

# Stretching the financial boundaries: how Mexico fostered competition among foreign banks and borrowed cheaply in 1899, 1904 and 1910

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*Preliminary version, please do not quote.*

## Abstract

*This paper shows that the Mexican loans of 1899, 1904 and 1910 were issued at a risk premium below the Mexican risk. Based on a wide collection of primary sources, it argues that this cheap borrowing only happened because of the aggressive approach of Finance Minister Limantour when negotiation with European and US bankers, including Bleichroeder, Paribas and Speyers. Instead of acting in favour of rent-seeking interests or in alliance with foreign capitalists, high officials of the Porfirian state successfully arranged the loans according to the interests of the National Treasury.*

## 1 – Introduction

The *belle époque* was a rare period in which Latin America grew more than the rest of the world. Several scholarship traditions have been formed to explain this rapid growth and, most importantly, its failure in persistently promoting catching-up. Two important views stand out: the *dependencia*, according to which capital and trade internationalisation cause relative impoverishment in the long term, and the new-institutionalism, which highlights the persistence of moral hazard and rent-seeking in the process of growth promotion. These explanations concentrate in problems related to the ruling elite, which would have governed according to private interests at the expense of the national welfare.

This paper studies the loans contracted by Mexico between 1899 and 1910 to show how the state, and specifically official negotiators, acted in order to benefit the Mexican Treasury rather than their own cliques or foreign bankers. The research is

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based on a wide collection of primary material, composed by primary statistics and the correspondence exchanged between the Mexican negotiators and the foreign banks. The analysis of these pieces of evidence lead to strikingly surprising conclusions, especially if one considers that a very restricted group of people ran the Porfirian state - for instance, the finance minister Yvres Limantour was ahead of the Finance Minister between 1893 and 1911. New-institutionalists would expect that these privileged gentlemen were bound to benefit rent-seekers, or act as rent-seekers themselves, at the expense of the country as a whole. *Dependentistas* would assume that their alliance with the foreign capital kept them in power for so long, at the expenses of the working class. It is not in dispute here whether corruption and elitism plagued Mexico, and it is obvious that the well-being of peasants was anything but government goal. The Porfiriato was infamous as any other dictatorship. However, the primary material shows that Limantour and his collaborators successfully negotiated with foreign creditors in order to achieve two goals: (1) to defend the interests of the Mexican Treasury; (2) to keep Mexico as independent as possible from foreign banks. What this paper shows is that the motivations of those in charge of the Porfiriato were more complex than one is likely to assume.

Recent research has explored the limitations of big theories in the study of Mexican economic history. For instance, Passananti (2008) shows that the Porfirian state prevent rent-seeking in the domestic banking sector in the 1890s, limiting the privileges that had been granted to the semi-official Banamex in the previous decade. His findings are at odds with the work by Haber (2008) and Maurer (2002), who stress the impacts of the moral hazard problems created by that bank. On the other hand, Riguzzi (2009) shows how a series of reforms put in place during the Porfiriato followed nationalist lines, aiming the promotion of growth and industrialisation rather than the “modernisation subordinated to the demands of the international division of labour or imperialism.”<sup>2</sup>

Nevertheless, not much has been research on a crucial feature of the heydays of the Porfiriato: foreign borrowing. According to Riguzzi: “we appear to lack an analytical reconstruction of Mexico’s debt and credit performance that would place its experience on the map of international financial relations.”<sup>3</sup> This is striking given that the research of foreign finance is particularly pertinent to assess the effects of rent-

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<sup>2</sup> Riguzzi (2009, p. 348).

<sup>3</sup> Ibid, p. 365.

seeking and imperialism; one would expect that the negotiations on borrowing funds and conditions, most often very secretive businesses, would be the perfect environment for corruption and collusion between foreign capitalist and high officials. If a research can show that these glitches did not compromise the national interests in such a special setting, it should be asked to which extent they happened at all elsewhere – there is, whether the views from the *Dependentistas* and new-institutionalists are applicable. Marichal and Ludlow are the founding fathers of the finance history of the Porfiriato, but their work is limited to the turbulent 1880s, when the still uncreditworthy Mexico attempted to return to the world markets, after decades of defaults and embargos.<sup>4</sup> Only Passananti (2006) has studied the loans of the 1900s, although reaching conclusions that this paper will prove misleading - that the state failed to force foreign creditors to compete.

The starting point of this work is that the three Mexican loans of the late Porfiriato were issued at a risk premium below the Mexican risk, as shown in Table 1. In other words, the underwriters agreed to launch new bonds at a return lower than what they could have got from the bonds already floating on the secondary market. These operations were unusual, inconsistent with the Initial Public Offering condition, according to which new bonds should yield higher return than old one in order to compensate seniority.<sup>5</sup>

**Table 1**  
**Mexican Sovereign Loans, 1899-1913**

Loans	Underwriters	Amount (£ million)	Risk Premium	Mexican Risk
1899 5%	Bleichroeder, Deutche, Dresdner (Germany) JP Morgan (USA), JS Morgan (UK), Banamex	22,7	2,73%	3,22%
1904 4%	Speyers Co (USA), Speyers Brothers (UK) Harvey Fisk (USA), T. Matos (Holland)	8,2	1,46%	1,97%
1910 4%	Bleichroeder, Deutche, Dresdner (Germany) Morgan Grenfell (UK) JP Morgan (USA), Paribas C. Lyonnais, S. Générale, C. National (France)	22,2	1,21%	1,66%

*Source: Leyes y Disposiciones Relacionadas con la Deuda Exterior de México, BNM.*

The government managed to borrow cheaply not only because of its recently-acquired creditworthiness, based on economic growth and sound policies, but mainly because of the success of Limantour and his collaborators in forcing different syndicates to compete. Instead of following the gradual fall in Mexican risk, the negotiators jumped

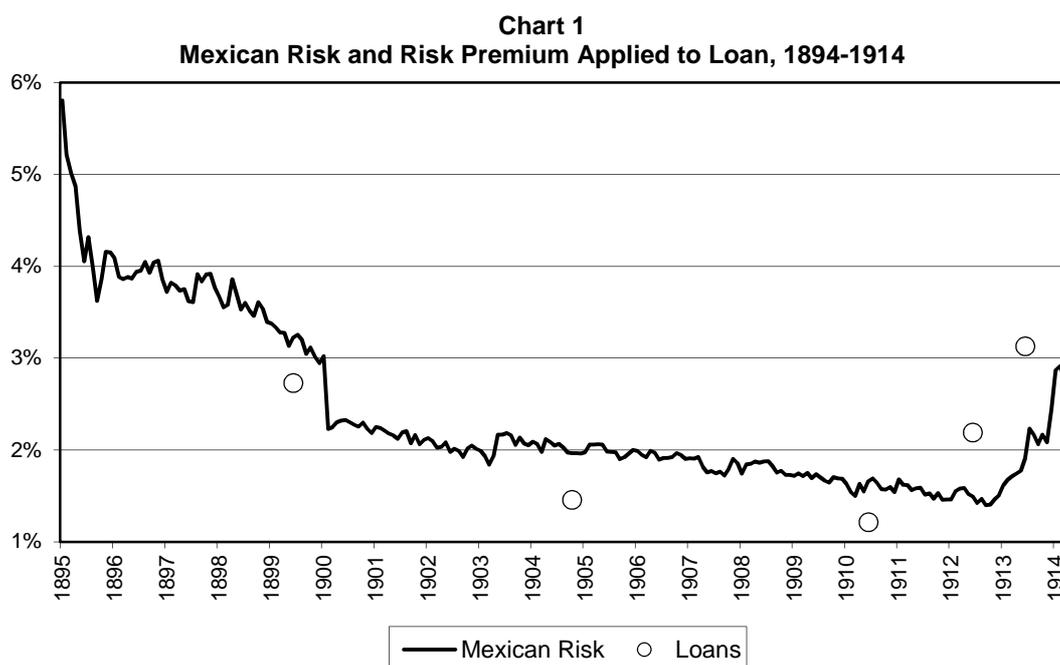
<sup>4</sup> See Marichal (1993), Ludlow (1988), and Marichal and Ludlow (2004).

<sup>5</sup> See Miller and Reilly (1987).

ahead the market, pressuring foreign banks to underwrite and take disproportionately cheap bonds. The paper is divided into three sections. Section 2 provides an overview of the Mexican economy in period and analyses how foreign contemporaries perceived it. Section 3 is on the negotiations that led to the 1899 loan, and Section 4 is on the operations launched in the 1900s.

## 2 –Porfirian Peace, trade boom and sound fiscal policy

Peace and progress enabled Mexico to borrow at disproportionately good conditions in the turn of the Twenty Century. However, this achievement was not automatic. As will become clear in this paper, the Mexican state speeded up the process through which the country became creditworthy, making foreign banks issue new bonds below Mexican risk, as shown in Chart 1. Differently from the lending performed in early 1910s, in the early stage of the Revolution, Mexican risk fell almost continuously between mid-1890s and 1910 and the country managed to borrow abroad at even lower rates.



*Sources: Calculated from The Investor's Monthly Manual, and Colección de Leyes y Disposiciones Relacionadas con la Deuda Exterior de México.*

The graph also shows that Mexican risk was high in 1895, when the country still faced the problems that prevented foreign investors from seeing it as creditworthy. This initial section reviews fiscal and trade results to explain the winding way through which peace delivered economic dynamism and enabled sound economic policy in Mexico. Based on

that, the remaining of the paper shows how debt negotiators reinforced that process, pushing for better credit than the market was apparently ready to provide.

By 1899, when the first loan assessed in this paper was issued, Mexico had already been twenty three years without a single coup d'état. That was a remarkable achievement for a country that had been invaded by France, Britain and Spain, ruled by an foreign emperor (Maximilian in the 1860s) and forced to hand about half of its territory to the USA. On average, a new government took office every ten months between independence and 1876, when Porfirio Díaz became the president, unsurprisingly through a coup. The initial consequences of peace started to appear in the 1880s, when a semi-official bank was established, the Banamex, and the state resumed borrowing abroad after six decades of financial isolation. The government used the credit from Banamex and European markets to subsidise the construction of railway lines, expanding the rather small system almost five fold during that decade.<sup>6</sup>

However, it took longer for the Porfiriato to definitely change the image of Mexico among international investors; it was only in the following decade that it became treated as a respected borrower instead of potential trouble. During the 1880s, railways subsidisation caused a persistent state of fiscal crisis - the government permanently ran fiscal deficit, on average at 16% of the tax revenue.<sup>7</sup> As a consequence, it only managed to borrow abroad expensively: the average risk premium of the loans issued between 1888 and 1893 was 4.85%, against 1.80% from 1899 and 1910.<sup>8</sup> Another source of trouble was the dependence on silver, which remained the major staple commodity since colonial times. Until the 1890s, Mexico exported more silver than anything else and always ran trade deficit in merchandise trade – that is, excluding precious metals. The currency was pegged to the metal, and therefore the capacity to pay foreign obligations (denominated in currencies on gold) depended on the silver price. That was bad news in the early 1890s, when the USA quit the bimetal for the gold standard and the value of silver fell from a peak of US\$ 1,17 to US\$0,60 per once between 1890 and 1804, not to recover again.<sup>9</sup>

Mexico only started becoming a creditworthy country when silver prices stabilised, in mid-1890s: besides political stability, it started to enjoy economic growth

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<sup>6</sup> Coatsworth (1981).

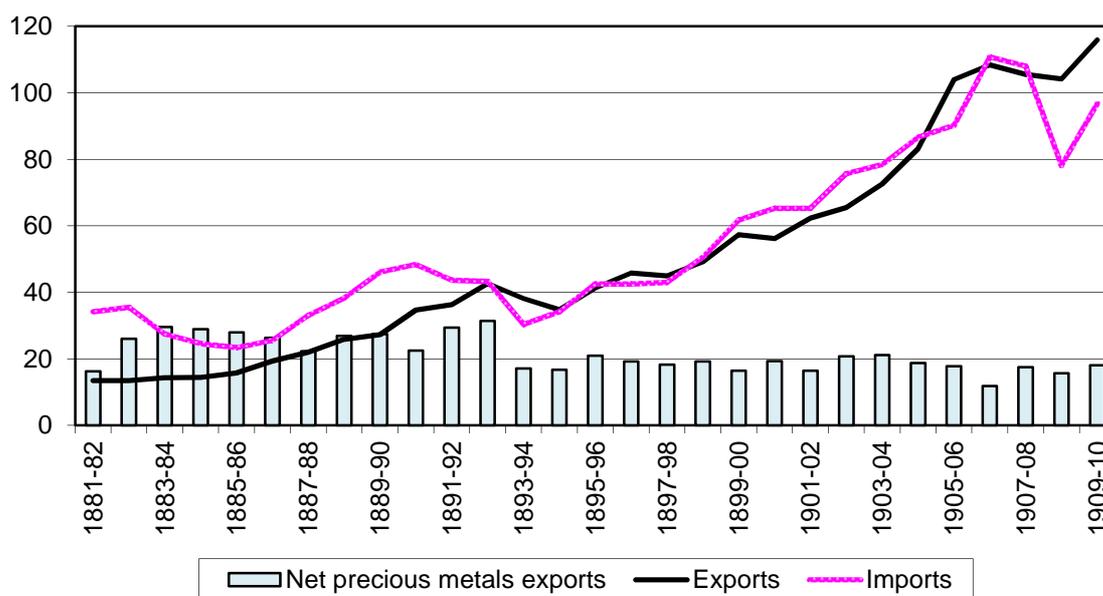
<sup>7</sup> Estadísticas Históricas de México (2000, p. 627).

<sup>8</sup> Calculated from *The Investor's Monthly Manual, and Colección de Leyes y Disposiciones Relacionadas con la Deuda Exterior de México*. Maurer and Gomberg (2004, p. 1091) refer to the fiscal implications of railways as a “catch-22”. See also Marichal (1993, p. 422).

<sup>9</sup> *Global Financial Data*.

and progressively sounder fiscal policy. Foreign trade was a major source of growth, as the country was particularly well positioned to exploit the effects of the weak exchange rate. High tariffs protected the domestic markets from imported goods, especially in rural areas.<sup>10</sup> Wide land privatisation programmes dissolved indigenous communities and created an elastic labour supply, keeping wages low. The inflationary impact of the nominal exchange depreciation was therefore limited, allowing the real exchange rate to depreciate as well, which, together with a more developed railway system, conditioned an export boom. Merchandise exports increased 8% per year between 1893 and 1910, one of the ten highest rates in the world.<sup>11</sup> As shown in Graph 2, the exports of precious metals remained stable, and hence foreign trade not only grew but also became more diversified and less dependent on the depressed silver market.

**Chart 2**  
**Mexico: Merchandise Trade and Net Exports of Precious Metals, 1881-1915**  
(million USA dollars)



Source: Ficker (2002, pp. 249-250).

Institutional changes also accounted for the rise in exports. By 1896, the federal government had completely abolished local taxes on domestic trade, the *alcabalas*, in spite of the resistance from provincial leaders. A long dated priority of the Diaz regime, the end of that old duty was a definitive proof of state capacity with direct implications in economic activity: it lowered transportation costs and increased both foreign and domestic trade.<sup>12</sup> Even though there is no precise figure on the latter, the influence of

<sup>10</sup> Zabudovsky (1992, pp. 296-218).

<sup>11</sup> Catão (1998, p. 59).

<sup>12</sup> Carmagnani (1994, p. 91) and Passananti (2009, p. 9).

the end of the *alcabalas* is clear from the financial results of the two major railway lines, the Nacional and the Central. Adjusting for the size of the railway system, the gross revenue of these two companies increased respectively 3% and 1% per year between 1889 and 1896 (the period for which consistent data is available), and 29% and 18% in 1897, when Mexico was finally free from the *alcabala*.<sup>13</sup> Not surprisingly, the British *Diplomatic and Consular Report* of 1897 presented “the great improvement in the traffic receipts of the railways, especially from local business” as “the best indications of the general prosperity of the country”.<sup>14</sup> Similarly, *The Economist* published that “the industrial progress of the country, during the mild dictatorship of President Diaz, has been so marked that in effect it has more than counterbalanced the influence of the fall in the value of the white metal.”<sup>15</sup>

Nevertheless, the most celebrated feature of Mexico among foreign observers was the improvement in fiscal policy. *The Economist* highlighted that “the position attained by Mexican Government finance in recent years (...) is a very creditable one, especially considering that it has been reached in face of considerable and unavoidable difficulties.”<sup>16</sup> *The Times* reported that the “favourable condition of the revenue was mainly due to the increasing yield of the stamp tax.”<sup>17</sup> Both newspapers referred to the rise in tax revenue in spite of the stagnation of imports, and thus custom collection, a consequence of the exchange rate depreciation. According to the data published by the Mexican government at the time, custom revenue fell by 33% between 1889-90 and 1894-95 and only surpassed the previous level in 1898-99. Meanwhile, the revenue from taxes charged domestically increased by 103%.<sup>18</sup>

Besides the rise in taxes, *The Economist* welcomed the fact that expenditure did not increase to the same extent, putting an end to a persistent fiscal deficit. This appears in Table 2, which shows official as well as modern reconstructed series. The latter is arguably more accurate given the precarious data collection system of the time, but contemporaries only had access to the former, and therefore to a more optimistic

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<sup>13</sup> Calculated *Diplomatic and Consular Report* (1898, p. 14) and Coatsworth (1981).

<sup>14</sup> *Diplomatic and Consular Reports* (n. 2184, 1898, p. 4).

<sup>15</sup> *The Economist* (vol. 57, issue 2922, 26th August, 1899, p. 1218).

<sup>16</sup> *The Economist*, (26th March, 1898, p. 407).

<sup>17</sup> *The Times* (issue 35313 (20th September, 1897, p. 4).

<sup>18</sup> Calculated from *Cuentas del Tesoro Federal*, several years.

picture.<sup>19</sup> In spite of the differences, both sources confirm the rise in taxation in the second half of the 1890s and the overall improvement in fiscal results.

**Table 2**  
**Mexico: Federal Tax Revenue and Expenditure, 1891-1910**  
(million Mexican pesos)

Year	<u>Cuentas del Tesoro</u>			<u>Estadísticas Históricas de México</u>		
	Revenue	Expenditure	Superavit	Revenue	Expenditure	Superavit
1891-92	40,0	43,4	-3,4	37,3	38,3	-1,0
1892-93	38,7	49,0	-10,3	40,0	40,3	-0,3
1893-94	41,2	45,7	-4,5	41,3	44,6	-3,3
1894-95	46,9	45,1	1,8	43,0	45,6	-2,6
1895-96	51,2	45,1	6,1	-	-	-
1896-97	52,1	48,4	3,7	46,9	47,0	-0,1
1897-98	53,3	51,8	1,5	46,5	51,0	-4,5
1898-99	60,7	53,5	7,2	52,0	53,0	-1,0
1899-00	64,3	57,9	6,3	55,0	56,0	-1,0
1900-01	63,0	59,4	3,6	58,2	59,0	-0,8
1901-02	66,1	63,1	3,1	62,5	62,0	0,5
1902-03	76,0	68,2	7,8	70,0	65,0	5,0
1903-04	86,5	76,4	10,1	80,0	75,0	5,0
1904-05	92,1	79,2	12,9	85,0	81,0	4,0
1905-06	102,0	79,5	22,5	90,0	86,0	4,0
1906-07	114,3	85,1	29,2	95,0	91,0	4,0
1907-08	111,8	93,2	18,6	103,3	97,0	6,3
1908-09	98,8	93,0	5,8	103,3	104,0	-0,7
1909-10	106,3	95,0	11,3	98,0	98,0	0,0

Sources: *Cuentas del Tesoro Federal and Estadísticas Históricas de México* (vol. 2, 2000, p. 627).

Above all ministerial budgets, those from the Army and the Navy were the most affected by this fiscal retrenchment. In proportion to tax collection, the expenditure in defence decreased almost continuously after 1892-93, falling from 33% to 17% until 1908-09, just before the beginning of the Revolution.<sup>20</sup> This reduction was conditioned by a group of policymakers and politicians known as the *científicos*, which became influent during the 1890s. Inspired by positivist ideas, they defended capital internationalization and sound economic policy as the drivers of development, clashing with traditional forces originated from the wars and revolutions of the pre-Porfiriato period, strong in the army and close to Porfirio Díaz himself. The most influential *científico* was the finance minister Limantour, no doubt *the* policymaker of the last two

<sup>19</sup> The relevance of the *Estadísticas Históricas de México* as an attempt to provide more accurate fiscal series is clear from this comparison. It is arguable a progress in relation to the *Estadísticas Económicas del Porfiriato*, from 1960, whose series are very similar to the primary data published in *Cuentas del Tesoro Federal*.

<sup>20</sup> Calculated from *Cuentas del Tesoro Federal and Estadísticas Históricas de México*.

decades of the Porfiriato.<sup>21</sup> Besides improving fiscal results, Limantour launched several reforms on trade tariffs and railways in order to develop Mexico's industry.<sup>22</sup> This paper is on an understudied and surprisingly efficacious role played by the minister: the negotiation of sovereign loans, which he concentrated in the period. As will become clear in the next sections, Limantour was very successful in negotiating loans.

### **3 – Creditworthiness, Competition and the 1899 Debt Conversion**

During the second half of the 1890s, foreign observers started to understand that Mexico was a peaceful and dynamic country with a government committed to sound fiscal policy. Mexican risk fell considerably, and as bonds approached the full face value on the secondary market, a conversion of the 6% debt contracted between 1888 and 1893 into new 5% bonds became feasible. It remained an open question what rate the new bonds were going to be issued. More than a simple swap of expensive into cheaper bonds, the operation turned out to be a great accomplishment for Mexico: it was underwritten by a wide group of banks from both Europe and the USA at a disproportionally low risk premium. This section shows that these conditions would not have been so good had the Mexican negotiators not promoted competition between the candidate underwriters, before forcing them to join into a single syndicate.

The talks on debt conversion started just after the end of the silver crisis, in 1895. The recently appointed finance minister Limantour received a letter from Camacho, Mexico's finance agent in Europe, on a conversation held with Cassel, a financier based in London. Cassel expressed the interest of a close associate, the Berlin banker Bleichroeder, of launching the conversion as soon as the price of Mexican bonds reached 98% of the face value, which happened in 1897. Camacho suggested the inclusion of the "Paris market in order to balance the power that the house S. Bleichroeder had gained over the country's credit."<sup>23</sup> Bleichroeder had so far played a key role in Mexican sovereign borrowing, including the coordination of the syndicate in charge of the first Mexican sovereign loan of the Porfiriato, in 1888. Mexico had been its grand debut in international finance, and Bleichroeder attempted to become the country's patron bank.<sup>24</sup> However, the government never granted the monopoly on debt

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<sup>21</sup> Priego (2007, p. 47-49)

<sup>22</sup> See Riguzzi (2009, p. 355).

<sup>23</sup> AJYL, Camacho to Limantour, 28th September, 1895, 1st serie, roll 3, n. 2578.

<sup>24</sup> *HBSBL*, Bleichroeder Collection, Carton 1.6, *Vertrag Tehuantepec Vorschufs-Geschafs*, 1893.

underwriting: in 1889, just after contracting its first loan with Bleichroeder, it issued another operation with a difference syndicate, composed by the also German Dresdner and Seligman. By late 1890s, the Porfirian state still rejected being dependent on a single bank, persisting in a position that was going to settle its approach to loan negotiations for many years.

Limantour agreed with Camacho on limiting the influence of Bleichroeder and established a target for the conversion: interests at 5% and discount rate between 95% and 96%.<sup>25</sup> The minister then started to contact the French market, which was carried out through Noetzlin, a Swiss financier based in Paris who had been doing business with the Mexican state since the early 1880s, when it negotiated the creation of Banamex.<sup>26</sup> Noetzlin was losing influence over that bank, accordingly to Passananti (2008) because of the government's strategy of making its Mexican board independent from the directors in Paris.<sup>27</sup> Perhaps for that reason, Noetzlin was keen to expand his businesses and intermediate a Mexican loan in Paris, which he attempted to do until the end of the Porfiriato. Consequently, "all the large French banks are practically dependent on Noetzlin with respect to Mexican business," to use the words of Limantour.<sup>28</sup>

However, the French market was closed to Mexico because of bonds that had been issued during the French occupation of the early 1860s and defaulted just afterwards. Many high officials of the Porfiriato, including Díaz, had fought in the war against the occupation, and hence the Porfirian state was committed to the ideas of sovereignty and independence forged in that struggle.<sup>29</sup> The *petit bleu*, as those bonds were called, became a symbol of foreign intervention. In spite of that, Mexico needed an agreement on that sensitive issue if it was to balance the influence of Bleichroeder by accessing the Parisian market. To make matters worse, the French government rather than an association of investors was in charge of the financial blockage, and negotiators needed to deal not only with the bondholders but also with high officials in Paris.<sup>30</sup> In spite of these difficulties, Limantour and Noetzlin showed an apparent goodwill in letters exchanged between 1896 and 1897. The minister offered the purchase of rifles

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<sup>25</sup> AJYL, Limantour to Camacho, 12th February, 1896, 1st series, roll 3, n. 2271.

<sup>26</sup> Marichal and Riguzzi (2006, p. 219-220).

<sup>27</sup> Passananti (2008, pp. 20-21)

<sup>28</sup> AJYL, Limantour to James Speyer, 6<sup>th</sup> June 1908, 2nd serie, roll 50, n. 9.

<sup>29</sup> Weiner (2000).

<sup>30</sup> Topik (1893, pp. 47-49).

and gunboats from France in exchange for the suspension of the *petit bleu*.<sup>31</sup> When the France issued a quote, though, Limantour considered the price too high.<sup>32</sup> A year later, the minister halted talks, classifying the issuing of Mexican bonds in Paris “premature.”<sup>33</sup> Topik (2000) points out that the military business was deliberately designed to prevent any arrangement on the *petit bleu*, as the Mexican army preferred German rather than French armament.<sup>34</sup> In fact, Mexico bought six thousand rifles from Germany just afterwards, in late 1897.<sup>35</sup>

The talks held with Noetzlin seem to have been a strategic bluff that provided Mexico with leverage when bargaining with competing syndicates, such as Bleichroeder. In a letter sent to Limantour in August 1896, Camacho communicated that the banker proposed to convert the 6% bonds at a rate around 90% and 92%. He understood that such “immoral” deal would enable Bleichroeder to hold the bonds and sell them later at much higher price.<sup>36</sup> The minister then set a very clear strategy: buying time. By 1897, both government and banks expected that Mexican bonds would reach par in the near future. As long as the conversion was postponed, the government was going to capture a share of the profit that the underwriters expected to earn with price differences.<sup>37</sup> The Mexicans waited for two years, during which Camacho carried on classifying the conditions offered by the German banker as “too onerous to be accepted.”<sup>38</sup>

While the conversion did not happen, Limantour searched for ways to reduce the cost of serving the sovereign debt. For instance, he intended to abolish the “reserve deposit,” which consisted in a share of the revenue from the 1888 and 1893 loans that Bleichroeder retained in order to guarantee service payments. Camacho first argued that the 3% interest rate paid on the deposit was too low and refused to continue paying the deposit, to which the bank took no action, recognising that the improvement in payment

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<sup>31</sup> The proposal was considered “the most eloquent compensation the French government could ask to help to open up the market in Paris.” AJYL, Limantour to Noetzlin, 26th of May, 1897, 1st series, roll 8, n. 55.

<sup>32</sup> AJYL, Limantour to Noetzlin, 26th of May, 1897, 1st series, roll 8, n. 55.

<sup>33</sup> AJYL, Limantour to Noetzlin, 1st July, 1898, 1st series, roll 8, n. 57.

<sup>34</sup> Topik (2000), pp. 730-732).

<sup>35</sup> AJYL, Limantour to Próspero Gloner (Mexican representant in Berlin), 22<sup>nd</sup> October, 1897, 1st series, roll 8, n. 6128.

<sup>36</sup> AJYL, Camacho to Limantour, 16th August, 1896, 1st series, roll 3, n. 2275.

<sup>37</sup> This appears in a letter sent from Camacho to Limantour on the 9<sup>th</sup> of March, 1896. AJYL, 1st series, roll 3, n. 2501.

<sup>38</sup> AJYL, Camacho to Limantour, 16th December, 1896, 1st series, roll 3, n. 12286.

capacity had reduced the risk of default considerably.<sup>39</sup> Camacho also wanted to exclude any claims on reserve deposits from the debt conversion that Mexico was planning to launch. This was the subject of talks with Cassel, who defended the deposit as it would help the market to absorb the bonds.<sup>40</sup> The deposit requirement was maintained when the conversion was launched, but the government was given the right to withdraw the funds in February 1902. Forcing Bleichroeder to lose some profit from Mexican loans was indeed a success, which Camacho classified as “not bad after all.”<sup>41</sup>

The government also held talks on deposits and lending conditions with Dresdner, the underwriter of a loan issued in 1889 at 5% interests and guaranteed by the revenue of the Tehuantepec railway company.<sup>42</sup> Given that lower rate of interest and the guarantees, it would not have been sensible to convert the 1889 bonds at par into new 5% bonds. Dresdner proposed to deal with the 1889 bonds in a separate operation, in which the debt would be converted into 4%, floated at 80%.<sup>43</sup> The government classified the proposal “too onerous to be accepted,” and negotiations stopped in the following year.<sup>44</sup> Dresdner eventually agreed to convert the bonds into new 5% securities that would not have any special guarantees. Limantour was satisfied with the offer and suggested, in 1897, the inclusion of Dresdner in the syndicate headed by Bleichroeder.<sup>45</sup>

The two years that preceded the 1899 conversion were crucial for the success of Mexico in forcing the underwriters to accept the targets established three years earlier: 5% interest and a minimum 95% discount. With the French market closed, Limantour searched for alternative creditors such as the London Rothschilds, who he informally contacted in 1897 through Pearson, the contractor in charge of building the Tehuantepec railway and a port in Veracruz. Carl Meyer, one of the owners of that bank, showed no interest “at present,” but acknowledged that Mexico “was a coming country.” He presented the crisis in its major client Brazil as an excuse.<sup>46</sup> The Mexicans then moved

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<sup>39</sup> AJYL, Camacho to Limantour, 17th May, 1896, 1st series, roll 3, n. 2512; and Camacho to Limantour, 30th December, 1896, 1st series, roll 3, n. 2609.

<sup>40</sup> AJYL, Camacho to Limantour, 17th of May, 1895, 1st series, roll 3, n. 2512; and 8th of July, 1896, 1st series, roll 3, n. 2528.

<sup>41</sup> AJYL, Camacho to Limantour, 31st August, 1900, 2nd series, roll 2, n. 8. In the original: “el tipo de 3 ½, después de todo, no es malo.” Details of the reserve deposit also appears in a letter from Camacho to Limantour, 31st August, 1900, 31st March, 1902, 2nd series, roll 13, n. 8.

<sup>42</sup> BNM, Colección de Leyes y Disposiciones Relacionadas con la Deuda Exterior de México, p. 313, n. 972.09:35/727(003).

<sup>43</sup> AJYL, Dresdner Bank to Camacho, 12th of March, 1897, 1st series, roll 3, n. 2639.

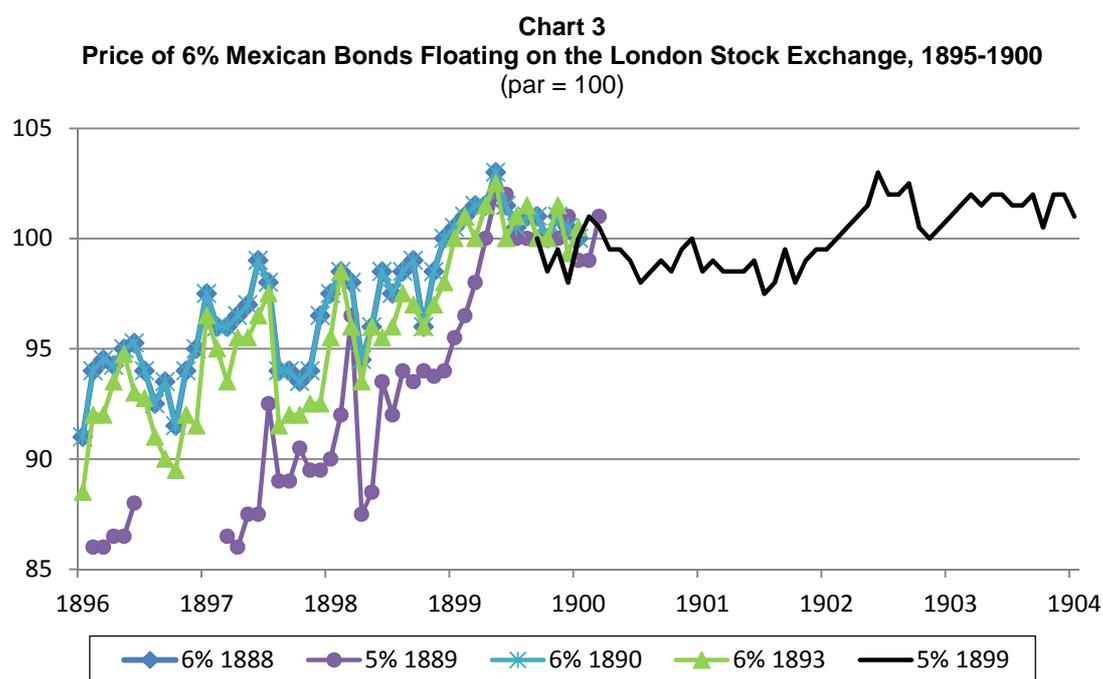
<sup>44</sup> AJYL, Camacho to Limantour, 16th of December, 1896, 1st series, roll 3, n. 2286. In the original: “demasiado onerosas para poder el Gobierno aceptarlas.”

<sup>45</sup> AJYL, Camacho to Limantour, 7th April, 1897, 1st series, roll 3, n. 2641.

<sup>46</sup> AJYL, Pearson to Limantour, 4th June, 1897, 1st series, roll 11, n. 2664.

on to the other capital market available other than Berlin, Paris and London: the rising but still insipient New York. This first appears in the correspondence between Limantour and the US consul in Mexico, Andrew Barlow, in which they exchange views on the New York Exchange.<sup>47</sup> A few months later, in early 1899, the minister departed on a journey to the USA and Europe.

Although publicly presented as part of a medical treatment, the trip was marked by intense negotiation on debt conversion.<sup>48</sup> Furthermore, it did not happen at a random time: the Mexican 6% bonds had just surpassed the par, as shown in Char 3, most probably because the market already counted on the conversion and anticipated the purchase of bonds at the full face value. It is clear from the graph that the government was correct in not launching a conversion in the two previous years, when prices fluctuated upward but on average 9% lower than face value. Had Mexico converted the debt back then, it would have enabled the underwriters to acquire a significant profit with the sail of the bonds after 1899, exactly what Chamacho and Limantour wanted to avoid.



Source: Calculated from *The Investor's Monthly Manual*.

The itinerary of the journey seems to have been deliberately arranged as well, allowing the minister to use eventual offers from banks in the USA as a bargain tool

<sup>47</sup> AJYL, Andrew Barlow (US consul in Mexico) to Limantour and vice-versa, 4th and the 11th October, 1898, 1st series, roll 2, n. 14479.

<sup>48</sup> AJYL, Camacho to Limantour, 26th of May, 1899, 1st series, roll 3, n 2301.

when dealing with the Europeans. JP Morgan and City Bank formed a syndicate to compete with Bleichroeder and presented a deal that included interests at 4% rather than 5%.<sup>49</sup> Porfirio Díaz welcomed the positive result and hoped that the Europeans “would not differ much from the average level until now established by the Americans.”<sup>50</sup> Camacho also congratulated Limantour, saying that “the American proposal surprised (the European banks) and will certainly force them to be more reasonable in their new proposals.”<sup>51</sup> Once in Europe, the minister used the American offer to force Bleichroeder to increase the proposed face value from the initial 90-92% to 96%, precisely at the upper bound of the target Limantour had established two years earlier.<sup>52</sup>

A possible flaw in this conclusion is that Bleichroeder raised the issuing price because of the increasing quotes of the 6% bonds, rather than the pressure from the Mexican negotiators. This point fails to acknowledge that, when talks started, in 1896, the banks and officials expected that the price of the bonds would rise after the conversion was launched. Thus, both sides compared the issuing discount with the higher price they were assumed to reach in the near future, instead of the (lower) price of the 6% bonds verified during the negotiations. The Mexicans wanted to limit such margin as much as possible, squeezing the profit the underwriters were going to have by holding the bonds. Data on the secondary market shows that they were successful. Had Mexico accepted the 1896 offer, Bleichroeder would have underwritten the entire loan at a discount around 91%, whilst it actually turned out in charge of 40.4% of the bonds at 96%.<sup>53</sup> Unfortunately, there is no data on when that house sold the bonds (a consequence of the fire that destroyed most of its archive). Assuming that it happened in the following year, Bleichroeder would have had a profit of £313 thousand – the difference between the average price for 1900 and the issuing price times the amount of bonds underwritten by the bank. That is the equivalent of only 0.75% of the tax revenue of 1899-00. The figure increases to £3.40 million if the 1896 terms are considered; discounting the British console (the benchmark of the time) in order to compensate for the opportunity cost of holding the bonds during those years, the profit would have been

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<sup>49</sup> AJYL, Camacho to Díaz, 26th May, 1899, 1st series, roll 3, n. 2301.

<sup>50</sup> AJYL Díaz to Limantour, 12th of May, 1899, 1st series, roll 5, n. 4707. In the original: “ojalá y los de Allá, no disten mucho del nivel medio que hasta hoy establecen los americanos en cuanto á tipos.”

<sup>51</sup> AJYL, Camacho to Díaz, 26th May, 1899, 1st series, roll 3, n. 2301. In the original: “La oferta americana (...) los ha sorprendido y los obligará sin duda a ser más razonables en sus nuevas proposiciones.”

<sup>52</sup> AJYL, Camacho to Limantour, 24th October, 1898, 1st series, roll 3, n. 2298.

<sup>53</sup> *BNM, Colección de Leyes y Disposiciones Relacionadas con la Deuda Exterior de México*. n. 972.09:35/727(003), p. 19.

£3.04 million, or 55.70% of tax revenue. This comparison has similar results even if the sale happened in the best year for the underwriter – 1902, when the 1899 bonds were continuously quoted above par for the first time. The profits according to the actual contract (discounting for time as above) increases to of 7.80% of the 1899-00 tax revenue, but the counterfactual profit would have been nothing less than 60,44%.<sup>54</sup>

In spite of such strong approach when dealing with Bleichroeder, Mexico preferred to float bonds in Europe. That is why the minister turned down the offer from Bleichroeder rather than JP Morgan and City Bank in spite of its better conditions. The influence of the USA was a quickly growing in the Mexican economy, and the government was eager to balance it with European capital. According to Wainer, those ahead the Porfirian state perceived the northern neighbour as the main threat to national sovereignty. The Spanish-American war in the previous year was an early sign of the US imperialism in the Caribbean, and the memories of the massive territorial losses in the 1840s were still vivid.<sup>55</sup> A wide debt conversion in New York would have turned the Mexican sovereign debt into a Wall Street business and, in the words of Camacho, “it would not be convenient for the Mexican government if Europe lost completely her interest in the country’s public securities.”<sup>56</sup>

At the same time he settled the best deal possible with the Europeans, though, Limantour wanted to include the Americans in the syndicate in order to open an alternative source of credit, a key tool to balance the influence of Bleichroeder in the future. This conclusion is at odds with Passananti (2006), according to whom Mexico failed to force the underwriters to compete. The author claims that Bleichroeder invited JP Morgan and Dresdner Bank to join the syndicate, and therefore the banks cooperated rather than contended.<sup>57</sup> However, evidence shows that the minister proposed the inclusion of Dresdner in the syndicate, and that he was actually afraid that the German banker would not agree.<sup>58</sup> Although no primary material has been found showing the same for JP Morgan, the correspondence with the bank indicates that the Mexicans were interested in deepening their relations with an US bank. After the debt conversion, Limantour requested updates on prices and general informs on Wall Street market, which JP Morgan sent to Mexico City every two weeks. The minister explained that

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<sup>54</sup> Calculated from the prices quoted by *The Investor’s monthly Manual*, plotted in Chart 3.

<sup>55</sup> Wainer (2000, p. 668). Likewise, Riguzzi (2008, p. 363) argues that the government favoured the investment of British capital in railways to balance the influence of US companies in the sector.

<sup>56</sup> AJYL, Camacho to Limantour, 26th of May, 1899, 1st series, roll 3, n. 2301.

<sup>57</sup> Passananti (2006).

<sup>58</sup> AJYL, Camacho to Limantour, 7th April, 1897, 1st series, roll 3, n. 2641.

“every day our government’s interests in the American markets” and “the transactions of bounds that may happen between Europe and the USA.”<sup>59</sup> Instead of being an agreement against Mexico’s interests, the inclusion of JP Morgan in the 1899 syndicate facilitated the continuation of Mexico’s strategy of using Wall Street to deal with the Europeans, with remarkable results in the 1900s.

#### **4 – Stretching the Borrowing Boundaries: the 1904 and 1910 Loans**

The 1900s is the golden age of the Porfiriato as far as sovereign borrowing is concerned. Mexico diversified credit sources with the issuing of two loans in new markets: New York and Paris. Once more, Limantour fostered competition and made underwriters float bonds at risk premiums below Mexican risk. These operations involved two newcomers in Mexican finance: the French Paribas and the British-American Speyers, whose growing relations with the government effectively reduced Bleichroeder influence, a goal established by Camacho and Limantour back in the 1890s.<sup>60</sup>

Paribas started its business in Mexico because of Noetzlin, who was a member of its board of directors and strongly recommended investment in the country.<sup>61</sup> Following that, the bank founded the Société Financière pour l’Industrie au México in 1900, invested £58,938 in Banamex in 1901, and underwrote notes of the Ferrocarril Mexicano two years later.<sup>62</sup> Similarly, Speyer underwrote notes of the Ferrocarril Nacional in 1901 and 1903, over which it became influential enough to determine the name of its top managers.<sup>63</sup> It also participated in the issuing of shares of the Ferrocarril Interoceánico, in 1904.<sup>64</sup> Those operations were part of a wide programme of railway nationalisation, designed to revoke contracts dating back from the 1880s that obliged the government to guarantee the profitability of the sector, which had caused a fiscal crisis in the 1880s. Meanwhile, the government refused an offer of a £5 million loan from Bleichroeder and Dresdner, presented in 1903 to help the government to launch the second major reform of those years, the adoption of the gold standard.<sup>65</sup> The change of monetary pattern became a priority in 1903, when silver prices reached a record low

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<sup>59</sup> AJYL, Limantour to JP Morgan, 26th February 1901, Libros Copiadores, n. 7.

<sup>60</sup> See page???

<sup>61</sup> AHP, Noetzlin to Thors (Paribas), 13th September, 1899, 11/DFOM-221/1138.

<sup>62</sup> AHP, 11/DFOM-221/250, 11/DFOM-221/1091, Bilan General, 1899-1901.

<sup>63</sup> AJYL, Speyer to Limanour, 30th November, 1904, Roll 26, n. 11, and Limatour to Speyer, 1st February, 1904, Roll 26, n. 11.

<sup>64</sup> AJYL, Speyer to Limantour, 23rd April, 1904, Roll 26, n. 11.

<sup>65</sup> BCOL, A. Gwinner (Deutsche Bank) to Limantour, 10th January, 1903, and Limantour to A. Gwinner, 2nd February, 1903, C. 1.10, 1910 Loan Folder.

and countries on that metal, including China and of course Mexico, agreed to peg their currencies to gold.<sup>66</sup> Mexico ended up going on gold in 1906 without the direct support of foreign borrowing.<sup>67</sup>

At the same time Limantour turned out the offer from Bleichroeder, he started negotiations with Paribas and Speyers on what became a large loan designed to settle the finance the railway nationalisation programme. In 1903, Noetzlin sent a letter to the minister on behalf of Paribas, describing the possibility of floating a 4% loan in both Paris and New York. Paribas would have been in charge of the Paris market and a New York partner, Kuhn Loeb, would have done it in Wall Street.<sup>68</sup> Even though the programme involved a massive purchase of railways shares in the USA, Noetzlin presented the deal as an opportunity for a debt settlement in France. Nevertheless, he failed to propose an appealing deal: the operation would include the issue of 125 million francs (the equivalent of £5 million), of which Mexico would receive only 77.5% after the redemption of the *petit bleu*, which Noetzlin estimated to be 3 million francs. There is no data on commission and discount rate, but assuming that the former was set at 1% (the rate charged on the 1899 loan), it follows that the latter would have been 80%. Noetzlin proposed a 40 years maturity, which results in a 2.15% risk premium, well above the current Mexican risk of 1.84%.<sup>69</sup>

Limantour classified the offer as “impracticable” and characterized the cost of re-opening the French market as “exorbitant.” He complained about “the parsimony with which Noetzlin regards the possible value of Mexican bonds.” However, the minister welcomed new proposals as long as they included “much better prices” and an “important reduction in expenditures.”<sup>70</sup> Limantour then informed that “a US bank” was ready to launch a similar loan at 4.5% interest and a 92% discount rate, yielding a risk premium of 1.89%, at the same level of Mexican risk. He carried on arguing that “if the French market appears in such a disadvantageous way, Mexico would definably renounce it.”<sup>71</sup> Noetzlin replied that a “reduction in expenditures would perhaps be possible,” but his proposal would not match the offer from New York, whose stock

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<sup>66</sup> AYL, “Comisión de Câmbios Internacionales de la República Mexicana, 17th June, 1903, series 2, roll 18, n. 8.

<sup>67</sup> For more on the adoption of the gold standard in Mexico, see Stelo (2006).

<sup>68</sup> AHP, Noetzlin to Limantour, 18th March, 1903, 11/DFOM-221/1138.

<sup>69</sup> AHP, Noetzlin to Limantour, 18th March, 1903, 11/DFOM-221/1138. The figures from the letter give a yield to maturity of 5.20%. Discounting the yield on British console for March 1903, the bonds would be floated at a 2.15% risk premium.

<sup>70</sup> AHP, Limantour to Noetzlin, 7th April, 1903, 11/DFOM-221/1138.

<sup>71</sup> Ibidem

market was “not trustworthy” and “full of juvenile spirits.”<sup>72</sup> Once more, the Americans were challenging the European banks, but this time more aggressively than in the 1890s.

The minister did not rush to reach a deal, explaining that Mexico would “use the best effort” to “obtain from the French Government and Paris Market an official quotation,” which would imply a deal on the *petit bleu*. Speyer regretted such “threats” from the Mexican negotiator and “hope(d) your Government will sell us (the) whole loan.” Nonetheless, the banker “accepted the possibility that you sell a 100,000,000 francs loan to these Paris Bankers (Paribas),” a sacrifice that could be made “in case it is deemed so important to get a Paris quotation now.”<sup>73</sup> The offer was expressive: the amount that would be floated in Paris was equivalent to £4 million, almost half of the loan and well above the funds needed to buy back the *petit bleu*. However, Limantour was not ready to sat a deal, and resumed talks with Noetzlin in April 1904. This time, the financier openly attacked Speyer, who he qualified as “pushing, exigent and perhaps a bit impregnated of petulance.”<sup>74</sup>

By mid-1904, two competing syndicates had been formed in what was already a hostile dispute. The New Yorker Speyer Company invited its two closest European partners, Speyer Brothers, from London, and Teicheira de Mattos, from Amsterdam. On the other side, Noetzlin and Schiff – respectively the negotiators of Paribas and Kun Loeb – invited Bleichroeder,<sup>75</sup> who agreed to join the syndicate as he “did not love Speyer very much.”<sup>76</sup> Noetzlin improved his original proposal in a letter sent in August 1904. The net value the government was going to receive, including the market discount rate and the conversion of the *petit bleu*, was now 83.5% rather than 80%. Limantour demanded a further rise to 86.2%, and the financier confidentially established with his partners a limit of 85%, which served as the reference for the syndicate throughout the negotiations.<sup>77</sup> In October, Speyer agreed to lower the interest rate to 4% and to “pay (Mexico) somewhat more than 83%,” matching the discount rate presented by Noetzlin but compensating with the interests. Nevertheless, the offer did not include any arrangement on the *petit bleu*, which did not fully satisfied Limantour.<sup>78</sup> The negotiation had become public, and *The Mexican Herald*, a newspaper published in the USA and

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<sup>72</sup> AHP, Noetzlin to Limantour, 30th April, 1903, 11/DFOM-221/1138.

<sup>73</sup> AJYL, Speyer to Limantour, 15th October, 1904, roll 26, n. 11.

<sup>74</sup> AHP, Noetzlin to Limantour, 15th April, 1904, 11/DFOM-221/1138.

<sup>75</sup> AHP, Noetzlin to Schiff, 31st August, 1904, 11/DFOM-221/1138.

<sup>76</sup> AHP, Noetzlin to Schiff (Kuhn Loeb), 2nd July, 1904, 11/DFOM-221/1138.

<sup>77</sup> AHP, Projet D'emprunt Mexicain, 11/DFOM-221/1138.

<sup>78</sup> AHP, Speyer to Limantour, 15th October, 1904, 11/DFOM-221/1138.

Europe, reported “an active competition has developed” between “two strong syndicates (that) are competing for the loan.”<sup>79</sup>

Limantour continuously refused the offers presented by Noetzlin as they included the purchase of the *petit bleu* with money from the Treasury. To use his words, the minister considered that the underwriters were supposed to “arrange official quotes on the Paris Stock Exchange for the Mexican public security” and “deliver to the Government the *petit* papers that for so long had been an obstacle or pretext to prevent the admission of such securities.”<sup>80</sup> Putting it differently, Limantour pressured Paribas to “take the entire borrowing, including all expenses and the *petit bleu*.”<sup>81</sup> However, Noetzlin insisted that Mexico rather than the syndicate was supposed to “make a sacrifice to open up Paris.”<sup>82</sup> The talks reached a dead end when the financier declared that the government would be better off issuing the loan sooner rather than later, as “market conditions are good” in 1904. Limantour replied that his government would “take all the risks of a delay if he could not obtain the minimum (price) he demanded.”<sup>83</sup>

In October 1904, after seventeen month of negotiations, the minister proposed the formation of a large syndicate that would include Paribas, Bleichroeder and Speyer.<sup>84</sup> Such proposal reveals Mexico’s strategy of combining European and American banks in order to reach two already outspoken goals: borrow in the larger European markets as cheaply as possible as well as balancing well-established underwriters such as Bleichroeder with latecomers from Wall Street. It is remarkable that Limantour waited for so long to present that idea, indicating that he used the competition between both parts to improve the offers until finally making clear his aim of borrowing on both sides of the Atlantic. Kuhn Loeb refused to share the role of underwriter in New York, but Noetzlin and Bleichroeder accepted the offer as long as the discount rate was 85%.<sup>85</sup>

The final words came from Speyer, who, in order to remain the main underwriter, offered a final and rather generous offer: 4% interests and 89% discount. In addition, the house agreed to “use its best effort” to buy back the *petit bleu* in Paris without charging the government. In spite of the fact that Noetzlin had better

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<sup>79</sup> AHP, Mexican Herald, 16th October, 1904. Projet D’emprunt, Mexicain, 11/DFOM-221/1138.

<sup>80</sup> AHP, Limantour to Noetzlin, 2nd August, 1904, 11/DFOM-221/1138.

<sup>81</sup> AHP, Limantour to Notzlin, 5th September, 1904, 11/DFOM-221/1138.

<sup>82</sup> AHP, Noetzlin to Limantour, 8th September, 1904 11/DFOM-221/1138.

<sup>83</sup> AHP, Moret (Paribas in Mexico) to Noetzlin, 4th October, 1904, 11/DFOM-221/1138.

<sup>84</sup> AHP, Noetzlin to Moret, 6th October, 1904, 11/DFOM-221/1138.

<sup>85</sup> AHP, Noetzlin to Moret, 6th October, 1904, 11/DFOM-221/1138.

connections in the French market, Speyer maintained that it had “as good a chance as others” to bring the embargo on Mexican bonds to an end.<sup>86</sup> The resulting risk premium was striking 1.49%, while Mexico risk was at 1.99%.<sup>87</sup> According to Passananti (2006), Limantour chose to issue the 1904 bonds with Speyer in order to pressure the European banks to offer better deals in the future. The decision would have been part of a long term strategy to reduce borrowing costs.<sup>88</sup> Without contesting the importance of the 1904 loan in future negotiations, evidence shows that Limantour preferred to have a European syndicate since the beginning, as he tried to unite all the banks involved in the competition in a single wide syndicate. At the end, Speyer got the deal simply because it presented an offer that Bleichroeder and Paribas would not match. In order to underwrite the Mexican loan – the first large foreign operation in the history of Wall Street - the bank had to pay an entrance price: a disproportionately low risk premium.

Two questions stand out from these intense negotiations. First, why was Limantour so inflexible in relation to Noetzlin’s offers on the *petit bleu*? Topik (2000) points out that the minister appeared as a natural candidate to replace the aged Díaz as president, even though his French origins and constant contact with foreigners created opposition among more nationalist sectors of the Mexican establishment.<sup>89</sup> Therefore, the tough position on Paribas would have been part of a show designed to balance a venerable feature of his public image. This point is indeed supported by evidence, for Limantour included “personal politics” among the reasons that prevented him from accepting the offers from Noetzlin.<sup>90</sup> Nevertheless, primary sources also indicate another arguably more important reason: the borrowing conditions agreed with Speyer could not be refused. The minister was working in favour of the national finances as a whole rather than merely according to his political career. One may argue that Limantour put so much effort on the 1904 negotiation precisely to increase the chances of replacing Díaz; however, this paper has shown that the minister had been a strong negotiator since the 1890s. His political rise in the 1900s happened because of his services to the Treasury, not at its expenses.

This leads us to our second question: how come Speyer agreed with such good rates? In a way or another, the bankers must have expected to profit from the operation

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<sup>86</sup> AJYL, Speyer to Limantour, 14th October, 1904, roll 26, n. 11.

<sup>87</sup> Calculated from *The Investor Monthly Manual*.

<sup>88</sup> Passananti (2006, p. 198).

<sup>89</sup> Topik (2000, p. 732).

<sup>90</sup> AHP, Moret to Noetzlin, 11th October, 1904, 11/DFOM-221/1138.

in spite of the high discount rate at which the bonds were issued, showing some degree of optimism about the country. However, if optimism was the only reason, the operation frustrated the bank, for Mexican risk only reached the risk premium of the 1904 loan much later, in the following decade and the 1904 bonds never reached par. Another possible motivation could have been the use of funds from the loan to purchase railways shares from US stockholders.<sup>91</sup> Topik (2000) argues that the profitability of such a special role allowed the house to sell the shares to the government above the price quoted on the market, compensating the entry price the bank had to pay to underwrite a large sovereign loan.<sup>92</sup> Without disputing the claim that Speyer may have had secret reasons to launch the 1904 loan, it only offered good issuing conditions, including the redemption of the *petit bleu*, after Limantour threatened to cut a deal with the Europeans, which would have delayed its rise in the vibrant global finance of the *belle époque*. Mexico finally “had the blues,” to use Topik’s words, but only thanks to the remarkable role played by Limantour as a negotiator.<sup>93</sup>

Mexican Risk continued to fall after 1904 – although not as quickly as one would expect from the rate of that year’s loan. By 1909, though, it was below 1.70%, a long way from the 4.24% average of the previous decade.<sup>94</sup> In spite of that, Mexico managed to borrow below the Mexican risk once more in 1910. Again, the already veteran Limantour successfully fostered competition to convert the bonds at a good rate. This time, however, the government preferred to set the deal with a European syndicate headed by Bleichroeder and Paribas. The conversion was launched in 1910, and Mexican bonds were finally issued in Paris.

Speyer was in fact the first to propose a voluntary conversion of the 5% bonds into new 4% ones, already in 1906. The 1899 loan contract prevented the government from converting the bonds at par, but Mexico could still buy back those bonds above it. As the average price of the 1899 bonds was around 104% of par, Speyer would use the resources of a new 4% loan to withdraw the 5% bonds from circulation. Limantour declined the offer, presenting as an excuse the risk that investors could refuse to participate in the operation.<sup>95</sup> Playing hard as usual, he turned down a similar proposal

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<sup>91</sup> AJYL, Speyer and Limantour exchanged vast correspondence on the nationalisation of Mexican railways with the resources raised in the 1904 loan, between December 1904 and February, series 2, roll 26, n. 11; rol 33, rol 12; roll 38, n. 9.

<sup>92</sup> Topik (1993, p. 466).

<sup>93</sup> Topik (2000).

<sup>94</sup> Calculated from *The Investor’s Monthly Manual*, see Chart 1.

<sup>95</sup> AJYL, Limantour to Speyer, 14th February, 1906, series 2, oll 38, n. 9.

three years later, when the operation would no longer be risky.<sup>96</sup> The new bonds would have been issued at 4% interest, 90% discount, and 2.5% commission. There is no clear reason for that refusal apart from the fact that Mexicans did not want to depend too much on Speyer. An alternative but non-excludable explanation was that the minister wanted to buy time, have a proposition from other creditors and play the old game of using the Americans to bargain with the Europeans.

In fact, Limantour characterised Speyer's proposal as premature and pointed out that the government would only agree if "expenses (were) reduced to a minimum."<sup>97</sup> Speyer responded by cutting the commission from 2.5% to 1%, but the government kept refusing the deal.<sup>98</sup> Mexico then received an offer from the syndicate that underwrote the 1899 loan: Bleichroeder, Deutsche Bank, Dresdner Bank, Morgan Grenfell, JP Morgan and Banamex. The creditors would underwrite the conversion bonds at 4.5% interest and 90% discount, but Limantour insisted in setting the interest rate at 4%, claiming that the Mexican press was launching a campaign against the operation and insinuating that the government was not interested in the conversion at all.<sup>99</sup>

In parallel, Noetzlin contacted the minister to attempt (also for the third time in a decade) to issue Mexican bonds in Paris. The financier presented the French market as necessary for the success of the conversion and suggested the introduction of a poll of French banks – Paribas, Crédit Lyonnais, Société Générale and Comtoir National d'Escompte – into the Bleichroeder's syndicate.<sup>100</sup> Limantour replied that he could not force the inclusion of those houses in the syndicate, but that he would "ask too high a price for the new bonds, with which the syndicate will be practically forced (...) to reach an agreement with the major French houses."<sup>101</sup> Limantour was successful, as the French banks ended up participating in the operation.

The conversion was finally carried out at 4% interest, 90% discount and 1.5% commission. There is no doubt that Limantour manoeuvred in order to improve the borrowing conditions, but the commission rate was still higher than the 1% offered by Speyer. This difference supports the claim that the government did prefer to launch the conversion in Europe and was ready to pay a price (although small) for that. A conversion in the USA would have turned the Mexican debt into Speyer business,

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<sup>96</sup> AJYL, James Speyer (Speyer Co.) to Limantour, 9th February 1909, series 2, roll 58, n. 9.

<sup>97</sup> AJYL, Limantour to Speyer Co, 10th February 1909, AJYL, serie 2, roll 58, n. 9.

<sup>98</sup> AJYL, James Speyer (Speyer Co.) to Limantour, 20th February 1909, series 2, roll 58, n. 9.

<sup>99</sup> AJYL, Limantour to Scherer, 16th August, 1909, series 2, roll 60, n. 17.

<sup>100</sup> AJYL, Noetzlin to Limantour, 15th August, 1909, series 2, roll 60, n. 17. May 1910

<sup>101</sup> AJYL, Limantour to Noetzlin, 2nd October, 1909, series 2, roll 60, n. 17.

which was unlikely given Mexico's effort in not depending on a single patron bank, which dated from the 1880s. However, the price to keep credit sources as diversified as possible was not high, considering that the 1910 loan was issued at 1.21%, which makes it the cheapest Mexican loan, at least until recent years.

## **5 - Final Considerations**

General theories are useful in research design, providing insights in the formulation of working hypotheses. However, historians should be able to detach themselves from these pre-conceived views when studying archive documents. This is especially true when the evidences show a story that is surprisingly different from what one would expect. This paper aimed to produce such an evidence-based analysis based on very valuable primary material, which shows how Mexican high officials, and the Finance Minister Limantour in particular, effectively negotiated the Mexican loans of 1899, 1904 and 1910. These operations consisted in a great success for Mexico, as they were floated at risk premiums below the Mexican risk. Instead of only reflecting the improvement in fiscal policy and international trade, the good borrowing conditions were the result of Limantour's ability to exploit the rivalry and differences between competing underwriters, especially the willingness of emergent US banks to replace well-established European underwriters.

These findings may be shocking for those who perceive the dictatorship of Porfirio Díaz as a caricature of a *caudillo* state, ruled in benefit of an oligarchy at the expenses of the nation. The Porfiriato was indeed a repressive regime, but this does not mean that its high officials did not act in order to defend the interest of Mexico, or at least the Mexican Treasury. This paper is also likely to be a surprise for researchers (as well as innumerable members of the general public) who believe that the Porfirian elite was formed by puppets of the international capital, working for imperialistic interests. Instead of that, high officials challenged European and US bankers, achieving very positive results for Mexico. The Porfirian state was much more complex than a simple subservient or hopelessly corrupt institution. As long as foreign borrowing is concerned, it successfully acted along clearly patriotic lines.

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