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Mexico's Money Market and the Internal Debt, 1821-1855

The problem of the internal debt in Mexico, like so many others which would plague the independent Republic, began life as yet another legacy from the colonial past. Indeed, the disintegration of the Spanish fiscal system in New Spain began in the early 1780s (TePaske 1989: 65-67). Yet, at the same time, tax collections were at an all time high and the colonial fiscal system appeared to be functioning extremely well.

The gap between income and expenses increased because of additional expenditures for war and defense, including payments for *situados*, allotments for the military and navy in the Philippines, allocations for new charitable funds, and monies ordered to be remitted to Spain (TePaske 1983: 76-82).

By 1810 accumulated debts had risen to 31,000,000 pesos, of which obligations to clerical and lay institutions totalled 18,500,000 pesos, and loans, presumably to individuals, amounted to a mere 8,500,000 pesos. In addition, the Real Hacienda had borrowed 16,000,000 pesos from funds which had accumulated in the Treasury for indulgences (*bulas de santa cruzada*) and tithes, and had completely depleted these coffers by 1798. Royal officials wrote off this debt by declaring retroactively those two *ramos ajenos* part of the Real Hacienda (TePaske 1989: 67).

By 1810, with the debt burden rising again, royal agents appropriated the revenues housed as *depósitos*, bonds and guarantees as well as the earnings generated by the properties seized

from the Jesuit Order (*temporalidades*). Yet during 1809, the previous year, the central Treasury of Mexico City collected more than 28,000,000 pesos, the largest amount in its history.

Beginning in 1810 revenue fell off abruptly. Collections dropped almost 70 percent from 1809 to 1817 by which time remittances to the Treasury had declined to levels equal to those of the late 1770s (TePaske 1989: 67). During the period from 1811 to 1817 payments from subsidiary regional treasuries throughout the viceroyalty totalled only 1,900,000 pesos, an average of 318,000 pesos annually in comparison to an average of 5,800,000 pesos per year garnered during the period from 1795 to 1810.

The decline reflected regional determination to keep their resources at home rather than transport them to the capital as well as a shift in the center of "political" and military activity. In Zacatecas before the Independence Wars army costs averaged less than one percent of total revenue, by 1817 they totalled almost 30 percent. The increase in expenses, coupled with the collapse of silver production which dropped almost two-thirds from 1811 to 1821, led to substantial losses in revenue.

Although the central Treasury office in Mexico City was adept at designing new imposts including a real estate and a graduated income tax, collections could not keep up with booming military expenses, which at their height in 1812 came to 3,000,000 pesos. And for every recorded military cost, there were additional sums which went into the pockets of the officers in command of any given area (Archer 1993: 28-30).

By the end of 1816 the Real Hacienda in Mexico City owed approximately 81,000,000 pesos, of which 24,000,000 pesos (30 percent) represented overdue payments to the *situados*. The official who made the estimate speculated that the Crown could write off or default on almost 49,000,000 pesos, leaving just 32,000,000 pesos to be repaid (TePaske 1989: 72-73).

It is with these 32,000,000 pesos that the story of the internal debt in Mexico begins, although no contemporary historian or even any Treasury official at the time could have given a precise

figure as to the total amount owed. When Agustín de Iturbide took power in Mexico in 1821, he tried to retain creole and peninsular support by pledging to honor the debts outstanding from pre-independence loans to the Spanish Crown. In October, less than one month after his triumphal entrance into Mexico City, he established a Junta de Crédito Público to examine the problem of the debt (*Memoria de Hacienda, México* 1822: 9).

Not surprisingly the new regime soon had debts of its own with which to contend. By January 1822 the government authorized Iturbide to borrow 1,500,000 pesos. On January 9, 1822, he asked the bishops of Guadalajara, Durango, and Oaxaca for 750,000 pesos, to be repaid within six months. When Treasury Minister Rafael Pérez Maldonado presented the first *Memoria de Hacienda* for the independent nation, he noted that the Treasury would run a deficit of 1,921,973 pesos for the ten months from September 1821 to June 30, 1822. Nevertheless, he believed that the colonial tax system would soon return to its former glory and would yield substantial sums.¹

In July 4, 1822, the government ordered the expropriation of the "monies destined for Philippine missions" and by October 1822 the fiscal situation had grown so desperate that Iturbide was forced to seize a *conducta* carrying silver worth 1,200,000 pesos belonging to merchants in Perote. Although he justified his "expropriation" by correctly noting "there were no funds to pay the army or government employees, the Treasury was empty, money couldn't be borrowed in the country and the foreign loans needed more time," (Zavala 1949: 196; all translations from the Spanish by BAT), Iturbide's bold action became just another in a long list of abuses which would be cited to justify his overthrow. The costs of the seizure of the *conducta* and the debts owed to the Philippine missions would become two of

1 Modern historians would probably benefit greatly from an opportunity to examine the sources Pérez Maldonado used for some of his calculations. For example, TePaske and Hernández Palomo (1976: 1803-1812) indicate that the card monopoly averaged 145,968.4 pesos in those years, and the gunpowder *estanco* yielded an average of 84,078.2 pesos for 1804-09 (exclusive of 1807, for which there are no figures). No amounts are recorded for the proceeds of the tobacco monopoly during the period (*Memoria de Hacienda, México* 1822: 14).

the first items in the soon-to-be-created post-independence internal debt.

The government was well aware that this new category of internal debt was another patch of financial quicksand, but it had no choice. As Treasury Minister Antonio Medina noted in his calculation of income and expenses,

in all these [expense] categories I include that of the forced loan of 1823,...[using it] to pay religiously the sum received in the last forced loan...being indispensable for the reestablishment of confidence and of bills of exchange that the government fulfills sacredly what it stipulates (*Memoria de Hacienda, México* 1870: 72).

During the last months of Iturbide's reign the Treasury emitted 4,000,000 pesos in paper money. On April 11, 1823, his successors ordered the paper money stopped, the bills in circulation collected and other notes issued in their stead which could be used to pay up to 17 percent of the value of internal trade taxes (Medina 1823: 31-32).

A few months later Congress authorized a twenty-five to thirty million peso foreign loan using the entire national Treasury for collateral. After the fall of Iturbide his successors also concerned themselves with the thorny problem of the impossibility of repaying an internal debt by which they hoped to maintain precious creole and peninsular support. On September 3, 1823, former Treasury Minister Medina reported that the nation owed 76,286,499 pesos, which included 9,765,799 pesos in back interest (*Memoria de Hacienda, México* 1823: 25-26).

On November 12 his successor, Francisco de Arrillaga, rejected that calculation claiming that 26,915,756 pesos did not have to be repaid and thereby reduced the overall figure of total pre- and post-independence indebtedness to 44,714,563 pesos. In an attempt to reassure future potential creditors, Arrillaga stated somewhat disingenuously that Mexico's internal debt was very small in comparison with that of Spain and of the United States (*Memoria de Hacienda, México* 1870: 74).

In the meantime the loans derived from the sale of bonds by British merchant houses finally arrived in 1824 and 1825, al-

though much too late to save Iturbide, who had abdicated on March 19, 1823. As Rodríguez and others have shown, the first loan negotiated by Francisco de Borja Migoni contained the worst terms ever granted to a Latin American nation. The second was obtained on much better terms (Rodríguez O. 1989: 222-228).

The Mexican government borrowed the funds with the rather reasonable expectation that they would supplement Treasury collections until the colonial fiscal system as altered by Iturbide would begin to function once more. Unhappily, the fiscal apparatus was in much worse shape than anyone suspected at the time and the government soon became dependent on revenues derived from taxes on foreign trade. But while the money from the two loans lasted, internal borrowing was kept to an absolute minimum.

When the speculation bubble burst in England in 1825-26 and the Mexican market for British goods had been fairly saturated, tariff revenues declined by over two million pesos. The drop in total revenue forced the Mexican government in August 1826 to default on its interest payments to British bondholders, ruining its credit in the European capital markets.²

The government now had to find additional funds internally. It sanctioned an old form of lending, or rather an expansion of the pre-independence loans to the Crown. But whereas the purveyors of those funds had asked for little or no interest, the new suppliers of money, known in Mexico as *agiotistas*, expected satisfactory (some would say "exorbitant") rates for risking their money in loans to a government which had just defaulted on payments to merchant houses located in the greatest power of the world.

The remainder of this chapter will describe two parallel processes. Firstly, it will examine how the Mexican government created the various categories of the post-independence inter-

² When Guadalupe Victoria instructed the Treasury Minister to renegotiate the British debt, Alexander Baring of Baring Brothers advised that Mexico first alter its fiscal system substantively before it promised to honor commitments previously broken (Rodríguez O. 1975: 127).

nal debt. Secondly, it will portray the evolution of a "money market" in Mexico through which its sole customer – the Mexican national Treasury – procured from 1827 until 1856 enough funds to pay its most pressing obligations. In effect, what will be described here are not only "banqueros sin bancos," but "financieros sin dinero."

1. Living from debt to debt

On July 28, 1824, the nation recognized all debts contracted by the viceregal government until September 17, 1810, all debts approved between September 17, 1810, and September 27, 1821, and owed to Mexicans, all debts contracted by independent military leaders from the time when the Plan of Iguala was issued until September 28, and all those contracted by the government established since the Plan of Iguala (*Memoria de Hacienda, México* 1870: 78). The newly recognized debts became four categories of the eventual seventeen included in the Law of Public Credit of November 30, 1850 which "settled" the internal debt. The following section will describe the evolution and accumulation of the remainder.

In his *Memoria de Hacienda* (1831) Treasury Minister Rafael Mangino submitted the first official accounting of the internal debt. He calculated it at 28,956,167 pesos, including owed interest (Payno y Flores 1866: 12-13). However, as Appendix A indicates, that sum only included credits originating from the colonial period. The government soon created a new internal debt as its needs for additional funds increased and its capacity to repay new loans diminished proportionally. On December 2, 1829, the government contracted to borrow 1,280,000 pesos, which was increased to 10,000,000 pesos on March 4 of the following year. Six months later it agreed to pay five percent monthly interest which would compound to no more than a total of fifteen percent per annum (*Memoria de Hacienda, México* 1870: 103-104).

Once internal borrowing had started in Mexico, it quickly became a way of life as governments were forced to borrow in ever larger amounts. When regimes tried to repay previous loans by setting aside one sixth of customs revenues at Veracruz and Tampico to pay foreign bondholders, sequestering an additional one-sixteenth share of total customs revenues and part of collections from tolls for internal obligations, and permitting certain moneylenders to receive repayment directly at the ports, revenues diminished proportionally (*Memoria de Hacienda, México* 1831: 13-14).

The result was inevitable. On January 1, 1832, the government abruptly stopped payment on all debts and ordered them registered (Tenenbaum 1986b: 58). Nevertheless, borrowing continued virtually unabated. In February 1832 a new government recognized the first five million pesos' worth of contracts signed in anticipation of customs revenues. It agreed to pay them from funds collected from 40 percent of the customs set aside for that purpose and also permitted payments on demand from the customs, mints, and the Mexico City Treasury. As for the rest of the eight million additional debt, it would be amortized at two percent a month while credits included in the first five million would earn three percent (*Memoria de Hacienda, México* 1833: 11-12).

Yet even as it devised elaborate schemes to repay the internal debt still outstanding, the government found itself issuing decrees to authorize new borrowings. The most interesting of these laws appeared on August 11, 1832, and stated that the government agreed to recognize credits as part of a 4,000,000 pesos loan. It further elaborated its preference for pension certificates, back salary paper and paper from the Montepío which would count as cash in making up the loan. By 1833 that too, had broken down. On April 27 and May 9 the government declared that it was stopping payment on the credits which paid two and three percent monthly interest. The Treasury changed the law on July 12 to permit those credits to pay up to 20 percent of the import tax as long as the other 80 percent was paid

in cash. By December 12 the government allowed all obligations contracted by its predecessor to be used at the custom-houses except that of Veracruz, which would only pay 50 percent of face value; the other 50 percent to be used at the rest of the aduanas.

The *agiotistas* were dissatisfied with that arrangement and so the government agreed "to arrange [a settlement]...in a way which will reconcile [creditors'] interests with the needs of the Treasury" (*Memoria de Hacienda, México* 1870: 130). But despite all attempts to devise more satisfactory solutions, debt payments began to require too much revenue. Therefore, on November 18, 1834, the new Santa Anna government ordered all payments to be stopped.

What followed was necessary but quite unprecedented, and had an enormous impact on the creation of the internal debt as well as on the history of moneylending in Mexico. On March 2, 1835, the government proposed to issue new titles for paper resulting from contracts made between January 1, 1832, and November 18, 1834. These titles would come in four classes of "vales de amortización." For example, for credits from "first class, the debts would be repaid 30 % in *vales* and 70 % in cash, 18 % in credits and 82 % in cash for second" and so on. The law would not affect contracts made after November 18, 1834.

In addition, the government also issued *vales de alcances* which included all debts from January 1832 onwards owed to public officials, civilian employees, military officers, retirees and pensioners. These were to be exchanged at face value. Under the terms of the law the government could continue accepting loans, but only those comprised of these two groups of *vales* and cash (Dublán y Lozano 1876-1912, III: 25-28). Naturally, the regime was unable to fulfill the provisions of this key law. For example, on April 10, 1835, just five weeks after its enactment, a new decree permitted the government to make deals mortgaging the customs duties as in the good old days, without having to use either type of *vale*.

Nevertheless, the law was very important for two reasons. Firstly, it set a precedent that the government could arbitrarily stop payment on its domestic debts, a fact that most lenders chose to ignore. Secondly, the authorization created new types of debt. Obligations owed to government administrators and pensioners of all sorts were now officially transformed into debts which might or might not be paid. Ultimately the law created three new categories of post-independence internal debt – "debt owed to civil servants," "debt from loans made only in cash," "debt from loans made with the admission of credits." As Appendix C indicates, they considerably increased the total amount of the internal debt.³ Finally, and perhaps most importantly, the law created an informal type of paper money in Mexico, consisting of considerably devalued debt credits.

The military strife which characterized the centralist years from 1835 to 1847 inevitably created more internal debt. The process began on November 5, 1835, when the government authorized a new 1,000,000 pesos loan in cash, with the silver mines of Fresnillo as collateral (*Memoria de Hacienda, México* 1870: 153).

By June 16, 1836, during the war with Texas, the government ordered a 2,000,000 pesos forced loan in exchange for which the lenders received certificates good for the payment of their taxes in the following year. That was the first time since 1823 that debt certificates could officially act as money outside the ports (*Memoria de Hacienda, México* 1870: 155).

On January 17, 1837, the government established a bank to amortize the copper coins then in circulation which had depreciated substantially and were subject to easy counterfeiting. The decree authorized the new national bank to redeem the coins at face value from funds to be derived from all the national

³ Although we cannot trace the monetary growth of the categories of the internal debt, the amount owed to government employees alone was estimated at 25,000,000 pesos in 1848. The other two groups – "debt from loans made only in cash," and "debt from loans made with the admission of credits" – would ultimately be included in "26 Percent Fund" credits. These would derive from loans made from 1835-1848, which included those credits sanctioned by the 1834 law.

properties in the Republic, all government revenues, except customs receipts, proceeds of the tobacco monopoly, the collections of the direct taxes on rural and urban property in Mexico, Puebla, Guanajuato, Michoacán, and Jalisco, the profits from the mines of Fresnillo and any other revenues available. On April 18, 1837, the government also gave the bank the properties of the ex-Jesuits and the Inquisition and the back interest dating from June 30 of the previous year from the collection of tolls (Dublán y Lozano 1876- 1912, III: 260-265, 459, 535, 591-92, 662-63; IV: 24-25, 62-66).

On September 22, 1838, the government authorized the bank to issue credit certificates for a two months period totalling 200,000 pesos in shares of 1,000 pesos in cash or in bills for two months. This was to cover the *arbitrio extraordinario* which had been decreed on June 8 to help to provide for the indemnity which derived from the Pastry War (*Memoria de Hacienda, México* 1870: 183). Since it had created the bank, the Treasury had used it to negotiate loans, issue bonds, manage the tobacco monopoly, and redeem copper coins. On January 10, 1839, it authorized the bank to collect the head tax established on December 10 of the previous year (*Memoria de Hacienda, México* 1870: 195).

The government then decreed on February 16, 1839, that the bank would receive the proceeds of the two percent tax on the entrance of money at the ports in exchange for handling the accounts for the Contaduría Mayor located there. Two days later the bank received authorization to contract a loan from the regular and secular clergy of the archbishopric of Mexico, which was to be guaranteed by the proceeds of the mint in Mexico City, funds collected in the department of Mexico, the three percent tax on gold and silver, and the salt flats of Peñón Blanco (*Memoria de Hacienda, México* 1870: 196).

On October 21 the Treasury entrusted the bank with the task of raising yet another 800,000 pesos and to use that sum together with the proceeds from the tobacco monopoly to repay

creditors and provide the second installment of the sum due to the French as part of the settlement of the "Pastry War."

On July 1, 1841, the government ordered the national bank to amortize within the next eighteen months all the copper coins that circulated in the country. It issued 8,000,000 pesos in credit bonds guaranteed by the "Fifteen Percent Fund" and the "Eight Percent Fund" of the customs. It also authorized the bank to mint 500,000 pesos in coins to replace those that were to be withdrawn (*Memoria de Hacienda, México* 1870: 214). Those bonds became, of course, another category in the internal debt, as did those bond payments to the holders of the tobacco monopoly and to the tobacco growers when on November 12, 1841, the new government under Santa Anna once more decided to take it over (Walker 1984: 675-705). These two measures increased the number of categories of the post-independence internal debt to eight.

On November 24, 1841, the new government ordered new copper coins to be minted on but two weeks later, on December 6, 1841, it closed the bank of amortization. Its remaining funds were to be turned over to a new section of the Treasury, "'Active credits,' amortization of copper coins, and Jesuit properties," which was to continue the redemption process already underway (*Memoria de Hacienda, México* 1870: 217).

On April 20, 1843, the Treasury decided to obtain the 2,500,000 pesos indemnity owed to citizens of the United States for property damages (as agreed in the convention of April 11, 1839) by decreeing a forced loan on the treasuries of all departments. On May 5 it divided up the quotas assigning the highest amount, 588,000 pesos, to Mexico, and the lowest, 7,000 pesos, to Chiapas. These loans were to be repaid within five years (*Memoria de Hacienda, México* 1870: 240).

Such laws were quickly followed by another three pieces of legislation which indicated the precarious state of affairs. On May 11 the government once again suspended payment of the debt. On August 2, 1843, the Treasury declared that it was not obliged to issue new bonds to replace those lost. And finally, on

December 9, 1843, the government decreed that the value of government lands which were neither situated along the border nor frozen as collateral elsewhere could be used to amortize copper money bonds (*Memoria de Hacienda, México* 1870: 241, 250).

The various governments which Mexico had between 1844 and 1847 did not create a new internal debt per se. Instead, many devoted their attention in vain to settling outstanding obligations.

2. The Art of the Deal

Now that this chapter has outlined the evolution of each category of the post-independence internal debt, it will turn its attention to how moneylenders used that debt to make new loans, build, in effect, a monetary system of sorts and, through the growth of a Mexican "money market," created even more debt.

Mexicans had always had recourse to credit operations through familial connections and loans from the Church. These continued after independence, so that in regional and local areas individuals could borrow funds for agricultural and other operations (Greenow 1983). However, in 1827, when national governments went looking for loans to make up for revenue shortfalls, they were the single customer in the market for short-term high interest loans.

At first the lenders included anyone who had access to cash either through mining operations or through the import-export trade. *Peninsulares* wishing to stay in Mexico during a particularly hispanophobe period had a special incentive to become creditors to the government. Until January 1, 1832, when the Bustamante administration stopped payments, on all domestic debts and ordered them to be registered, the loans seemed about as risk-free as any financial operation in Mexico in the 1820s could possibly be.

In November 1834 the government once again stopped payment on its internal obligations and for the first time asserted

its right to pay some in preference to others. As we have seen in the preceding section, this action created a new category of internal debt. It also eliminated from the field all but forty or so *agiotistas* who were now to be paid preferentially.

There is much we still do not know about the nature of the money market these lenders formed. Nevertheless we can say that the large scale *agiotistas* slowly evolved into a tightly-knit, rather small community of both foreigners and Mexicans. The list of major moneylenders (Appendix B) includes Britons like Thomas Worrall and Ewen MacKintosh; Frenchmen such as Serment P. Fort, "Germans" like Guillermo Drusina, Panamanians like Martínez del Río, Americans like William Forbes, and Spaniards like Gregorio Mier y Terán and Cayetano Rubio.

But we should not make too much of the question of nationality, for all were united in the pursuit of profit through speculation. The very instability of Mexican governments increased profit potentials, because wealthy national and foreign residents simply continued to refuse to pay taxes. Regardless of the long list of reasons they cited for their behavior, the results were the same – the government was forced to borrow heavily.

Although we cannot as yet reconstruct the negotiations involved in a loan transaction, we do know that from the very beginning, with the first major internal loan authorized on November 21, 1827, for 8,000,000 pesos, the government was willing to accept credits at a high percentage of their face value as part of the loan package. The 8,000,000 pesos of that loan were to be provided half in cash (4,000,000 pesos) and half in credits accepted at 56 percent of their nominal value (*Memoria de Hacienda, México* 1870: 90).

The terms of that first loan are quite indicative. They obviously represent the successful culmination of previous negotiations with those willing to lend. In exchange for a non-interest bearing loan to be repaid with 100,000 pesos monthly from import tariffs and 35,000 pesos from the tobacco monopoly, the government was prepared to accept credits selling in the open market for hardly more than 15 percent of their face value (and

probably much less) at 56 percent, even when it had the power to blackmail wealthy Spaniards into lending in the first place.⁴ Given that these were the best terms the Mexican government could obtain in a wide-open money market, the conditions for future loans could only grow worse.

The government's bargaining position weakened over time, particularly since its group of "bankers" was becoming smaller, wealthier, and more experienced. The examination of the loan terms of the years 1827 to 1847 reveals a picture of governmental weakness and moneylenders' ascendancy, provided historians are willing to ignore two salient factors. In the first place, as in the pre-modern period in Europe and in New Spain prior to the Bourbon Reforms, private companies controlled by moneylenders came to perform many governmental services, rented various national resources, and collected taxes for a flat fee or a percentage of the total. Presumably, had they not done so, governments would not have been able to accomplish the required tasks or would have done so sloppily or intermittently.

Secondly, by "involving" moneylenders in their operations and by having the exclusive power to make good on their debt paper and purchased credits, governments forced their creditors to have a vested interest in the Mexican nation and to continue to lend them money even beyond the point of prudence.⁵ Moreover, we cannot as yet determine – and perhaps never will – to what extent governments were "objective" about their selection of lenders and potential deals. After all, even today negotiations are frequently "sweetened" by bribes, "kickbacks," promises of monetary or other favors, access to other deals, or concluded through blackmail, threats, and extortion.

4 Five days after the introduction of the loan, on November 26, several deputies introduced a bill in Congress calling for the expulsion of all Spanish-born residents from Mexico (*Reflexiones sobre las leyes de españoles*. México: Agustín Guiol 1833, quoted in Flores Caballero 1974: 129, 133, n. 74).

5 See Gootenberg (1989b) for a contrary case in Peru. He argues that such wild speculation did not happen there and that foreign merchants shied away from participating in governmental finance. Perhaps we should consider whether there were benefits to *agiotistas* in Mexico, which historians have yet to determine. Since in the days before lucrative tax writeoffs only profitable businesses stayed in operation, it is possible that losses and bankruptcies have been greatly exaggerated for reasons still unknown.

Lending proceeded very smoothly for the *agiotistas*, both big and small, from the first loan on November 21, 1827, until January 1, 1832. On December 24, 1827, the government agreed to accept credits at more than 60 percent of their face value. Soon after the government had officially to prohibit loans containing less than 20 percent in cash. In one typical transaction reported by Treasury Minister Rafael Mangino in 1830, the government paid 941,164 pesos from customs revenues in return for a loan of 216,556 pesos in cash (23 percent) and the rest in credits. This meant a return to the *agiotistas* of 289 percent on their investment, assuming that the credits had been purchased at the overly generous figure of 15 percent of their face value (*Memoria de Hacienda, México* 1870: 109).

Initially the government of Anastasio Bustamante and Lucas Alamán was very favorably disposed toward the moneylenders and borrowed over 6,000,000 pesos, so as not to have to impose new taxes (*Memoria de Hacienda, México* 1832: 10-11; *Memoria de Hacienda, México* 1833: charts 12 and 13). On January 1, 1832, however, it suspended payment on all loans. This government fell on August 14.

Its successors, Antonio López de Santa Anna and Valentín Gómez Farías, were well aware that the debts which Alamán and Bustamante had accumulated were bankrupting the Treasury. Nevertheless, they continued to borrow hoping that Gómez Farías would succeed in enacting his plan to impose the sale of Church property and give the government a new sales tax to help fill its coffers. As is well known, their plans did not succeed and Santa Anna was forced to return to the presidency on April 24, 1834, as the leader of a clerical-sponsored reaction.

On November 26, 1834, the government stopped all payments to its creditors and eventually gave them *vales* instead of cash. This measure reduced the number of lenders and also created new types of debt paper to be used in putting loans together. However, expenses skyrocketed as the political situation worsened because of the imposition of "centralism," forcing the national army to put down a revolt in Zacatecas and to lose control of Texas.

On April 10, 1835, the government specified that all loans in the future had to contain at least 55 percent in cash. Few moneylenders, however, wanted to negotiate under such onerous terms given the suspension of payments the previous year.

Therefore, the government was forced to redistribute its wealth to its lenders in order to re-borrow the money from them. On January 20, 1836, the Treasury created the "Fifteen Percent Fund" by pledging 15 percent of its income from the customs to pay "all the orders issued by the government on loans, on contracts, and those of the *vales de amortización*." At first the Treasury hoped to give the *agiotistas* 15 percent in cash and the rest in *vales*, but by September 15, 1836, it had pledged repayment with 85 percent in cash and 15 percent in *vales*, terms far better than those they had ever received before. In contrast, holders of other internal debt credits were rarely given even five percent of customs revenue. In fact, the creditors of the "Fifteen Percent Fund" received almost as much as the British bondholders who were legally entitled to 16 $\frac{2}{3}$ percent of the receipts from Veracruz and Tampico.⁶

The creation of the "Fifteen Percent Fund" calmed and replenished the money market and borrowing greatly increased in the crisis years of 1836 and 1837. At the same time the *agiotistas* forced the Treasury to make even more concessions, thus expanding the ancillary benefits of lending. For example, as early as 1834 the government contracted with Manuel Escandón's stagecoach company to maintain key roads and collect tolls on those so designated. The new arrangement suspended the liens on such tolls which had been held by prominent members of the former colonial Consulado, such as Bassoco, Fagoaga, and Villaurrutia for 15 years. In 1835 the company received for 100,000 pesos a five-year contract to carry mail on their routes. Similarly, in exchange for a 1,000,000 pesos loan from the *agio-*

6 Prior to January 1836, the creditors holding pre- and post-independence paper were awarded one-sixteenth (*la media octava parte*) of the customs and toll collections. In the boom year of 1830-31, when customs duties reached 8,483,006 pesos, creditors of the internal debt received 435,930 pesos or five percent (*Memoria de Hacienda, México* 1870: 108, 154).

tistas, the government mortgaged one-half of the proceeds from the Fresnillo silver mines in 1835 and agreed not to raise its taxes for twelve years. Shortly after, Ewen C. MacKintosh managed to get licenses to export unminted bullion without having to procure additional governmental permissions. Soon after he began to rent mints from the government (Urías Hermosillo 1978: 38-42; Randall 1972: 194-195).

During the second Presidency of Anastasio Bustamante (April 19, 1837, to January 23, 1839; July 19, 1839, to September 22, 1841), some of the moneylenders enjoyed a golden age. For example, soon after Bustamante had established the national bank mentioned above to amortize the rapidly devaluating copper coins in circulation, it let the tobacco monopoly to a private consortium of moneylenders which included Benito Maqua, Cayetano and Francisco Rubío, Felipe Neri del Barrio, Miguel Bringas, and Manuel Escandón.

In the meantime the "Fifteen Percent Fund" had launched a new type of speculation in credits. Since the holders of the paper to be redeemed by that Fund were to receive 15 percent of the customs revenues, the selling price of those particular financial instruments rose to 80 percent of their face value in comparison to pre-independence debt paper, which continued to sell for a mere 8 percent in the marketplace, and post-independence debt, which sold for 14 percent (*Memoria de Hacienda, México* 1840: 130). Consequently when the government repaid the group of debts included in the "Fifteen Percent Fund" within three years, the *prestamistas* earned large profits.

On May 20, 1837, the regime instituted another such Fund, this time for 17 percent, with a principal of 2,534,020 pesos, with similar profitable results for the moneylenders. When the government repaid these Funds, the moneylenders grew richer, manifestly at the expense of the Treasury. This served to weaken the administration still further and forced it to borrow even more. On the other hand, the large profits derived from the Funds made *agiotistas* more than happy to participate in such arrangement in the future.

In his *Memoria de Hacienda* (1840), Treasury Minister Francisco Lombardo, an *agiotista* himself, explained some of the wheeling and dealing of the Treasury and the Mexican money market. Lombardo was a longtime friend of then interim President Antonio López de Santa Anna, who had defended the country against the French, emerged a hero, and served as President from March 20, 1839, to July 10, 1839.

According to Lombardo, the relationship between the government and its *agiotistas* altered during the French blockade of Veracruz which lasted from April 16, 1838, until March 9, 1839, only a few days before Santa Anna officially took office. During that period the Treasury was operating without cash flows from its major port and found itself in a daily struggle to find enough money to carry out even the most minimal of its responsibilities. The situation actually worsened with the lifting of the blockade, since the Mexican government then had to find three installments of 200,000 pesos in cash to pay the indemnity owed to the French.

On December 5, 1838, the government, in desperation issued a decree, which permitted it to do whatever was necessary to procure enough funds to survive. Such a law inevitably led to a series of ruinous contracts between a bankrupt Treasury and its lenders. On March 7, 1839, just as the blockade was about to be lifted and Santa Anna to assume office, the government rescinded the earlier decree. However, as Lombardo discovered on May 21, his third day in office, the Treasury did not receive the new law halting the wholesale issuing of contracts to the *agiotistas* until May 21, which permitted its officials to make even more nefarious deals by claiming that the old law was still in effect (*Memoria de Hacienda, México* 1840: 27-29).

During the interregnum period from March 20, 1839, to May 17, 1839, Treasury Minister José Gómez de la Cortina approved over 2,000,000 pesos in debt contracts. We have some examples of the loans made during this controversial interregnum period. For example, in March 1839 the government borrowed 140,000 pesos in credits and 22,150 pesos in cash from

Francisco María Iturbe, Antonio Garay, Antonio Zurutuza, and Hube and Company for six months in exchange for 120,150 pesos in letters paid from the import duties (worth 58 and 68 percent of the duties levied) and 42,000 pesos in letters on duties on the export of silver. This loan contained 86 percent in credits (purchased at 15 percent of their face value) and only 14 percent in cash, the lowest proportion of cash in any loan yet seen. Assuming that the percentages were adhered to, the *agiotistas* presumably earned a whopping 376 percent profit (Meyer Cosío 1986: 105).

Also in March 1839 another group of *agiotistas*, including Martínez del Río, Geaves and almost all the English houses, formed together with the Echeverrías a consortium in order to lend 50,000 pesos per week to a maximum of 1,350,000 pesos, promising to deliver pre-independence credits and *vales de alcance* in exchange for one percent per month interest on the cash in *libranzas* from Veracruz (Walker 1986: 295-298).

When Lombardo entered the Ministry he had to decide on the legitimacy of the contracts made by his predecessor. His resolution of the crisis demonstrated the interdependence between the *agiotistas* and the Treasury because he upheld every one of the loans rather than risk alienating the government's sole reliable source of revenue. His decision was further motivated by the fact that, as usual, the Treasury was virtually empty on the day he was sworn into office.

Lombardo's report is a steady refrain of the daily procurement of a few thousand pesos here, another 600 pesos there to pay specific urgent expenses. At first, those capable of lending large sums refused to oblige because of the provisions of the new law, except for Gregorio Mier y Terán, who lent 15,000 pesos "without interest." Not suprisingly, when Lombardo suggested that the holders of Fund paper agree to new terms, the speculators let out a howl of protest.

A consortium of investors offered to lend the government all that it needed in devalued copper coins if it agreed to reimburse them with silver either from the Mexico City customs or

from whatever port the government decided to designate. According to Lombardo, Santa Anna himself turned the project down, claiming it to be too favorable to the *agiotistas*. In the meantime Lombardo continued to accept non-interest paying loans from Mier y Terán, Cayetano Rubio, Agüero, Carrera, Rosas, Drusina, Echeverría and others. He even mentioned that Santa Anna himself lent 25,000 pesos of his own funds.

Naturally, the Treasury Minister appreciated these "favors" and was quick to defend the generosity of the lenders, "who have the fidelity of a banker," and in exchange awarded them letters from the "Seventeen Percent Fund."⁷ However, due to the creation of so many funds, Lombardo was reduced to working with a mere 56 percent of the customs receipts, of which 764,274 pesos was also pledged to creditors (*Memoria de Hacienda, México* 1840: 33-34, 41-46, 50).

Table 1: Credits Repaid from May 18 – June 7, 1839 (in Pesos)

Fund Name	Amount	Representative
Fifteen	96,771	G. Mier y Terán
Seventeen	110,882	J. Rondero
Twelve	73,424	Agüero, González
Customs	659,156	
Total	940,233 (5.4 %)	
1839 income	17,545,191 (100 %)	

Source: *Memoria de Hacienda, México* (1840: 52).

The repayment of the Funds seriously hurt the traditionally impoverished Treasury. According to Table 1, from May 18 to June 7 the Treasury paid 940,233 pesos in obligations incurred after the lifting of the French blockade.

⁷ His defense of agiotaje is quite interesting. For example, he rails against the popular confusion of *agiotistas* with thieves (*ladrones*) (*Memoria de Hacienda, México* 1840: 46).

However, Lombardo did modify the terms of one loan contracted during the March-May hiatus. When Santa Anna needed to borrow 300,000 pesos to pay part of the French indemnity, Lorenzo Carrera, a Spanish *agiotista* lent him 200,000 pesos in cash and 100,000 pesos in credits payable at the customs.

These terms threatened the repayment of the 1,350,000 pesos loan from Martínez del Río, Geaves, almost all of the British firms and the Echeverrías. Lombardo and the British Minister Pakenham decided on June 8, 1839, to void the original contract, to grant for 300,000 pesos already paid two percent interest and to create a "Ten Percent Fund" to repay the claims due to the group (Walker 1986: 169).

Lombardo left the Ministry on July 15, 1839, ostensibly because he was unable to fill the Treasury. Some, however, might have added that he resigned under a cloud because he had approved a loan of 650,000 pesos (£ 130,000) at 2 ½ percent per month from the British *agiotista* Thomas Worrall, ostensibly representing a consortium of foreign lenders. It was probably the first such loan generated abroad since the default on the foreign debt in 1827. Lombardo pointed out to his critics that he had brought new money to Mexico while giving foreign creditors a stake in the future of the country. He concluded his summary defense by noting, "[Mexico] received a [way to] develop those things which it should help forward, because the President is unable to procure such a sum and not use it to satisfy creditors, to transform it into one of the funds to which they have been assigned." He later added that given that 56 percent of the customs had been unavailable for some time, this loan was the first to give the Treasury some funds. According to Lombardo, its costs were much lower than they would have been in Mexico since it would be repaid with part of the new issue of the renegotiated British debt at market rate, which was then hovering at approximately 25 percent of face value. Consequently, foreign creditors would receive a financial instrument "worth" £ 400 for a Mexican expenditure of a mere

£100 at five percent annual interest (*Memoria de Hacienda, México* 1840: 91-95).

The brouhaha over this loan and the renegotiation of the "Ten Percent Fund" marks the beginning of the end of the "golden age" of moneylending and shows how the Mexican money market was growing increasingly anxious about the potential for repayment of its outstanding loans. In effect, the government had finally gained some leverage over its lenders through the dubious expedient of imminent bankruptcy. Simply put, the money market divided into factions as each tried to guarantee its share of whatever spoils still remained.

When Bustamante returned to the Presidency on July 19, 1839, he appointed Francisco Javier Echeverría, another *agiotista*, as Treasury Minister. Echeverría was highly responsive to the wishes of his fellow moneylenders and the British Minister Pakenham, but he also sought to get something from them in return. Bustamante and Echeverría paid their creditors scrupulously, but they demanded that the *agiotistas* contribute a *refacción* (premium) in order to receive their money. When the British Minister protested against the governmental order that creditors pay such a sum, Echeverría offered him two choices. The lenders could pay a 35 % premium in cash on 2,500,000 pesos (875,000 pesos) to get their credits recognized at 56 % of face value (1,400,000 pesos) or pay a 10 % premium (250,000 pesos) to continue the "Ten Percent Fund." The merchants decided to let the new credits enter the Fund in exchange for the right to all the *consumo* tax collected from British merchants resident in Mexico City. The government, for its part, printed and marketed new "Ten Percent Fund" credits on September 1840.

Almost simultaneously, the government created in 1839 the "Eight Percent Fund." During his previous administration Santa Anna had agreed to use 12 percent of the customs to handle credits worth 2,200,000 pesos with a monthly interest rate of up to two percent. In September 1839 the Treasury asked these creditors for a 40,000 pesos premium and reduced the percentage to eight percent.

Initially the Funds paid off handsomely. By 1840 the Treasury had repaid both the "the Fifteen Percent" and the "Seventeen Percent" Funds with interest. As a result, during that year Martínez del Río Hermanos held 9.8 percent of the firm's assets in debt credits, but they earned 44.9 percent of the total gross profits for that year.

In 1840 after the government had finished repaying the "Seventeen Percent Fund," various *agiotistas* were determined to participate in a new loan with similar repayment conditions. Martínez del Río Hermanos joined in a consortium with Juan Rondero, Montgomery, Nicod and Company, and Antonio Garay. This group, combined with another put together by Ignacio Loperena and Francisco Iturbe, agreed to lend the government 2,000,000 pesos in exchange for the 17 percent of the customs duties which had previously been earmarked for the "Seventeen Percent Fund" (Walker 1986: 167-171).

These repayments severely affected the Treasury. As Treasury Minister Sebastián Canseco noted, in 1840 alone the Treasury spent 10,108,733 pesos on "payments of loans, premiums and deposits," or 4.21 pesos for the repayment of loans for each peso spent on genuine administration costs. This is demonstrated in Table 2.

The *agiotistas* accepted the new premiums as the price for doing business in an unstable Mexico. However, the money market disintegrated further as Treasury revenues rapidly declined and obligations mounted. Some creditors, of course, continued to be favored. In 1841, the last year of the Bustamante regime, Manuel Escandón and others served as bonding agents for customs officials, some of whom were simultaneously in their employ. Escandón also received a government contract to construct the piers, warehouses, and offices for the Veracruz customs facilities (Urías Hermosillo 1978: 44).

Nevertheless, by the summer of 1841, the *agiotistas* began to abandon Bustamante in favor of Santa Anna, rather than Paredes or Canalizo. On October 11, 1841, just one day after he entered office, Santa Anna suspended payment on all the

Table 2: Status of 8 Percent, 10 Percent, 15 Percent, 17 Percent Funds, July 1840 (in Pesos)

Fund	Principal	Amount Amortized
8 Percent	2,200,000	748,000
10 Percent	2,000,000	-
15 Percent	1,600,000	448,000 ²
17 Percent ¹	2,500,000	2,150,000
Total	8,300,000	2,150,000

1 Original.

2 192,000 pending.

Source: Pedro Ansoátegui to Gregorio Martínez del Río, Mexico City, July 6, 1841, Archive of Carlos Martínez del Río y Fernández de Henestrosa, cited in Walker (1986: 171). The amortization figures were calculated by BAT.

funds. Three days later he restored them, but at half rates. In the meantime, he increased the size of the army and the number of government workers. He intended to pay these new employees with funds which had been previously spent in satisfying obligations to government creditors.

Santa Anna suspended payments yet again on February 19, 1842, which precipitated the final breakup of the Mexican money market as it had existed since 1834. Naturally, the President took advantage of the situation and gleefully pitted one moneylender and his faction against another. The foreign-born or associated ran to their ministers, the native Mexicans allied themselves with lenders who were more powerful.

Finally, on July 12, 1842, Santa Anna offered to pay holders of fund paper a flat 15 percent for a 40,000 pesos premium. They refused and he resumed payment only on the second "Fifteen Percent Fund," which was owned mostly by his cronies Ignacio Loperena and Antonio Garay. On September 20 he offered the creditors a flat 16 percent payment on the remaining funds if they paid a ten percent premium. They countered by proposing to pay 100,000 pesos so that the government would

pay half of the eight, ten and twelve percent funds. Montgomery, Nicod and Company refused to participate in the hope that the British Minister Pakenham would intervene on its behalf.

Pakenham won a special convention for the British subjects, so that claims owned by Manning and Marshall, J. P. Penny and Company, and Martínez del Río would receive two percent of the Veracruz customs and one percent from Tampico. He also helped Montgomery, Nicod and Company win the repayment of a 2,200,000 pesos loan in exchange for a six percent premium. This settlement soon became known as the "Five Percent Fund."

On May 11, 1843, however, Santa Anna stopped payment yet again on the funds and created a special "Twenty-Five Percent Fund" to handle all of them in exchange for another six percent premium. He included in this grouping 5,000,000 pesos worth of tobacco bonds held by Escandón and his cronies. Payments on the "Five Percent Fund" were suspended until the middle of 1844, by which time Montgomery, Nicod and Company was bankrupt and Nicod reportedly insane (Walker 1986: 176-181).

Santa Anna, like Bustamante, was overthrown on December 6, 1844. From that December until June 20, 1848, ten different governments "ruled" Mexico. The chaos and the war with the United States helped to reconstitute the money market while making business conditions all the more difficult as each new regime cancelled the loans made by its predecessors.

In 1845 the government transformed the "Twenty-Five Percent Fund" into the "Twenty-Six Percent Fund." After the Treasury suspended all contracts in May to repay previous loans, it assigned them six percent of the customs duties. The following month the government decreed that owed interest payments would not be capitalized except for contracts involving "items necessary for the public welfare such as uniforms, arms, etc." Thereafter the speculators hid behind the smoke screen category of "necessary items" (Dublán y Lozano 1876-1912, V: 7-8, 23-25).

During this time a very small group of *agiotistas* made considerable profits. The others, however, suffered as payments were suspended once more on May 2, 1846. In exchange the Treasury announced on June 29 that it was beginning to keep count of the internal debt, the precursor of the "Law of Public Credit," proclaimed on November 30, 1850. This law indicated that speculators were running the government during wartime and that they wanted to convince those previously forced out of the market to begin lending once more.

3. The Impossible Dream – The Law of Public Credit and Diplomatic Conventions

The Treaty of Guadalupe Hidalgo ended the war with the United States and brought Mexico an indemnity of 15,000,000 pesos, to be paid in five yearly installments of 3,000,000 pesos each. For the first time since the loans of 1824 and 1825, Mexico had some money with which to pay its foreign and internal debts. As a result, the remaining *agiotistas* mobilized to mount a campaign for their fair share of the spoils.

It was to be a hard fought war, with influence and connections playing a hidden but crucial role. From the day the new government took office in June, it started repaying some of its creditors. Its first Treasury Minister, Mariano Riva Palacio, immediately pledged 791,685 pesos from the first installment of the indemnity to moneylenders (600,000 pesos to Ewen MacKintosh and 191,685 pesos to redeem pension credits). However, when he rented the tobacco monopoly to an *agiotista* consortium composed of Manuel Escandón, Miguel Bringas, and the British consul Ewen MacKintosh in exchange for 20 percent of its receipts, the other moneylenders and the newspapers created such an uproar that Riva Palacio was forced to resign.⁸

8 Letter from Lucas Alamán to Mariano Riva Palacio, August 26, 1848, in Mariano Riva Palacio Archives, García Collection, Benson Latin American Collection, University of Texas, Austin, no. 2909; *Memoria de Hacienda, México* (1870: 567).

Before he left office, Riva Palacio issued the first estimate of the size of the internal debt since 1831. He stated that Mexico owed a total of 92,432,670 pesos (Appendix C) of which 44,524,879 pesos derived from the colonial period and 47,907,791 pesos from the post-independence years. A brief glance at the categories reveals that speculators owned a minimum of 57,557,791 pesos (62.3 percent) of the outstanding debt.

The next Treasury Minister, Manuel Piña y Cuevas, fuelled the controversy even more when he announced his settlement of the tobacco credits, which allowed for six percent of the "Twenty-Six Percent Fund" to go to Martínez del Río Hermanos and other holders of the tobacco bonds together with an additional 16,000 pesos per month from the newly established tobacco monopoly. Naturally, the other creditors of the "Twenty-Six Percent Fund" were outraged since the new "Six Percent Fund" contained recognized credits of 3,500,000 pesos whereas the total of the "Twenty Percent Fund" was 68,000,000 pesos and each was to receive six percent of the customs revenues. Furthermore, while the British Minister himself kept watch over payments to the creditors of the "Six Percent Fund," payments to the "Twenty Percent Fund" could easily be diverted to other uses (Payno y Flores 1862: 74-75; *El Siglo XIX*, México, February 8, 1849, p. 3). Such maneuvers put additional pressure on the Treasury to create a workable solution to the internal debt once and for all.

Throughout 1849 politicians and editorial writers proposed two types of unworkable solutions to the problem. Either they envisioned spending part of the indemnity for debt payments or they wanted to use large portions of customs revenue to repay creditors. By September 15, 1849, the Congressional Commission working on the debt had reduced its principal to 47,000,000 pesos, halved the total of outstanding interest, and lowered the interest rate to three percent. In exchange, creditors would receive a seven percent bonus for redeeming their credits.

Under this plan, *all* credits would be included in the same pot, including those previously settled by private arrangement.

For example, tobacco bondholders indemnified at 88 percent received a bond for 88 pesos for every 100 pesos of face value, plus an additional 8.80 pesos as compensation for losing half of the accrued interest, and a bonus of 6.73 pesos from the indemnity. The law passed the Chamber of Deputies but failed in the Senate.⁹

The following year Treasury Minister Melchor Ocampo issued his classification of the internal debt in which speculators dominated at least ten of the seventeen groups. The credits included in three of the categories had already been settled by special convention – those owed to British subjects, Montgomery, Nicod and Company, and the tobacco monopoly – and had already been separated from the rest. In the battle for repayment, the sides were clearly drawn. Each group was to name a representative to prepare an accurate list of creditors including their names, owed principal and interest rate, but by September 1850 five representatives had refused to come to terms with the government.¹⁰

Finally on November 30, 1850, Treasury Minister Manuel Payno y Flores completed the settlement package known as the Law of Public Credit (Appendix D), which he acknowledged was aimed "particularly at the foreigners who acquired Mexican credits at ruinous prices in order to make them valuable later with the support and force of their Ministers." The arrangement called for a common fund of 25,700,000 pesos, 20 percent of customs receipts, 3,000,000 pesos yearly amortization and an interest rate of three percent sliding to five percent. The government pledged to pay creditors an immediate 2,500,000 pesos for amortization, the net profits from the reestablished tobacco monopoly, and an additional ten percent from import duties. Payno then issued 40,000,000 pesos in new bonds, set up an office in the Treasury Ministry to supervise debt regis-

9 *Cámara de Diputados, México* (1849: 26-27, 29, 31, 71).

10 They were the representatives of the "Six Percent Fund," the Mining Fund, the Consulados of both Veracruz and Mexico City, and the tobacco harvesters. *Documentos, México* (1851: 18-19, 41-42, 46-47, 64-65).

tration and liquidation and established a Committee of Public Credit with the *agiotista* Gregorio Mier y Terán as president. If creditors refused to put their paper in the common fund, they would not be paid for ten years.¹¹

The internal debt was, however, destined to remain unsettled. After Treasury Minister Payno resigned on January 13, 1851, his successor, Veracruz senator José Ignacio Esteva y González revealed that the Treasury could not fulfill the provisions of the law. Payno had believed that 2,500,000 pesos would have been enough to cover the first installment to creditors. However, the accounting division soon revised that figure to 5,994,869 pesos, as can be seen in Appendix E. It appeared that 4,048,712 pesos (67.5 percent) of the total was owed to moneylenders, of which 2,941,667 pesos had been or would be included in ministerial settlements outside the common fund. If Mexico honored the new law, it would have to spend all but 280,000 pesos of the 1851 and 1852 indemnity payments (6,540,000 pesos including interest) honoring obligations owed to domestic and foreign creditors.¹²

When it became clear that the Law of Public Credit would bankrupt the Treasury, Foreign Minister José Fernando Ramírez bowed to the constant pressure of the British Minister and others and concluded a series of special arrangements called Diplomatic Conventions to settle claims owed to citizens of Spain, Britain, and France and negotiated by their respective ministers. These agreements had the force of treaties and, if broken, could result in invasion. Indeed, they were part of the rationale for the British, French, and Spanish landings in Veracruz in 1861.

Ramírez and the Spanish Minister Juan Antonine Zayas signed the Spanish Convention on November 14, 1851. The first such agreement between Spain and Mexico had been signed on July 17, 1847 to settle debts owed to Spanish citizens from colonial times. According to the new Convention, the Mexi-

11 *Documentos, México* (1851: 35, 41-42, 46-47); *Ley, México* (1850).

12 Esteva (1851: 8-10, 19-21, 85-88, 91); *El Siglo XIX* (México, February 27, 1851), p. 4.

can government pledged to issue bonds totaling 7,500,533 pesos, bearing an interest rate of three percent.¹³

On December 4, 1851, Ramírez concluded an agreement with the British Minister, Sir Percy Doyle, in which the Mexican government agreed to reserve 12 percent of all import taxes to pay the 1,269,892 pesos owed to the bankrupt British firm Montgomery, Nicod and Company and 3,876,434 pesos in tobacco credits held by Martínez del Río Hermanos. When he learned of the arrangement, Manuel Payno y Flores grumbled that no British squadron would come to demand that Mexico pay the two or three dozen widows who daily petitioned for pensions, but that it might do so in response to Martínez del Río's complaints (*Memoria de Hacienda, México* 1870: 374, 376-377; Payno y Flores 1862: 75-83, 149).

Finally, on January 21, 1852, Ramírez concluded the last of these agreements with the French Minister André Lévassieur, in which Mexico agreed to pay the banking house of Serment P. Fort one half of the proceeds of the tax on the internal circulation of money and all of the taxes on the export of silver from Veracruz and Tampico. They also consented to pay the merchant house Drusina and Company 109,143 pesos from the import taxes collected at the Pacific ports. In all, Ramírez managed to add 14,000,000 pesos in new debts (*Memoria de Hacienda, México* 1870: 372-373; Payno y Flores 1862: 220-222, 224).

After the three Diplomatic Conventions had effectively shattered the concept of a single fund for the internal debt, Congress revised the Law of Public Credit on May 19, 1852. It increased the percentage of state contributions to the federal government (*contingente*) to 20 percent and assigned the increase and three percent of the new customs duties to the creditors of the internal debt.¹⁴

13 Payno y Flores (1862: 143-149). The creditors involved included José Antonio Béistegui, Benito Maqua, and Muriel Hermanos who held 1,351,115 pesos (44 percent) of the tobacco bonds.

14 *Memoria de Hacienda, México* (1870: 376). Another reason the government could challenge the Law of Public Credit was that it discovered that the *agiotistas* were not willing to participate in it. See Junta de Crédito Público, México (1852).

Mexico never managed to repay its internal debt and as a result some moneylenders who had speculated foolishly went bankrupt. But historians should interpret this development in the context of a Mexico slowly evolving from colony to independent nation. The Treasury borrowed the amounts it did because the wealthy refused to pay their fair share of the tax burden. Therefore, the government had to get the funds it needed by having recourse to other mechanisms, in this case by borrowing internally. In conclusion, then, it would be well to consider Francisco Lombardo's insistence on the virtues of agiotage. The Mexican money market provided essential cash and services to a newly-established Republic which desperately needed both and as yet had no banks. Undoubtedly fraud and corruption were part of the costs of doing business in such unstable circumstances, but they should not blind historians to the despair which Treasury Ministers like Lombardo faced day after day. If Mexican governments could have borrowed funds at better terms, they probably would have, regardless of personal connections.

Seen in this light, the Treasury's manipulation of the internal debt seems, in retrospect, a highly intelligent scheme designed to induce lenders to supply ever greater amounts of revenue. As such, it worked brilliantly. Mexico, although considerably smaller in 1855 than in 1821, maintained its independence and sovereignty through invasions and periods of instability which might have doomed a lesser nation. Consequently, perhaps it owes a greater debt than appendices can express to its "financieros sin dinero."

Appendix A: The Internal Debt of Mexico in 1831 (in Pesos)

Various credits on Real Hacienda	329,507
Pensions for heirs of Moctezuma, Cortés	652,354
Consulado loan in 1782	756,334
Consulado loan in 1793	1,058,333
Consulado loans 1794, 1806, 1807, 1809	1,058,362
Capital taken from Consulado 1795	3,063,622
Capital taken from Mining Fund	3,646,882
Capital taken from Jesuit properties	322,350
Capital taken from California missions	201,856
Capital from <i>capellanías, obras pías</i>	9,974,121
Patriotic loan of 20,000,000 pesos	1,500,477
Consulado loan 1811	768,004
Loan in 1812	1,849,941
Silver <i>depósitos</i> at the Mint 1812	58,264
Forced loan 1812	443,102
Consulado loan 1813	1,019,051
Indian <i>parcialidades</i> , Puebla	35,102
Funds from <i>cofradías</i>	66,953
Patriotic loan 1809	7,000
Consulado de Veracruz	2,144,552
<hr/>	
Total	28,956,167

Source: Payno (1866: 12-13).

Appendix B: Composition of Mexico City Money Market by Nationality

Mexican	English/Irish
Agüero, González y Cia.	Eustace Barron
Miguel Bringas	Geaves and Company
Javier Echeverría	Ewen C. MacKintosh
Manuel Escandón	Montgomery, Nicod, and Co.
Antonio Garay	James P. Penny and Co.
Francisco Iturbe	Thomas Worrall
Manuel Lizardi	
Ignacio Loperena	
Juan Rondero	
José Joaquín de Rosas	
French/Swiss/German	Spanish
Guillermo Drusina	José Antonio y Nicanor Béistegui
C. A. Formachon	Lorenzo Carrera
Serment P. Fort	Gregorio Mier y Terán
Garruste y Cía.	Muriel Hermanos
Hube y Cía.	Francisco, Tomás y Juan P.
Juan B. Jecker	Murphy [Morphi]
	Cayetano y Francisco Rubio
	Isidoro de la Torre
	Antonio y Anselmo Zurutuza
Other	
Felipe Neri del Barrio (Guatemala)	
William Forbes (USA)	
Benito Maqua (Cuba)	
Martínez del Río Hermanos (Panama)	
Hermengildo Viya (Cuba)	

Appendix C: Estimate of Mexican Internal Debt, 1848
(in Pesos)

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Debt prior to independence	
<hr/>	
Old Paper, <i>juros</i>	34,650,000
Mining Fund	4,917,184
Road tolls from Perote, Veracruz	4,956,695
Total	44,524,879
<hr/>	
Debt after independence	
<hr/>	
"Twenty-six percent Fund"	16,874,586
Copper bonds	2,533,205
Floating debt, indemnizations	3,500,000
Civil servants, military	25,000,000
Total	47,907,791
<hr/>	
Total Internal Debt	92,432,670
<hr/>	

Source: Payno (1866: 15).

Appendix D: Categories of Mexican Internal Debt in 1850

1. Indemnization of English subjects at 2 %	(F)
2. Montgomery, Nicod and Company	(F/S)
3. Philippine missions	(S)
4. Conducta confiscation	(S)
5. Tobacco harvesters	(S)
6. Bondholders from the old copper coins	(S)
7. "The Twenty-Six Percent Fund"	(S)
8. Tobacco Bonds	(F/S)
9. Mining Fund	(S)
10. Tolls from Veracruz Consulado and <i>avería</i>	(E)
11. Tolls from Mexico City Consulado	(E)
12. Civilian Government Employees	(S?)
13. Debt prior to independence	(S)
14. Property confiscation	(S)
15. Cash Only Loans	(S)
16. Loans with credits	(S)
17. Property contracts	(S)

Abbreviations: S = Speculator; E = Elite; F = Foreign (Speculator?).

Source: *Documentos, México* (1851: 66-67).

Appendix E: Immediate Payment to Be Made on Internal Debt
as a Result of the Law of Public Credit, 1851 (in Pesos)

The 20 % Fund	530,000	S
Voluntary loans made in cash	381,235	S
Property damages	300,000	
Forced occupation during War with US	600,000	
Iturbide's silver train confiscation	200,000	
Floating debt with credits	300,000	S
"Two Percent" and "One Percent" Funds	137,667	S
"Five Percent" Fund	454,000	S
Padre Morán Convention	300,000	S
Silver bars confiscated in San Luis Potosí	104,209	
Heirs of Emperor Moctezuma	128,713	
Tobacco harvesters	320,000	S
Debt represented by Martínez del Río, hermanos	1,750,000	S
Serment P. Fort and Company	300,000	S
Debt of Carmelite fathers rep. by MacKintosh	176,045	S
Luis Vial	13,000	S
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Total which the Law of Public Credit would have had to pay	5,994,869	

Abbreviation: S = Speculator.

Source: Esteva (1851: 25-27).