

there being Consul-General. Mr. Gottschalk has seen a good deal of South America and its trade, and this experience, combined with his great natural shrewdness and acumen, renders him very fit to fulfil the important position which he now occupies. Apart from this, however, Mr. Gottschalk has acted as one of the *New York Herald's* Special Correspondents in various parts of the world, thus gaining a unique amount of foreign experience. He is very much esteemed in Mexico City, and out of it.

The German Consul, Dr. F. C. Rieloff, is the first to be appointed under the remunerative system, and his appointment is due to the new aggressive German Colonial policy initiated by the Minister of the Colonies, Herr Dernburg. Dr. Rieloff has secured about the finest consular offices in Mexico City, at 18 Zuleta, but his official residence is at 3^d. Denmark, No. 420.

The American Consular Body in Mexico is altogether an able one. Besides the Consul-General, Mr. Alfred M. L. Gottschalk, the U.S. possess in Mr. George H. Murphy a very active and zealous official, enjoying the title of Consul-at-Large. He is one of the five American consuls who are members of a department of the consular service brought into being with the beginning of this year. These consuls perform the duties of inspectors of consulates, and they report direct to the Department of State. They cover the whole world, each being assigned a special territory for the performance of his duty. The special field assigned to Mr. Murphy is North America, which, of course, includes Mexico.

Consul-General Hanna, who is located at Monterey, in the State of Nueva Leon, is yet another keen, shrewd and enterprising representative of the U.S.A. General Hanna has several vice-consuls under him, and his field is an exceptionally wide one.

CHAPTER XVI

National finance—Budget estimates—Completeness of Government figures—Monetary reform—History of Foreign Debt—National Debt appropriations—Reproductive expenditure—Character of bonds—Relations with foreign banking-houses—Amortisation provision—Gradual cancellation of public securities—Table showing Mexican Government and State Government loans, interest paid, dates of payment and redemption.

It has been a fruitful source of complaint among foreign investors in Spanish-American countries that the annual Budget-accounts are invariably from two to three, and sometimes four, years in arrear. These critics do not always take into consideration the fact that the countries referred to are, for the most part, but poorly supplied with the means of internal communication, apart from the fact that Spanish-Americans are not in the habit of hurrying themselves even on their account, and are less inclined to do so in relation to their foreign creditors.

This reproach, however, cannot be applied to Mexico. The accounts, for instance, to June 30th, 1905, and the Budget for the year to 1906-1907, were both presented to Congress in December of 1905, and the Budget for 1907-1908 is very up-to-date. There was no undue delay in completing the accounts for the whole of the Republic, bearing in mind the physical characteristics and in some districts still meagre means of communication.

The accounts in question show how exceedingly stable is the financial condition of Mexico. The recent currency reform is mainly responsible for this encouraging state of affairs. The able handling of the country's finances by Señor J. Y. Limantour is also a very great factor. Many hot debates in financial circles took place when this monetary

reform was first mooted, but Señor Limantour, the astute Finance Minister, adhered strictly to his original ideas, and has lived to see them carried out to the most successful issue. The minor inconveniences which the change of monetary system occasioned proved to be very small compared with the immense benefits which they brought in their train. The fortunate rise in the value of silver also had its effect, and abridged the difference between the market value of the white metal currency and the international value fixed by the monetary law. The fear that the new system might result in a complete or partial paralysation of the national industries, proved entirely unfounded. Import duties now constitute nearly 45 per cent. of the Mexican revenue, the proportion having risen materially since the revision devised to shelter native producers from the intensified competition of foreign goods which entered the Republic more freely with a stable exchange.

A further object achieved by the new tariff has been to foster the importation of articles which were formerly excluded by the excessive duties. It is abundantly clear that the increased arrivals of such goods balance to a very great extent the diminution in imports on which duties have been enlarged with protective objects. The total volume of inward trade has remained practically unaffected. A decrease in the estimated produce of the modified taxes levied on mining properties has been less in proportion than the reduction in the rate, because the Finance Minister calculated—and calculated correctly—that an area larger by 15 per cent. would contribute. And this has been the case.

I have previously referred to the beneficial effect which the currency reform introduced by the Mexican Government towards the end of 1904, and which became law in May 1905, has had upon the commercial prosperity of the country; but I fear that there are a great many who do not quite appreciate or understand what this reform really amounted to. The Bill for the Reform of the Currency Laws provided that the dollar (*péso*) will in future contain 24·4888 grammes of fine silver and 2·6342 grammes of copper, equivalent to 75 centigrammes of fine gold. With the ratio thus legally established, and the silver coinage protected against the fluctuations of silver bullion,

Mexico has a currency system which is the best that is practicable under present circumstances. It was impossible for her to adopt the gold standard in its fullness, as it exists in this country, for instance. Nevertheless, Mexico is, for all practical purposes, on a gold-basis, because there is now a fixed ratio guaranteed by law between her silver currency and gold. The coinage and issue of money are reserved to the Government, and the new law authorises the Government to prevent or impose a tax on the importation of Mexican dollars. Under the old system, whenever silver rose above the legal parity, *i.e.* when the silver in the silver *péso* came to be worth more than 75 centigrammes of pure gold, a stream of Mexican *pésos* left the country. By means of the new arrangement gold is coined, and enters more and more freely into circulation. The result of this currency reform has been to benefit enormously all foreign-conducted enterprises, such as the railways, whose troubles had previously been due entirely to the currency and exchange difficulties and depreciation. If these have not been entirely removed by the reforms, which give something like a fixed gold standard to the Mexican dollar, they have been at least materially relieved. Already the profits of the leading railways of Mexico have been largely augmented, and commercial development throughout the country has resulted from the new currency reform.

The change which has come over the financial condition of Mexico during the past decade is, indeed, remarkable; but I venture to assert that it is not a transient but a permanent change. Not only is foreign capital abundant, but native capital can be raised to-day with very little difficulty for innumerable varieties of investment; whereas less than a quarter of a century ago not a single Mexican would have ventured his money in any foreign-controlled or foreign-associated enterprise.

The history of Mexico's Foreign Debt commenced as far back as 1825, shortly after the country had wrenched itself free from the Spanish yoke, and was fairly launched upon the troublous sea of independence. Two loans, both of which were raised in London, and bearing interest at 5 per cent., were the first successful feats in borrowing. Unfortunately, the promptness with which the loans were raised was not

reflected in the method of paying the interest when due, and shortly before the date when the first instalments were payable, notice of default was given. The public finances remained in an unsatisfactory condition for several years, and in 1851, after the war with the U.S.A., the two loans referred to were converted into a new issue, interest at the same time being reduced from 5 to 3 per cent. Once again, however, the country was unable to meet its obligations, and it was not until some thirty odd years afterwards, namely in 1883, that a further attempt was made at adjustment of the Foreign Debt. Conversion took place in 1885 in silver, and in 1888, under the *régime* of the present President of the Republic and the Minister of Finance, Señor Dublan, the Government of Mexico entered into a fresh arrangement, the gold bonds, bearing interest at 6 per cent., being issued, and since that date religiously receiving the full amount of interest, until their conversion in 1899.

Under the short-lived and disastrous Government of the Emperor Maximilian were issued what were known as the "Petit Bleu" bonds (printed upon blue paper) of a face value of 500 francs each. These were never recognised by the Republican Government, and consequently they were never met.

As already stated, in June 1899 the foreign gold debt was converted. With the assistance of the great banking-house of J. S. Morgan (London), J. P. Morgan (New York), the Dresden Bank, the Deutsche Bank, and S. Bleichröder (Berlin), the whole Foreign Debt of the Republic of Mexico was converted—namely, the 6 per cent. loans of 1888, 1890 and 1893, and the 6 per cent. loan for the Tehuantepec Railway—into a Consolidated 5 per cent. External Gold Loan, repayable within a period of 45 years at par, by means of semi-annual drawings, which may be increased after 1909 (the first having taken place in June 1900), or by purchase in the open market, if they fall below par. The principal and interest upon this Loan are payable simultaneously in London, Berlin, New York and Amsterdam.

The National Debt of Mexico to-day may be roughly placed at some \$375,000,000 (say £37,500,000), of which \$144,000,000 (£14,400,000) represents moneys which have been advanced to Railway enterprises or expended upon actual construction ;

\$26,000,000 (£2,600,000), the cost of the Veracruz Port Works ; \$21,000,000 (£2,100,000), the cost of Salina Cruz and Coatzacoalcos Port and Harbour Works ; \$4,000,000 (£400,000) upon Manzanillo Port Works ; \$3,000,000 (£300,000) at Tampico ; and about \$10,000,000 (£1,000,000) upon various water and drainage works. The vast works in connection with the Valley of Mexico drainage cost \$16,000,000 (£1,600,000) ; the sewerage and waterworks in the same district another \$6,000,000 (£600,000) ; public buildings and improvements in the Federal District, \$8,000,000 (£800,000) ; or, say, approximately \$240,000,000 (£24,000,000) out of the whole amount of \$375,000,000 (£37,500,000) has been expended upon necessary or reproductive work. No frittering away of the public money upon useless "avenidas," as has been done by the Brazilian Federal Government at Rio de Janeiro, or upon magnificent but useless residences for the Ministers and their junior officials, as has been done by the Buenos Aires State Government at La Plata, Argentina. A goodly part of the National Debt still remains in cash on hand, while a part has also been expended from time to time upon the acquisition of shares in the National, Interoceanic and Central Railways. The first surplus in Mexico's financial history occurred in the fiscal year of 1895-1896, when it was proudly announced that the revenue of the Federal Government had exceeded the expenditure by \$5,451,347 (about £545,134). Year by year the budgetary statement has improved, and this in spite of the dismal forebodings which were freely indulged in when the farseeing Finance Minister, on May 12th, 1896, abolished by public decree the *alcabales* to take effect in the month of July 1897, followed a few years afterwards by the abolition of the Free Zone institution, thus eliminating the last vestige of the vicious system of economic inequalities.

The public debt is represented by bonds of different rates of interest and payable either in gold or in silver, according to designation. The portion payable in foreign gold is represented by the value which it would attain were the foreign rate of exchange at par, the supposed value of \$5.00 per pound sterling being the most approximate basis for calculation. The floating debt, which is a non-interest-bearing debt as opposed to the Mexican debt (silver) and the Foreign Debt

(gold), which are interest-bearing, is made up of credits which the parties interested have failed to collect or have converted into other bonds according to the different Laws which govern the public debt. It is said that the Treasury Department has not to-day a single short-time bond among its floating debt, either interest-bearing or not, issued since July 1st, 1894, in payment of any claim. In regard to the uncollected or unclaimed amounts of interest either on the gold or silver debts, the respective amounts are deposited in the banking-houses in charge of such debts, those of the silver debt being placed in the National Bank and those of the gold bonds of 1888, 1890 and 1893 being deposited with the house of S. Bleichröder, of Berlin.

It may be pointed out that the whole of the securities of the Public Debt of Mexico have special provision made for their amortisation. The whole of the Foreign Debt above referred to, as well as the Interior 5 per cent. Redeemable Debt, are now being paid off gradually by means of the fixed annual sum comprising both interest and sinking fund. The amount of the 3 per cent. Interior Cons. Debt is being reduced year by year, owing to the fact that vacant lands purchased from the Government are paid for in the bonds of the said Debt, and in addition during the financial year 1904-1905 the sum of \$126,350 in 3 per cent. bonds was amortised, such bonds being placed on deposit for the purposes of exchange for claims previous to June 1896, but which lapsed on June 30th, 1905, the creditors having failed to make application for the same within the statutory limits of time. Apart from the amounts thus redeemed, amortisations of the Debt occasionally ensue by reason of special occurrences, such as, for instance, took place in 1904-1905, when the last loan was raised by the Mexican Government for \$40,000,000 gold, and when a portion of the proceeds was devoted to the conversion and redemption of certain classes of securities, such as Treasury Bills, etc. This class of amortisation is exceptional, however. During the past financial year, apart from the refundment of Treasury bonds issued in 1903 and 1904, a clearing-off has taken place of Veracruz and Pacific Railway subvention bonds, Mexican Southern Railway subvention bonds and special certificates of the Tehuantepec National Railway and Port Works.



Photo by C. B. Waite.

MEXICO CITY—THE BULL RING. FUENTES, THE FAMOUS MATADOR OR ESPADA.—see p. 245.

To arrive at the true amount of amortisation effected, it is necessary to deduct from the gross amount of \$55,654,499, representing all classes of securities cancelled, the amounts repaid out of the \$40,000,000 4 per cent. loan of 1904-5, thus:

Total amortisation of Public Debt	\$	55,654,499
Less value of securities paid off from proceeds of 1904-5 Loan		52,091,651

Leaving a balance representing normal amortisation
for the year 1904-1905 \$3,562,848

The following list which I have prepared shows the precise number of Mexican Government and State Government Issues up to date, together with the amounts, the interest payable and the dates fixed for redemption:—

Name of Loan.	Interest. Per Cent.	Payable.	Total Issue (Dollars).	Redeemable.
Mexican Gov. Ex. Gold	5	Quarterly	110,000,000	July 1st, 1945
Mexican Gov. Gold Bonds	4	Half-yearly	40,000,000	Annual Drawings
Mexican Gov. Red. Intern. Silver	5	"	100,000,000	Half-yearly Drawings
Mexican Gov. Cons. Intern. Silver	3	"	45,000,000	No provision for Redemption
Veracruz and Pac. Ry.	4½	"	7,000,000	*Optional price to 1924
State of Jalisco Gold	6	"	1,500,000	One-tenth annually from 1918
State of Jalisco Silver	6	"	840,000	December 31st, 1933
State of Veracruz Silver	5	Quarterly	4,551,000	*April 21st, 1927
State of Coahuila Gold	6	Half-yearly	752,000	April 1st, 1940
City of Saltillo Gold	6	"	235,000	December 1st, 1929
State of Morelos Silver	6	"	182,000	One-tenth yearly from 1907
State of Chihuahua Silver	5	"	600,000	July 1st, 1925
State of San Luis Potosi Silver	6	"	2,500,000†	January 1st, 1934
State of Tamaulipas Silver	5	Quarterly	2,500,000	*July 1st, 1924
City of Cordoba Silver	6	Half-yearly	829,300	December 31st, 1922

* Guaranteed as to Principal and Interest by the Mexican Government.

† Total Issue, £250,000, interest payable in London. Listed on the London Stock Exchange.