign investments as a key to the expansion experienced by the Mexican economy in the 1880s and 1890s. The considerable amount of North American and European capital invested in railroads and mines was complemented from 1888 onwards by a series of foreign loans to the government. While not misplaced, this focus should not lead one to underestimate the contribution of local capital and of state economic policies to the promotion of this new stage of transformation of the national economy. In the first place, it would be erroneous to ignore the role of the state in providing a new financial framework conducive to the functioning of a "capitalist" economy. The reforms carried out by the government in this regard included (a) new commercial legislation which progressively guaranteed the operations of joint-stock enterprises; (b) the resolution of the old debt quandary, a prerequisite to the operation of a modern money mar-

ket; (c) the provision of concessions and financial subsidies for new companies. In the second place, it is important to keep in mind the contribution of local capital in the establishment of a banking network and of a more modern money market which was essential both to the resolution of the public debt problem and to the development of new and large economic enterprises.

The creation of a banking network in Mexico City in the 1880s is especially revealing of the mix of public and private factors which characterized the more ambitious economic projects of the Porfirian administration. Until 1880, as has been noted, there existed only one commercial bank in the capital, namely the Bank of London and Mexico, although it should be kept in mind that there were a number of wealthy merchant houses that operated as private bankers to the mercantile and mining community.<sup>12</sup> Precisely from this circle of merchant-financiers came the impetus to form two new banking institutions, the Banco Nacional Mexicano and the Banco Mercantil Mexicano, both established in 1881. The Banco Mercantil was founded basically with the capital of a group of wealthy merchants of Spanish origin who controlled much of the wholesale business in Mexico City in textiles and food products. The Banco Nacional, on the other hand, was formed with a majority of foreign capital (French, British and German financiers were heavily involved) and a minority portion of shares taken by wealthy Mexico City merchants.

Subsequently, in 1882, the Banco Internacional Hipotecario was established by another group of entrepreneurs, an institution intended to open up a new line of financial business, namely mortgages on urban and rural real estate. In addition, there existed another two credit institutions in the capital: the Monte de Piedad, the National Pawnshop, which received deposits on a fairly large scale and had the right to issue bank bills for a total sum of nine million pesos; and the Banco de Empleados, a semi-public entity intended to receive deposits of

---

12 For a comparative view of the importance of the private banking firms in a contemporary economy see García López (1989: 111-132).

government employees, although it was never successful in this venture.

By the year 1883, therefore, the Mexico City money market had changed dramatically. A variety of banking institutions were now in operation, which had issued a total of over 15 million pesos in bank bills. The clients of these banks included import/export firms, the new railroad companies, shipping firms and a variety of local, wealthy customers. The discount on commercial paper was expanding and rates had dropped to an average of 6-8 percent annually on the paper of the better known firms. The government was also able to get credit from the banks at similar rates, a fact which notably decreased its reliance on the old moneylender circle and also dramatically reduced the costs of its short-term or floating debt.

The government, however, did not maintain stable credit relations with all the banks, but rather established a privileged relationship with the Banco Nacional. The latter opened a regular account for the Ministry of Finances which allowed the Treasury to draw large sums on the bank. In exchange, the bank was to take charge not only of the accounts of the national customhouses, including the sale of the traditional "certificados de aduanas", but also of the accounts of the Stamp Tax offices in the nation's capital and of the National Lottery. In effect, the Banco Nacional thus became the government banker, and, in principle, only its bills were to be accepted at the fiscal offices.<sup>13</sup>

The Banco Nacional did not limit its loans to the federal government. It also provided funds for various local government entities. In early 1882, for example, it provided an advance of 200,000 pesos to the municipal administration of Veracruz, and later in the year a 30,000 peso credit to governor Madero, of the State of Coahuila. At the same time the bank made large loans to leading industrial and transport firms; among the biggest advances were those to the Hercules textile factory in

---

13 The precise details of the contracts established between the government and the bank can be found summarized in Ludlow (1986).

Querétaro and large contracts were signed with the Ferrocarril Mexicano, the main railroad company operating between Mexico City, Puebla and Veracruz.<sup>14</sup>

From the beginning of 1883 the federal government began to pressure the Banco Nacional to provide larger loans, including the contracting of a two million peso bond issue. As on previous occasions, the bank refused to engage its own capital in such large loans, providing in May only an advance of 150,000 pesos. Nonetheless, falling customs revenues forced the Finance Ministry to maintain the pressure, and in November 1883 the Banco Nacional, in conjunction with seven allied merchant houses in Mexico City and the Paris-based Banque Franco-Égyptienne, finally agreed to advance 700,000 silver pesos to the Treasury in exchange for one million pesos in customhouse certificates.<sup>15</sup> The increasingly difficult financial position of the government, however, could not be resolved merely with one loan. According to published figures, the deficits in 1882-83 had already surpassed two million pesos but were, in fact, much higher. The large expenditures on subsidies to private railroad companies were the main cause of this problem: the amounts of subsidies surpassed seven million pesos in 1882-83 and three million pesos in 1883-84, which went to the Ferrocarril Central, Mexicano and Interoceánico. These subsidies, as well as those for port works and shipping companies, were paid with "certificados de aduanas," which implied that a great percentage of customs revenues was mortgaged to privately-owned firms.<sup>16</sup>

---

14 The details can be found in the Archivo Histórico BANAMEX, (AHBAN), Libro de Actas-Acuerdos del Consejo de Administración (1881-84).

15 The Banque Franco-Egyptienne was a leading foreign-based stockholder of the Banco Nacional. The Mexico City merchant financiers concerned in this deal included Bermejillo Hnos., Benecke Sucs., Félix Cuevas, Gutheil y Cía., Ramón G. Guzmán, Lavie y Cía., and Antonio de Mier y Celis. The customs certificates were to be cashed at the customs offices of the Mexican Pacific ports. See Contrato no. 1, Sindicato "Ordenes del Pacifico," AHBAN, Libro de Contratos Originales de Empréstitos, 1883-1914.

16 In his financial report, Minister De la Peña stated in September 1884 that 60 percent of the customs revenues of the port of Campeche, 90 percent of those of

The government authorities therefore resolved to have recourse to the "floating debt" (short-term debt), taking additional advances which were to be provided by the Banco Nacional. In toto, the Treasury requested the bank to provide the huge sum of five million pesos during the year 1884, in exchange for which the Banco Nacional was to take over virtually the entire administration of the customhouse certificates.<sup>17</sup> But this was too large a task for the bank as it existed. Without additional capital the government credit requirements could not be met.

The solution found to these problems lay in the merger of the Banco Nacional with the Banco Mercantil into one large bank, henceforth known as the Banco Nacional de México (BANAMEX). Edouard Noetzlin, representative of the European stockholders, arrived in Mexico in February 1884 precisely for the purpose of signing the final agreements for the merger. He met with president Manuel González who suggested that an official commission be named for this purpose under the auspices and direction of general Porfirio Díaz. This was clearly big business! Noetzlin, who maintained good relations with Díaz, quickly drafted an agreement for the merger, and by May it was ratified.<sup>18</sup>

The establishment of BANAMEX represented a major change in Mexican finances as this institution now formally became the government's bank, although it remained privately owned and administered. BANAMEX opened a large account for the Finance Ministry on which the latter could draw an annual total of four million pesos. In exchange, the government allocated 15 percent of all customs revenues to the bank as well as the income from the National Lottery and the stamp tax, as had been standing practice since 1881. However, apart from short-

---

Tampico and Matamoros and 84 percent of the income of the customhouse of Veracruz were mortgaged to companies, merchant houses and the Banco Nacional (*Memoria de Hacienda, México* 1884: LXX-LXXIX).

17 See discussion by the bank directors of the government proposal in AHBAN, Libro de Actas-Acuerdos del Consejo de Administración (1881-84), January 24, 1884.

18 The details of the contract establishing the Banco Nacional de México (May 31, 1884) as well as additional clauses relating to the financial relationship between the government and the bank are found in Castillo (1903: 19-52).

term credits, BANAMEX was also expected to help arrange some long-term finance for the government. Most importantly, Noetzlin was personally charged by president González to serve as financial agent for Mexico in Europe and to arrange a foreign loan of six million pound sterling which would be accompanied by the conversion of the outstanding foreign debt.<sup>19</sup> The interaction of public and private finances was thus not only institutionalized but internationalized.

### **3. The Crisis of 1885: Its Impact upon the Debt and the Banks**

Perhaps the most interesting aspect of the financial history of Mexico in the crisis years of 1884-85 is that for the first time it is possible to observe a close interaction between the evolution of Mexican money markets and foreign stock markets. This was a result of the complex debt negotiations undertaken by Noetzlin in Europe and of the policies adopted by Finance Minister Dublán.

Edouard Noetzlin, director of the Banque Franco-Égyptienne, main stockholder of BANAMEX, was known to be a shrewd financier with excellent connections in all the European money markets, an indispensable prerequisite for the restructuring of the Mexican debt, which was held in London, Amsterdam and Paris. Noetzlin was also known to be a man sympathetic to the Mexican government, as had been demonstrated in the administration of the Banco Nacional from 1881 to 1884. This did not, however, imply that the Mexican government could confide blindly in his advice. Nonetheless, Manuel González decided to provide him with a virtual *carte blanche* and urged him to raise a foreign loan in Europe as soon as possible.

Not surprisingly, when Noetzlin returned to Europe in the summer of 1884, he had little difficulty in putting together a fi-

---

19 For the text of the legislative decree authorizing the foreign loan see Castillo (1903: 17-18).

nancial package which quickly received the support of European bankers and bondholders. According to this plan, the bulk of the outstanding Mexican debt, dating from as far back as 1824, was to be converted into new bonds payable in gold. In order to carry out this plan, the Mexican government would negotiate with the foreign bankers the issue of six million pound sterling in bonds, the bulk of which would then be handed over to the bondholders.

The news was welcomed by the Council of Ministers in Mexico City, however, when the proposal was presented to the National Congress, an acrimonious and impassioned debate broke out which lasted almost three weeks and stymied approval of the so-called "Noetzlin contract."<sup>20</sup> Numerous deputies – including the prestigious intellectual Justo Sierra – argued in favor of arranging the loan with the European bankers, insisting that this would reduce the dependency on United States capital. But the opposition counterattacked, emphasizing the high costs of the transaction. Criticism was vented particularly against a clause which called for the payment of a series of huge commissions, totalling more than 13 million pesos, of which presumably 10 million pesos would go to Noetzlin.<sup>21</sup> In fact, the opposition of the press and the popular outcry became so intense that, before a final vote could be carried out, popular demonstrations forced the closure of the legislature.

---

20 According to the Congressional Finance Commission, this was the first public debate on the question of the foreign debt in thirty years, the last major legislative discussion having taken place in 1850 (Cámara de Diputados, México 1885: 178-179).

21 It should be recalled that Noetzlin was acting in the name of the Banco Nacional de México and that the commissions were probably intended to cover the huge advances the bank had been forced to make to the government on account of the future proceeds of the loan: these surpassed five million pesos between May and October, as well as two million pesos in previous months. Nonetheless, on being informed of the popular opposition, Noetzlin wired the government his renunciation of the commissions mentioned. The Noetzlin contract was analyzed critically by contemporary financial specialists, although the exact nature of the commissions was never clarified. On Banco Nacional de México advances see the contracts signed between November 24, 1883, and October 10, 1884, AHBAN, *Libro de Contratos Originales de Empréstitos, 1883-1914*. For critical interpretations of the Noetzlin contract see Casasús (1885: 457-480), Ortiz de Montellano (1886: 101-115, 461-551) and Bulnes (1885).

The opposition to the loan plans was not entirely surprising since it took place as the González administration was drawing to an end and the élite was in the midst of extended and bitter in-fighting to determine who would be president in 1885. Indeed, it might be suspected that Porfirio Díaz, who was bent on returning to power, could not have had much interest in allowing his predecessor a major financial triumph. In fact, after the accession of Díaz his new Finance Minister, Manuel Dublán, wasted no time in sending a telegram to Noetzlin advising him of the suspension of the proposed contract and loan negotiations.<sup>22</sup>

Dublán, nonetheless, could not risk a complete break with BANAMEX and its foreign stockholders. He therefore proceeded to arrange a whole set of new contracts that provided the Treasury with much-needed short-term credits and apparently guaranteed the bank a steady flow of tax proceeds for reimbursement. As a result, the "floating debt" of the government expanded rapidly, a situation which became increasingly untenable as a result of a fall in international silver prices and a decline in Mexican foreign trade.

By the early summer of 1885 public finances were approaching bankruptcy, and on June 22 Manuel Dublán took emergency action. Declaring that the government was faced with a potential deficit of 25 million pesos, he announced a suspension of payments on all short-term government debts and a reduction of the salaries of all state employees by 10-50 percent. At the same time the Finance Minister ratified a proposal for the conversion of all the outstanding bonded debt, both internal and external. Jointly these measures constituted a financial revolution, the consequences of which have not been adequately underlined by historians despite their importance for the course of Mexican public finance.

The suspension of payments on short-term debt included a huge backlog of credits due to BANAMEX, to the three leading

---

22 Copy of communication dated January 21, 1885, in Castillo (1903: 54-57).



railroad companies and to a wide array of public contractors and local creditors. The prestigious Mexico City newspaper, *The Mexican Financier*, described the measures as a "golpe de Estado," suggesting that massive commercial bankruptcy would be the inevitable consequence. In fact, there was a bank panic, as long lines of clients of BANAMEX formed to take their money out of the accounts of a bank which they believed would fail without government support. But BANAMEX survived, paying out in the course of a few days 150,000 pesos in cash in its offices in Puebla and over one million pesos in Mexico City until, finally, wary depositors became convinced that the institution was solid and would not fall.<sup>23</sup>

The next group of creditors confronted with the onslaught were the railroad companies, since they now faced but dim prospects of obtaining the abundant subsidies that had been previously provided by the government as a stimulus to the construction of new lines. The stockholders of one of the largest enterprises, the Mexican Central Railway, mostly investors from Boston, were in uproar. According to the *Semana Mercantil* the Boston newspapers had reported an outbreak of panic on the local stock exchange on June 25 and 26, 1885, once the news arrived from Mexico about the suspension of the payment of the customhouse certificates to the railroad.<sup>24</sup>

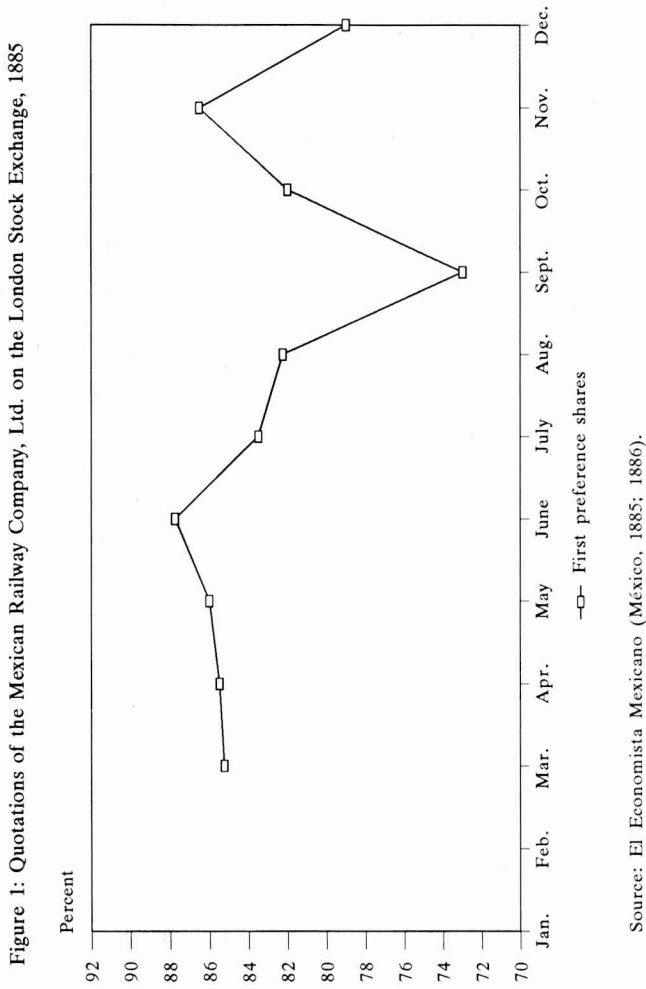
The response on the London Stock Exchange was more mixed. Initially the prices of old Mexican bonds rose since bondholders appeared to stand some chance of improving their situation as a result of the conversion plan. However, the rise in prices of Mexican securities slowed and finally stopped altogether when the financial press began to insist on the negative effects of the suspension of the railroad guarantees. The Central and National lines, in which both American and British investors had a stake as well as the Mexican Railway Company, a traditionally British-controlled enterprise, faced a certain fall in profits as a

---

23 *Semana Mercantil* (Mexico, July 6 and 13, 1885).

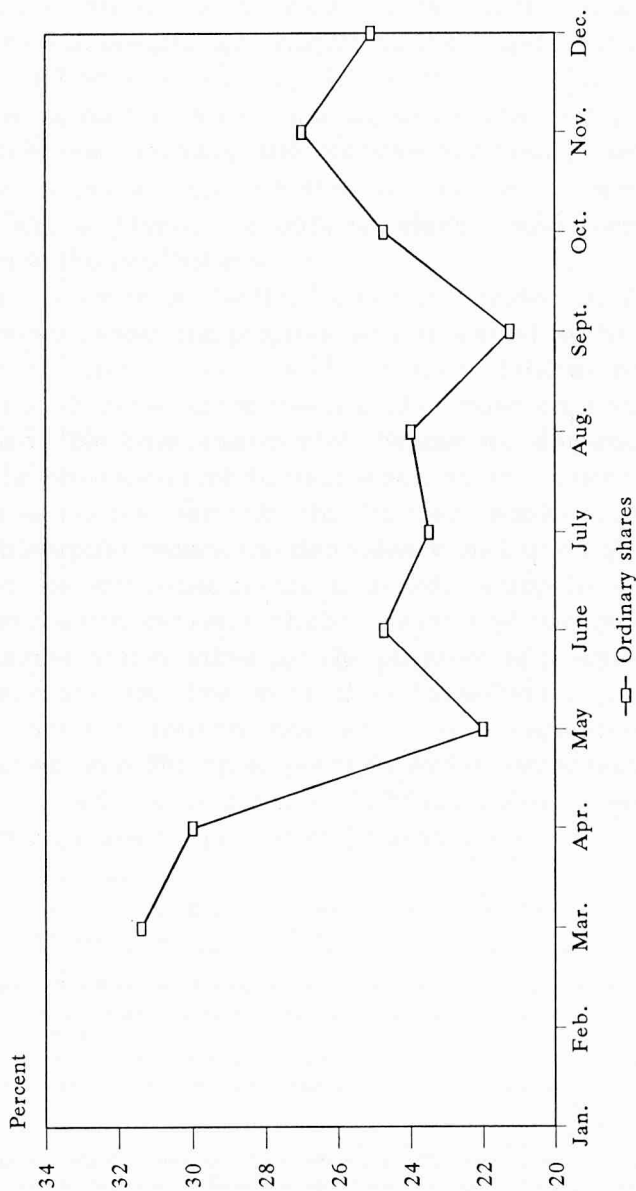
24 The edition of the *Semana Mercantil* (Mexico) of July 13, 1885, cites various reports of *The Boston Herald*.

result of government action, and the bankers promoting their stock did not want to encourage the Mexican Finance Minister in his wayward policies.<sup>25</sup>



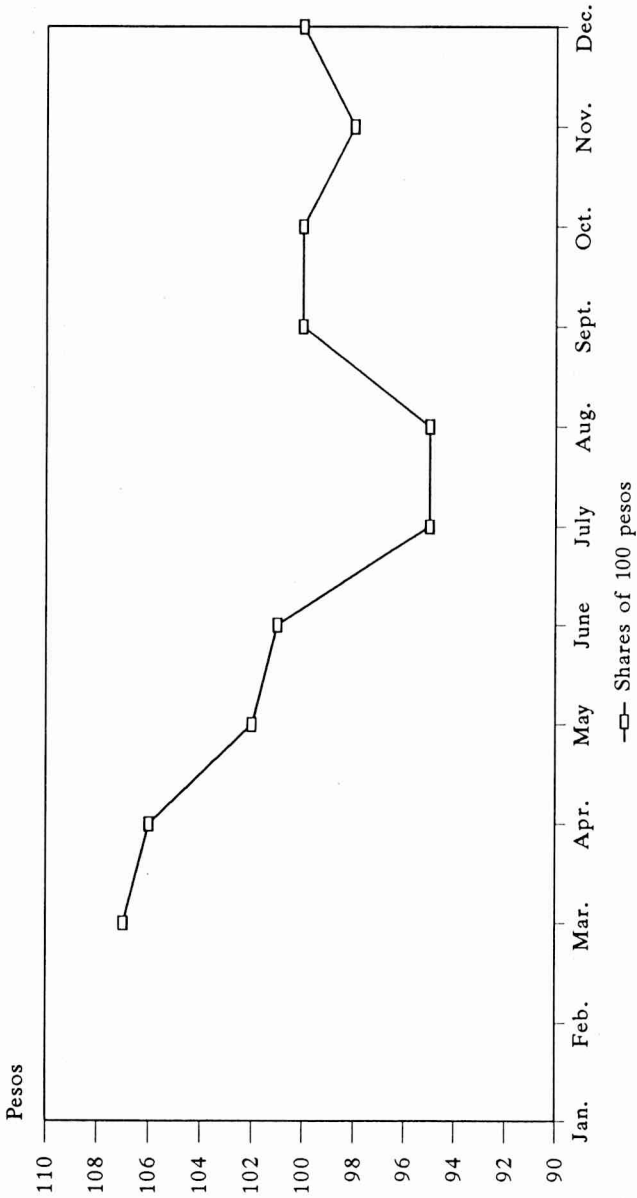
25 The *Semana Mercantil* (Mexico, July 13 and August 3, 1885) included extracts from the London financial press.

Figure 2: Quotations of the Mexican Railway Company, Ltd. on the London Stock Exchange, 1885



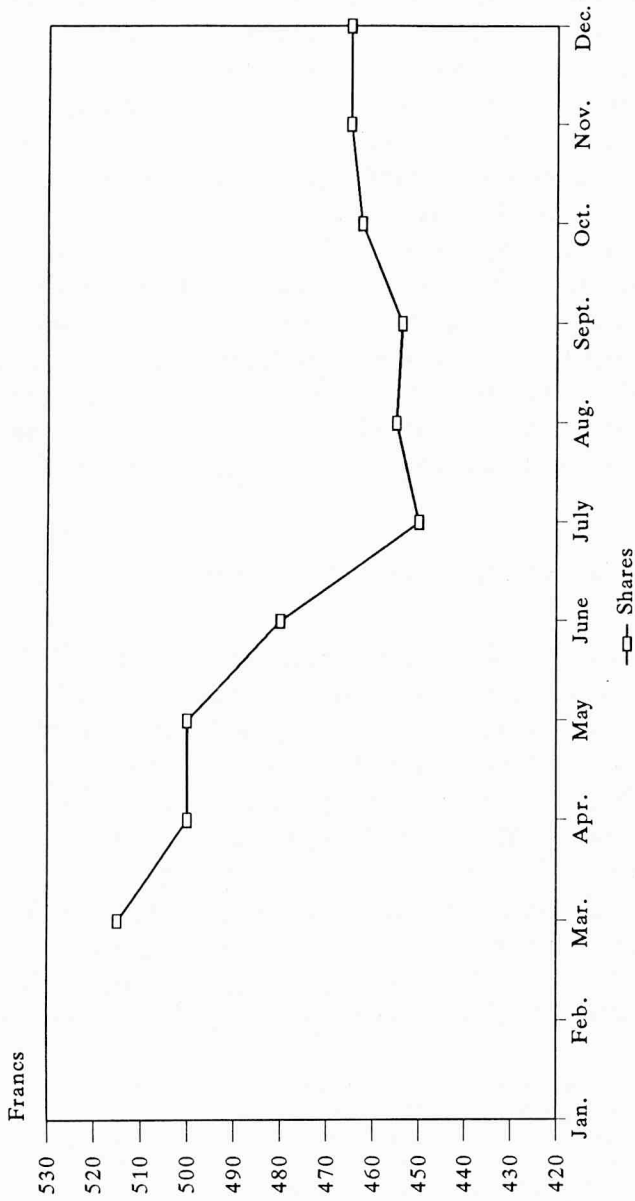
Source: El Economista Mexicano (México, 1885; 1886).

Figure 3: Quotations of the Stock of the BANAMEX on the Mexico City Stock Exchange, 1885



Source: El Economista Mexicano (México, 1885; 1886).

Figure 4: Quotations of the Stock of the BANAMEX on the Paris Stock Exchange, 1885



Source: El Economista Mexicano (México, 1885; 1886).

In summary, Dublan's emergency measures created a furor both in Mexican and foreign money markets. Nonetheless, the suspension of payments on short-term debts and obligations allowed the Mexican government a considerable respite, and during the following years public deficits declined steadily. The railroad investors received a considerable amount of new internal bonds (*certificados de construcción de ferrocarriles*) to guarantee future payments on their subsidies.<sup>26</sup> And BANAMEX worked out a series of new financial arrangements with the government which assured it a regular percentage of fiscal income in order to liquidate a portion of the money it had advanced to the government.<sup>27</sup> As result, the financial situation stabilized and the prospect of being able to raise a large foreign loan improved markedly.

#### 4. The Debt Conversion of 1886-1887

For some time foreign investors remained extremely wary of any proposals by the Mexican government to invest more money in private enterprises or in a prospective loan. The effects of the crisis of June 1885 did not really terminate, in this sense, until June 1886 when, after prolonged negotiations, the financial agent of Mexico in London, general Francisco Z. Mena, reached an agreement with the Corporation of Foreign Bondholders to recognize and convert the outstanding foreign debt of Mexico.<sup>28</sup> The bondholders now accepted the clauses of the June 22, 1885, decrees by which they exchanged their old six percent bonds for new three percent bonds on which they would

---

26 For regulations on amortization of these "certificados" see *Boletín del Ministerio de Hacienda* (Mexico, 1886), pp. 250-251.

27 See contracts 9, 10 and 11 between Banco Nacional de México and the government, signed October 21, 1885, January 11, 1886, and February 4, 1886, AHBAN, *Libro de Contratos Originales de Empréstitos*, 1883-1914.

28 For the text of the agreement signed June 23, 1886, with E. P. Bouverie, president of the Corporation, and with H. Sheridan, president of the Committee of Mexican Bondholders, see *Boletín del Ministerio de Hacienda* (México, 1886), pp. 275-278.

soon begin receiving cash interest payments. The government was to establish a financial agency in Mexico to supervise the conversion of the debt, and designated the prestigious London firm of Glyn, Mills, Currie and Co. as banker in charge of making interest payments beginning January 1887.<sup>29</sup>

*Table 1: Conversion of the Mexican Foreign Debt, 1885-86  
(in Thousands of Pound Sterling)*

Classification of Debt <sup>a</sup>	Total <sup>b</sup>	Recognized <sup>c</sup>	Saving
Bonds of 1851	10,241	10,241	-
Coupons 1851 bonds	6,144	922	5,223
Bonds of 1864	4,864	2,432	2,432
Bonds of 1837	434	87	347
Certificates of 1851	180	36	144
Baring Certificates	75	15	60
Bonds of 1843	200	58	142
English Conv. Debt	1,180	824	357
Bonds of 1846	21	11	11
Totals	23,343	14,626	8,717

a The exact definition of each kind of debt may be found in the *Memorias de Hacienda*, but it should be noted that the first three categories listed (1851 bonds, unpaid coupons of 1851 bonds, and the bonds of 1864) all derived from the original foreign loans of 1824 and 1825 and subsequent unpaid interest.

b Debt outstanding according to number of bonds in circulation before June 22, 1885.

c Amount of debt recognized by the government on basis of decree of June 22, 1885, and agreements signed with the Corporation of Foreign Bondholders on June 23, 1886.

*Sources: Memoria de Hacienda, México (1886-88) and Annual Report (1886-88).*

The debt conversion of 1886 represented a major step forward in the solution and reduction of the complex financial quandary

<sup>29</sup> Glyn, Mills were the main correspondents of Banco Nacional de México in London and the latter had a large account with the London firm.

that had brought so much anguish to Mexico over a period of six decades. The complex negotiations led to a sophisticated financial solution that provided substantial relief by reducing the recognized capital of the outstanding debt. The exact nature of the benefits has long been a subject of debate, but *grosso modo* it can be argued that the Mexican government obtained a saving of some eight million pesos in the shape of debt capital reductions on the foreign debt (see Table 1) and additional savings on the internal debt.

The outstanding foreign debt was composed of a variety of bond issues, the most important being derived from the old Mexican loans issued in London in 1824 and 1825 and the interest backlog on them. The previous conversion of 1851 had established that Mexico owed 10.2 million pound sterling to the British bondholders, but since that time an additional debt had accumulated in the shape of interest unpaid between 1851 and 1861 (before the European invasion of Mexico) and the interest unpaid from 1867 to 1886. The decree of Dublán of June 22, 1885, had established that the conversion agreement of 1851 would be recognized in full (that is £ 10.2 million) but that the greater part of the interest backlog from 1851 would be struck from the books. Thus a savings of £ 7.7 million was established by the Finance Ministry and accepted by the British bondholders. The remaining foreign debts included a potpourri of bonds, the value of which also was reduced substantially.<sup>30</sup> In all cases the foreign bondholders were to receive new three per cent bonds payable in gold.

It should be noted, however, that the Mexican government did not only conduct negotiations with the foreign bondholders. There was also a long list of local creditors who requested pay-

---

30 On the labyrinthine negotiations related to these additional external bonds there is abundant contemporary literature, including the already cited works of Casasús, Bulnes, Ortiz de Montellano and Bazant. Additional information can be found in the annual reports of the Secretaría de Hacienda and in those of the Corporation of Foreign Bondholders. It should also be noted that there was a large block of outstanding "Mexican Imperial Bonds" held in France, which had been issued by the regime of Maximilian (1863-67) but which were subsequently repudiated by Mexico since they served mainly to finance the invasion and occupation of Mexico by French troops.



ment on their claims, some dating from as far back as 1850, but most stemming from financial advances made to the armies of Benito Juárez and to the administrations in power from 1867 to the 1880s. In toto, these claims were estimated at 57 million pesos and were converted to approximately 25 million pesos in three percent bonds, although it was stipulated that they were only payable in silver. This internal debt consolidation – in combination with the foreign debt conversion – marked a substantial advance in the stabilization of Mexican finances and projected a new image which modified the views of foreign bankers and investors with respect to the creditworthiness of the nation.

In order to guarantee the external debt conversion, *Dublán* made arrangements with BANAMEX for the transfer of the biannual debt payments from Mexico to London, and throughout 1887 the Mexican bank advanced the sums required and placed them with Glyn, Mills.<sup>31</sup> It was from this time that BANAMEX became the formal agent for the government for all its foreign debt operations and payments, a role it would continue to exercise until 1913. But this was not the only contribution of the bank to the restructuring of Mexican finance, for once again the ubiquitous Noetzlin, head of the BANAMEX board in Paris, was charged by the Mexican government with the negotiation of a foreign loan. In contrast to his previous bitter experience of 1884, Noetzlin was now able to pull off a major financial coup by arranging the issue of the great 1888 conversion loan in London and Berlin.

---

31 See contracts 12-17, between November 27, 1886, and January 2, 1888, which relate to these debt service payments. AHBAN, *Libro de Contratos Originales de Empréstitos*, 1883-1914.

## 5. The 1888 Foreign Loan: Gaining Access to European Money Markets

There were several striking aspects to the new foreign loan, the first being its positive impact on the overall credit situation of the Mexican government. The nominal value of this loan was 10.5 million pound sterling, with a net return for Mexico of approximately £ 8.2 million. With the latter sum, Dublán was able to convert the bulk of the outstanding foreign bonds, acquired at 40 percent of their face value, and to pay off most of the short-term debts due to BANAMEX from 1885 onwards.<sup>32</sup> In his annual financial report, Dublán argued that together with the previous conversions of 1885-86, this transaction reduced the outstanding Mexican foreign debt from £ 22 million to £ 10.5 million. In addition, it allowed the liquidation of 12 million pesos in floating debts. In other words, the terms and funding received apparently made this the most favourable debt renegotiation in the history of the nation.<sup>33</sup>

Nonetheless, contemporaries in Mexico and abroad argued that the loan arrangement was not as satisfactory as Dublán maintained. On the one hand, the obscure financial juggling involved in the acquisition of outstanding bonds which were to be exchanged for the new gold bonds, offered to both bankers and politicians extremely attractive opportunities for profitable speculation. In fact, these transactions strongly recall modern-day "swap" operations with Latin American debt, in which the profit margins tend to be quite high.

On the other hand, the 1888 loan tended to place Mexican finances increasingly under the sway of European bankers, the most important being the German syndicate headed by the famous firm of Bleichröder, banker to Bismark. How Noetzlin

---

32 It should be noted that in the agreement signed with the bondholders in September 1886 Dublán had managed to extract the concession of being allowed to acquire all outstanding bonds at a future date at 40 percent of their nominal value. In practice, the three percent bonds sold at approximately this price on the London market.

33 *Memoria de Hacienda, México* (1889: XXXIII).

was able to convince Bleichröder to participate is not known, but it may be suspected that the Berlin banker was well informed of the state of Mexican finances since he had long been a major stockholder in BANAMEX.<sup>34</sup> Moreover, the move into Mexico coincided with the objectives of German foreign policy which favored expansion into new regions in which German trade could make inroads. According to Stern:

In 1888 Bleichröder opened up yet another country to German influence: it was he who organized a major international loan to Mexico at a time when that country's government was desperately looking for European help. Mexico's need was great and European interest minimal: the German minister in Mexico thought that the only guarantee for the healthy development of Mexican politics was the person of President Porfirio Díaz; all other signs were unfavorable. Given everybody's skepticism, Bleichröder could extract singularly advantageous terms for his consortium... (Stern 1977: 427).

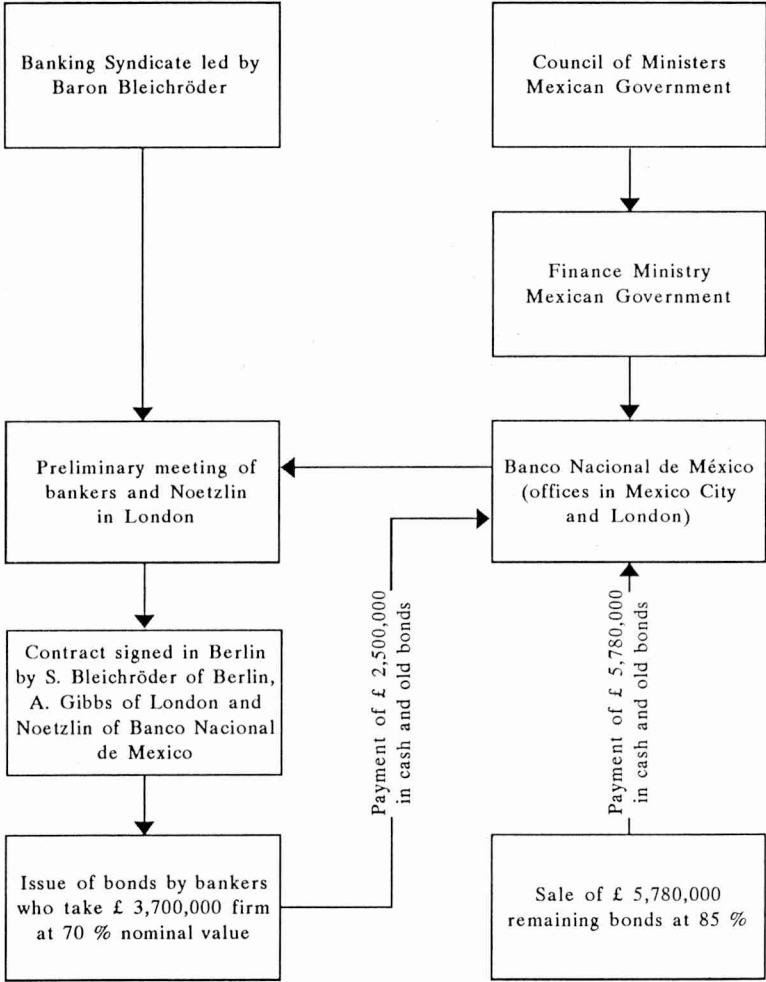
Indeed, the financial terms were singularly attractive to the European bankers since they were to take the first tranche of £ 3.7 million of the loan at a low 70 percent of the loan and a second tranche of £ 5.8 million at 85 percent. Given that Bleichröder was able to sell the bonds corresponding to these two issues at 85 percent and 92 percent, respectively, it may be estimated that his consortium garnered earnings of over £ 700,000 simply by selling the Mexican securities on the European markets. The money, however, did not go only to the German bankers but also to other financial houses participating: 62 percent went to the Bleichröder syndicate, 20 percent to Antony Gibbs and Sons of London, and 18 percent to the BANAMEX branch in Paris.<sup>35</sup>

---

34 It should also be noted that a large circle of German merchants in Mexico had major interests in BANAMEX. For details on stockholders of the bank see Ludlow (1990).

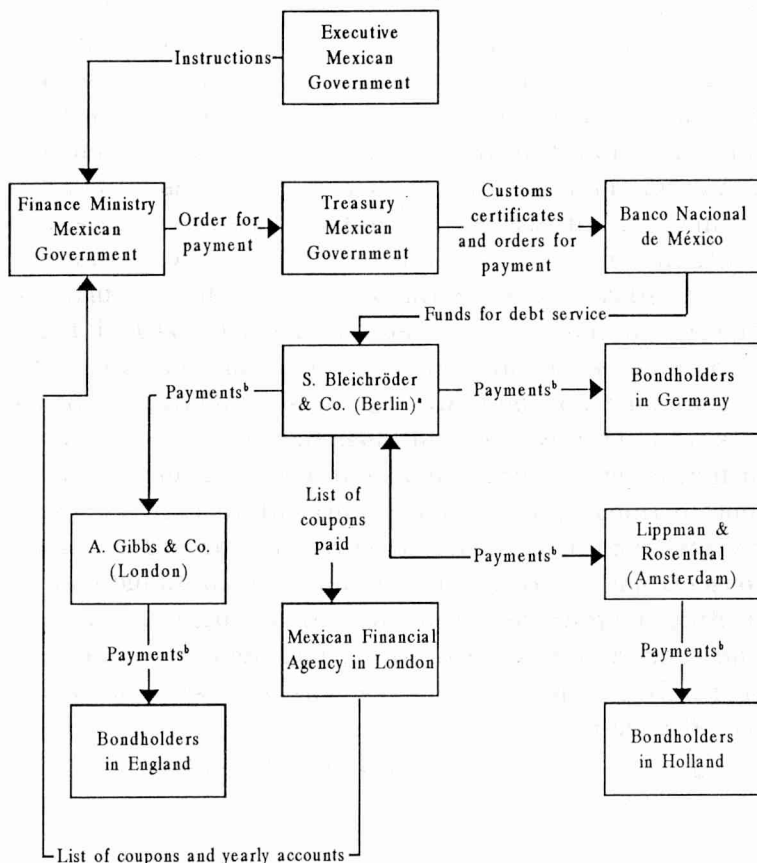
35 Bleichröder also received an additional commission of £ 130,000 for taking charge of the whole transaction. Details are in *Memoria de Hacienda, México* (1889; 1890).

Figure 5: Negotiation of 1888 Gold Loan of Mexico<sup>a</sup>



<sup>a</sup> "Bonds of the Foreign Consolidated Debt of Mexico", law of December 13, 1887; ratified, March 24, 1888. Nominal value: 10,500,000 pounds sterling.

Figure 6: Debt Service Mechanisms of External Debt of Mexico. 1888 Gold Loan of £10,500,000. Payments of Interest and Amortization



a S. Bleichröder, banking firm of Berlin, was in charge of placing the loan in Europe as well as of the debt service, charging 1/4% commission on each transaction of the latter.

b Payments to the bondholders were used to cover the 3% biannual interest due (6% annual), as well as the 1% annual amortization quotas.

Source: Memoria de Hacienda, México (1888-1890).

Other individuals reaping the benefits of the Mexican loan included Edouard Noetzlin, who received a payment of one million pesos for his services as intermediary with the European bankers, Benito Gómez Farías, head of the Mexican public debt office, and Joaquín Casasús, financial advisor to the government, who both received large commissions. It was also argued that an indirect but major beneficiary was the former president, Manuel González, who had bought up large amounts of old bonds before the conversion and the loan.<sup>36</sup> Evidently, the great conversion loan not only contributed to stabilizing Mexican finances but also proved to be a gold mine for numerous financiers and politicians on both sides of the Atlantic.

The *London Times* severely criticized the entire loan transaction. It pointed out that the Mexican government had been facing severe difficulties as a result of the large floating debt and that previous solutions had not been successful. It further commented that Noetzlin appeared to maintain an extremely warm relationship with Bleichröder despite the fact that the French banker was himself the official agent of the Mexican government for the renegotiation of the public debt. Especially severe criticism was directed by the London newspaper at the advantages Bleichröder reaped by being able to exchange devalued bonds of 1851 and 1862, albeit at a discount, for new gold bonds, for the possible speculative gains here were enormous. It added:

Such an arrangement is manifestly very advantageous to the contractor, and much in opposition to the interest of Mexico....To raise money to pay off a floating debt upon which a Government pays even as much as 12 percent upon such terms as these is not good finance....The only explanation is that the Mexican government are greatly harassed by the persistent demands of the National Bank of Mexico to repay loans made to the Government which are of long standing (Economist Intelligence Unit Ms. 1954: 180-181).

Despite the criticism, the bond sales were successful and the high quotations of Mexican bonds after 1888 on both the Berlin

---

36 On commissions to Noetzlin and González's speculation see Bazant (1968: 124-125).

and the London stock exchanges marked a radical change in the prospects for raising new loans. The new issues came fast and furiously. In 1889 the Mexican Tehuantepec railroad, a government-run operation, issued £ 2.7 million of mortgage bonds in Europe through the offices of the Dresdner Bank and the Darmstädter Bank. Simultaneously, the Mexico City government raised a two million pound loan in London for major drainage works. Soon after Bleichröder returned to the fray, leading a consortium in 1890 for the issue of six million pounds of bonds for the Mexican federal government to help with railroad finance, as well as a loan in 1893 of £ three million for refinancing purposes.

At the same time foreign direct investments in Mexico increased markedly. The largest investments were in railroads, predominantly controlled by United States and British concerns. Interestingly enough, during the 1890s a large percentage of stocks and bonds of the U. S. railroads in Mexico were sold to British investors, a trend indicating the high rating of Mexican securities in Europe. At the same time the shares of numerous mining, tramway, electrical, banking, industrial and land companies established in Mexico began to be sold on the international money markets, principally in New York, London, Paris, Berlin and Amsterdam.<sup>37</sup>

## 6. The Mexican Market for Public Securities

While the Porfirian government was clearly successful in gaining access to European money markets after 1888, it is less clear to what extent it was able to stimulate local demand for public securities. In fact, at first glance it would appear that Finance Minister *Dublán* and his successors *Matías Romero* (1891-93) and *José Yves Limantour* (1893-1910) relied essen-

---

<sup>37</sup> For much information on foreign investments in Mexico in the period see Nicolau D'Oliver (1965: 973-1185).

tially on foreign funds to cover the credit needs of the Mexican government. Nonetheless, this is not an entirely adequate description of the situation since a series of policies were adopted which aimed precisely at the possibility of raising an increasing volume of funds internally.<sup>38</sup>

Our review of the years 1886-90 indicates that the Finance Ministry devoted most of its attention to the conversion of internal debts rather than to the sale of securities which presumably could have provided a fresh flow of long-term funding. The conversion consisted basically of a process of exchanging old bonds and certificates at reduced rates for new three percent internal bonds, payable in silver. This did not, therefore, imply much buying or selling of public securities. Creditors simply presented their claims and titles, including all kinds of government paper from different periods of the nineteenth century, to the public debt office and, in case of favorable judgement, received the new bonds. These procedures were also similar in the case of the railroad companies, which received between 1885 and 1890 certificates and five percent railroad construction bonds; they used these to pay import taxes on the equipment they imported or, alternatively, they sold the certificates at a discount to BANAMEX which placed them with importers.

Although it seems apparent that there had not developed a true market for long-term public securities, it is also evident that by 1890 a large volume of new internal bonds were in circulation and that interest payments were now being made on a fairly regular basis. Some buying and selling went on, although information on the volume transacted in the Mexico City money market is difficult to find in the financial press of the period. There are numerous references which indicate that the dis-

---

38 Traditional historiography of the period does not explore the nature of internal markets in Mexico for public securities. What follows is therefore based on a preliminary survey of publications of the Ministry of Finance, but much additional research is required with materials from bank archives and the contemporary Mexican financial press.



counts on such internal bonds were considerable: discounts of over 60 percent on the three percent bonds and 20-25 percent discounts on the railroad certificates.<sup>39</sup> To summarize, the government could not yet stimulate the development of a dynamic local market as it was still embroiled in the solution of old debt policies which had left behind literally thousands of individual claims.<sup>40</sup>

The government, nonetheless, continued to require local sources of credit. The solution found was straightforward and consisted of relying systematically on BANAMEX, which advanced funds on current account to the Finance Ministry and also provided short-term loans which were rolled over, becoming medium-term credits of two or three years. In order to be able to count upon the support of Banco Nacional de México such credits eventually had to be liquidated. As a result, a considerable percentage of the foreign loans of the period were earmarked for this purpose: over ten million pesos of the great foreign loan of 1888 went directly to BANAMEX to pay off debts and close to 30 percent of the 1890 loan of six million pound sterling were used for the same purpose.<sup>41</sup>

The dependence on internal short-term credits was accentuated during the years 1891-93 when the Mexican government was confronted with another crisis situation, which in many ways was more severe than that of 1885. In the early 1890s the causes of the economic downturn were basically three: (1) the agrarian crisis which was provoked by bad harvests during two successive years; (2) the dramatic fall in the international price of silver, still the principal export; (3) the weakening of international financial markets, first as a result of the 1890 Baring

---

39 I am at present conducting a study on quotations and discounts on the basis of the financial press, but the results are still inconclusive.

40 These included not only credits due to enterprises and merchants or moneylenders, but also a large backlog of unpaid salaries to government employees and pensioners.

41 The bulk of this loan went to liquidate the old unpaid subsidies due to the Central and National Railways, which received 17 million pesos in exchange for 23 million pesos in claims. An additional 9,283,000 pesos went to Banco Nacional de México to pay off the loans it had advanced (*Memoria de Hacienda, México* 1890: XXX-XXXI).

Crisis in London and, later in 1893, as a result of the crash in New York. The agrarian crisis required some extraordinary expenditures, but it was the declining price of silver that hit the government hardest, since it led to a steep fall in the foreign trade of the nation: import tax revenues, still more than 40 percent of total ordinary revenues, dropped precipitously.

Finance Minister Romero found it impossible at this time to sell new internal securities; nobody wanted to buy bonds payable in silver at a time of falling silver prices. His only solution was to request renewed assistance from BANAMEX, which was clearly the pillar of the state's financial edifice, although it continued to be entirely privately-owned. On August 1, 1892, BANAMEX advanced £ 600,000 in conjunction with a syndicate of bankers in Berlin, London and Paris; ten percent of customs revenues were mortgaged to the loan. Then, in March of 1893, a new advance of 2,500,000 pesos was made, in exchange for which BANAMEX took over the administration of the mint (Casa de Moneda) in both Mexico City and San Luis Potosí. Finally, in June 1893, a final short-term loan of £ 267,500 was made to pay pending railroad subsidies. In this case BANAMEX obtained a mortgage on four percent of all import taxes and the entire proceeds of the stamp taxes on alcoholic beverages sold throughout the Republic.<sup>42</sup>

By this time it appeared that BANAMEX was once again on the verge of becoming an old-style moneylender with a stranglehold grip on the national Treasury and its fiscal offices. Nonetheless, it should be noted that the interest rates charged were no longer truly usurious, but rather determined by the market situation, locally and internationally. Furthermore, the directors of the bank were aware that if the government were pressured into a desperate situation, then recourse would once again be taken to the suspension of payments, as had been the case in June 1885.

---

42 For data on the loans see contracts 26, 28, 29 in AHBAN, Libro de Contratos Originales de Empréstitos, 1883-1914.

For BANAMEX it was clear that more money could be made by continuing to serve as loyal government banker. This became once again manifest as a result of the issue of the foreign loan of three million pounds in late 1893. Despite extremely low quotations for Mexican bonds on the European markets, the new Finance Minister Limantour was obliged to go through with the transaction in order to obtain the necessary proceeds to pay off BANAMEX, Bleichröder and other financial houses which had advanced sums in the years immediately preceding.<sup>43</sup>

The lessons of the extremely expensive foreign loan of 1893 were not lost on Limantour, who proceeded in September 1894 to restructure the Mexican debt and to initiate a new policy aimed at finally creating a market for long-term internal bonds, payable in silver. His principal objective was to reduce the Treasury's dependence on advances by BANAMEX and at the same time force railroad and public works' contractors to accept payments in long-term internal bonds rather than customhouse certificates or other short-term liabilities. According to the decree ratified on September 6, 1894, the government created a new type of five percent silver bond to be issued in various tranches of twenty million pesos.<sup>44</sup>

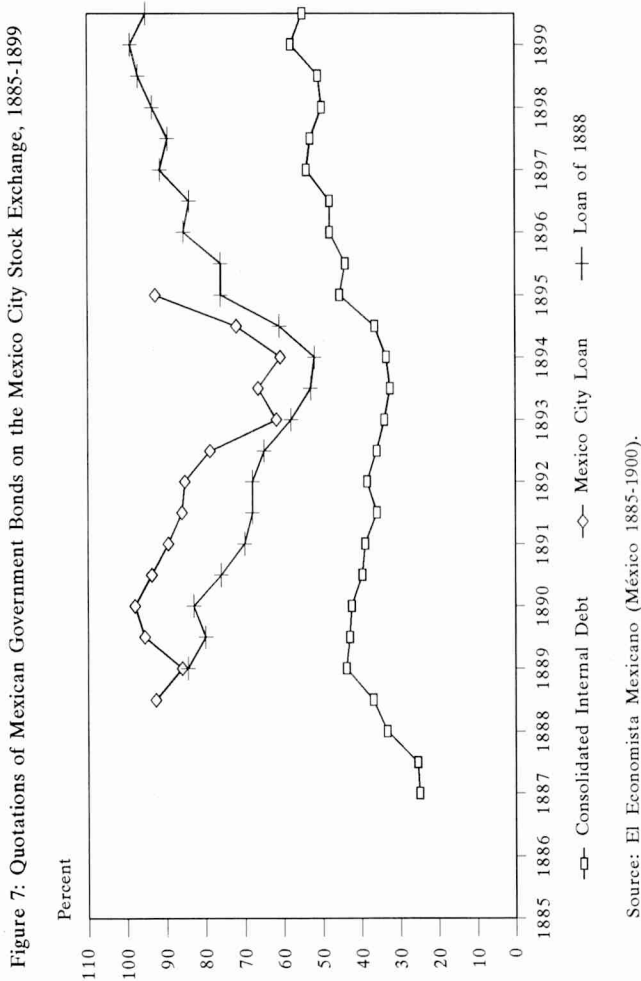
The bulk of these new bonds went to the railroad companies and contractors in successive issues (Sept. 6, 1894; Dec. 10, 1895; Jan. 3, 1898; Dec. 23, 1899, and June 9, 1902), reaching a grand total of 100 million pesos at the turn of the century. Initially the companies took the bonds at a discount and held them or attempted to find ways of placing them, largely with the assistance of BANAMEX, although as long as silver prices remained depressed the market was weak for these securities. By 1898, however, as silver prices recovered, Mexican private bankers, such as the house of Hugo Scherer, found means of

---

43 Mexican bonds had been declining since mid 1891 but by 1893 the 1888 bonds had fallen on the Berlin stock market to 65. The bankers (Bleichröder and the European office of BANAMEX) took £ 1,650,000 of the loan firm at 60 and £ 950,000 at 65. The sale of the bonds was postponed to early 1894 because the markets remained weak. For details see Wynne (1951,II: 52-53).

44 For details on the 1894 loan restructuring see Castillo (1903: 274-304).

placing large blocks on primary and secondary financial markets throughout Europe.<sup>45</sup> Investors who bought the bonds at 75 percent of nominal value at a time of rising silver prices could expect to reap significant profits, although clearly the risks were considerable.



45 On the role of Scherer and Co. in placing Mexican securities in Europe there is some data in Poidevin (1969: 13-14, 212, 333-35, 716-17).

The price of silver on international markets hit rock-bottom in January 1895, after which it made a notable recovery that lasted until mid-1896. Subsequently, lasting for five years, silver prices tended to stabilize, suffering small fluctuations. Throughout this period, therefore, bonds payable in silver had the attraction of retaining their value of offering good opportunities for profits on account of the discount prices at which they were offered by the government.

In conclusion, the new policies of promoting the issue of internal bonds after 1894 were a notable success which contributed to a marked decline in the government deficits from that time onwards. Nonetheless, it would still remain questionable whether Limantour had actually been successful in stimulating the creation of a local market for public securities. After all, the majority of these bonds found their way to Europe, where they remained. An additional indicator of the failure of the government to generate much local interest in such securities was that between 1902 and 1910 very small sums of new internal bonds were issued, most new long-term financing being accomplished through the means of foreign loans.

## 7. Conclusions

To sum up, our brief review of Mexican financial developments in the era of the "Porfiriato" offers two firm conclusions and a number of preliminary hypotheses which require further research. In the first place, it does seem clear that the financial reforms of the 1880s did permit a fundamental restructuring of the Mexican *internal* and *external* public debt, facilitating renewed access to international capital markets. However, the financial costs of these operations were extremely high and tied government finances into the strategies of the European bankers, in particular Bleichröder, who was in a position to dictate for several years terms on most loan issues.

In the second place, while the debt reforms did allow the contracting of a new long-term debt in order to replace short-term debts, the government did not escape from its extreme dependency on one key banking institution, the BANAMEX, which became the government banker locally and internationally. The symbiotic relationship between the Finance Ministry and BANAMEX becomes apparent upon the analysis of each major financial reform and contract.

Several less conclusive points are illustrated by our analysis of the markets for public and private securities. It would appear that despite efforts by the Mexican Finance Ministry to create a market for long-term public securities, there was little success in stimulating much interest among the Mexican investing public, with the result that most of the internal bonds were finally sold in Europe. The apparent weakness of the local money market for public securities apparently obliged the government to cover its current credit operations by relying essentially on its local banker, BANAMEX, which continued to exercise this role until 1913 or 1914. Nonetheless, there are many open questions with respect to the way that Mexican banks, such as BANAMEX, organized the buying and selling of government paper. In this sense, it would appear that the precise nature of "money and capital markets" in Mexico in this period require further investigation and discussion to clarify exactly what we understand by these concepts and which role they played in the administration of public finance in the decades immediately preceding the revolution of 1910.