

## CHAPTER XVII.

## HOW MEXICO'S DEBTS WERE PAID.

DIAZ was after an interregnum of four years re-elected to power in 1884.

On the night of his re-election one of his most intimate associates went to the Palace to congratulate him.

"Spare your congratulations, good friend," he replied, "were it not that my love for Mexico kept me buoyant I should sink beneath the weight of responsibility.

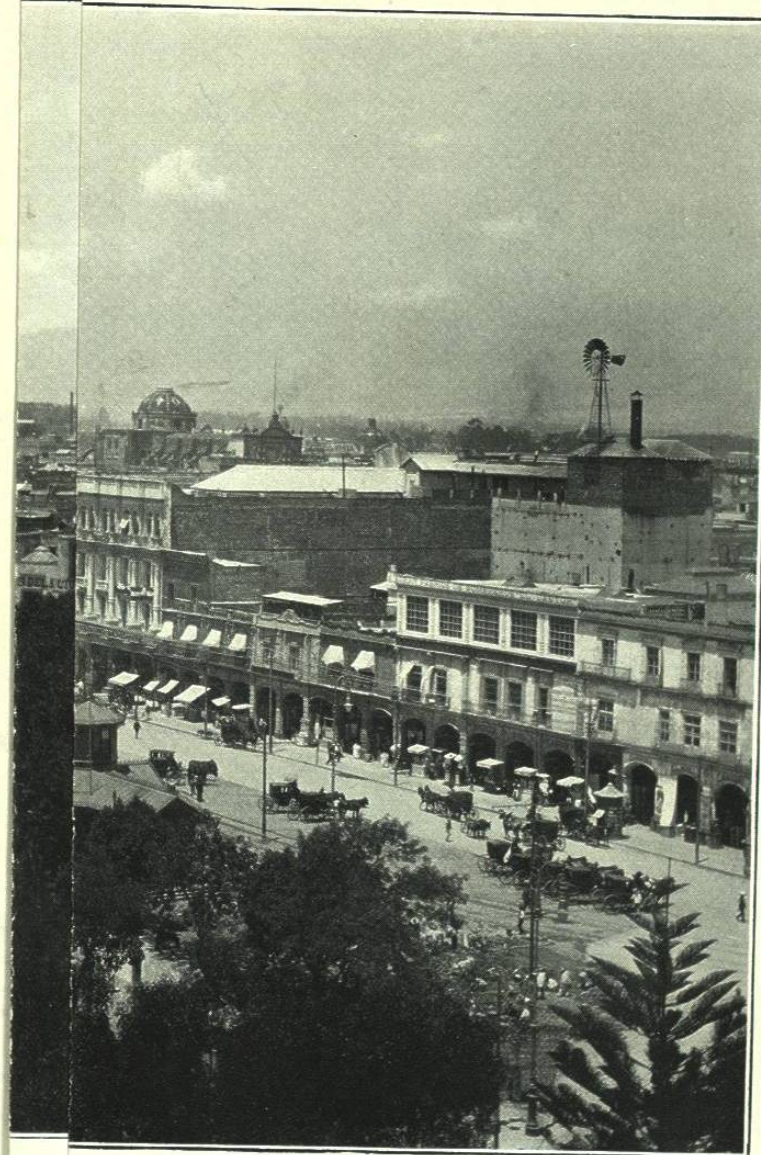
"The coffers are empty; they are worse than empty—they are heavily weighted with debt, and Heaven knows how matters will end. But"—he lighted a cigar, and paced the room excitedly—"I am going to try. Don't congratulate me to-night. Come back in four years' time, and then let me know if my work is worthy of your congratulations."

Time rolled by, and that friend has filled important positions as Minister Plenipotentiary of Mexico in Europe. The same friendship exists between the two as existed on the field of battle in the days of Maximilian, when they fought side by side.

"And," continued the Minister, "Diaz not only tried, but he succeeded—succeeded far beyond his own expectations and to the amazement of all of us, more especially those who really knew the enormous odds against which he worked."

The problem of the government of Mexico had, indeed, during González' interregnum proved once more almost insurmountable. As I have shown, it had defeated every man who had attempted to solve it in the course of half a century. Every method of rule had been tried—Republicanism, autocracy, tyranny, imperialism—and the most that could be said of any

Las Portales (The Colonnade).





Palacio Nacional.

General Diaz' own  
suite of rooms.

Band stand (music  
daily).

Palacio Municipal  
(Town Hall).

Las Portales (The  
Colonnade).



Zocalo (chief square).

BIRD'S-EYE VIEW OF MEXICO CITY.



one of them was that it was a little less unsuccessful than the others. Diaz was showing Mexico the path upon which her progress towards peace and settled government lay when the automatic close of his term in the Presidency compelled him to hand over the continuation of his work to another.

Unhappily his successor proved unequal to the task. In the interval of four short years after Diaz relinquished power Mexico was thrown back to her former state, and growing embarrassments promised an early return of civil war.

General Manuel González had shown himself a brave soldier, and was a friend of the man whom he succeeded. This in itself was most unusual in Mexico, for rarely indeed in the long history of the Republic had office been peacefully relinquished by a President to his legally elected successor. The absence of any attempt at continuous policy by successive governments had been one of the chief factors in keeping the country perpetually disturbed. González came to his new task with sympathy towards all that had been done by Diaz, who, indeed, remained for a brief time a member of his Cabinet, and whose influence, whether he occupied the first position or was content to fill a subordinate part, was all the time exerted to secure the material welfare of Mexico.

González proved to have none of the gifts which make a good administrator. A reactionary spirit in his Cabinet gained the upper hand, and the finances of the country fell again into hopeless confusion.

An attempt to introduce small nickel coins in the place of silver and copper, involving considerable loss to people of the poorer classes who mostly used them, shook their faith in the currency. The people refused to accept the new coins, and the "Nickel Riots" broke out in 1883, by which González' administration is chiefly remembered.

Yet more disastrous as a disturbing factor were the proposals advanced for liquidating the nation's debt to England. The bulk of this debt, a sum of \$30,000,000, had been contracted in the early days of the Republic. Interest had remained unpaid, and, added to the principal, brought the sum up to



who suffered, or what suffered, the good faith of the nation to its creditors was the paramount consideration.

Payments of railway and other subsidies—the schemes upon the rapid advance of which he built such great hopes—were suspended. Treasury bonds for \$25,000,000, to provide for immediate wants, were issued. A law for the consolidation of the national debts, in which England's claims received recognition, was carried through, and arrangements for the payment of interest on terms satisfactory to all were shortly afterwards completed.

Foreign credit was by such means as these slowly restored, and a new Mexico—prosperous, enterprising, peaceful, and contented—came gradually into existence. The high aims which Diaz set before himself at the outset of his rule, and sacrificed much to accomplish, are all the more noteworthy, as, by the short-sighted policy of many Presidents who preceded him, the just claims of the foreign creditor had received scant attention. The future welfare of the country had been allowed to suffer to serve the interests of the moment.

Obligations contracted with the foreigner were met, and the use of foreign capital enjoyed, but it was not until 1894-5 that revenue and expenditure balanced in the home budget. A succession of deficits indicated a peril which, up to that time, still threatened the stability of the country.

Fortunate, indeed, has it been for Mexico that she had a strong man at the head of affairs during the past quarter of a century. He has carried his country through probably the greatest economic crisis with which a nation has ever been faced. Hardly had the era of settled peace been well established, and the last traces of the revolutionary period effaced, than the rapid fall in the value of silver threatened the undoing of all that he had attempted, and of the great projects to which he stood committed. We who live with all the advantages of a stable currency based on gold can hardly realise what this meant.

Mexico produced gold to a small extent, but the basis of her monetary system, and until that time the chief source of

her wealth, had been silver. Some one hundred and fifty million ounces of silver are yearly produced in the world, of which nearly fifty-five millions come from Mexico. The State depended for its economic life on the products of the silver mines, which had been worked for centuries. The Mint struck a silver Mexican dollar, five of which were worth £1 sterling in the world's markets. By the depreciation of the white metal, values so changed that not five, but ten Mexican dollars—now a trifle more—were required as the equivalent of the British sovereign.

The country was committed to the path of progress—harbours were being deepened, railroads constructed, new highways cut, great public works undertaken. All this necessitated the employment of foreign capital and the goodwill of the foreign investor, whose interest and confidence in the industrial development of Mexico President Diaz had left no stone unturned to secure. Foreign capital meant payment in gold, and payment on a gold basis required that for every one silver dollar hitherto paid he had now to find two.

Looked at from any point of view, this turn of affairs would seem to foretell national bankruptcy. It has not made Mexico bankrupt, but it has greatly altered her economic conditions. If it has been a burden, it has also been a stimulant to greater enterprise on the part of her people.

Diaz determined that whatever the depreciation of the silver dollar, the State's obligations to her creditors should be met in full, and everything has been paid on a gold value. He has gone on handing out two dollars for one, and Mexico still flourishes. She has learnt to become self-reliant. It is necessary to bear in mind that, whatever the rate of exchange, the purchasing power of silver remains practically the same for home products. The dollar still has the dollar's value in Mexico for anything Mexico produces; it is only the foreigner who sends in his cotton goods, his machinery, his wines, his ale, who wants two dollars for one when he presents his bill.

The fall in the value of silver has had in Mexico the same effect as a high protective tariff. When the people learnt that their bills for articles of foreign origin were doubling, they found



there was a great deal they could do without, and still more they could produce or manufacture for themselves. New industries sprang up on every hand, and the additional revenue gained from them went to restore the balance thrown out by the drain to foreign creditors. An essentially mining country is becoming transformed into one great hive of manufacture for home-consumption and of agricultural production for foreign exports.

Factories now flourish in every town. Manchester goods, which were formerly the common clothing of the Indians, are made in the country. Blankets and other woollen goods, from the coarsest to the finest qualities, are turned out from native looms. Leather work gives employment to thousands of people. Toluca beer is ousting the most famous British and German brands, and brewing is becoming a national industry. Even bricks and bottles, hardware and haberdashery, are now made in the country. The import of machinery still continues, while the export of agricultural produce increases, and Mexico is each year becoming more and more self-supporting. The peon remains a lazy workman, although often possessed of dog-like devotion to his master. He has been so long trampled on, so long ill-fed and ill-educated, that he is only now awakening to a new life, and feeling some energy born within him.

Diaz gave to Congress a report on his twelve years' administration, from 1884 to 1896. Half a century of civil and foreign wars, and loans obtained on ruinous terms to satisfy the needs of the day, had, he pointed out when tracing the early years of the Republic, brought the public exchequer to a state of chaos.

"This financial disorganisation was worse than anything in our political affairs; it fostered discontent, and hindered all, or almost all, progressive movement in the nation. After the consolidation of the Republic the crisis was less acute, the fiscal balance more nearly approached equilibrium, the payments were less irregular. But although diminished, the evil still existed, and its complete and radical remedy dates from only yesterday. When, in December of 1884, I returned to the charge of the first magistracy of the Republic, on the vote of the people, the financial crisis had again assumed alarming aspects.

"This very grave situation, which had been so prolonged as to cause almost paralysis in the execution of the great constructive improvements already begun, and came near to provoking an explosion of popular discontent, called for an immediate and radical solution."

This was sought and found in a reduction of the foreign debt by a Convention agreed to in London, leaving the way open for a conversion of stock bearing 6 per cent. interest to 4½ per cent., proposals for the redemption of the floating debt, and other financial measures, so that when a new loan was offered for subscription it was a great success.

"The loan of 1888 (Diaz writes to Congress) has shown what credit the country enjoys in the foremost markets of Europe. This is of inappreciable value to the nation, and helps to inspire confidence to foreign capital, which is so necessary for the development of our wealth.

"It would be difficult to exaggerate the benefits obtained from the two great financial combinations effected by the laws of June 22\* and by the raising of the loans.

"By virtue of these, Mexico's foreign credit was consolidated, the National Treasury, which had been so completely exhausted, saw the near possibility of meeting the demands that the extension of the administrative services had raised considerably, and the greater part of the immense liability that had been weighing on the nation was removed."

By the year 1890 Diaz was able to convert the railway debts, which were at short call, into bonds at a longer term of payment so as to distribute the cost of these immense undertakings more equitably between the present and future generations who will benefit by them. Ten years later, so solidly had Mexican credit been built up, that he was justified in using these words when reporting to Congress the conversion of the Mexican National Debt, which was successfully carried out in 1899, with the co-operation of a number of banking houses in Berlin, London and New York, and the National Bank of Mexico:

"This financial operation, which has recently been completed,

\* On the subject of the Home and Foreign Loans of Mexico.