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# DEFAULT AND ADJUSTMENT OF ARGENTINE FOREIGN DEBTS, 1890-1906

BY

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## FOREWORD

Investigation of the Argentine debt problem of more than a generation ago was undertaken with the idea that there are various aspects of the negotiations in the nineties for the adjustment of Argentina's foreign debt which might well be borne in mind in connection with the action which may be taken toward clearing up the defaults on dollar loans. It is only fair to point out that Argentina to-day stands as a brilliant example of a country which suffered financial collapse and then worked its way through many vicissitudes to a position strong enough to resist thus far the inroads of the current depression. The Argentine National Government and the Provinces of Cordoba and Mendoza, as well as the cities of Buenos Aires and Tucuman, were meeting (as of February 1, 1933) full service on their dollar loans.

Eight Latin American national governments are currently in default of interest and sinking-fund payments on dollar bonds, and four more, although meeting interest service, are in default of sinking-fund payments. Nineteen provincial and twelve municipal governments in the same area have suspended both interest and amortization service. American investors who hold bonds issued by these governments are apt to think that there never has been another time when the volume of bonds publicly floated was, even relatively, so great, or when the conditions leading to default were similar to those existing in the period from 1927 to 1932. Yet we have only to go back to the so-called Baring Crisis of 1890, precipitated by the wholesale default of Argentine bonds, to find a parallel case, striking in its similarities.

During the decade 1881 to 1890, Argentine national, provincial, and municipal governments and the governmentally guaranteed mortgage banks borrowed approximately \$500,000,000 in Europe, chiefly in England. In 1890 and 1891 Argentina went into complete default on almost all this huge volume of debt.

Interest on the national debt was met from 1891 to 1893, inclusive, by the issuance of funding bonds, pursuant to a plan devised by the guarantors of the firm of Baring Bros., which failed in November, 1890. The funding plan was unsatisfactory and a new agreement, postponing amortization service until 1901 and providing for reduced interest service until July, 1898, was put into effect in January, 1894. The latter plan, known as the "Arreglo Romero," proved successful, and Argentina resumed full interest payments on the national debt one year in advance of the date set by the agreement. Adjustments of the defaulted provincial and municipal loans and of the mortgage bank bonds, or cédulas, were arranged during the 10 years from 1897 to 1906.

This study was prepared in the Finance and Investment Division by Dr. Henry L. Shepherd, jr., under the direction of Grosvenor M. Jones, chief of the division.

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## DEFAULT AND ADJUSTMENT OF ARGENTINE FOREIGN DEBTS, 1890-1906

### I. THE BORROWING PERIOD

The Argentina of the last two decades of the nineteenth century was far different from the country as known to-day. It was then, as now, chiefly a cattle-breeding and an agricultural nation, but the 1890 population of barely 2.2 persons per square mile, as compared with 10.8 per square mile in 1931, had done little exploring and cultivating of the more than 1,000,000 square miles of territory. Argentina has become one of the greatest exporters of cereal grains in the world, having shipped 133,696,000 bushels of wheat and 384,520,053 bushels of corn in 1931, whereas its total exports of wheat and corn in 1885 were only 4,709,580 and 11,080,160 bushels, respectively. In 1890 production and exportation had increased, but exports of grain were still relatively small—19,673,640 bushels of wheat and 39,607,792 bushels of corn.

A great industry of to-day which was in its infancy in 1885 and 1890 is meat packing. Forty-five years ago only a little meat was frozen, most of it being prepared for export by hanging it in the sun to dry; now, there are huge modern frigorificos, or packing houses, for freezing, chilling, and canning meats. To illustrate the development in this field, in 1885 meat exports were 76,994,000 pounds and in 1890, 140,888,000 pounds, while in 1931 they totaled 1,386,083,544 pounds.

These figures emphasize the fact that Argentina in the eighties was a young, unproven country. Therefore, it is strange indeed that during the period 1881 to 1890, as estimated by various contemporaneous writers, Argentina and its Provinces, municipalities, mortgage banks, railways, and industrial firms became indebted to European investors for approximately one billion dollars. It is interesting to learn why so much money was poured into Argentina at that time, before investigating the crash which followed the orgy of borrowing and extravagance.

### BACKGROUND OF THE EARLY BOOM

In Europe business had seldom been so dull as during the years 1884 to 1887. Few loans were floated, and interest rates were unusually low. There is an old saying in England that "John Bull hates two per cent," by which is meant that, when "consols" (domestic Government bonds), as well as other home securities, offer very low yields, the investing public turns to speculative investments. Thus the South Sea Bubble, which collapsed in 1720, was explained. It is an equally good explanation for almost any era of speculative investment. Once the speculative balloon ascends there is no recalling it, and at length,

after the rarefied atmosphere is reached and the balloon explodes from inside, frantic investors scramble to pick up the scattered pieces.

Argentina profited by this European situation as London and continental bankers and stock jobbers were ready to help in providing credit for the Republic, the Provinces, the towns, and the joint-stock companies to a degree quite out of proportion to the small population of the country. They were helped by several factors. Argentina was not a newcomer to the European investment field. The eventful election of 1880 had signaled a unification of the country and a settlement of the long dispute over locating the Federal capital in Buenos Aires. Reduction of the nomadic Indians had been prosecuted by force of arms, and immigration was increasing rapidly. Finally, the South African diamond and gold boom of 1884 and 1885 had set the stage for inflationary expansion elsewhere.

The President elected in 1880, Julio Roca, had a simple financial policy, very soothing to the pride of Argentina. It was that the country could not borrow too much or spend too much, or incur any obligations which it could not fulfill, because its resources and natural wealth were so boundless that they could be drawn upon without fear of exhaustion. The succeeding President, Juarez Celman (1886-1890), carried Roca's idea to an extreme point, and it was under him that the real boom in railways, private companies, and mortgage banks occurred, while investment in Government bonds doubled in volume, despite suspension of the gold standard in 1885.

Under the impetus of inflation-bred development and prosperity at home and willing, eager lenders abroad, economic progress in Argentina expanded into a boom. England was the chief source of the funds poured into the country, but the Germans, Belgians, and French also invested freely. Towns and Provinces, as well as the National Government, took advantage of the situation to float as many loans as possible. New loans were contracted to pay interest on old ones, and many earlier internal issues were consolidated at reduced interest rates with funds borrowed from Europe. Commodities were imported on long-term credit, many times extended, as European exporters vied with each other for the new market.

## BORROWINGS AND FOREIGN TRADE

### NET CAPITAL MOVEMENT

The following table <sup>1</sup> shows in striking form the mounting volume of total borrowings, public and private, from 1881 to 1888, and the declining volume thereafter to 1891. Interest and amortization charges on the borrowed funds and company dividends are included in the figures in the second column; the difference between the first two columns shows the net capital movement.

<sup>1</sup> The Argentine gold peso was established in 1881 with a par value of \$0.9647, United States currency. When the gold standard was suspended in 1885 the gold peso remained at or near its parity with gold because it was gold of a fixed weight, but the note currency, called paper pesos, was quoted at a discount in terms of the gold peso, or to put it the other way, gold went to a premium in terms of paper. At one time this premium was as much as 364 per cent. In 1899 the paper peso was stabilized at 2.27 paper pesos to 1 gold peso. Whenever the pound sterling is used in this study it refers to the pound of \$4.8665 par value, equal to approximately 5.04 Argentine gold pesos.

TABLE 1.—BALANCE OF FOREIGN BORROWINGS, PUBLIC AND PRIVATE, 1881-1891

[Thousands of gold pesos]

Year	New borrowings (amount realized)	Service on total indebtedness	Balance or net capital movement	Year	New borrowings (amount realized)	Service on total indebtedness	Balance or net capital movement
1881.....	14,075	11,967	2,108	1887.....	153,040	37,305	116,193
1882.....	25,293	15,724	9,568	1888.....	247,796	49,523	198,273
1883.....	47,399	19,496	27,903	1889.....	153,612	59,802	93,810
1884.....	39,732	27,574	12,158	1890.....	45,395	60,241	-14,846
1885.....	38,732	22,637	15,522	1891.....	8,242	31,575	-23,333
1886.....	67,680	26,764	40,816				

Source: Argentine International Trade under Inconvertible Paper Money: 1880-1900, by J. H. Williams.

In the first 5-year period it will be observed that borrowings reached a peak in 1883, when specie payments were begun, then declined in the following two years, only to reach an unprecedented level in 1886, the first of the boom years, climaxed in 1888. Even after the apex was reached in 1888 and there began to be vague suspicions about Argentina's ability to support the increasing load of debt, the decline in 1889 in foreign borrowings was only to the 1887 level. The following year's drop carried borrowings slightly below the 1883 figure. The volume of new borrowings in 1890 was less than one-third of the 1889 figure and one-fifth of the 1888 total. In 1891 all types of borrowing had been reduced to a minimum.

The most significant fact was that, although borrowings in 1890 were slightly less than in the peak year (1883) of the first 5-year period, annual interest charges had more than tripled since that time.

BALANCE OF TRADE

Net capital movement was one major item in Argentina's balancing of international payments; the other was the balance of trade. For every year from 1882 to 1890, inclusive, imports exceeded exports, as seen in the following table:

TABLE 2.—ARGENTINE BALANCE OF TRADE, 1881-1891

[Thousands of gold pesos]

Year	Exports	Imports	Balance	Year	Exports	Imports	Balance
1881.....	57,938	55,706	+2,232	1887.....	84,422	117,352	-32,930
1882.....	60,389	61,246	-857	1888.....	100,112	128,412	-28,300
1883.....	60,208	80,436	-20,228	1889.....	90,145	164,570	-74,425
1884.....	68,030	94,056	-26,026	1890.....	100,819	142,241	-41,422
1885.....	83,879	92,222	-8,343	1891.....	103,219	67,208	+36,011
1886.....	69,535	95,409	-25,874				

Source: Extracto Estadístico, 1915.

The trend of exports was upward during this period, but imports far outstripped exports, the movement culminating in the tremendous unfavorable balance of 1889. While exports increased in 1890, imports declined slightly, but a still further increase in 1891 on the export side was accompanied by a reduction of more than 50 per cent in im-

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ports, as foreign borrowing practically ceased. This is much the same story as is told by figures relating to the period 1927 to 1932 in Latin America and other parts of the world.

SUMMARY OF THE BALANCE OF PAYMENTS, 1881-1891

It is interesting now to combine the balances arrived at in the two preceding tables to see the amount of the excess, or deficit, of net borrowings over the balance of trade during the years 1881 to 1891.

TABLE 3.—PRINCIPAL ITEMS IN THE BALANCE OF PAYMENTS, 1881-1891

(Thousands of gold pesos)

Year	Trade balance	Net borrowings <sup>1</sup>	Combination of two preceding columns	Year	Trade balance	Net borrowings <sup>1</sup>	Combination of two preceding columns
1881.....	+2,232	+2,108	+4,340	1887.....	-32,930	+116,193	+83,263
1882.....	-857	+9,568	+8,711	1888.....	-28,300	+198,273	+169,973
1883.....	-20,228	+27,903	+7,675	1889.....	-74,425	+93,810	+19,385
1884.....	-26,026	+12,158	-13,868	1890.....	-41,422	-14,846	-56,268
1885.....	-8,343	+16,095	+7,752	1891.....	+36,011	-23,333	+12,678
1886.....	-25,574	+40,816	+15,242				

<sup>1</sup> "Net borrowings" here is taken to mean the excess (+), or deficit (-), of the amounts realized from borrowing abroad over payments made abroad on account of interest, redemption, dividends, etc.

Source: Argentine International Trade Under Inconvertible Paper Money, 1880-1900, by J. H. Williams.

Obviously the foregoing table is not a balance of payments, since it shows Argentina with a surplus of credit items from 1881 to 1891, inclusive, of 258,883,000 gold pesos, thus leaving much unaccounted for if we are to arrive at a balancing of international payments in the period.

For the first five years of this period the data given in Table 3 show a surplus of credit items totaling only 14,610,000 gold pesos. Immigrant remittances and tourist expenditures abroad during that period may have ranged from 10,000,000 to 20,000,000 gold pesos. Gold and silver exports and imports for the years 1884 and 1885, the earliest years for which figures are available, showed a net export of 4,881,000 gold pesos. On the basis of these figures it is possible to assume that income and outgo of funds were practically in balance in the period 1881 to 1885.

For the years 1886 to 1891, inclusive, Table 3 shows a surplus of credits amounting to 244,273,000 gold pesos. What were the offsetting items? Did Argentina receive gold in that amount? Were credits accumulated in foreign money centers to that extent? It would appear strange, in view of the known critical condition of the country in 1890 and 1891, to find that vast gold reserves or unused credits abroad existed. The answer must be found in items not shown in the table.

In the first place, Doctor Williams estimates that net immigrant remittances and tourist expenditures abroad amounted to probably 10,000,000 gold pesos per annum during these years, so we can reduce the 6-year total of surplus of credits by 60,000,000 gold pesos, to 184,273,000 gold pesos. Gold statistics show an excess of imports amounting to 40,715,000 gold pesos for 1886 to 1891, further reducing the surplus to 143,558,000 gold pesos. Dividing this total by 6, we



have an annual average of roughly 24,000,000 gold pesos unaccounted for.

The annual average of total foreign trade of Argentina during 1886 to 1891 was 210,624,000 gold pesos, so that the discrepancy to be accounted for is only about 11 per cent of the total volume of trade. It is easy to see that undervaluation of imports or overvaluation of exports, common even to-day, together with smuggled and undeclared imports might possibly account for a large part of the discrepancy. But further possibilities of error admit of consideration. There is a possibility that the figures for net borrowing contain too low an estimate for service charges, or an insufficient allowance for commissions, or that the estimate of internal mortgage bonds and internal Government issues subscribed abroad may have been too high. There is also the possibility that tourist expenditures have been placed too low. In any one of these items the error may have been in the other direction from the one indicated—nothing is claimed for the above comments other than that they are surmises justified by observation. The aim in presenting them is not to indicate that a true balancing of payments results, but is simply to indicate that the conclusion (from the fact of Argentina's not being in a position in 1890 and 1891 to secure gold or foreign exchange to meet foreign debt service) that no such credit surplus as indicated in Table 3 could have been accumulated, is true. In other words, proceeds of the huge volume of loans made to Argentina during the years 1886 to 1889 were for the most part expended, and the means of continuing payment of debt service, at least by the governmental entities, were not available after the cessation of foreign loans. Comments on the budgetary situation and other phases of the Government's financial difficulties will be made in a later section.

TYPES AND PURPOSES OF EXTERNAL LOANS

This study is concerned primarily with the public external debt of the national, provincial, and municipal governments of Argentina, but a brief résumé of the channels into which European funds were poured during the period up to 1891 will not be out of place.

TABLE 4.—PUBLIC AND PRIVATE BORROWINGS ABROAD, 1881-1891

[Thousands of gold pesos]

Year	Public borrowing			
	National	Provincial	Municipal	Total
1881-85				105, 046
1886	16, 128	25, 459		41, 587
1887	33, 744	10, 912	1, 892	46, 548
1888	31, 750	48, 810	11, 200	91, 760
1889	13, 067	1, 620	16, 146	30, 833
1890	<sup>1</sup> 11, 420			11, 420
1891	<sup>2</sup> 2, 506			2, 506
Total, 1886-1891	108, 615	86, 801	29, 238	224, 654
Total, 1881-1891				329, 700

<sup>1</sup> According to Doctor Williams, short-term loans of 11,420,000 gold pesos were made by European bankers to the Banco Nacional, which shortly afterward went into liquidation, the loans being assumed by the National Government in 1892.

<sup>2</sup> The estimated portion of an internal loan, floated in 1891, which was subscribed abroad.

Source: Argentine International Trade Under Inconvertible Paper Money: 1880-1900, by J. H. Williams.

TABLE 4.—PUBLIC AND PRIVATE BORROWINGS ABROAD, 1881-1891—Contd.

[Thousands of gold pesos]

Year	Private borrowing			
	Railroads	Mortgage cedulas	Miscella- neous	Total
1881-1885.....	31,313	-----	13,000	44,313
1886.....	15,993	-----	10,000	25,993
1887.....	37,812	54,138	15,000	106,950
1888.....	89,419	46,621	20,000	156,040
1889.....	51,897	55,885	15,000	122,782
1890.....	20,000	13,975	-----	33,975
1891.....	5,736	-----	-----	5,736
Total, 1886-1891.....	220,857	170,619	60,000	451,476
Total, 1881-1891.....	252,170	170,619	73,000	495,789
Grand total, all borrowings, 1881-1891.....	-----	-----	-----	825,489

Some explanation must be made here to account for the difference between the figure of only slightly more than 800,000,000 gold pesos of new loans made to Argentina from 1881 to 1890, as shown in Table 4, and the estimate spoken of earlier, made by contemporary writers, that Argentine governmental entities, mortgage banks, railways, and industrial firms became indebted to European investors for approximately \$1,000,000,000 in the period. A large part of this difference may be accounted for by the fact that figures in Table 4 are estimates of the amounts realized and not the nominal amounts of the obligations incurred. In other words, although a borrower, after commissions and market discount are subtracted, may receive only 80 per cent of the face value of his note, he is obligated to repay the full 100 per cent. Another possible reason for the smaller figure given by Doctor Williams is omission of credits extended to Argentine importers by European exporters. Finally, there is always the leaning toward round sums, and the figure \$1,000,000,000 may represent some exaggeration. In any event, it can safely be said that European investments of all kinds in Argentina during the decade 1881 to 1890 amounted to from \$800,000,000 to \$1,000,000,000, indicating that there is not exact enough information to allow any more than a rough estimate.

Table 4 bears out the observation made earlier that borrowing by railroads, mortgage banks, and miscellaneous enterprises was at its height during the last years of the decade, as the amount of such borrowing was ten times the figure for 1881 to 1885; governmental borrowing doubled in the second half of the decade.

## RAILWAY BORROWINGS

The following table shows the development of Argentine railways and the capital expended on their construction from 1857 to 1900.

TABLE 5.—ARGENTINE RAILWAY DEVELOPMENT

Year	Cumulative total length (kilometers)	Cumulative total investment (thousands of gold pesos)	Amount built each year (kilometers)	Year	Cumulative total length (kilometers)	Cumulative total investment (thousands of gold pesos)	Amount built each year (kilometers)
1857.....	10	285	10	1886.....	5,964	148,611	1,423
1860.....	39	741	16	1887.....	6,868	177,798	904
1865.....	213	5,380	119	1888.....	7,644	197,519	776
1870.....	732	18,836	128	1889.....	8,113	249,908	469
1875.....	1,384	40,990	135	1890.....	9,254	346,493	1,141
1880.....	2,313	62,964	51	1891.....	11,700	373,560	2,446
1881.....	2,442	63,772	129	1892.....	12,920	389,153	1,220
1882.....	2,666	65,673	224	1893.....	13,961	436,422	1,041
1883.....	3,123	81,156	457	1894.....	14,029	461,865	68
1884.....	3,728	93,795	606	1895.....	14,222	483,859	193
1885.....	4,541	122,644	813	1900.....	16,767	551,516	368

Source: Extracto Estadístico, 1915.

The Province of Buenos Aires granted the concession for the first Argentine railroad in 1854, opened in 1857. From this humble beginning of a line 6 miles long a program of railroad construction was conceived in Argentina and carried to the point of fever in the latter half of the eighties. Early railroad construction was undertaken under interest guaranties or cash subsidies from the Government, and in some cases with large grants of land along the right of way. Interest guaranties were usually of 6 to 7 per cent. President Celman, in his message of May, 1888, stated that, of 17 railways for which concessions had recently been granted, 13 lines having a length of 7,960 kilometers had received governmental guaranties of interest. The following is an excerpt from the message:

A careful examination would show that there is not a single company which pays regard to its real obligations to the public, or which serves the country in the measure contemplated by the authorities in making the concessions. The railway traffic might in some places be doubled or trebled, and in all cases it might be considerably increased and give greater returns, thus facilitating a reduction of tariffs and diminishing the sacrifices made by the treasury in respect of the guaranteed lines. But the deficiency in rolling stock on all the lines, the actual penury of many of them, which have come into existence with that organic defect, sterilizes the complaint of the public and the protests of the authorities, unhappily powerless to surmount the difficulties of the moment. \* \* \* It is far from my intention to sustain that the deficiency is not in many cases explicable and even pardonable, but I must affirm that in others any governmental severity whatever toward the companies would be legitimate. The companies whose concessions are favored with the guaranty of the State have duties toward it, and any efforts which they might make to increase their receipts would be no more than acts of honesty toward the protector of their industry. Repudiation of the obligations would give the Government the right to withdraw guaranties from companies notoriously negligent and no one could criticize such conduct. \* \* \* The necessity of preserving the national credit in Europe by punctually paying guaranties, without observation or protest, is continually being urged, but the credit of a nation will never suffer while it can be palpably demonstrated that coercive measures of this kind are taken only against companies which have converted the protection of the State into an iniquitous and criminal exaction. The Argentine Government is not afraid to exercise its rights; its credit is firmly cemented, because it has never failed in its engagements.

By granting interest guaranties the Government obligated itself to make up the difference between net earnings of a railroad and the amount of interest guaranteed on the total capital. Naturally many of the poorly situated or poorly constructed lines failed to show any or sufficient earnings, and the burden of guaranties was one of the complicating factors in the Government's difficulties. The fault lay in

part with the companies and in part with the Government which had granted them the concessions without regard to economic considerations and without proper investigation of their plans and abilities. Discussion of Government external loans will show that large sums were borrowed for railroad extensions on Government account.

A history of the various Argentine railroad systems is contained in the Department of Commerce publication Trade Promotion Series No. 32, *Railways of South America: Argentina*, by George S. Brady. Suffice it to say here that a great change in the ownership of railroads took place during the late eighties. In 1885, 45 per cent of the total capital in railroads was in nationally or provincially owned lines; 5 years later State-owned lines represented only 10 per cent of the total. The change, during a period of great expansion in railroad construction, was due in part to alienation of governmentally owned properties and in part to the number of new concessions granted.

Besides the 31,313,000 gold pesos borrowed by railroad companies during 1881 to 1885, as shown in Table 4, 53,112,000 gold pesos of the governmental loans of the same period, included in the total of 105,046,000 gold pesos shown in the same table, were obtained for railroad construction. Large as these sums were, they were eclipsed by the heavy investment, practically all British, in railroads during the last half of the decade.

#### LAND SPECULATION AND MORTGAGE BANK BORROWINGS

It has been mentioned that immigration increased rapidly during the eighties. Immigrants brought capital with them and bought lands to settle, though many came in response to advertisements of free lands. Conquest of the desert and reduction of the Indian tribes enriched the Government by possession of thousands of sections of good grazing land. The most valuable of these tracts were distributed among military and political leaders. Foreign investment in railroad companies and urban public improvements inflated considerably the price of lands held by soldiers and politicians. After suspension of gold conversion, land prices rose faster in terms of domestic paper currency, and combined with the other factors mentioned to bring about a speculation in lands that was fostered and stimulated by mortgage banks.

The Mortgage Bank of the Province of Buenos Aires opened in 1872, and at the end of 1885 there were in circulation some 50,000,000 paper pesos of mortgage bonds, or *cedulas*, guaranteed by the Province. These *cedulas* were documents issued to persons mortgaging their property to the mortgage banks. They were received in lieu of cash and were realized by the mortgagor at their current price on the market. The National Mortgage Bank, whose *cedulas* were guaranteed by the National Government, opened for business late in 1886. In four years, 1887 to 1890, these two banks entered on a wild career of *cedula* issues which were heavily traded in all over Europe. These mortgage bonds were payable in paper currency and Argentina had been off the gold standard since 1885; yet the high interest rates, 7 and 8 per cent, and glowing reports of Argentina's future, as well as the very fluctuations in the paper peso which encouraged speculation in the bonds, enabled the two mortgage banks to float an apparently unlimited amount of bonds in European markets. Of course, foreign exchange was received for *cedulas* sold abroad, and for that reason the National Government encouraged their issuance.

More than 400,000,000 paper pesos (nominal value) of cédulas were sold from 1887 to 1890, inclusive, of which approximately 90 per cent were purchased by European investors. Doctor Williams estimates that 170,619,000 gold pesos were actually realized on cédulas sold abroad, a large item in the total shown in Table 4. Only the spirit of rampant speculation could have permitted such a situation, in view of the haphazard appraisals and often studied overvaluation of lands which stood as security for the cédulas. Early in 1888 the London Economist warned investors against these issues, as follows:

The nature of these bonds is now well known in this country, and it is perhaps scarcely necessary to warn investors to be careful in dealing with them \* \* \*. Just at present all real estate at the River Plate commands inflated prices, but the occurrence of financial difficulties might easily render them unsalable. At any rate, investors should be careful, for there can be little doubt that they will be assiduously solicited to take these cédulas in increasing quantities.

Later in the same year the Buenos Aires Standard raised its voice against the wholesale issuance of cédulas:

In the wake of 60,000,000 pesos of fresh paper money it is well to bear in mind that the presses of the mortgage banks are under full steam, printing cédulas to meet a demand that is simply phenomenal. Thanks to the very liberal provisions of the Provincial Government of Buenos Aires, there is theoretically no limit to the issue of cédulas \* \* \*. The craze for provincial cédulas is the outcome of a law—the Centro Agrícola or Homestead Act—excellent in theory and purpose, but unfortunately the reverse in practice, having fallen into the hands of shrewd speculators who are turning the law into a financial curse. Millions of paper, millions of cédulas, last but not least, millions of gold! In the glare of so many millions arriving in packets, oozing out of bank presses, and born of government messages, people in the country are not quite off their heads; but they have outgrown the youthful anxiety and interest attached to small loans, such as a Rosario or Buenos Aires municipal loan, summing up an aggregate of 15,000,000 pesos, a flea-bite in the present gold and loan fever.

Railroad and mortgage-bank borrowings constituted the chief form of nongovernmental borrowing. Miscellaneous private investments comprised stock of foreign banks and various industrial enterprises, the volume of which was estimated to be comparatively small.

#### PROVINCIAL AND MUNICIPAL LOANS

Provincial external long-term borrowing during the eighties totaled approximately 145,000,000 gold pesos. More than one-third of this debt was incurred by nine Provinces during the latter half of the decade, chiefly in 1888, to secure gold with which to purchase 4½ per cent National Government bonds to use as currency backing under the guaranteed banks law, an economically vicious procedure which will be explained later in another connection. About one-seventh of the total provincial debt was incurred by the Province of Buenos Aires in building a new capital and port works at La Plata, after the city of Buenos Aires had been made a Federal District in 1880. The remainder of the total issued was for railroad and other public-works projects.

Table 6 gives the pertinent data concerning the 23 loans comprised in the above total. It will be noted that the Province of Santa Fe loans include two issues to provide funds for the Santa Fe Territorial and Agricultural Bank. These issues were guaranteed by the Province.

The 10 municipal loans floated abroad of which there is a record were issued in 1887, 1888, and 1889. They were for public works, chiefly paving of city streets. Table 7 gives the pertinent data concerning these loans.

TABLE 6.—PROVINCIAL EXTERNAL LOANS

Province	Amount of loan	Year of issue	Issuing house	Interest	Issue price	Interest payable	Annual amortization	Annual service	Purpose	Security
Buenos Aires...	£4,098,300	1882-86	Baring Bros.....	<i>Per cent</i> 6	92-88	JAJO-1...	<i>Per cent</i> 1	£286, 881	To consolidate Province's debt to the provincial bank, and to place interest and sinking fund on uniform basis. <sup>1</sup>	Proceeds of taxes on judicial deposits and industrial licenses, the stamp duties and income tax and general revenues.
Do.....	2, 254, 100	1883	Morton, Rose & Co...	6	94	AO-1.....	1	157, 787	Construction of port and harbor of Ensenada (La Plata).	Harbor works and its revenues; proceeds of sales and rental of public lands; surplus revenues of provincial railways; <sup>2</sup> general revenues.
Do.....	300, 000	1881	Stern Bros.....	6	( <sup>3</sup> )	JJ-1.....	3	27, 000	Improvement of Riachuelo Harbor.	Originally the harbor, but in 1884 the harbor was taken over by the National Government, and the Province substituted State lands as security.
Do.....	2, 502, 286	1886	Deutsche Bank.....	5	80½	J-2, J-1...	1	150, 137	Consolidation of provincial paper currency issues.	Net earnings of provincial bank.
Catamarca.....	600, 000	1888	A. Rueffer & Sons....	6	94¾	AO-1.....	1	42, 000	To found provincial bank.....	Shares of provincial bank and its profits; interest on 4½ per cent national bonds in which capital of bank to be invested; first mortgage on about 1,200 square leagues of Government land; general revenues.
Cordoba.....	595, 200	1886	Morton, Rose & Co...	6	89	MN-1.....	1	41, 664	Repayment of 850,000 pesos owing to the national bank and construction of public works, including railway of 25 kilometers from Cordoba to Calera, telegraphs and telephones.	The works constructed; proceeds of duties on produce, stamps, sales of public lands; dividends on 5,000 shares of provincial bank belonging to the Province.
Do.....	1, 190, 400	1887-88	.....do.....	6	91-92	JJ-1.....	1	83, 328	To subscribe for 45,000 shares in the provincial bank; to complete irrigation works; to pay for land expropriated in building the new town.	Government profits on shares of the provincial bank; general revenues.

<sup>1</sup> Actually, the proceeds of this loan were used chiefly for construction of the new capital of the Province at La Plata.

<sup>2</sup> The railways were sold in 1890 without regard to the rights of holders of these bonds.

<sup>3</sup> Privately taken.

Do.....	2,000,000	1888	Société Générale & Comptoir National d'Escompte.	6	96½	AO-1	1	140,000	To subscribe for 85,000 shares in the provincial bank; to found a provincial mortgage bank.	85,000 new and 15,000 old shares of the provincial bank and dividends thereon; net profits of the mortgage bank; the direct taxes and business license tax; general revenues.
Corrientes.....	1,000,000	1889	Société Générale.....	6	92¾	JJ-1	1	70,000	To found provincial bank.....	Same as Catamarca.
Entre Ríos.....	1,530,800	1886	Murietta & Co.....	6	(*)	(*)	1	107,156	Construction of Central Entreriano Railway from Paraná to Uruguay.	Railroad and its revenues; direct taxes and customhouse permits; general revenues. <sup>4</sup>
Do.....	800,000	1886	do.....	6	91½	JJ-1	1	56,000	To pay off external loan of 1872 (£95,600), third issue of internal bonds (about £70,000), floating and other debts; public works.	Proceeds of license and stamp taxes; general revenues.
Do.....	1,200,000	1888	do.....	6	97	JJ-1	1	84,000	To subscribe for shares in provincial bank.	Government profits on these shares; general revenues.
Do.....	1,745,600	1888	do.....	6	(*)	(*)	(*)	122,192	Construction of branches of railroad to Victoria, Gualeguay, Villaguay, and Gualeguaychu.	The railroad to be constructed and its revenues; general revenues.
Mendoza.....	992,060	1888	Société Générale.....	6	94	JJ-1	1	69,444	To subscribe for shares in the provincial bank; public works.	Shares in the bank; 2,000 leagues of Government land; general revenues.
San Juan.....	400,000	1888	Louis Cohen & Sons.....	6	92	AO-1	1	28,000	To found provincial bank.....	Shares of provincial bank; interest on 4½ per cent national bonds; two-thirds of business license tax; one-half of direct taxes; 300 leagues of Government lands; general revenues.
San Luis.....	150,000	1889	Banque Parisienne.....	6	92¾	MN-1	1	10,500	do.....	Same as Catamarca (except that land security was 600 leagues.)
Santa Fe.....	1,434,426	1883-84	Morton, Rose & Co.....	6	90-86½	MN-1	1	100,410	To increase capital of provincial bank; to retire 7 per cent loan of 1874 (£208,100).	Assets of bank; proceeds of direct taxes and sales of Government lands; general revenues.
Do.....	2,000,000	1888	do.....	5	90½	AO-15	1	120,000	To increase capital of provincial bank to 25,000,000 pesos.	Interest on 4½ per cent national bonds in which proceeds of loan to be invested; proceeds of real-estate tax, sales of Government lands; assets of provincial bank not required by loan of 1883-84; general revenues.
Do.....	<sup>6</sup> 929,400	1887	Murietta & Co.....	5	84½	AO-1	1	£55,764	Construction of railways.....	First mortgage on railways; license taxes.
Do.....	<sup>6</sup> 1,261,700	1887-88	do.....	5	86-87	JJ-1	1	75,702	Construction of 330 kilometers of railway from Santa Fe to Reconquista.....	The railway and its net proceeds; license taxes, subject to loan of 1887.

<sup>4</sup> Not shown.

<sup>5</sup> By law of Oct. 9, 1884, the National Government obligated itself to pay one-half of the service of this loan to an amount not exceeding its annual quota of 260,000 gold pesos.

<sup>6</sup> In addition to these two railway loans the Province of Santa Fe floated £1,079,500 for railway construction. No data are available on this loan or loans, but final disposition of the claims against the Province for the total of the three loans, grouped together, was made by turning the railroads over to a French company, which was charged with retiring the outstanding bonds. (See Section IV.)

TABLE 6.—PROVINCIAL EXTERNAL LOANS—Continued

Province	Amount of loan	Year of issue	Issuing house	Interest	Issue price	Interest payable	Annual amortization	Annual service	Purpose	Security
Santa Fe.....	£994,000	1887	Banque France et Russe.....	<i>Per cent</i> 6	91	JAYO-1...	<i>Per cent</i> 1	£69,580	Granting of mortgage loans by Santa Fe Territorial and Agricultural Bank.	Mortgages securing loans made from proceeds of bond issue; capital of Santa Fe Territorial and Agricultural Bank; interest guaranteed by Province.
Do.....	994,000	1888	.....do.....	5	86½	FMAN-1.	1(?)	59,640(?)	.....do.....	Same as above, except interest and principal guaranteed by Province.
Tucuman.....	600,000	1888	Louis Cohen & Sons..	6	92	JJ-1.....	1	42,000	To found provincial bank.	Interest on 4½ per cent national bonds in which proceeds of loan to be invested; profits on shares in provincial bank; direct taxes; general revenues.

Sources: Corporation of Foreign Bondholders Report for 1892; Anuario Pillado, 1900.



TABLE 7 MUNICIPAL EXTERNAL LOANS

Municipality	Amount of loan	Year of issue	Issuing house	Inter-	Issue	Interest	Annual amortization	Annual service	Purpose	Security
				est	price	payable				
Buenos Aires.....	£1,326,626	1888	Louis Cohen & Son.....	6	( <sup>1</sup> )	JAJO-1.....	1	£92,864	Sanitary and other public works.	All revenues and property; direct and absolute obligation of national bank. General revenues.
Do.....	1,984,120	1889	Baring Bros.....	4½	86½	JD-1.....	1	110,160	Street paving and other public works.	
Cordoba.....	198,400	1887	Heinemann & Co.....	6	95	FA-1.....	1	13,888	Not shown.....	First mortgage on North and South Municipal Markets; taxes on slaughterhouses and corrals; general revenues.
Do.....	595,200	1889	do.....	6	98	JJ-1.....	1	41,664	Paving; erection of municipal buildings, tenant houses, bridges, slaughterhouses, etc.	
Parana.....	212,000	1889	River Plate Trust Loan & Agency Co.	5	92½	JJ-1.....	1	12,720	Waterworks.....	Mortgage on the water works and revenues thereof; direct obligation of municipality, and guaranteed by Province of Entre Rios.
Do.....	198,412	1889	Morton, Rose & Co....	6	95	FA-1.....	1	13,889	Street paving, erection of town hall, theater, school, etc., and construction of boulevards, bridges.	
Rosario.....	198,400	1887	Heinemann & Co.....	6	Par	JJ-1.....	1	13,888	Not shown.....	Proceeds of taxes on South Market, cattle market, slaughter yard; general revenues.
Do.....	992,000	1888	do.....	6	103	MS-1.....	1	69,440	Street paving.....	
Do.....	297,600	1888	Hambro & Son.....	6	( <sup>2</sup> )	( <sup>2</sup> )	1	20,832	do.....	Proceeds of paving tax, which is a special lien on all property in city limits; general revenues.
Santa Fe.....	257,900	1889	Heinemann & Co.....	6	95	JD-1.....	1	18,053	do.....	

<sup>1</sup> This loan was issued as an internal loan authorized in 1884 in the amount of 10,000,000 paper pesos. The general bond of the loan was sold by the Federal District to the National Bank in 1888. The latter negotiated the loan with a syndicate represented by Mallman & Co., and received £1,193,164 in gold. (Louis Cohen & Co. floated the loan in London at the price of £98, 10s. per 750 paper peso bond. The equivalent of £100 at the fixed exchange of 150 per cent of paper pesos for gold pesos.) Since the Corporation of Foreign Bondholders Report carried the principal of the loan at £1,326,626, it is judged that that figure represents the approximate calculation of the district's debt expressed in pounds sterling converted at the fixed rate of 150 paper pesos to 100 gold pesos.

<sup>2</sup> Not shown.

Sources: Corporation of Foreign Bondholders Report for 1892; Anuario Pillado, 1900.

## NATIONAL LOANS, A HISTORY OF THE EXTERNAL DEBT

A description of the national external debt involves some insight into the history of turbulent Argentina for half a century before the Baring Crisis. For the first half of the nineteenth century Argentina was known first as the "United Provinces," and then as the "Argentine Confederation," both misnomers. The Province of Buenos Aires was an embattled autocracy, maintaining leadership in the country as the leading one of several autocratic Provinces; but that leadership hindered instead of promoted national union. Provincial governors were usually military leaders (*caudillos*) who held their offices by force of arms. Interprovincial strife broke out frequently, and now and again a league of varying numbers of Provinces was organized, only to fall apart as one man's ambitions conflicted with those of another man or group.

A constitutional congress was organized in 1852, but union was delayed by secession from the confederation of its leading member, the Province of Buenos Aires. The constitution was promulgated in 1853 and a law was passed by the constitutional congress setting up the city of Buenos Aires as the Federal capital, separating it from the Province of Buenos Aires and establishing it as a Federal District to be controlled by the National Government. The Province of Buenos Aires rejected both the constitution and the accompanying law, but the other Provinces ratified the constitution. For seven years there were in what is now Argentina two separate governments, each with all the machinery of statehood.

In 1859 open warfare broke out between Buenos Aires and the United Provinces, the former being defeated in that year but winning in 1861 under Bartolome Mitre, who then became, in 1862, the first constitutional president of the united Argentine Republic.

The matter of the Federal capital was left an open wound until nearly 20 years later, while governments of the Nation and of the Province sat in the same city. During 1865 to 1870 Argentina joined with Brazil and Uruguay in the war against Paraguay. The conflict was a costly experience, and Paraguay, exhausted in wealth and man power, could pay no reparations to the victorious nations. In Argentina, chronic revolts, armed rivalries, an epidemic of cholera and another of yellow fever, marked a stormy period up to 1880, when an epochal presidential election occurred.

As F. A. Kirkpatrick, from whose work this brief historical survey is largely drawn, describes it, preparation in the city of Buenos Aires for the presidential election of 1880 "took the form of rifle practice, drilling, and gun running. Volunteer civic battalions, marching daily through the streets, rifle on shoulder, to the parade ground, raised provocative cries—'Viva Buenos Aires! Viva Tejedor' (the Buenos Aires presidential candidate)—as they passed under the windows of the President of the Republic (who favored General Roca, choice of 12 of the 14 Provinces). Tejedor even called out the National Guard of the Province of Buenos Aires. On the other hand, President Avellaneda brought troops of the regular army near the city."

The result was a sanguinary conflict which resulted in defeat of the defenders of Buenos Aires. The newly elected National Congress issued a decree embodying practically the same provisions contained in the law passed 17 years earlier by the constitutional congress, and the city of Buenos Aires became a Federal District. Two years

later the city of La Plata was founded as the capital of the Province of Buenos Aires. The National Government made certain concessions to that Province, part of which involved the assumption of its external debt.

Thus, in 1880, the way was paved for the great expansion which culminated in collapse. Among the chief elements in the period from 1880 to 1891 was the export of grain and the increasing attention to railway construction, both cause and effect of real national union.

With this sketched background, we can proceed to a description of National Government borrowings abroad. The identification, at times, of the Province of Buenos Aires and national interests during the early history of Argentina, and the national obligation to that Province at the time of the settlement of the capital controversy in 1880, must be borne in mind.<sup>2</sup> Also, notice must be taken of the fact that the Province of Buenos Aires organized a system of public credit and an amortization office in 1821, whereas the National Government did not take that step until 1863. Each set up "The Great Book of Public Credit," providing that all capital and interest entered therein should be guaranteed by all revenues, direct and indirect, current and future, and by all assets, including real property. Each established an amortization office with certain revenues allocated to its use.

Information on the national loans, and on those provincial loans later converted into national debt, has been secured, in the main, from an excellent compilation of laws and contracts respecting the national debt, covering the years 1813 to 1907, under the title "Deuda Argentina," by José B. Peña. In view of the complicated nature of these loans it is impossible to present them in tabular form.

1. *Six per cent of 1824*.—The Province of Buenos Aires passed a law on August 20, 1822, authorizing an external loan of 3,000,000 to 4,000,000 pesos for construction of a port in Buenos Aires, "for the establishment of towns on the new frontier, and of three towns on the coast between the city of Buenos Aires and the town of Patagonia, and for waterworks in the city of Buenos Aires." A law of December 4, 1822, increased the authorized amount to 5,000,000 pesos. In 1824, after Bernardino Rivadavia, "the soul of the Buenos Aires Government," had concluded commercial treaties with Great Britain and other countries, Baring Bros. issued the loan at 85 in the sum of £1,000,000 bearing 6 per cent interest and one half of 1 per cent annual amortization. Although the purposes of the loan as stated in the laws are given above, there is disagreement on the actual uses to which the proceeds were put. Historical opinion appears inclined to the view that Rivadavia used the money to establish a bank, schools, and hospitals and other benevolent institutions.

As security, the Province made a general pledge of all its wealth and revenue, in accordance with the law of public credit. The exact date of default on this loan is not apparent, but it was most likely about 1841 or 1842, when Juan Manuel Rosas, dictator of Buenos Aires for 17 years, was engaged in a war with Uruguay which provoked an Anglo-French intervention. A law of May 20, 1844, approved an

<sup>2</sup> The capital controversy was not merely political in its aspects, but financial. The Buenos Aires customhouse was the only productive one in the country, and its revenues were appropriated by the Province of Buenos Aires, although the other Provinces claimed that such revenues should go into a national treasury. The importance of the Buenos Aires customhouse goes far to explain the predominance of the Province and its ability to go into the foreign money markets before the National Government.

agreement between Buenos Aires and Baring Bros. whereby the former was to transfer 5,000,000 pesos monthly on account of the 1824 loan until a definite settlement could be made. This monthly payment was suspended, however, by law of October 18, 1845, when a second Anglo-French intervention was declared as Rosas blockaded all Argentine waters to foreign ships. During a brief period of peace between Buenos Aires and the other Provinces, an arrangement with Baring Bros. was approved on October 28, 1857, according to which annual service was to be remitted on the basis of £36,000 in 1857, £48,000 in 1858, £60,000 in 1859, with the full service of £65,000 to be resumed in 1860. Also, according to another agreement made in 1857, new bonds, amounting to £1,641,000, were authorized in lieu of accrued interest, bearing interest at the rate of 1 per cent per annum from 1860 to 1865, 2 per cent per annum from 1866 to 1870, and 3 per cent from 1871 on. Under the presidency of Bartolome Mitre, the National Government, by law of October 3, 1866, assumed the loan of 1824 as a national obligation.

2. *Six per cent of 1868.*—The honorable settlement by the Argentine National Government of the 1824 loan difficulties enabled it to borrow £2,500,000 through Baring Bros. to meet expenses of the war with Paraguay. The loan bore interest at 6 per cent, with 2½ per cent amortization, and was issued at 75 and 72½. As security, the general revenues and properties of Argentina were pledged. This loan matured in 1889.

3. *Six per cent of 1870.*—The Province of Buenos Aires returned to the London money market by virtue of a series of laws (1868–1870) to borrow funds for railway construction. The law of November 18, 1868, "created funds" amounting to 30,000,000 pesos, bearing interest at 6 per cent, with 1 per cent amortization, for the construction of a branch of the Ferrocarril del Oeste (now known as the Buenos Aires Western Railway) to the town of Lobos. On January 28, 1870, a law authorized the executive to negotiate an external loan in sterling at the rate of 122.5 pesos per pound sterling for all or part of the 30,000,000 pesos created by the above law. Another law of the same date authorized borrowing abroad all or part of 100,000,000 pesos authorized on February 19, 1869, for purchase of materials. The second loan mentioned was not negotiated. The first loan, however, was issued at 88 by the London house of Murietta y Cia., in the amount of £1,034,700. The Province pledged all revenues of whatever kind to the service of the loan. (See No. 16 following.)

4. *Six per cent of 1871.*—The law of August 5, 1870, authorized the National Government to negotiate an external loan of 30,000,000 pesos bearing interest at 6 per cent, with 2½ per cent amortization, guaranteed by general revenues, by the 5 per cent surtax on imports, and by the 2 per cent surtax on exports. The proceeds of the loan were intended primarily for railroad construction and other public works, but 2,800,000 pesos were assigned to the national bank in repayment of an advance guaranteed by the above-mentioned surtaxes. The other objects of the loan were itemized in the law as follows: (1) Construction for the account of the Government of a railroad from Villa Nueva to Rio Cuarta, 2,150,000 pesos; (2) extension of the railroad from Cordoba to the city of Tucuman, 14,600,000 pesos; (3) port works and customs offices in Buenos Aires, 4,000,000 pesos; (4) customs docks and offices in Rosario, 300,000 pesos. The total

of these itemizations, plus the bank repayment, is 23,850,000 pesos. The loan contracted by the Government with Murietta y Cia. for £6,122,400 was issued at 88½, which yielded approximately 26,550,000 pesos. Perhaps 2,700,000 pesos were consumed in meeting expenses of the flotation. (See No. 16.)

5. *Six per cent of 1873.*—The Province of Buenos Aires borrowed £2,040,800, issued by Baring Bros. at 89½, for waterworks in the city of Buenos Aires, which was still under its jurisdiction. The loan bore interest at 6 per cent and 1 per cent amortization. The law of October 30, 1872, stated that the service of the loan during the period of construction of the works would be guaranteed by revenues from running water actually being supplied, one-half of the profits of the Western Railway, and by 300,000 pesos per annum which the Bank of the Province should place at the disposal of the executive. Upon conclusion of the works, the debt was to be serviced from revenues of the same. The loan contract also carried the blanket guaranty of all revenues and properties of the Province. (See No. 16.)

6. *Six per cent of 1880.*—The Argentine Government borrowed £2,450,000, issued at 91 by Murietta y Cia., for an extension of the North Central Argentine Railway. The law of October 2, 1880, preliminary to negotiations, authorized a loan of 12,000,000 pesos, bearing interest at 6 per cent and 1 per cent amortization, guaranteed by general revenues and by net revenues of the North Central Railway and the Andine Railway. Actually, Argentine securities were deposited in the Bank of England as guaranty for service on the loan.

7. *Six per cent of 1882.*—Rebellion in 1880 was costly and the National Government secured a loan in France through a syndicate headed by the Banque de Paris et des Pays-Bas for a nominal amount of £817,000, issued at 90. The law of November 3, 1881, authorized the loan in the amount of 4,000,000 pesos, with interest at 6 per cent and 2 per cent amortization, for payment of past-due salaries of the army and navy, and of past-due accounts and other expenditures growing out of the internal conflict in 1880. External negotiation was authorized by law of September 5, 1882. No guaranty was stated in either law, and no copy of the loan is available. In the absence of specific guaranty, the usual pledge of general revenues and properties of the Nation would apply, under the law of 1863. (See No. 16.)

8. *Five per cent of 1884.*—Another French loan, negotiated through the Comptoir d'Escompte de Paris, issued at 81, was authorized by law of June 20, 1884, in the amount of 12,133,345 pesos. The loan had two purposes—expropriation of lands and prosecution of Riachuelo port works, 4,133,345 pesos, and waterworks in the city of Buenos Aires, 8,000,000 pesos. The loan was guaranteed by general revenues and properties of the Government. The series of Riachuelo port works internal and external loans was consolidated by a loan of 1886-87. (See No. 10.)

9. *Five per cent of 1884.*—The Government subscribed for 60,000 shares of stock in the National Bank in 1882 and authorized a loan of 8,571,000 pesos by law of October 12, 1882, to pay for them. Baring Bros. issued the loan at 84½, in the amount of £1,714,200. Interest on the loan was at the rate of 5 per cent with 1 per cent amortization, guaranteed by general revenues and the dividends from the bank shares mentioned.

10. *Five per cent of 1886-87.*—This loan (known as the customs loan, because it was secured specifically by customs receipts in addition to the usual general revenues guaranty) was the largest foreign loan floated by the National Government and was the chief bone of contention in the discussions leading to arrangement of terms of debt service after the 1890 to 1891 defaults. Generally speaking, the purpose of the loan (issued by Baring Bros. and J. S. Morgan & Co., in the amount of £8,333,000 at 80 and 85½) was the consolidation of a series of public-works laws. Article 5 of the law of October 21, 1885, authorized the executive "to annul emissions of external debt made in execution of the laws of October 25, 1883, and June 20, 1884, which shall be retired and canceled with the proceeds of the loan authorized by the present law. The surplus of the proceeds shall be applicable to the objects determined by the laws of October 28, 1881, January 14, 1882, October 25, 1883, and June 24, 1884, in the corresponding proportions." In order to make the story of Argentina's foreign borrowings complete, it is necessary to outline as briefly as possible the purposes to which sums were to be invested under these laws.

(a) The law of October 28, 1881, authorized a 5 per cent loan bearing amortization at 1 per cent, in the amount of 4,000,000 pesos, for expropriation in connection with the Riachuelo de Barracas port works, which were to be operated by the Province of Buenos Aires, for the exclusive account of the Nation. Immediately after expropriation, the executive was authorized to proceed to completion of a definite project of works comprising canals, dikes, wharves, cranes, and warehouses and a budget of the whole project was to be submitted to Congress.

(b) The law of January 14, 1882, authorized a 5 per cent loan, with 1 per cent amortization, in the amount of 8,000,000 pesos, for waterworks in the city of Buenos Aires.

(c) The law of October 25, 1883, authorized borrowing 30,000,000 pesos at 5 per cent, with 1 per cent amortization, and listed projects to be financed with the proceeds, amounting to 24,058,000 pesos, as follows: Extension of the Andine Railway to San Juan, 2,398,000 pesos; rolling stock, 1,000,000 pesos; widening of the banks of the Rio Cuarta, 502,000 pesos; extension of the North Central Railway to Salta and Jujuy, 6,308,000 pesos; locomotives, coaches, repair of way, etc., 2,000,000 pesos; termination of North Central Railway to the city of Santiago, 1,500,000 pesos; construction of the other branch of the North Central Railway in the Estacion Recreo to Chumbicha, 2,100,000 pesos; construction of a port and wharves at Rosario, 2,000,000 pesos; construction of a wharf in the port of San Nicolas, 120,000 pesos; canalization of Martin Garcia and acquisition of dredging apparatus, 800,000 pesos; construction of a wharf in the port of Corrientes and another on the port of Concepcion de Uruguay, 300,000 pesos; prosecution of Riachuelo port works, 1,200,000 pesos; sinking of artesian wells, 150,000 pesos; definite completion of waterworks project in Buenos Aires, 2,000,000 pesos; coastal and maritime lighthouses, 1,000,000 pesos; new telegraph lines and repairs of old ones, 430,000 pesos; construction of bridges over the Corrientes, Batel, Santa Lucia, and Riachuelo Rivers in the Province of Corrientes, 250,000 pesos.

(d) The law of June 20, 1884, authorized an external loan of 12,133,345 pesos. (For purposes, see No. 8.)

11. *Five per cent of 1887.*—In order to discharge a National Government debt to the National Bank, a law of December 2, 1886, authorized an internal loan in the amount of 10,291,000 pesos, bearing interest at 5 per cent, with 1 per cent amortization, guaranteed by general revenues of the Nation. The law provided that the bank must keep on hand at least one-third of the proceeds of the loan during the period of inconvertibility of currency. The National Bank entered into a contract with a German syndicate headed by the Diskonto Gesellschaft for a 1-year loan of 7,718,250 pesos, in marks, at the

rate of 4 marks to 1 peso. This loan, made over to the National Bank in the form of a series of 90-day drafts of 1,000,000 to 2,000,000 pesos during a period of three to six months, was backed by the entire amount of 10,291,000 pesos of national internal bonds. The German syndicate had the option, until March 31, 1888, to buy the latter bonds at 90, with 5 per cent deduction for commission and expenses. In August, 1887, the option was exercised and the internal bonds were exchanged for external bonds in the amount of £2,017,362.

12. *Four and one-half per cent of 1888.*—This loan, in the amount of £3,942,162, was issued at 87 by Baring Bros. The way in which the loan arose is rather complicated, having to do with the settlement of the capital controversy, and is easiest explained by an excerpt from a copy of a bond:

On September 25, 1881, and on September 27, 1883, laws were sanctioned by the Argentine Congress authorizing respectively the issuance of 16,000,000 pesos and 1,039,881 pesos in 5 per cent bonds, of the national internal debt. These bonds were delivered to the Bank of the Province of Buenos Aires in repayment of advances made by this institution to the National Government. By a supplementary law of October 18, 1883, these two issues were declared to be part of the national external debt. The city of Buenos Aires having been adopted in 1880 as capital of the Argentine Republic, it was necessary to indemnify the government of the Province of Buenos Aires for the expenditures previously arising for public utility projects. As partial payment on account of sums due for such items, 5,000,000 pesos of 5 per cent bonds of the national debt were ceded to the provincial government, said issue of bonds having been sanctioned by Article 6 of the law of October 25, 1883. With the purpose of effecting an adjustment of accounts, an agreement was entered into by the two Governments on July 14, 1887, by which it was established that the balance outstanding of the 5 per cent loans for 16,000,000 pesos, 1,039,881 pesos, and 5,000,000 pesos would be substituted by bonds of the national internal debt bearing interest payable in gold at the rate of 4½ per cent, with 1 per cent cumulative sinking fund (guaranteed by the general revenues of the Nation). The pending accounts between the two Governments (covered in the agreement of July 14, 1887) having been adjusted and approved, the National Government delivered, on November 15, 1887, to the Bank of the Province of Buenos Aires a provisional bond of 19,868,500 gold pesos. [Nominal amount in sterling, £3,942,162.]

13. *Five per cent of 1887-88.*—This was the first series of the North Central Railway loan, and was issued at 91½ and 94 in the amount of £3,968,200 by Murietta y Cia. The law of October 19, 1885, authorized the executive to contract with D. Lucas Gonzales y Cia. for the simultaneous extension of the North Central Railway, in accordance with the survey from Valle de Lerma to the city of Salta and by the direct survey from Lobos to Jujuy, and the branch from Chumbicha to Catamarca, as well as the branch from the Estacion Dean Funes to Chilecito, when the studies of the last-named line were completed. To pay for this construction work the law of October 9, 1886, authorized the issuance of 20,000,000 pesos of 5 per cent external bonds, with 1 per cent cumulative sinking fund. The loan was secured by railway works, railway net receipts, and the general Government revenues.

14. *Five per cent of 1890.*—This was the second series of the above railway loan, underwritten by a syndicate comprising L. & R. Cahen d'Anvers et Cie., Heine & Co., the Banque Imperiale Ottomane, the Banque de Paris et des Pays-Bas, the Comptoir National d'Escompte, the Société Générale pour favoriser le développement du Commerce et de l'Industrie en France, and the Diskonto Gesellschaft group. The loan was unplaced in Paris and was not issued to the public. The law of October 30, 1889, authorized the loan as a 15,000,000 peso aug-

mentation of the previous issue. The railway revenues and the works themselves served as guaranty for the loan, reserving the rights of holders of the first issue. The principal amount of the loan was £2,976,000.

15. *Five per cent of 1887.*—This loan was one of several conversion operations. The law of June 21, 1887, authorized the executive to retire from circulation three internal issues, one of which, the treasury notes of October 19, 1876, was to be exchanged for external bonds. The issue mentioned bore interest at 9 per cent, with 4 per cent amortization. The exchange for the new external bonds, bearing only 1 per cent amortization, was made at the rate of 103.33 pesos of new bonds for each 100 pesos of old bonds. Those not wishing to make the exchange were assured of retirement of their bonds within one year. Murietta y Cia. issued the new external bonds in the amount of £624,000.

16. *Four and one-half per cent of 1889.*—This is the conversion loan affecting four prior external issues, two of them by the Province of Buenos Aires. (See Nos. 3, 4, 5, and 7 above.) In Article 6 of the law of September 21, 1880, respecting the establishment of the city of Buenos Aires as the Federal capital, it was provided that the National Government should assume the external debt of the Province of Buenos Aires. This provision referred to the 6 per cent loans of 1870 and 1873. The law of August 1, 1888, authorized the conversion of the provincial bonds and also provided for conversion of two prior national 6 per cent issues, the public-works issue of 1871, and the so-called French loan of 1882. A European syndicate, headed by Murietta y Cia., Baring Bros., the Diskonto Gesellschaft group, and a syndicate of Paris and Brussels banks, issued the loan in the amount of £5,290,000 at 90.

17. *Three and one-half per cent of 1889.*—By law of November 16, 1863, an issue of so-called "hard dollar" 6 per cent bonds was authorized, and Stern Bros., of London, floated them in 1874 and 1876 in England at the fixed rate of 49 pence to the "peso fuerte" or "hard dollar." The Argentine Congress decreed on November 6, 1888, redemption of all outstanding bonds under this issue, and the executive, by decree of February 6, 1889, ordered payment in paper currency of the outstanding bonds in three installments. Inasmuch as the fixed rate of 49 pence to the peso had been provided under the Stern Bros. contract, bondholders organized a protest against payment in paper currency. Consequently the above decree was withdrawn, and a decree of July 1, 1889, paved the way to negotiations between the Argentine minister and Stern Bros. for an external conversion issue, bearing  $3\frac{1}{2}$  per cent interest and 1 per cent amortization. The exchange, in the amount of £2,659,500, was made at the rate of £20 10s. for each 100-peso bond.

18. *Five per cent of 1892.*—In 1891 a decree was passed authorizing issuance of £2,000,000 of bonds for the purpose of converting an obligation of the Government to Eduardo Madero y Hijos for construction of Buenos Aires port works. These works were authorized by law of October 27, 1882, to be paid for by 6 per cent bonds, bearing 1 per cent amortization. The conversion to 5 per cent bonds was effected after agreement with the contractors. The Bank of London and the River Plate became fiscal agent for the conversion issue.



19. *Five per cent of 1892.*—The date given here is that of the bonds issued in consequence of a rescission contract in the matter of the Buenos Aires waterworks. The loan is important, inasmuch as inability to float it in 1888 precipitated the Baring collapse in 1890. By decrees of June 23 and August 20, 1888, an external loan had been authorized to finance the Buenos Aires waterworks project, awarded to the Buenos Aires Water Supply & Drainage Co. The amount of that loan was understood to have been 25,000,000 gold pesos, bearing interest at 6 per cent and 1 per cent amortization. Baring Bros. underwrote the loan in 1888 and agreed to pay the principal in three annual installments. The public did not subscribe to the loan, and a load in the neighborhood of £5,000,000 dragged Baring Bros. to suspension of payments in November, 1890. Laws of January 30, 1891, and September 6, 1891, were passed for the purpose of settling the matter as far as the Buenos Aires Water Supply & Drainage Co. was concerned. The contract entered into in pursuance of this law provided that Argentina was to pay the company a total of 25,500,000 pesos for the rescission of the contract, including 14,000,000 pesos for advances made to the Government, 8,500,000 pesos for the value of the works completed, 2,000,000 pesos for interest in arrears and resultant expenditures made by the company in transferring its dividends, and 1,000,000 pesos for other expenses. The company was to receive, according to the contract, Argentine National Government external bonds, bearing 5 per cent interest and 1 per cent amortization, at 80 per cent of par. At this latter rate of acceptance, the Government had to issue 31,875,000 pesos' worth of bonds to discharge the obligation totaling 25,500,000 pesos. The equivalent of the former sum was calculated at £6,324,000. The firm of Baring Bros. was made fiscal agent of the issue.

This itemization concludes the study of Argentina's external borrowing up to the time of default (the reason for including the last two loans, which were dated after the collapse, has been indicated), and prepares the way for a brief summation of the principal causes and accompaniments of default.

## II. THE PERIOD OF DEFAULT

We have reviewed the course of Argentine borrowing, paying especial attention to the decade of the eighties, when it appeared that Argentina's credit was inexhaustible. Now, we come to the collapse, when the inflow of gold stopped and Argentina defaulted on the great mass of obligations incurred. A brief analysis of the causes of this collapse and the manner in which it affected Argentina and one of its principal underwriters, Baring Bros., is instructive both in itself and as an explanation of subsequent events which led, years later, to resumption of debt service.

### EFFECTS OF EXCESSIVE BORROWING

Excessive borrowing produced a situation in which Argentina was provided with gold exchange to meet obligations due abroad without having to make current adjustments in its position. If Argentina had been on a gold standard and borrowings had been absent from the picture, gold would have moved out when imports exceeded exports and, according to strict theory of international trade, prices in Argentina would have fallen, exports would have increased, and imports diminished. Subsequently, when gold flowed in in response to those increased exports, prices would have risen and imports increased while exports slackened off. But under conditions as they actually existed, Argentina was able to continue an unfavorable trade balance year after year, with imports almost constantly on the rise, without a compensating increase in exports.

### GOLD STANDARD ABANDONED

The foreign borrowings of the period studied gave rise to heavy debt-service charges and inflated imports. The result was first seen in 1885, when Argentina was forced off the gold standard, which had been in operation for less than a year and a half. The tremendous borrowings of the second half of the decade brought no fiscal or monetary improvement to Argentina. The consequences of increased debt charges and greatly expanded imports were all the more severe because of the delay in arriving at a day of reckoning.

### PREMIUM ON GOLD

Argentina was on an inconvertible paper money basis from 1885 to 1899, although it is natural to think that, with the tremendous borrowings abroad, the country could have established a currency reserve and resumed specie payments. But the monetary policy, as will be explained below, was inflationary in its tendencies, and apparently no thought was given to the necessity for reform. Despite heavy issues of paper money, bad Government finance, and consistently unfavorable trade balances, the depreciation of paper in terms of gold was not pronounced until 1889, and not severe until the year following. The evils of inconvertibility were thus obscured to Argentina while the golden inflow continued; but when loans declined in volume and then disappeared altogether, the advancing premium on gold in terms of

paper made Argentina's position in the exchange market extremely difficult. Nevertheless, no effort was made for years to stop issuing paper money.

Taken in conjunction with previous tables, especially Table 3 (p. 4), which shows the surplus of credits (net borrowings over the unfavorable trade balance) accruing to Argentina during the years of expansion, the following table, showing the gold premium and the circulation of paper money, illustrates the point made in the preceding paragraph.

TABLE 8.—PREMIUM ON GOLD AND CURRENCY IN CIRCULATION, 1883-1899

Year	Price of 1 gold peso in terms of paper pesos	Currency circulation (in paper pesos)	Year	Price of 1 gold peso in terms of paper pesos	Currency circulation (in paper pesos)
1883.....	<sup>1</sup> 1.00	41,679,445	1892.....	3.32	281,608,843
1884.....	<sup>1</sup> 1.00	48,146,469	1893.....	3.24	306,743,417
1885.....	1.37	74,820,484	1894.....	3.57	299,702,713
1886.....	1.39	89,197,516	1895.....	3.44	296,743,023
1887.....	1.35	94,070,971	1896.....	2.96	295,165,957
1888.....	1.48	129,504,971	1897.....	2.92	292,703,541
1889.....	1.91	163,547,758	1898.....	2.58	292,046,815
1890.....	2.51	245,100,332	1899.....	<sup>2</sup> 2.25	291,342,489
1891.....	3.87	261,408,483			

<sup>1</sup> At par.

<sup>2</sup> Stabilized at 2.2727.

Source: Extracto Estadístico, 1915.

TRADE WITH GREAT BRITAIN

Before considering the Guaranteed Banks Act, it is interesting to see the trade relation between Argentina and Great Britain during the period 1880 to 1889. While the latter country's investors were lending heavily to Argentina, British exports to Argentina were expanding rapidly, far outstripping imports, as shown by the following table.

TABLE 9.—BRITISH TRADE WITH ARGENTINA, 1880-1889

Year	Exports to Argentina	Imports from Argentina	Year	Exports to Argentina	Imports from Argentina
1880.....	£2,541,215	£886,628	1887.....	£6,374,127	£2,176,788
1885.....	4,760,678	1,878,921	1888.....	7,829,519	2,658,659
1886.....	5,322,280	1,646,336	1889.....	10,897,690	2,016,182

Source: London Economist.

This table, in addition to Table 2 (p. 3), gives a further insight into the character of Argentina's foreign trade. American Consul E. L. Baker (Buenos Aires) wrote in 1890 a criticism, reproduced here in part, of what he called Argentina's overtrading:

The old habit of overtrading has for years continued to distinguish the foreign trade of the Argentine Republic. One would suppose, in the midst of the monetary and financial crisis which began four years ago and which has been gradually developing in its proportions, that there would be some let-up to the bad business system of buying beyond ones means of payment, and that foreign merchants and manufacturers would have insisted, long ere this, on some curtailment of credit. But, in spite of crisis, in spite of a depreciated currency, in spite of the suspension

of specie payments and an increasing amount of irredeemable bank notes in circulation, the volume of foreign imports has continued to expand. Indeed, it has seemed to increase in inverse ratio to the ability of the country to meet the difference.

#### THE GUARANTEED BANKS ACT

Argentina suspended operation of the gold standard in 1885. Decreased borrowings, increased interest charges, and a heavy unfavorable trade balance in 1884 forced Argentina to balance its international accounts by export of gold (see Table 3, p. 4). The Bank of the Province of Buenos Aires suspended specie payments in June, 1884, but the National Bank continued redemption of paper currency in gold until relieved by a decree of January, 1885.

Subsequent decrees, in March, 1885, permitted the issuance of inconvertible currency notes, with the legal-tender privilege, by the National Bank, the Provincial Banks of Buenos Aires, Santa Fe, and Cordoba, and by a private bank in the Province of Tucuman. Table 8 (p. 24) shows a sharp increase in note circulation during 1885. From that time on, currency inflation, hand in hand with the false prosperity generated by the flood of loans from abroad, went on at a rapid pace. In spite of assurance at the time of suspension of the gold standard that the country would resume specie payments in two years, everything was done to make such a course impossible. The year 1887, Doctor Williams asserts, was the logical time for such resumption, since the gold premium was still comparatively low (35 per cent) and Argentina's position on international account was extremely favorable. But on November 3, the Guaranteed Banks Act, or free banking law, was passed. The wholesale emission of currency and unconsidered borrowing that followed the act gave further impetus to the boom and speeded the country toward financial collapse.

In brief, the act referred to provided that any bank having a capital of at least 250,000 pesos could issue notes up to 90 per cent of the capital, provided it purchased national  $4\frac{1}{2}$  per cent gold bonds to the full amount of the notes to be issued. Payment for the national bonds had to be made in gold at not less than 85, this gold to be deposited in the Bureau of Bank Inspection for two years and thereafter to be applied to the payment of the national external debt. The bonds were to be sold to meet outstanding notes of any failed bank. Reference to the summary of provincial borrowings given in Section I of this study will indicate how much of that borrowing was for the purpose of securing gold to buy national bonds for currency backing. Most of these loans were floated in 1888. The volume of currency increased by leaps and bounds. Indeed, the official figures shown in Table 8 are held by many observers to have been too small, since there were many illegal issues and reissues that were not, of course, reported. Inflation, combined with budgetary deficits and cessation of foreign loans, was accompanied by a rapidly rising premium on gold.

The Government laid the rising gold premium to speculation by gold brokers, and closed the stock exchange from February, 1889, to September of the same year. Of course, that action had no effect, and Consul Baker reported that the Government threw some 30,000,000 pesos of gold on the market in an attempt to ease the situation. According to Doctor Williams, the gold for the support of the exchange market was taken from the deposits made under the Guaranteed Banks Act, although this gold was to have been held on deposit for

two years, and thereafter used for service on the national external debt. W. R. Lawson writing in the Bankers' Magazine (London), stated that "the Celman gang looted the gold."

The London Economist reported in July, 1890, that the Argentine Government was violently attacked on the floor of the Senate for "conniving at the issue of illegal, clandestine, and fraudulent paper money by the national bank and the Provincial Bank of Buenos Aires" in the previous April, during a severe banking crisis. The Government replied by a message asking for legalization of the issuance of 19,200,000 pesos, on the ground that it had suspended the bank act at a moment's notice to save those important institutions.

The part played by mortgage cédulas in land speculation was described in Section I. The combination of cédula issues and currency inflation encouraged the speculative mania which drove prices of land and securities skyward.

### GOVERNMENT FINANCE

Argentine official financial reports do not tell the complete story. Besides ordinary budgetary items there are the autonomous institutions, for most of which reports are seldom available. For the eighties, when the favorite means of appropriation was the special law, it is not known definitely whether the reports of the finance ministers give a complete accounting of all expenditures. However, the following table showing the total actual revenues and expenditures, indicates the course of Government budgets from 1880 to 1890, inclusive. It is interesting to note that Argentine statistics dating from 1864 show budgetary deficits for every year prior to default.

TABLE 10.—ACTUAL REVENUES AND EXPENDITURES OF ARGENTINA, 1880-1890

[In paper pesos]

Year	Expenditures	Revenues	Deficit	Year	Expenditures	Revenues	Deficit
1880.....	26,919,295	19,594,306	7,324,989	1886.....	54,458,335	42,250,152	12,208,183
1881.....	28,381,224	21,345,926	7,035,298	1887.....	95,141,988	51,582,460	43,559,528
1882.....	58,007,158	26,822,320	31,184,838	1888.....	75,677,682	51,640,400	24,037,282
1883.....	44,831,378	30,050,196	14,781,182	1889.....	107,251,131	72,903,757	34,347,374
1884.....	56,440,137	37,724,374	18,715,763	1890.....	95,363,854	73,150,856	22,212,998
1885.....	55,505,660	36,416,132	19,089,528				

Source: Extracto Estadístico, 1915.

By 1889 the budgetary deficit was nearly 28 per cent greater than the entire expenditure of 1880. Loans undoubtedly played a large part in the increase of revenues during the eighties, since the great expansion of dutiable imports was fostered by borrowing. (Customs receipts constituted from 60 to 80 per cent of the ordinary revenues of the Republic.) But fast as revenues increased during the boom in foreign trade, governmental expenditures increased even faster. The story told by the mounting deficit is one of reckless extravagance.

It is difficult to reconcile the figures in Table 10 with statements made by President Celman in his message to Congress on May 8, 1888, paraphrased in the prospectus of the 4½ per cent conversion loan of that year. The President declared, among other things, that, for the first time, revenues in 1887 considerably exceeded expenditures

and that, with the revenues at the disposal of the Republic, the entire external debt could be paid in eight years, if necessary.

According to Consul Baker, the national consolidated debt totaled 107,075,511 pesos in 1881, and 336,341,442 pesos at the end of 1888. Analysis of the public-debt figures, showing the conflicts in the various official estimates, is reserved for later discussion, in connection with the external-debt question after default. The budgetary deficits are the only indication of what the floating debt must have been, and explain why the National Government called on the National Bank and the Provincial Bank of Buenos Aires many times for advances, some of which were funded by external loans.

### THE INEVITABLE COLLAPSE

It would be a mistake to say that the structure of inflation and speculation reared in Argentina fell apart without previous warning. Weakness had been clearly indicated for a long time. Indeed, as pointed out in Consul Baker's report of 1890, previously cited, the financial and monetary crisis had been continuing for four years. The reckoning was simply postponed by borrowing and inflation. The Nation (London), in July, 1888, observed:

Color has been given to the suspicion that the whole might be an unnatural inflation, to be followed by a disastrous collapse. Argentine credit, for example, has all along been comparatively low, inferior to that of Chile or Brazil. A new 5 per cent loan, negotiated in January, 1887, commanded only 85½ in London.

The Argentine Minister in London received a telegram from his home Government in March, 1890, nearly eight months before the Baring failure, which indicated that the crisis had become acute. The telegram, as reproduced in the London Economist, was as follows:

The Government has resolved to meet the economic crisis by immediately adopting energetic measures. Considerable reductions have been made in the budgeted expenditure for the present year, and the next year's budget will also show a great reduction in expenditures. The Government has ordered the suspension of all concessions with Government guaranties to railroad companies and other undertakings creating fresh obligations. The provincial government is going to be ordered to suspend the issue of mortgage cedulas, and all the Provinces will also be ordered to make no further issues of credit paper, and to abstain from contracting any external loans. The Government has resolved that all guaranties given to railway lines be paid on the 1st of July of each year, even if the accounts have not been examined and approved. The issue banks will not be allowed to increase their note circulation and the Government proposes to diminish the issues made.

The outlined program was followed only in part, and instead of retirement of currency, further issues were made. But the measures taken signified the end of speculation in Argentina. The Buenos Aires Standard of March 4, 1890, reported:

Already numerous small concerns are going to the wall; the stock in trade of retailers is daily going to the auctioneer's hammer in the central streets. Innumerable houses, comparatively speaking, in this city of half a million inhabitants, are empty, and "To Let" is printed on their doors. The commercial judges are working day and night sifting the many small failures that occur every day. These are symptoms of the dangers ahead, and the greatest distrust prevails in banking quarters. Some of the heaviest capitalists are overburdened with stocks, not to mention some new banks and companies that made their business out of *contango* and backardation differences on these stocks—a rotten business, that now leaves them with millions in unsalable stocks, daily falling more and more in value. These are gradually being thrown on the Bolsa, and the fatal results may

be imagined \* \* \*. Land speculation has completely fizzled since the stoppage of the issue of cedulas. Properties are now offering in the market at what would have been considered ridiculously low rates three months ago. Suburban sites in this city and outside hardgrass estancia lands in the national territories, are a drug on the market. There is a general liquidation going on at present, in which landowners and stockholders are most affected. The losses of both are simply colossal at the present market prices.

A financial crisis in Uruguay in April, 1890, precipitated matters in Buenos Aires and worried London observers. Buenos Aires and other parts of Argentina suffered from a monetary stringency, in spite of the heavy issues of currency, due to rapidly advancing commodity prices.

As matters grew worse, President Celman attempted to float a loan in London to meet external-debt service and other obligations due abroad. The houses to which application was made set forth certain requisite conditions, chief of which were that no subsequent new loan would be granted for 10 years, and that Argentina should effect certain fiscal reforms and cease the issuance of paper money. The implied control was resented in Argentina, and negotiations were continued only in desultory fashion. In the course of these negotiations it developed that the bankers wanted the Government directors of the National Bank ousted and others put in their places. The Minister of Finance succeeded in securing President Celman's acquiescence to this demand, but when the matter came before the Argentine cabinet, the President refused to remove the directors, and the Minister of Finance resigned. Negotiations collapsed, then were renewed, the bankers offering to lend to Argentina on the condition that no funds should leave London, but should be held there to meet Argentina's foreign commitments. Currency contraction likewise was insisted upon. These terms were refused.

The National Bank announced in June, 1890, suspension of its quarterly dividend, upon which the Economist commented that the bank's action could not be regarded otherwise than as "an indication that the financial crisis in Argentina has reached an acute stage."

In July there was a revolution in Buenos Aires, with severe street fighting resulting in more than 1,000 casualties. Shortly afterward, President Celman resigned, to be succeeded early in August, 1890, by the Vice President, Carlos Pellegrini.

The new President, shortly after assuming office, made the following statement in a newspaper interview:

The crisis grows worse and more alarming daily. The situation is most complicated, but few wish to recognize the fact. \* \* \* The country owes a great deal of money abroad and must pay it. The crisis is worse than I thought, and palliatives are of no use \* \* \*. The country owes a great deal at home, as well as abroad, so it has to encounter two liquidations, both most difficult. Industry, commerce, all social classes, production, and consumption, are all affected. With gold at 300, riches melt away, scarcity ensues, then ruin, want, and famine. Life is impossible with gold at such a premium; government can not be carried on; the people rendered desperate, may rise to secure food, and no power can resist or restrain them. The worst danger ahead is social revolution.

The want of unity in our commerce and banking organization precludes a heroic remedy, as mere honest financial administration can not be called such. Private thrift and saving might do something, but could never cure the evil radically. Even a foreign loan would be purely a temporary expedient; besides, it can not be raised at present, owing to the crisis in the London market; but that will not last long, as they all unite there in such emergencies, but here we do not. Once the English market recovers, the loan and the conversion of cedulas will both be effected. Meanwhile, the crisis grows. Personal credit is the base of all our industries; but it is now destroyed, and anemia has seized the commercial organism.

When Doctor Celman resigned, the gold premium was 206—that is, 3.06 paper pesos were required to buy 1 gold peso. When Doctor Pellegrini succeeded to the presidency in August, the premium went down to 140, but disclosure of the situation wrecked the confidence inherited from Celman's administration, and the gold premium rose to 190 in November. (The average of the gold premium in 1890 was 151, and in 1891, 287, the highest yearly average.)

President Pellegrini estimated that 155,750,000 gold pesos were required annually to meet obligations due abroad, on the basis of figures then available to him, as follows:

	Gold pesos
Interest on all governmental loans, and railway guaranties.....	23, 750, 000
Service of cedulae held abroad.....	15, 000, 000
Dividends of railways, tramways, banks, etc.....	25, 000, 000
Interest on funds employed in commercial enterprises and immigrant remittances.....	12, 000, 000
Unfavorable trade balance.....	80, 000, 000
Total.....	155, 750, 000

Even though the gold premium was advancing, President Pellegrini had to ask authorization of an issue of 60,000,000 pesos to stave off bankruptcy of the tottering National Bank and the National Mortgage Bank, as well as the city of Buenos Aires. The high premium on gold made it imperative that an arrangement be made abroad for a moratorium on the foreign-debt service, and Dr. Victorino de la Plaza was sent to London to open negotiations. On November 15, 1890, the house of Baring Bros. & Co. suspended payments.

#### FAILURE OF BARING BROTHERS

Baring Bros. & Co. had floated, according to the London Economist, more than 100,000,000 gold pesos of Argentine bonds from 1882 to 1890, and had suffered a heavy loss in connection with the Buenos Aires water supply and drainage loan, which the house had been unable to sell to the public. Baring Bros. had several undertakings on its hands, and it was remarked in the Economic Journal that "The chief of the firm appears to have thought that their command of money was so great that there was no need for the ordinary calculations and precautions."

Andreades, in his History of the Bank of England, explains that it was thought in England that the collapse of Baring Bros. caused the crisis in London, whereas the truth of the matter was that in the rush for extraordinary profits, many other firms besides Baring Bros. had incurred liabilities which to a greater or less degree exceeded the limits of prudence. The stock exchange was deeply interested in the Argentine mortgage banks, and many of the newly registered companies were founded for enterprises abroad, especially in Argentina.

Referring to the impending default by Argentina, the London Economist commented on the flotation of so many loans to that Republic by London financial houses, as follows:

We should be sorry to impugn the bona fides of any of these houses, but one of two things is obvious: Either they knew of the reckless way in which the financial administration of the country was being conducted, or they did not. If they did know, then they are certainly very much to blame for having exerted their influence to induce British investors to minister to the extravagance of the Government, while if they did not know, it is quite evident that they neither possess special means for acquiring information, nor do they deserve the reputation for special financial ability with which investors are still inclined to credit them.



The autumn of 1890 started badly, according to Andreades' description, the usual inconveniences of the autumnal drain being intensified by various issues of new shares and by the revolution in Argentina. The Bank of England again raised its discount rate to 6 per cent on November 7. There was a panicky feeling in London, and the situation grew worse as the rumor went around that Baring Bros. & Co. was in a precarious position. After a week of consultation and investigation, through the offices of the Bank of England, public announcement was made of the suspension of payments by Baring Bros. & Co., on November 15.

Governor Lidderdale, of the Bank of England, agreed to have the bank assume the obligations of Baring Bros., if it were secured against ultimate loss by a guaranty fund which was to be maintained for three years. Several banking houses subscribed to this fund, amounting at first to £5,000,000 or £6,000,000, and quickly increased to £10,000,000. News of this action calmed the market and arrested the panic. The Bank of England rate was held at 6 per cent, and a gold loan was secured from the Bank of France, which obviated the necessity for suspension of the bank act of 1844.

Comment of the London Economist on the Baring failure is of interest, as distinguishing the 1890 panic from the panic of 1866 in England.

Those who remember the panic that followed the failure of Overend, Gurney & Co., in 1866, can not but have been struck by the minor intensity of the crisis through which we have been passing since Saturday (November 15), notwithstanding the fact that it is a much bigger house that has come to grief. The week has been one of intense anxiety and acute apprehension, but the alarm has never really deepened into panic, the proof being that there has been no internal drain on the Bank of England, which is the unfailing concomitant of a true panic. For this difference in the character of the two crises one reason is that the difficulties of the Barings are altogether different from those to which the Overends were forced to succumb. The business of the Overends was rotten to the core, and the firm had been hopelessly insolvent for years before they closed their doors. The mercantile business of the Barings, on the other hand, is thoroughly sound, and there is no question whatever as to the ultimate solvency of the firm. Their assets are estimated to exceed their liabilities by several millions sterling, and their embarrassments have arisen simply from the fact that they have not taken proper care to keep those assets in a sufficiently liquid form. They have locked up so much money in South American securities, and come under such serious obligation in respect to these, that they have not sufficient funds to meet current liabilities, and have consequently been forced to seek outside assistance.

Further, instead of hiding their difficulties until a crash could not be averted, as did Overend, Gurney & Co., the Barings made a timely disclosure of the state of their affairs and, placing their position before the Bank of England, enabled the directors of that institution to take measures to ward off the most serious consequences of their downfall.

It is interesting here, before reverting to measures taken in Argentina, to recount briefly the reconstruction of the house of Baring Bros.

On November 25, 1890, a new firm, called Baring Bros. (Ltd.), was registered as a joint-stock company, with a capital of £1,000,000. Official announcement of the reorganization stated that the objects for which the new company was established were "to acquire and carry on the business of bankers, merchants, and financial agents, now carried on under the style of Baring Bros. & Co., 8 Bishopsgate Street, in the city of London, and to undertake all contracts and liabilities of the said Baring Bros. & Co., in relation to the said business." The transfer mentioned did not include any property or assets of any description, whether belonging to the firm or to the partners individually, all such property having been hypothecated to the Bank of

England. T. C. Baring, who had retired from business in 1883, disinterestedly placed his entire fortune at the disposal of the new company, of which he consented to become a director. In 1894 the guarantors were relieved from all further responsibility, and all subsequent payments devolved upon Baring Bros. (Ltd.), which has, in the words of Andreades, "quickly restored the name of Baring to its former eminence."

#### THE FUNDING LOAN OF 1891

Two features of the situation after the Baring collapse made relief measures in regard to the external debt imperative. In the first place, although the Argentine Government had heavy obligations to meet abroad in foreign currencies or in gold, its revenues were collected, for the most part, in paper pesos. The high premium on gold made the cost of gold, or of sterling, mark, and franc exchange almost prohibitive to the Government. Heavy buying in the exchange market would serve to drive the premium on gold still higher. The internal financial condition of the Government, furthermore, was precarious, with large cumulative deficits no longer offset by foreign borrowings.

Secondly, the assets of the firm of Baring Bros. had been taken over by the Bank of England and guaranteed by a fund subscribed to by the leading London financial houses. These assets included several millions sterling of Buenos Aires water supply and drainage works bonds. In order to accomplish the liquidation of Barings, therefore, it was necessary to take definite steps to rehabilitate Argentine finances. Further, it is quite probable that there were unfloted Argentine bonds in the vaults of some of the guarantors.

The logical answer to these considerations was a funding loan through which interest payments on the external debt would be met, during a certain period, by the issuance of bonds—what is commonly called payment of interest in scrip, a measure adopted by several Latin American governments in 1931 and 1932.

Negotiations for a funding bond issue were undertaken on Argentina's part by Doctor de la Plaza, the emissary who had been sent to London in the autumn of 1890 to arrange a moratorium. The other party to the proceedings was the Argentine committee (sic) headed by Baron Rothschild. The two parties agreed to a 6 per cent funding bond issue, and the terms were approved by the Argentine Congress on January 24, 1891.

The Argentine committee held its first meeting on November 27, 1890, less than a fortnight after announcement of the Baring failure. The Bank of England was represented in an unofficial capacity.

Baron Rothschild's narrative letter to the Bank of England, made public, gives a clear and comprehensive summary of the committee's action. The latter, as made public, follows in full:

LONDON, December 3, 1890.

*To the Governor of the Bank of England:*

SIR: The recent severe crisis through which the commercial community has passed has disclosed the fact that there are very large financial interests engaged in the Argentine Republic, and has made it clear to those who have joined together in facilitating the liquidation of Messrs. Barings' affairs that the result of this liquidation is dependent to a very great measure upon the future value of Argentine securities and obligations, besides which a much larger amount of English capital is engaged in the Argentine Republic, the value of which depends greatly on the rehabilitation of the exchange.

You, Sir, having been instrumental in organizing the Baring guaranty fund, naturally take a most prominent interest in the liquidation of the estate, and I believe that from that point of view you were anxious that the position of Argentine finance should be thoroughly gone into.

To meet that wish a committee composed, on the one hand, of members who have at various times taken an active part and direct interest in Argentine financial matters and, on the other hand, of members like myself, whose only justification for attending the committee consisted in their capacity as subscribers to the Baring guaranty fund, met at the Bank of England and, after having held several meetings, now beg to submit their report to you.

The situation which the committee had to face was a difficult one from the fact that in this instance it was not the debtor who approached the creditor with a view to asking his forbearance, but that it was the creditor who, of his own accord, suggests measures of relief to the debtor, which for the present, at all events, the debtor has not solicited.

The first duty of the committee has been to examine the present position of the finances of the country as set forth by Doctor Plaza, from which it would appear that, with gold at par, the National Government would be solvent.

They next examined the imports and exports of the country, the latter of which showed constantly increasing vitality, whilst the former shows that, with the suspension of railway construction a large diminution may be expected.

The committee also examined Doctor Plaza, who stated that if the Government had to buy bills on Europe to pay their debts, the premium on gold would probably go up very considerably, which would make living unbearable except for the richer classes, and might even cause a revolution.

They therefore came to the conclusion that the chief factor for the solvency of the Argentine Republic consisted in the reestablishment of the currency on a sounder basis, which is also the idea of the Government, as they sent Doctor Plaza over to try to borrow the money to pay the coupons on the next two years, so as to avoid having to purchase bills on Europe.

The committee came to the conclusion that the Government had a very valuable asset at its disposal in the shape of the customs duties, and that there were two ways in which their asset might be made available.

The Government might have borrowed privately on the customs duties.

The objection to this plan was that it would have been perpetuating a form of finance which the English portion of the committee did not approve, as it would be taking the best security the Argentine Republic has to give, and therefore placing another body of creditors in a better position than the present body while concealing the real position from the general creditors.

Therefore the committee thought that in the general interest the appended scheme<sup>1</sup> was the best one for all concerned in Argentine securities, and they believe that from the figures laid before them, if adopted, the currency of the country will be put on a sounder and more stable basis, and that, with good harvests, political tranquillity, and general prosperity, the country will be enabled after some time to resume cash payments.

The representatives of Germany and France, however, took a somewhat more sanguine view of the present position than the English members of the committee, and proposed that a sufficient sum should be advanced to the Argentine Government to enable it to continue paying the next six months' coupons, when they expected the Government would be in a better position, and they said they were willing to find their share of such an advance.

Their recommendation was coupled with a suggestion to send out an international financial delegation to study the situation in Argentina, with a view to urging upon the Government the adoption of such fiscal measures as might become urgent in the interests of all the creditors.

The English members did not approve of the idea of making a temporary advance, as they considered it most probable that at the end of six months the Argentine Government would find itself in exactly the same position as at present.

As the English members did not agree with them, the foreign representatives said that they were not prepared to carry out the operations by themselves, and retired from the committee. In conclusion, I wish to say that we confined ourselves to examining and reporting upon the Argentine national indebtedness only, as we considered that the provincial loans, the cedulas, and municipal obligations were outside the sphere of this committee.

<sup>1</sup> The plan mentioned was put into effect by law of January 23, 1891, text of which appears on p. 33. Since the provisions of the law correspond so closely to the plan submitted by the Rothschild Committee, it is not necessary to reproduce the appendix to this letter.

I have also to express in the name of the committee our thanks to Doctor Plaza for the valuable information he gave us, and for the readiness with which he answered all questions put to him.

I remain, sir, yours faithfully,

ROTHSCHILD, *Chairman.*

After negotiations between the Argentine committee, headed by Baron Rothschild, and the Argentine Government, represented by Doctor de la Plaza, it was agreed that the interest on the Argentine National Government foreign loans (excepting the public works loan of 1886-87, known as the customs loan) and the national railway guaranties were to be funded for three years, commencing July 1, 1891, into 6 per cent funding bonds, service of which was to be secured by customs revenues. It was agreed that the amount of the funding bond issue was not to exceed £15,000,000 and that cash payment of service on the national foreign debt was to be resumed after 1894. The Argentine Government, for its part, agreed not to incur any new obligations in the form of loans or guaranties while the funding arrangement was in operation. Surplus revenues during the three years that the funding plan was to be in operation should be devoted to the retirement from circulation each year of 15,000,000 pesos of national paper currency, and to the formation of a reserve fund for the amortization of the funding loan. The Argentine Government further agreed to accept coupons of the funding loan in payment of customs duties.

The agreement was sanctioned by the Argentine Congress in a law dated January 23, 1891, the text of which follows:

ARTICLE 1. The executive power is hereby authorized to issue bonds of the external debt, bearing interest at 6 per cent per annum, up to the sum of 75,000,000 gold pesos. These bonds can be issued in pounds sterling, marks, or francs, for its equivalent. The amortization of these bonds shall be made by the executive power after 3 years and within 30 years from the date of issue, either wholly or in part, and at par, giving 6 months' notice in anticipation to the bondholders.

ART. 2. The service of these bonds is hereby guaranteed by the necessary part of the import duties in the same manner as is established for the loan of 42,000,000 gold pesos of 1886, by Law No. 1737, of October, 1885. The executive power is hereby authorized to contract with the National Bank for the service of this loan.

ART. 3. The coupons of these bonds will be received at their full value in payment of the customhouse duty. Said coupons must be those falling due in the year in which they are tendered to the customhouses.

ART. 4. These bonds are destined exclusively to the payment, during the years 1891, 1892, and 1893, of the interest and amortization of the external loans and guaranties agreed to by the Nation or that it may undertake by virtue of Law No. 2765 (respecting conversion of provincial loans), and which are to be issued as they are needed for this purpose.

ART. 5. During the years in which the service of the loans is made in this form, no fresh loans can be contracted for nor any guaranty agreed to which may increase the engagements of the Nation abroad.

ART. 6. The surplus of the revenue which may result during these three years shall be forwarded to the Conversion Office, and shall be applied, first, to insure the yearly withdrawal from circulation of 15,000,000 pesos in national paper currency, and second, to the formation of a reserve fund to be applied to the amortization of this loan.

According to Article 4 of the above law, the funding loan included service on the provincial debts, under terms of Law No. 2765. This law, promulgated on October 22, 1890, comparatively soon after Doctor Pellegrini succeeded to the presidency of Argentina, was as follows:

ARTICLE 1. In the event of any of the Provinces being unable to attend to service of their external debt, the executive is authorized to assume it as a charge of the Nation, by agreement with the respective Provinces.

ART. 2. For the purpose of the above article, the National Government shall receive in payment from the respective Provinces, from the banks, and from the public works, revenue bonds and other securities which it shall consider convenient.

ART. 3. In the event of the Nation's assuming as its charge the loan of any Province, the executive shall negotiate, with the holders of provincial bonds, the conversion of provincial bonds into national 4½ per cent bonds, bearing 1 per cent annual amortization, and the executive is authorized to issue the bonds in the amount necessary to effect the conversion.

ART. 4. The executive shall give an account to Congress in its first session of the next year of the use made of the authorization conferred by this law.

A popular demonstration had forced President Celman to change the composition of his cabinet in April, 1890. London bankers, hoping for a constructive change in policy, had urged Argentina to convert the provincial debts immediately. No action was taken on the matter by President Celman, and the opinion was expressed in the press that the revolution of July paved the way toward passage of this law. The fact that most of the provincial loans were contracted to purchase 4½ per cent national bonds for currency backing under the Guaranteed Banks Act, and were secured by these national bonds went a long way toward justifying the conversion in the minds of both the proposers and the Government.

On the face of it, Law No. 2765 might be taken to mean that the solution of the provincial debt problem would be a simple matter. In fact, however, negotiations dragged on for years after the national-debt arrangement was put into operation. Details of these negotiations will be set forth in the next part of this study. On the other hand, Law No. 2765, coming as it did before default by any of the provincial governments, possibly brought on outright defaults by those entities without regard to measures of self help. (Two exceptions, in the case of certain issues of the Provinces of Buenos Aires and Entre Rios, should be noted as instances of self help, but they were short lived.)

OPERATION AND TERMINATION OF FUNDING PLAN

The funding plan was abandoned before the end of the period provided, and a new, comprehensive plan of arrangement of the national-debt question was put into operation in 1893. However, issues of funding bonds, on account of service on the national external debt, of railway guaranties, and of provincial obligations, were made during the period 1891 to 1895, as follows:

1891.....	£1, 458, 069
1892.....	2, 519, 724
1893.....	1, 906, 781
1894.....	1, 637, 666
1895.....	108, 425
Total.....	<hr/> 7, 630, 665

Expressed in gold pesos at the rate of 5.04 pesos to the pound, the above total is equivalent to 38,458,552 gold pesos. There is only a slight discrepancy between the latter figure and that (38,458,627) given in the decree of 1899, which declared the issue of funding bonds closed. The decree, dated August 29, 1899, follows:

*Considering:* 1. That by Article 1 of Law No. 2770, of January 23, 1891, the issuance of bonds of the external debt of 6 per cent interest per annum, was authorized up to the amount of 75,000,000 gold pesos;

2. That these bonds were destined exclusively to the payment, during the years 1891, 1892, and 1893, of the interest and amortization of external loans and guaranties accorded by the Nation and [of obligations] that it took to its charge by virtue of Law No. 2765, of October 22, 1890, having issued bonds in proportion to the needs of these objects;

3. That, at this date, the circulation of bonds of Law No. 2770 totals 38,458,627 gold pesos;

4. That Law No. 2765 having been superseded by the sanction of Law No. 3378 of August 8, 1896, which pertained to the arrangement of external loans of the Provinces, there is no longer pending any obligation to cover with the bonds of Law No. 2770, of January 23, 1891.

*The President of the Republic decrees:* ARTICLE 1. It is declared that Article 4 of Law No. 2770 of January 23, 1891, has been fulfilled, and that the issuance of bonds created by the same is closed, with the circulation of 38,458,627 gold pesos.

ART. 2. This shall be communicated to the Argentine legation in London and to J. S. Morgan & Co. for the purposes of cancellation to which reference is made in Article 15 of the general contract, of March 5, 1891, for the issuance of 75,000,000 gold pesos in bonds of Law No. 2770, of January 23, 1891.

With this decree the final official enactment was made with regard to the first, and unsuccessful, attempt to solve the difficulties which arose from Argentina's bond default in 1890-91. The funding loan accomplished its immediate purpose by removing from the exchange market nearly the full weight of the foreign obligations of the National Government, and by temporarily relieving the Government of the chief burden upon its revenues.

One of the features of the funding plan which led later to much heated controversy, was the omission of the large public works loan of 1886-87, the only loan prior to the funding loan itself secured by customs revenues. Service on the public works loan was met in cash during the period of operation of the funding plan. Arguments for and against the validity of the position taken in thus singling out the customs loan will be considered later.

The implied belief that conditions in Argentina would be such as to permit resuming service on the external debt by 1894 was oversanguine. Doctor Williams sums up the critical opinion of the funding loan as follows:

The authors of it [the funding arrangement] had underestimated the gravity of the crisis, supposing that the temporary relief afforded by the loan would be sufficient to enable the Government to assume the full burden of its foreign liabilities in 1894—a burden that would be augmented by the additions of the interest on the funding bonds to the previous obligations. The funding loan was at best a palliative, conceived in the spirit of the old policy which had brought Argentina to financial collapse, the policy of paying interest on old loans with new ones.

#### **BANKING FAILURES AND ESTABLISHMENT OF BANK OF THE NATION**

With certain knowledge that Argentina would not be able to meet service requirements on its foreign debt, Baring Bros. suspended payment on November 15, 1890, precipitating the crisis felt in the large money centers, particularly London. The crisis in Argentina began early in 1890, but deepened to panic in the spring and summer of 1891.

On April 7, 1891, the National Government declared the National Bank and the Bank of the Province of Buenos Aires in liquidation. The issuance of 60,000,000 pesos of currency had been insufficient to bolster up their condition; two internal loans to aid the banks—one in August, 1890, for 30,000,000 pesos, and the other in March, 1891, for 100,000,000 pesos—were failures. The National Mortgage Bank, by virtue of Government aid, good management, and drastic liquidation of many properties held, weathered the crisis and met payments

due on issues of paper-peso cedulas. Service on gold cedulas was suspended for two years, National Government internal bonds being tendered in lieu of interest during that time. The Provincial Mortgage Bank, on the other hand, collapsed. The provincial government, in April, 1891, authorized the payment of interest in cedulas in paper certificates; by July of that year, money payments on matured coupons ceased entirely, and it was not until after the turn of the century that an agreement was reached concerning the defaulted provincial cedulas.

It is evident, from Baron Rothschild's letter (see p. 31) and the funding loan law, that the London bankers placed great reliance on currency contraction as a means of rehabilitating Argentina's finances. As they apparently saw it, the gold premium was high because the note circulation was inflated; ergo, deflate the monetary stock and the gold premium would be reduced. In the words of Baron Rothschild, "It would appear that, with gold at par (i. e., the paper, internal currency, at par with gold), the National Government would be solvent."

However, the volume of currency circulation was only one of the factors influencing the premium on gold. Two other factors were (1) the budgetary deficits, which, so long as they existed, precluded fundamental improvement in banking and currency, and (2) Argentina's position on international account. Borrowings abroad had ceased and there was certainly no likelihood in 1891 of their being resumed for years to come—which, indeed, proved to be the case. Therefore, remittances abroad for debt service, corporation dividends, and similar payments, to whatever amount they might reach annually, plus other debit items, such as immigrant remittances and net tourist expenditures abroad, would have to be offset almost entirely by favorable trade balances. The volume of such favorable balances could not be predicted, nor, indeed, could it be held with certainty that favorable balances would result every year. For the reasons pointed out in Section I, the premium on gold, in terms of paper pesos, was influenced primarily by the demand for gold to meet payments abroad, and only secondarily by the volume of paper money. Doctor Williams points out instances of the gold premium falling while the volume of currency in circulation was being inflated.

It was well enough to demand currency contraction, but there were other factors that profoundly affected the situation. As a first step budgetary reform was probably more important than deflation. Without the former, the latter was practically impossible under the circumstances.

The founding of the Bank of the Nation, under the administration of Doctor Pellegrini, in 1891, was undertaken when public confidence had almost entirely disappeared. Hence, the measure resulted in further currency inflation.

Law No. 2841, promulgated October 16, 1891, created the Bank of the Nation for a period of 20 years, renewable upon legislative action, and with a capitalization of 50,000,000 paper pesos. The 15 directors were to be named by the shareholders; the president of the bank was to be chosen by the President of the Republic with consent of the Senate. The new bank was to have all the rights and prerogatives of the National Bank, then in liquidation, but the amount that it might lend to the National Government was limited to 2,000,000 paper pesos. Ten per cent of the profits was to go to the National Government.

Public subscription to the 500,000 shares of 100 pesos each was opened on April 7, 1892, and closed on June 20 of the same year, when it was seen that the public offering was a failure. Little more than one-ninth of the amount offered had been subscribed, namely, 5,647,600 pesos, but only 10,975 pesos of that amount had been paid in cash, the rest being paid in Government bonds, the 6 per cent "national patriotic loan," of April, 1891.

Consequently, the Government ordered the return of the funds received, and the Bank of the Nation became a State bank, instead of a quasi-public institution. The Government, through the Conversion Office, which had been created by law of October 7, 1890, delivered 50,000,000 pesos in currency notes to the new bank, as follows:

	Pesos
To June 30, 1892.....	12, 000, 000
In July, 1892.....	3, 000, 000
In August, 1892.....	9, 000, 000
In May, 1893.....	26, 000, 000
Total.....	50, 000, 000

The lack of public confidence in the Government and in the successor to the defunct National Bank thus produced an ironical situation. The law creating the Conversion Office provided, in its first article, that the object of the office was to attend to the gradual conversion and amortization of the paper money. It was further proposed that the Government should not issue more notes, but should retire as much as possible of those already issued and prepare the way to ultimate free conversion of notes into gold, by accumulating metallic money in the Conversion Office. Including the 50,000,000 pesos issued to provide the Bank of the Nation with capital, the Conversion Office issued 61,500,000 pesos of new notes from the time of its creation to the end of 1893. The latter date ended the nineteenth century cycle of inconvertible note issues, and in 1899 Argentina readopted the gold standard.

It can thus be seen that the provision for currency contraction in the funding-loan contract was a dead letter.

#### THE GENERAL MORATORIUM

The panic in Argentina reached its climax in the summer of 1891. The Government declared a general moratorium from July 4 to October 18. Several private banking houses failed. The gold premium soared to its highest point, 364 per cent, in the late autumn, due both to the pressure on the gold market at the conclusion of the moratorium and to the currency inflation mentioned above. Although Argentina was to feel the effects of the financial collapse to the turn of the century, 1890 and 1891 were the worst years.



### III. THE PERIOD OF ADJUSTMENT: THE NATIONAL DEBT

In its report for the year 1892, the Corporation of Foreign Bondholders (London) made the following statement:

It is important to bear in mind that the Government [of Argentina] is pledged by the agreement with the Bank of England committee [the Rothschild committee] to resume the full payment of its debt from January 1, 1894. It would ill become the council to assume that this solemn engagement will be lightly set aside, and certainly neither the council nor the committee will assent to any departure from it without the fullest deliberation and justification. The financial situation is not free from embarrassment, but the economic situation, which even in the midst of the crisis was not seriously affected, has, as a result of excellent crops, greatly improved, and it may be hoped that the prosperity thus diffused will reflect itself in the national revenue, and render easier the fulfillment of the obligations of the State.

#### BEGINNING OF NEW NEGOTIATIONS

Alarm had been felt in London ever since Doctor Romero, the Minister of Finance under President Saenz Pena (elected successor to President Pellegrini in October, 1892) had made public a report to the President, in November, 1892. In this document the Minister of Finance declared that Argentina was unable to meet service of the debt in cash. He further declared opposition to the funding plan, which he called "a disastrous system to which it is necessary to put an end, and in respect of which the Ministry of Finance, in accordance with your instructions, has hastened to initiate the necessary negotiations."

The initiation of negotiations, referred to, took the form of a letter from Doctor Romero to the Argentine Minister to Great Britain, authorizing him to arrange with the bankers to send a commission to Buenos Aires to draw up a debt settlement. For the purpose of showing the preliminary steps leading to discontinuance of the funding plan and to arrangement of the national debt, as well as to indicate how Argentina presented its case, there are reproduced, in translation, the report by Doctor Romero, with a criticism of some of his statements by his predecessor in office, Doctor Hansen, and the letter sent by Doctor Romero to the Argentine Minister to Great Britain.

#### DOCTOR ROMERO'S REPORT TO THE PRESIDENT

MR. PRESIDENT: You having stated to me your desire to know the result of the balance sheet prepared by the accountant-general, by virtue of decree of October 13 last, I present to you the original statements sent to me from the accountant's office, and I think it convenient to call your attention to some of the principal figures. Thus, your excellency will see that at the installation of the present administration the disposable funds in the treasury and on deposit in the Bank of the Nation amounted, in round numbers, to 2,417,000 paper pesos and 17,004 gold pesos, including in the former amount bills given for internal taxes which, according to the terms of those documents, must be considered as disposable funds. You will also see that at the same date the debts payable amounted to 19,954,000 paper pesos and 3,419,000 gold pesos, represented by the following obligations:

Item	Paper pesos	Gold pesos
Treasury bills	2,172,000	1,455,000
Unpaid accounts	17,782,000	1,964,000
Total	19,954,000	3,419,000

I must remark that in these figures of Government debts nothing has been included of what is owing for the ordinary service of the foreign or internal public debt, or for railway guaranties. I have only included in the obligations payable in gold one-half of 1,199,000 gold pesos owing for the port works of the capital, the other half being payable in bonds in the issue authorized by Law No. 1257, of October 27, 1882—a very onerous mode of payment, because the bonds are delivered at their market value, which is equivalent to paying in gold.

The statement of assets fills a large space in the balance sheet with weighty figures; but, in reality, they represent very little as a hope for the future, and nothing as an immediate resource. In fact, under the head of "credits difficult to recover" appear assets amounting in round numbers to 78,700,000 paper pesos and 4,197,000 gold pesos; but the debt due from the National Bank represents nine-tenths of this enormous amount, which the regulations for the liquidation of the bank has placed in the fourth category in the order of payment, which means that it may be considered as a total loss. Under the head of bonds appears the sum of 31,000,000 gold pesos, consisting chiefly of bonds of the Nation itself, or guaranteed by it, which, as well as the Central Argentine Railway shares under the same head, are in the power of the creditors of the Nation as security for direct debts of the Nation or for debts for which it is responsible. Therefore, no portion of this amount will ever be available for paying the before mentioned debts now payable. According to the balance sheet, the total amount of the public debt, foreign and internal, is 407,000,000 gold pesos and 48,700,000 paper pesos.

In the next year's budget there must figure as obligations of the Nation in order to provide for the service of the internal debt, excluding that of which the service is not made by the national treasury for expenses originating in the same service, for railway guaranties, and for other guaranties granted by special laws, 25,200,000 gold pesos and 1,514,000 paper pesos. It would be altogether useless for me to repeat what the simple enunciation of these figures demonstrates for itself irrefutably, and that is the absolute impossibility for the country to make these services in cash. Your excellency knows that the services are now made chiefly in bonds of the consolidation loan. That is to say, we are paying our debts by creating daily a more burdensome debt for the Nation—a disastrous system to which it is necessary to put an end, and in respect of which the Ministry of Finance, in accordance with your instructions, has hastened to initiate the necessary negotiations. I have also already indicated that there is a part of the public debt of which the service is not made, and it is principally that of the 4½ per cent bonds created to guarantee the issues of bank notes; but the result, all the same, is that the Nation is directly responsible for those issues. On October 31 last the total amount of bank notes issued was 282,933,985 pesos (including small note to the amount of 9,700,000 pesos).

Notwithstanding the amount of notes in circulation, an appreciation of their value is taking place with unaccustomed rapidity, which, undoubtedly, is a sign of the hopes that the country entertains concerning its own future. But it must not be forgotten that the greater the rise in value of the notes the greater will be the amount of gold which will be required for their conversion, and the greater the difficulty in fixing a stable value for the note currency. It appears to me to be convenient to mention that Doctor Pellegrini's administration indicated, as a hope of the future, a possible conversion of the note currency at the rate of 250 per cent. To redeem all those notes at par would be a proceeding which would not be in accordance with either justice or equity, and which would be equivalent to imposing a tax on those who had no notes or credits in paper in favor of the strongest holders of notes or of credits in paper money. Those who have been really prejudiced by the depreciation of the currency would certainly not be, except in very rare cases, those who would now derive benefit from a conversion at par, if it could be realized. Besides, if the conversion had to be made at par, the possibility of arriving at conversion would be postponed extraordinarily, and the Nation would find itself obliged to continue, God knows for how many years, under the régime of inconvertibility. The rate suggested by the Government of Doctor Pellegrini for a future conversion is, I think, in accordance with equity

and with the true convenience of the country, and it appears to me that prudence recommends an immediate and serious meditation on this very important matter. In that sense I submit it to your excellency's judgment.

**DOCTOR HANSEN'S CRITICISM**

This report created a sensation and was severely criticized in some quarters. Doctor Romero's predecessor in office, Doctor Hansen, prepared a reply in which he took particular exception to the estimate of the national debt. He set against Doctor Romero's total of 407,000,000 gold pesos and 48,700,000 paper pesos, a total of 294,366,000 gold pesos. Doctor Hansen's brief criticism follows:

The new Minister of Finance was doubtless animated by the most honorable intentions in his statement of the public debt, but he has evidently been misinformed by the persons who supplied him with his figures, and on this head I am in a position to point out the error, as I have had many years of experience in the finance department. In my report to Congress last August I stated the national debt as follows:

	Gold pesos
External debt.....	204, 959, 000
Internal debt.....	89, 407, 000
Total.....	294, 366, 000

This was the amount on March 31, 1892, and since then there may be 15,000,000 or 20,000,000 gold pesos to add on account of moratorium bonds and Madero Docks, but there is still a difference of about 100,000,000 gold pesos between my statement and Doctor Romero's. The error into which his excellency has fallen is seen on a moment's consideration. The board of public credit puts down the actual issue of 4½ per cent guaranteed bank bonds at 190,000,000 gold pesos, but this includes a bond of 50,000,000 gold pesos deposited with the Conversion Office as guaranty for the notes of the national bank, besides 35,000,000 gold pesos of bonds to answer for the clandestine issue of April, 1890 (afterwards made legal by Finance Minister Uriburu), and 25,000,000 gold pesos of similar bonds to guarantee issues of sundry banks which had given promissory notes to this amount. These items are, therefore, merely nominal, since the Nation was both creditor and debtor, the Nation being owner of the National Bank and holding the promissory notes of the other banks in question. So that virtually 100,000,000 gold pesos of the 4½ per cent bonds are withdrawn from circulation, and the balance is barely 90,000,000 gold pesos; in fact, it is not so much, for the Bank of Buenos Aires has delivered over 1,500,000 pesos to the National Bank, now the property of the Nation, and the treasury has also taken up 41,000,000 pesos corresponding to notes issued by the Provincial Bank of Buenos Aires and the Bank of Córdoba and which said banks have undertaken to cancel. My statement, therefore, will be found an exact exposition of the financial condition of the country.

**LETTER TO ARGENTINE MINISTER**

Doctor Romero's letter to the Argentine Minister to Great Britain was as follows:

BUENOS AIRES, *November 19, 1892.*

By order of the President of the Republic I am directed to entrust to your talent and patriotism a mission which, no doubt, you will bring to a conclusion with your usual prudence and tact.

Your excellency knows how difficult is our financial situation, and you know that we find ourselves forced to solicit from our creditors an arrangement which, with the resources and sacrifices that the country can realize, would permit us to maintain a regular administration assuring internal peace and avoidance of the dangers of a foreign war, meeting at the same time, to whatever extent possible, the services of the public debt and the guaranties which the State is obligated to pay.

If it were to satisfy all the obligations of the internal and external public debt, as well as the sum total of the guaranties, all the revenues of the Nation would scarcely suffice to cover those services alone. In such case, no surplus would remain from the public revenues to attend to the prime necessities of an economic administration and to the services most indispensable to continue the natural development of a country which lacks many necessary elements for its progress.

Before this indisputable fact the necessity of entering into an arrangement with our creditors imposes itself in a fatal manner.

Your excellency must know that we all recognize to-day that the gravest error was committed in the provisional arrangement of our debt by means of a moratorium loan. Nothing could be more disastrous for our financial situation and make more difficult future arrangements with our creditors.

The present Government does not desire to fall into analogous errors and thinks the surest manner of avoiding them is to come to a general arrangement of all these debts in a definite manner, based on the realities with which the country can reckon.

[The Government] desires equally to make these arrangements in the shortest possible time, since it is evident that the greater the issue of Morgan bonds, the greater will be the difficulties in the way of an equitable agreement. To pay debts with new debts, and more onerously, is to travel the straightest way to fearful bankruptcy.

In the interest, then, of the country and of the creditors themselves, this situation should not continue.

The same amount of the quotation of the moratorium loan, which in any other circumstance would be pleasing to us, to-day alarms us and we regard it with grave misgiving. It indicates to us that our creditors hope to receive more of it [the loan] than we can safely give.

This has induced the President, who has been scarcely one month at the head of the Government, to preoccupy himself seriously in seeking a definite solution of a situation which, at the termination of the moratorium loan, could not be continued a single day. The country will not have the wherewithal to meet its service in cash, neither entirely nor perhaps even to one-half of the amount of its obligations.

Thus, the Government does not believe that it ought to delay one instant more in putting an end to a situation which is aggravated day by day, since the debt is constantly increased by the issuance of Morgan loan bonds; and thinks it will fail in its duty if it does not now come to an understanding with the State's creditors by celebrating an arrangement which permits us to pay integrally their capital and a certain sum of their interest, leaving the country with means to avoid its ruin, which would be likewise their [the creditors'] ruin.

But this arrangement must be made here. It is impossible that any commissioned person can treat this matter or come to convenient terms outside the place and the atmosphere in which the facts are appreciated, and where knowledge exists of the data and the antecedents which necessarily must be taken into account and must serve as the basis for any arrangement.

The mission, then, that the Government entrusts to your excellency's discretion and prudence is to succeed in getting our creditors to send one or more commissioners to reach an agreement.

Our real creditors are, of course, the holders of the bonds issued; but it is indisputable that the issuing houses or those charged with making the service of these bonds are the ones who are called upon to exercise that representation, and that the arrangements which the Government makes with them would be accepted by all the bondholders.

To get in touch with those houses and bring about an arrangement to commission their representatives here or to send special commissioners to represent them, is the delicate and difficult mission which is entrusted to your excellency's known skill and tact.

The form and manner in which your excellency ought to fulfill this mission is completely a matter for your judgment and discretion.

Only permit me to suggest to your excellency the advantage, if need be, of your excellency's making clear to our creditors the urgency of resolving this situation as soon as possible, that not a moment ought to be lost, because the Government is warned of the true situation of the country; if the creditors do not desire to enter into those negotiations or attempt to postpone them, perhaps it [the Government] would be obliged, to its great regret, to dictate resolutions which would hinder, at least, the increase of our debt in alarming proportions and conditions, since it has already the conviction that it will be impossible to meet, at the end of 1893, the service of its external debt and of the other obligations which weigh on the treasury.

Therefore, the dictates of its own integrity impose on the Government the duty of not consenting to an increase of the debt which it knows with all assurance could not be satisfied in the future. This justifies the urgency with which I address your excellency and allows me to ask that your preferred attention be dedicated to this matter.

Trusting that your excellency will place at the service of so delicate a matter all the effort of your recognized skill for the interests of the country, I am pleased to repeat to your excellency the assurances of my most distinguished consideration.

J. J. ROMERO.

#### ACTION OF THE CORPORATION OF FOREIGN BONDHOLDERS

As a result of the report of the Minister of Finance to the President of the Republic and of his directions to the Argentine minister in London, the council of the Corporation of Foreign Bondholders summoned a meeting of the holders of Argentine bonds to consider steps to protect their interests. At a general meeting of the bondholders held in London, January 26, 1893, a resolution was passed confirming the appointment of a committee to represent them, and five days later the council, at the request of this committee, addressed a letter to the President of Argentina, as follows:

JANUARY 31, 1893.

SIR: As president of the council of foreign bondholders, I have the honor to acquaint your excellency, that at a general meeting of holders of Argentine securities, convened by the council, at the request of a large number of bondholders, and held on the 26th instant, a resolution was adopted appointing a committee having for its object the protection and representation of the interests of the various classes of Argentine national creditors.

A copy of this resolution is herewith enclosed. In conveying this information to your excellency, I am requested by the council and newly appointed committee to tender their services to you, and to express at the same time their desire to cooperate cordially with your excellency in upholding the credit of the confederation abroad. The fact that the intervention of the council has been invoked by the bondholders does not imply any doubt on their part of the loyal intention of the Argentine Confederation to resume cash payments on the termination, at the end of this year, of the temporary arrangement concluded in 1891 with the committee presided over by Lord Rothschild. I may also inform your excellency that the council of foreign bondholders is a recognized institution of long standing in this city, established by charter for the purpose of representing the interests of creditors of foreign governments, and not that of profit.

JOHN LUBBOCK, *Chairman.*

#### THE ARRANGEMENT OF THE DEBT

However, the arrangement of the national debt was accomplished neither through the medium of the Corporation of Foreign Bondholders nor by the bondholders' committee, but through action initiated by Baring Bros. and completed by the Rothschild committee, which had conceived the funding plan.

#### EARLY NEGOTIATIONS

When the Argentine Minister to Great Britain invited the issuing houses in England and on the Continent to send commissioners to Buenos Aires to discuss the bases of a new arrangement, all houses declined the invitation. Later on, however, Baring Bros., through their representatives in Buenos Aires, entered into parleys with the Argentine Government, the result of which was communicated to Lord Rothschild in the following letter:

LONDON, April 18, 1893.

In consequence of a letter addressed in January last to English houses which had issued Argentine loans, by Señor Dominguez, the Argentine Minister in London, our representative in Buenos Aires has for some time been in communication with Doctor Romero, Minister of Finance, who expressed himself anxious to come to some settlement of the external debt. After many interviews during the last

two months our representative now informs us by cable that Doctor Romero offers to pay to the holders of the external debt, from July 1, 1893, a yearly sum of £1,500,000, as interest on the loans specified in the annexed list, all sinking funds being suspended. The Finance Minister declares that this is the utmost that the country can afford to pay at present, but that if the bondholders were willing to accept for the present this offer he would recommend his Government to undertake to resume full interest from July 1, 1898, and to resume the sinking funds from January 1, 1901. In view of our present position toward the bondholders, we feel bound to place this offer before them, and shall therefore be much obliged to you if you will communicate it to your committee with a view to reply being made to the minister. Doctor Romero is very anxious to substitute payment in cash for the further issue of funding bonds, and suggests that the apportionment of the yearly sum of £1,500,000 be arranged in London by the bondholders.

JOHN BARING, *Director.*

The Rothschild committee continued the negotiations thus begun by Baring Bros. Early in June Doctor Romero resigned and a new cabinet was formed with Doctor Avellaneda as Minister of Finance. At first it was feared in London that this change would prevent a successful conclusion to Doctor Romero's plan. But on June 6 it was announced that the Rothschild committee had been able to secure a concession of £65,000 in favor of the bondholders, in addition to the £1,500,000 mentioned above. This additional sum made possible a more convenient and equitable division of services among the various issues than would otherwise have been possible.

#### BASES OF SETTLEMENT

As recorded by the Corporation of Foreign Bondholders, the following preliminary bases of settlement were arrived at: (1) That the Argentine Government should remit annually to the Bank of England £1,565,000 for the first five years and the full service of the debt for the sixth year; (2) after the sixth year, payment in full of all loans to be resumed through the original issuing houses; (3) for the first five years the interest on the 5 per cent customs loan of 1886 to be reduced to 4 per cent, on the 5 per cent waterworks loan to 4 per cent, and on the 6 per cent funding loan to 5 per cent, all other loans receiving 60 per cent of the face value of the coupons; (4) the extra funds remitted by the Government in the sixth year to be applied, in the first place, to repay all the deductions made from the 1886 loan, and in the second place to the repayment, as far as the funds will go, of the deductions made from the funding loan; and (5) the sinking fund on all the loans to be suspended until January 1, 1901.

On June 19, 1893, these bases of settlement were submitted to a general meeting of bondholders and were approved by unanimous resolution.<sup>1</sup>

<sup>1</sup> The preferential treatment accorded the two loans especially secured by customs receipts occasioned a great deal of controversy. Inasmuch as the customs receipts constituted from 60 to 80 per cent of the general revenues, it was maintained by holders of other loans that a customs receipts guaranty was no more specific than the security of general revenues, inasmuch as they were practically identical. Some loans had no specified guaranty, but the original public credit law had provided that all loans recognized by the Government were guaranteed by all revenues, direct and indirect, current and future, and by all assets, including real property. The best statement of this case is to be found in *The Argentine Problem*, by W. R. Lawson, *Banker's Magazine* (London), January-June, 1893, p. 415, et. seq. Mr. Lawson stated in one place, "The issuing houses responsible for the 1886 loan had made this question of priority a *sine qua non* (in 1891) and opposition would have been fatal to the whole [funding] scheme. The Rothschild committee were in supreme control of the situation, and whatever they did was not only right, but inevitable. \* \* \*. Any hardship inflicted on individuals was expected to be borne cheerfully for the general good \* \* \*. The point at issue was only compromised for the time being, and not settled." Whatever weight the arguments of the holders of bonds which had not been secured especially by customs receipts may have had, the question was finally settled on the priority basis, which forms an interesting precedent.

THE ROMERO ARRANGEMENT

The Rothschild committee was authorized by the meeting to undertake the necessary negotiations for carrying the plan into effect. A definite arrangement of the debt, known as the "Arreglo Romero," or the Romero arrangement, was concluded with the Argentine minister in London. The plan takes its name from the Minister of Finance who proposed it. (Text of the Arreglo Romero is given in an appendix to this study.)

The arrangement was ratified by the Argentine Congress on December 14, 1893, and was immediately put into operation, with payment in cash of the January coupons on the adjusted basis. It appears that funding bonds continued to be issued up to that time instead of beginning cash payments on July 12, as provided in the Arreglo Romero. This was due to the delay in ratification by the Argentine Congress. Thus, it may be said that the funding plan was discarded before its termination, but actually it continued to the date originally fixed. The following two tables, taken from the Corporation of Foreign Bondholders' report for 1893, show the loans affected by the arrangement and how the plan was to work.

TABLE 11.—LOANS INVOLVED IN ARREGLO ROMERO

Denomination	Date	Issuing house	Amount issued	Outstanding at time of agreement
1. 6 per cent City of Buenos Aires	1824	Baring Bros.	£1,000,000	£166,257
2. 6 per cent railway	1881	C. de Murietta y Cia	2,450,000	375,440
3. 5 per cent Banco Nacional	1884	Baring Bros.	1,714,200	1,471,600
4. 5 per cent public works	1886-87	Baring Bros. & J. S. Morgan	8,333,000	7,582,000
5. 5 per cent Banco Nacional	1887	Diskonto Gesellschaft	2,017,362	1,887,301
6. 4½ per cent internal conversion.	1888	Baring Bros.	3,942,162	3,674,067
7. 5 per cent railway, 1st	1887-88	C. de Murietta y Cia	3,968,200	3,768,100
8. 5 per cent railway, 2d	1890	J. S. Morgan (Banco Nacional)	2,976,000	2,863,680
9. 5 per cent treasury conversion.	1887	C. de Murietta y Cia	624,000	585,150
10. 4½ per cent conversion	1889	Baring Bros.	5,290,000	5,030,060
11. 3½ per cent conversion	1889	Stern Bros.	2,659,500	2,447,280
12. 5 per cent Port of Buenos Aires		Banco de Londres y Rio de la Plata.	2,000,000	1,384,700
13. 5 per cent water works	1892	Baring Bros.	6,324,000	6,324,400
14. 6 per cent funding	1891	J. S. Morgan	7,630,680	6,593,000
Total			50,929,104	44,152,975
Converted to gold pesos			256,682,684	222,530,994

TABLE 12.—SCHEDULE OF PAYMENTS UNDER ARREGLO ROMERO

Date	How to be distributed
From July 12, 1893, to July 12, 1898 (£1,565,000 per annum).	1. Four per cent per annum interest on the loan No. 4 in Table 11.
	2. Four per cent per annum interest on the loan No. 13 in Table 11.
	3. Five per cent per annum interest on the loan No. 14 in Table 11.
	4. On the other loans listed in Table 11, 60 per cent of the interest which was payable thereon at the time the payment in funding bonds was commenced.
From July 12, 1898, to July 12, 1899	1. Five per cent (being full interest for the year) to the holders of bonds of loan No. 4.
	2. The payments to the various holders of bonds excepting No. 4 as in the previous five years.
	3. A sum sufficient to recoup to the holders of bonds of loan No. 4 the amount (i. e., 1 per cent per annum) deducted from their interest during the previous five years.
	4. The balance remaining unappropriated to the holders of bonds of loan No. 14 toward arrears of interest.
From July 12, 1899, to January 12, 1901	The full interest due on every class of bond composing the national external debt.
From January 12, 1901, during the currency of the loans.	The full interest on every class of bond composing the national external debt, and the sinking fund in every case as provided by the conditions of issue.

**RESUMPTION OF FULL PAYMENT OF INTEREST ON NATIONAL  
EXTERNAL DEBT**

The partial payment of interest on the national external debt was to have run to July 12, 1898, on the basis shown in Table 11, but in March, 1897, the Rothschild committee received the following letter from the Argentine minister in London:

MARCH 29, 1897.

I have the honor to inform you, as president of the committee which was formed to negotiate with the Government of the Argentine Republic as to the method of payment of interest on its external debt, that the financial and economic situation of the country having improved, and the Argentine Government being desirous that the bondholders should participate in this improvement, the President of the Republic in general council of ministers has just decreed that the full payment of the interest on the 14 loans mentioned in the agreement of July 3, 1893, should be resumed one year before the time stipulated in the said agreement, and that the sinking fund on these loans shall commence on January 12, 1901, as was arranged. By a telegram I have received from the Minister of Finance, I am advised that the agreement of July 3, 1893, is modified in the following form:

1. The payment of the coupons falling due up to July 12, 1897, inclusive, will continue to be made as hitherto.
2. From July 12, 1897, to July 12, 1898, inclusive, there will be remitted to the Bank of England the full amount of the coupons of the 14 loans, to be distributed to the bondholders in the manner arranged by the committee with them.
3. From July 12, 1898, to July 12, 1901, inclusive, the Argentine Government will begin to remit direct again to the respective agents of the said 14 loans, the full amount of the coupons.
4. From January 12, 1901, the full service of interest and sinking fund on the 14 loans will be resumed.

Requesting you to kindly communicate to the parties concerned this decision of the Government, which I have no doubt will be received with satisfaction by the bondholders, I have the honor to repeat the expression of my greatest respect.

LUIS L. DOMINGUEZ.

The default of service on the national external debt and the subsequent settlement resulted in the following: (1) The bondholders had to accept new bonds in payment for 2½ to 3 years' interest; (2) they had to accept for 83⅓ to 60 per cent of the interest due for 3½ to 4 years (during 1897 to 1898 the full face value of the deferred interest certificates on the 5 per cent customs loan of 1886-87 and about 83 per cent of the face value of the deferred interest certificates on the 6 per cent funding loan were paid).

The minister's announcement was received with satisfaction by many, but was criticized in some quarters. For example, the *Bankers' Magazine* (London) stated that, with the events of the past still in view, the announcement might well fail to convince bondholders of Argentina's future financial stability. "It is a well-known fact," the article further stated, "that right up to date the country's finances continue to show considerable annual deficits, and by many the opinion has been expressed that the immediate full resumption of payments is more than the condition of the country's finances warrants."

The following table, showing ordinary revenues and expenditures, as reported by the Government, in the period 1891 to 1900, at least partially justifies the statement quoted above.



TABLE 13.—ORDINARY REVENUES AND EXPENDITURES, 1891-1900 <sup>1</sup>

[000's omitted]

Year	Revenues			Expenditures			Sur- plus (+) or def- icit (-) paper pesos
	Paper pesos	Gold pesos	Total paper pesos	Paper pesos	Gold pesos	Total paper pesos	
1891.....	73,537	497	75,461	46,240	21,642	129,996	-54,535
1892.....	103,757	1,345	108,222	48,151	24,240	128,627	-20,405
1893.....	21,747	31,864	124,986	62,411	18,609	122,995	+ 1,991
1894.....	21,143	28,256	122,016	72,015	19,950	143,237	-21,221
1895.....	28,958	29,806	131,490	83,933	24,165	167,062	-35,572
1896.....	29,468	32,053	124,345	92,122	46,891	230,920	-106,575
1897.....	61,036	30,466	149,997	93,516	29,215	178,825	-28,826
1898.....	49,744	33,808	136,969	119,153	74,820	312,188	-175,219
1899.....	167,387	-----	167,387	175,792	-----	175,792	-8,405
1900.....	148,406	-----	148,406	158,239	-----	158,239	-9,833

<sup>1</sup> During the period 1891 to 1898 revenues and expenditures were reported partly in gold pesos and partly in paper pesos, as shown. Stabilization of the paper peso in terms of a fixed relationship to the gold peso was effected in 1899; since that time revenues and expenditures have always been stated in paper pesos. During inconvertibility the gold peso was at a premium over the paper peso. This premium fluctuated over a wide range. The gold figures given in the table have been converted to paper at the average premium for each year. The gold premium for 1891, for example, was 287 per cent, which means that 3.87 paper pesos were required to buy 1 gold peso. Hence, the gold peso figures shown for 1891 were multiplied by 3.87 to convert them to paper pesos. The average annual premium on gold from 1891 through 1899 (the year of stabilization at 2.27 paper pesos to 1 gold peso) follows: 1891, 287 per cent; 1892, 232 per cent; 1893, 224 per cent; 1894, 257 per cent; 1895, 244 per cent; 1896, 196 per cent; 1897, 191 per cent; 1898, 158 per cent; 1899, 125 per cent.

Source: Extracto Estadístico, 1915.

Much more can be learned of the treasury situation during the 10 years 1891 to 1900, by examining the income statements for each year as reported by the Ministry of Finance.

The extraordinarily large deficits in 1896 and 1898, according to the reports of the Minister of Finance, were due in part to the appropriations for military and naval expenditures, in view of the boundary dispute with Chile. Additions to the Argentine fleet in the three years 1896 to 1898, cost 17,855,000 gold pesos, and other expenditures in preparation for war brought the total for the period 1895 to 1898 up to 31,976,000 gold pesos. The dispute was finally settled by British arbitration.

Internal loans and three short-term foreign bankers' loans were secured by Argentina to cover the heavy deficits of these years. Baring Bros. advanced £200,000 in 1897, £400,000 in 1898, and £800,000 (6 per cent obligations maturing in two years) for redemption of the Puerto Madero bonds then in the hands of the Buenos Aires harbor works contractor. The internal loans floated from 1894 to 1898, inclusive, totaled 86,000,000 paper pesos.

The payment of interest on the national external debt and of the railway guaranties during 1891 to 1893 (the guaranties through 1894) in funding bonds, and later the issuance of railway rescission bonds, and the assumption of provincial external debt by the National Government, increased the national debt and the service due thereon. With this increased burden and with the budgetary deficits indicated, the financial position of the National Government was none too good in 1897.

However, the statement credited to the Bankers' Magazine was apparently made without taking other important factors into consideration. Reference is made to the economic elements in the situation, which were analyzed by Doctor Williams in his book, *Argentine International Trade Under Inconvertible Paper Money: 1880-1900*.

Argentina's position after the panic years may be better understood after a summary exposition of the chief items entering into the balancing of international payments during that period.

#### BALANCE OF INTERNATIONAL PAYMENTS AFTER THE PANIC

Table 3 (p. 4) showed the principal items in the balance of international payments in the period 1881 to 1891, and the comments thereon indicated the reason for Argentina's inability to meet payments due abroad. A sentence from that discussion may be repeated here: "In other words, proceeds of the huge volume of loans made to Argentina during the years 1886 to 1889 were, for the most part, expended, and the means of continuing payment of debt service, at least by the governmental entities, were not available after cessation of foreign loans."

In the period of heavy foreign lending, Argentina lived on its borrowings, speaking from the standpoint of payments on international account, and the balance of foreign trade was unfavorable. After 1890 Argentina entered a long period of favorable trade balances, which were to prove its salvation. After the severe drop in the panic year, 1891, Argentina's imports remained fairly constant, with the exception of 1896. After the poor crop of 1897, due to the locust pest, exports in 1898 and 1899 climbed to new records, while the volume of imports increased at a much slower rate.

TABLE 14.—BALANCE OF FOREIGN TRADE, 1891-1900

[Thousands of gold pesos]

Year	Exports	Imports	Balance	Year	Exports	Imports	Balance
1891.....	103, 219	67, 208	+36, 011	1896.....	116, 802	112, 164	+4, 638
1892.....	113, 370	91, 481	+21, 889	1897.....	101, 169	98, 289	+2, 880
1893.....	94, 090	96, 224	-2, 133	1898.....	133, 829	107, 429	+26, 400
1894.....	101, 688	92, 789	+8, 899	1899.....	184, 918	116, 851	+68, 067
1895.....	120, 068	95, 096	+24, 971	1900.....	154, 600	113, 485	+41, 115

Source: Extracto Estadístico, 1915.

Omitting 1891, which was treated as a part of the first period, in Section I, the net favorable trade balance for the period given in Table 14 was 196,726,000 gold pesos, according to the Government trade statistics. This sum more than offset the payments due abroad for service of foreign borrowings, public and private, less amounts of new borrowings, as shown in the following table:

TABLE 15.—PRINCIPAL ITEMS IN THE BALANCE OF PAYMENTS, 1892-1900

[Thousands of gold pesos]

Year	Trade balance	Net borrowings <sup>1</sup>	Combina- tion of preceding columns	Year	Trade balance	Net borrowings <sup>1</sup>	Combina- tion of preceding columns
1892.....	+21, 889	-15, 873	+6, 016	1897.....	+2, 880	-5, 690	-2, 810
1893.....	-2, 133	-20, 130	-22, 263	1898.....	+26, 400	-4, 467	+21, 933
1894.....	+8, 889	-30, 577	-21, 688	1899.....	+68, 067	-29, 732	+38, 335
1895.....	+24, 971	-20, 952	+4, 019	1900.....	+41, 115	-31, 033	+10, 082
1896.....	+4, 638	-2, 719	+1, 919				

<sup>1</sup> "Net borrowings" here is taken to mean the excess (+), or deficit (-), of the amounts realized from borrowings abroad over payments made abroad on account of interest, redemption, dividends, etc.

Source: Argentine International Trade Under Inconvertible Paper Money: 1880-1900, by J. H. Williams.

The foregoing table indicates that the net favorable trade balance for the 9-year period more than offset the net payments made abroad on account of interest, redemption, and dividends on public and private borrowings, by 35,543,000 gold pesos. Although the reservations on account of improper evaluation of imports and exports, immigrant remittances and tourist expenditures and other items mentioned in the paragraphs following Table 3, may have been operative in the period 1892 to 1900, estimates are not available to warrant further comment here. Doctor Williams concludes, however, from the fact that there was a net excess of imports over exports of gold and silver during the nineties that Argentina enjoyed a favorable position on international account, as indicated in Table 15. The amount of the net imports of gold and silver for the period 1892 to 1900 was reported by the Government as 29,675,000 gold pesos.

No new long-term governmental loans were placed abroad for 14 years after 1889. An undetermined part of the internal loans issued by the National Government in the nineties, however, was subscribed abroad, and private foreign investment was resumed early in that period. Doctor Williams estimates that the internal governmental loans subscribed abroad, Government short-term loans, and private investment by foreigners, totaled less than 19,000,000 gold pesos in the years 1892 to 1894, inclusive. In 1895 the total amount of capital imports was over 17,000,000 gold pesos, and in 1896 it amounted to over 37,000,000 gold pesos. The peak was in 1898, when the total reached 46,000,000 gold pesos, almost the same as that estimated for 1883. But in 1899 and 1900 the inflow of capital diminished. Borrowings in the 9-year period totaled approximately 210,000,000 gold pesos. Service on total borrowings remitted during the same period totaled approximately 371,173,000 gold pesos. The favorable trade balance totaled 196,726,000 gold pesos.

The important points in this brief discussion are (1) that Argentina showed large favorable trade balances, and (2) that although there was no new long-term governmental borrowing abroad and an almost negligible amount of governmental short-term borrowing abroad there was a resumption of private investment. Such investment, both British and Continental, chiefly German, showed a moderate increase in loans for railroads and new capital for tramways, gas and electric plants, warehouses, drainage and waterworks, trading companies, and banks. Movement of funds throughout the period 1892 to 1900 was free from official restriction. The fluctuations of the gold premium made outflow of funds for dividends and other purposes very difficult at times, but after 1895 the yearly average of the gold premium showed a steady decline. (See footnote to Table 13.)

The volume of note circulation was fairly constant after 1895, so that the fall in the premium on gold (in terms of paper currency) can be traced chiefly to the improved position on international account. The reduced premium, 33 points lower in 1897 than in 1893, 66 points lower in 1898 than in 1893, and nearly 100 points lower in 1899 than in the year of adoption of the Arreglo Romero, made remittances by the Argentine Government abroad much easier. The statement made by the Rothschild committee to the Bank of England, that "with gold at par, the National Government would be solvent," was perhaps too strong a statement in 1891, but it did clearly indicate that, so long as the adverse foreign-exchange situation (combined with heavy budget-

ary deficits) continued, Argentina would be unable to meet its debt service due abroad.

### COMMODITY EXPORTS IN ARGENTINE RECOVERY

It is sometimes said that Argentine recovery was based on rising prices abroad for its agricultural commodities and on excellent crops. This statement needs qualifications, as a brief review of the course of the three chief export commodities, wool, wheat, and corn, will show.

*Wool.*—The sheep ranchers were, generally speaking, men of means, who could afford to hold a wool crop when prices were unfavorable. Thus, in 1891, when the gold premium dropped sharply late in the year, a large volume of wool was stored and was held until 1892, when the quantity exported was unusually large (155,000 tons, as compared with 139,000 tons in 1891). The falling prices in Europe during 1890 to 1895 caused a decline in the value of the wool trade. In the last five years of the century, prices abroad were rising and the wool trade went through the most prosperous period in Argentine history, despite the fact that the gold premium was falling, a phenomenon which would be expected to discourage exports.

*Wheat.*—Cereal farmers, on the other hand, had to export their product regardless of price, due to their less favorable economic position as individuals. The great railway expansion, heavy immigration, and the land boom of the eighties had combined to increase the area of land under cereal cultivation. As the line of wheat cultivation advanced with the railroad and the immigrant farmer, the sheep country receded farther to the west and north and to the southern part of the Province of Buenos Aires. By 1904, wheat became the chief export of Argentina, displacing wool in that position. According to Doctor Williams's study, another factor tending to increase the export of wheat was the improvement in methods of cultivation and of shipment. In the first half of the nineties the rising gold premium is found to have been still another factor in stimulating the export of wheat, particularly in 1891 and 1894. In 1895 and 1896 locusts damaged the wheat crop, and in 1897 this pest almost completely destroyed it. Thereafter, the value of the wheat exported grew, not because of rising prices for that commodity abroad but because of the increasing volume of wheat raised and exported. While wool prices abroad rose in the latter half of the nineties, wheat prices were often low, because of bountiful crops elsewhere in the world.

*Corn.*—This commodity was subject in great degree to vagaries of climate and pest during the nineties. The total volume of corn exported in the latter half of the decade far outstripped the volume of exports during the first half. The following chronological characterization shows how the corn crop varied: 1890, unusually good crop; 1891, three-fourths of the crop destroyed by locusts; 1892, fair crop; 1893 and 1894, crop failures; 1895 and 1896, abundant crops and exports at the highest point of the decade; 1897, crop spoiled by locusts; 1898 and 1899, although the gold premium fell rapidly, corn exports rose because crops were good.

It was apparently not so much the price of cereals as the size of the crops that was important in Argentina's recovery in the late years of the century. Rising prices in the case of wool (which, however, had been improved in grade) was undoubtedly important, especially in offsetting the falling premium on gold.

It may be concluded that Argentina was undoubtedly placed under a strain by resuming service on the debt in 1897, in view of the extremely poor crops in that year. But the bumper crops of the two following years and the monetary stabilization in 1899 retrieved the situation. By its resumption of full interest service in anticipation of the date set by the Arreglo Romero, Argentina displayed an admirable courage and convincing evidence of the desire to rehabilitate the country's credit abroad.

**THE RAILWAY RESCISSION LOAN**

Enough has been said in this study about railroad guaranties to have given the impression that they were a burden to the National Government. Efforts were made to fund these guaranties, and on January 14, 1896, a law was passed approving ad referendum contracts entered into between the National Government and various Argentine railways and providing for issuance of bonds in the amount of 50,000,000 gold pesos, bearing 4 per cent interest and one-half of 1 per cent amortization. By virtue of this and subsequent laws (those of December 31, 1898, and January 9, 1899, and the decree of November 30, 1899), contracts were approved which resulted in the direct delivery to 10 railroads of a total of 52,525,761 gold pesos in national bonds, as follows:

	Gold pesos
Nord-Este Argentino.....	11, 441, 925
Bahia Blanca y Nord-Oeste.....	2, 251, 502
Buenos Aires al Pacifico.....	1, 890, 405
Villa Maria y Rufino.....	1, 840, 657
Nord-Oeste Argentino.....	2, 124, 127
Gran Oeste Argentino.....	2, 500, 000
San Cristobal a Tucuman.....	12, 297, 145
Central Cordoba.....	8, 000, 000
Transandino.....	6, 400, 000
Argentino del Este.....	3, 780, 000
Total.....	52, 525, 761

In addition to this sum, bonds were issued in the amounts of 1,474,704 gold pesos for "miscellaneous items" and 4,499,319 gold pesos for "available funds in Europe." The last-named bonds remained the property of the Government. The total of the bonds issued was thus 58,499,784 gold pesos. Their service was to be effected through Baring Bros.

There was a quid pro quo in each of the contracts between the Government and the railways. The delivery of bonds rescinded all claims against the Government, and the railroads agreed not to place any tariff schedules in effect without securing executive approval. In some instances the Government acquired stock in the companies, and in some cases the railroads agreed to complete certain extensions.

Besides the settlement of the national external debt problem and rescission of railway guaranties, the National Government employed its credit in untangling the mass of provincial defaults. The treatment of this phase of readjustment is contained in the next section of this study.

#### IV. THE PERIOD OF READJUSTMENT: PROVINCIAL AND MUNICIPAL DEBTS

In 1900 the council of the Corporation of Foreign Bondholders reported the adjustment of all foreign debts of the 10 Provinces which floated loans abroad during the eighties. (By Law No. 2765 of October 22, 1890, the National Government had assumed all the provincial external loans in default, and was empowered to deal directly with the holders of provincial bonds in any conversion plan.) Except in the cases of provincial railway loans, National Government bonds were delivered to provincial creditors from 1897 to 1900, in amounts usually dependent upon the creditor status of the Provinces toward the National Government. This procedure involved scaling down of principal and accrued interest. Representatives of the bondholders entered into protracted negotiations in attempts to improve the terms of settlement but, in the main, the terms as offered by the National Government were accepted.

Table 16, following, shows for each Province the amount of the National Government bonds issued in settlement of provincial debts, the total of the original issues, and the total outstanding at the end of 1891, after all provincial issues had gone into default. The amount of national bonds received by investors in the issues of the Provinces was £4,228,367 (21,310,970 gold pesos) less than the total nominal value of the provincial bonds outstanding at the end of 1891. This amount represents only part of the bondholders' sacrifice in the settlements, since they lost approximately £9,000,000<sup>1</sup> (45,360,000 gold pesos) in accrued interest.

National bonds issued for the settlement of provincial debts bear only 4 per cent interest, whereas the provincial bonds bore 6 per cent in the majority of instances and 5 per cent in others.

##### BASIS OF ADJUSTMENTS

Law No. 3378, of August 8, 1896, was the basis for most of the provincial debt adjustments. Its text is as follows:

ARTICLE 1. The executive is authorized to draw up ad referendum agreements with the creditors of the Nation for the unification of its external debts, including the bonds created by Law No. 3350, of January 14, 1896, and those which must be delivered in payment of the external debts of the Provinces.

ART. 2. The Provinces possessing 4½ per cent bonds which arrange their external debts with their creditors may demand of the executive the delivery of 4 per cent bonds to the amount of 4½ per cent bonds (those which guaranteed provincial issues of paper money) deposited in the Conversion Office, the latter bonds and the currency issues remaining the property of the National Government.

ART. 3. The executive is authorized to deliver to the external creditors of the Province of Buenos Aires up to 34,000,000 gold pesos of 4 per cent bonds in complete payment and cancellation of the entire external debt of that Province, principal and interest up to December 31, 1896, under the conditions agreed to between the executive and the Province.

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<sup>1</sup> This estimate was made on a conservative basis by taking eight years as the average length of time that bonds were in default and by using as the average rate of interest 5.5 per cent. Multiplying the amount outstanding at the end of 1891, therefore, by 44 per cent (8 times 5.5) yields the sum of £9,683,159.

ART. 4. The executive is authorized to deliver to the external creditors of the Province of Cordoba up to 11,000,000 gold pesos of 4 per cent bonds in complete payment and cancellation of all its external debt, principal and interest up to December 31, 1896, under the conditions agreed to between the executive and the Province.

ART. 5. The executive shall deliver to Morton, Rose & Co., in cancellation of the loans of 1883-84 and 1888 of the Province of Santa Fe and of all the accrued interest up to December 31, 1896, 4 per cent external bonds, bearing one-half of 1 per cent cumulative amortization in amount equal to that of the 4½ per cent bonds possessed by the Province.

ART. 6. The Province of Santa Fe shall be freed from all responsibility present or future to the holders of the bonds of the loans of 1883-84 and 1888. Morton, Rose & Co. shall deliver the canceled bonds of these loans, with all their matured and unpaid coupons, upon receiving the national (4 per cent) bonds.

ART. 7. The interest on the 4½ per cent bonds possessed by the Provinces shall be applied to the payment of their obligations to the Conversion Office.

ART. 8. The bonds which shall be delivered to the Provinces in virtue of this law are subject to the arrangements of the national debts authorized by Article 1.

ART. 9. The executive is authorized to issue the amount of 4 per cent national bonds, bearing one-half of 1 per cent cumulative amortization, necessary to fulfill the provisions of this law.

TABLE 16.—ADJUSTMENT OF DEFAULTED PROVINCIAL LOANS

Province	Amount of national bonds issued in settlement of debts <sup>1</sup>	Amount of provincial bonds originally issued <sup>2</sup>	Amount of provincial bonds outstanding on December 31, 1891 <sup>3</sup>
Buenos Aires.....	£6,746,032	£9,154,686	£8,173,387
Catamarca.....	474,286	600,000	587,460
Cordoba.....	2,182,539	3,785,600	3,705,936
Corrientes.....	665,974	1,000,000	972,222
Entre Rios.....	<sup>4</sup> 2,828,515	<sup>5</sup> 3,723,640	3,243,183
Mendoza.....	724,206	992,060	972,222
San Juan.....	328,571	400,000	391,800
San Luis.....	131,794	150,000	150,000
Santa Fe.....	<sup>6</sup> 3,035,736	<sup>6</sup> 3,434,426	3,223,270
Tucuman.....	661,160	600,000	587,700
Total.....	17,778,813	23,840,412	22,007,180
Total converted to gold pesos at 5.04.....	89,606,218	120,155,676	110,916,187

<sup>1</sup> Source: Corporation of Foreign Bondholders, report for 1901 to 1902, checked against Anuario Pillado 1900.

<sup>2</sup> Sources: Corporation of Foreign Bondholders, report for 1892, and Anuario Pillado, 1900.

<sup>3</sup> Source: Memoria del Ministro de Hacienda, 1892, pp. 210-212.

<sup>4</sup> Settlement included two loans of the municipality of Parana, issued in the total amount of £412,000, and four provincial loans issued in 1891 (not included in Table 6) totaling £1,311,640 for repayment of bankers' advances, consolidation of interest in arrears, and payment to provincial railway concessionaires.

<sup>5</sup> This figure includes loans mentioned in footnote 4, in addition to the two loans shown in Table 6. The railway loans are excluded from this table because they were settled by cession of the provincial railway.

<sup>6</sup> Excludes the railway loans, which were adjusted by cession of the provincial railways and by a separate issuance of £967,200 of national bonds, as explained in the text. There are also excluded the two guaranteed loans of the Santa Fe Territorial and Agricultural Bank for £994,000 each.

### LOANS FOR PROVINCIAL BANKS

The following Provinces—Catamarca, Corrientes, Mendoza, San Juan, San Luis, and Tucuman—contracted foreign loans during the eighties for the sole purpose of securing gold wherewith to purchase 4½ per cent national bonds under the Guaranteed Banks Act.

The Province of Cordoba floated three loans abroad, one of which, the £2,000,000 loan of 1888, was issued for the purpose of subscribing to shares in the Provincial Bank, a note-issuing institution established under the Guaranteed Banks Act. The loans of 1883-84 and 1888 issued by Morton, Rose & Co. for the Province of Santa Fe, referred to in Articles 5 and 6 of the foregoing law, had been floated for the same purpose. These loans, therefore, were adjusted in accordance with

the provisions of the law, settlement being based on the amounts of 4½ per cent national bonds held by the Conversion Office as security for the note issues <sup>2</sup>, the conversion to 4 per cent bonds usually being made at the rate of 109.25 gold pesos of 4 per cent bonds for each 100 gold pesos of 4½ per cent bonds.

The several issues of Catamarca, Corrientes, Mendoza, San Juan, and San Luis and the one issue of the Province of Cordoba for the note guaranty, all of which had been floated on the Continent, were jointly converted in what is known as the French loan of 1899-1900. This loan was issued in Paris and Brussels in the amount of 87,848,914 francs (17,569,783 gold pesos or £3,486,068).<sup>3</sup> Amortization service commenced in 1901.

The Province of Santa Fe Provincial Bank loans of 1883-84 and 1888, issued in a total amount of £3,434,426, and accrued interest to March 1, 1899, were canceled by the delivery to the bankers of £3,035,736 (15,300,110 gold pesos) of 4 per cent national bonds of the issue of 1899. On March 1, 1899, the amount outstanding of the two loans in question was 16,380,504 gold pesos, plus arrearages of interest amounting to 7,924,946 gold pesos. The figure at which settlement was made was determined as follows: The Province of Santa Fe had bought 15,091,367 gold pesos of 4½ per cent national bonds to guarantee notes issued, but the Province owed the National Government a balance of 1,054,569 gold pesos; the resulting 14,036,798 gold pesos, plus unpaid interest on this sum at 4 per cent from January 1, 1897 to March 31, 1899, when the new bonds would be delivered, amounting to 1,263,312 gold pesos, yields the amount agreed upon—that is, 15,300,110 gold pesos.

The Province of Tucuman loan was converted, together with a Province of Santa Fe railway loan, into the national loan of 1900, issued in the amount of £1,628,360, of which £661,160 was on account of the Tucuman loan. Amortization service commenced in 1901.

The settlements of the Buenos Aires, Entre Rios, and the remaining part of the Santa Fe and Cordoba loans were not so simple, and a brief discussion of them is necessary to make the story complete.

#### PROVINCE OF BUENOS AIRES

In consequence of a convention entered into by the National Government and the Province of Buenos Aires in April, 1895, conferences were held between the national Minister of Finance and the provincial governor to decide the amount of national 4 per cent bonds which should be delivered to the Province to convert its foreign debt. As mentioned in Law No. 3378, the amount agreed upon was 34,000,000 gold pesos. A great deal of accounting was necessary to arrive at this sum, owing to the many complicated factors in the financing of the governments of the Nation and the Province of Buenos Aires, as illustrated by the following sentence from the preliminary agreement: "The Nation \* \* \* and the Province of Buenos Aires have

<sup>2</sup> (a) In the Province of Mendoza settlement, the 4½ per cent bonds which the Province surrendered to the National Government amounted to only 3,000,000 gold pesos, whereas the amount of the settlement was 3,650,000 gold pesos. The extra 650,000 gold pesos issued in the new 4 per cent bonds was a direct charge of the National Government, but the Province of Mendoza was obligated to meet the full service on that amount. (b) The reason for the Province of Tucuman settlements being in larger amount than the total of bonds outstanding lies in the fact that the Province had invested more than the proceeds of the external loan in national 4½ per cent bonds. The surplus applied toward accrued interest.

<sup>3</sup> Moody's Manual of Investments carries the original amount of this loan at 18,000,000 gold pesos, or 90,000,000 francs.



agreed \* \* \* to transfer for compensation and adjustment of accounts every credit or debit between the Government of the Province and the National Government, as well as those existing in favor of or against the Bank of the Province and the National Bank in liquidation." The amount of the 4½ per cent national bonds held to secure provincial note issues also entered into the negotiations.

In accordance with the final agreement, the National Government issued the unification loan of 1897, bearing interest at 4 per cent and cumulative amortization of one-half of 1 per cent, in the amount of £6,746,032 (34,000,000 gold pesos). The Province agreed to meet the full service of the loan to the National Government, pledging as security for such payments 30 per cent of the gross receipts from stamp-paper taxes and customhouse permits, 40 per cent of the gross receipts from industrial license taxes (patentes), and 30 per cent of the gross receipts of direct taxes. The Province also pledged the lands, improvements, and appurtenances of the Port of La Plata.<sup>4</sup> According to the agreement, if any surplus resulted from the revenues assigned to loan service it should be applied to extraordinary amortization.

The loan contract provided that the 34,000,000 gold pesos in national bonds should be applied to the four external loans of the Province in the following sums (in gold pesos):

Year of original issue	National bonds issued	Amount of provincial loans outstanding at date of settlement	Percentage of nominal amount of loans received in new bonds
1882-1886.....	<i>Pesos</i> 15,563,400	<i>Pesos</i> 20,655,432	75.44
1881.....	841,850	1,512,000	55.68
1883.....	8,791,650	11,360,664	77.39
1886.....	8,783,100	12,326,274	71.20
Total.....	34,000,000	45,864,370	-----

Interest payments on the new bonds began January 1, 1898, and amortization payments, January 1, 1901.

PROVINCE OF CORDOBA

The portion of the so-called French loan, converting loans floated on the Continent in pursuance of the Guaranteed Banks Act, which was applied to the redemption of outstanding issues of the Province of Cordoba, was 5,852,634 gold pesos, or 29,263,170 francs. The two Cordoba loans floated in London were converted by a loan known as the unification loan of 1900, issued in the amount of £1,021,302, or 5,147,360 gold pesos. The total of the two conversion operations, 10,999,994 gold pesos (referred to as 11,000,000 gold pesos in the agreement between the Province and the National Government), was arrived at after several conferences.

The Province owed the National Government a total of 5,137,043 gold pesos and 23,642,217 paper pesos on account of various advances, the cost of printing provincial bank notes, and an illegal issue of

<sup>4</sup> In 1904 the National Government bought the Port of La Plata from the Province of Buenos Aires for 11,871,000 gold pesos, which it paid by relieving the Province of an equivalent amount of the Unification Loan.

provincial notes which the National Government liquidated. On the other hand, the provincial government was credited with 8,696,658 gold pesos in 4½ per cent national bonds, plus 3,726,847 gold pesos in arrears of interest on those bonds, or a total of 12,423,505 gold pesos. The National Government applied 1,423,505 gold pesos of this amount to payment of a portion of the credits it held against the Province and allowed the remaining 11,000,000 gold pesos to be used for cancelling the Province's foreign debt.

After application of 1,423,505 gold pesos, the debt of the Province to the National Government was reduced to 3,713,538 gold pesos and 23,642,217 paper pesos, or a total of 31,812,002 paper pesos (gold was converted at 220 per cent). The Province agreed to retire this obligation in annual installments. One million paper pesos was to be paid in the course of the five years beginning with 1900, 3,700,000 paper pesos in the course of the next seven years, and the remainder at the rate of 1,000,000 paper pesos per annum until retirement.

#### PROVINCE OF ENTRE RIOS

The unification loan of 1900 in the amount of £2,828,515 (14,255,715 gold pesos) was issued to convert six loans of the Province of Entre Rios and the two municipality of Parana loans, which the Province had guaranteed. Amortization service began in 1905. The loan of 1900 is a direct and full obligation of the National Government, but the Province of Entre Rios is obligated to pay to the National Government the annual amortization payments, as well as 256,103 gold pesos of the annual interest service.<sup>5</sup> The remainder of the service, 314,118 gold pesos, is met by the National Government and represents the interest it was obligated to pay on the 6,980,400 gold pesos of 4½ per cent national bonds bought by the Province under the Guaranteed Banks Act.

The agreement between the Province and the National Government does not show how the principal amount of the unification loan was determined. The following are the loans affected by this settlement—the two provincial loans of 1886 and 1888 for £800,000 and £1,200,000, respectively, shown in Table 6; the two municipal loans (Parana) for £212,000 and £198,412, respectively, shown in Table 7; the four provincial loans issued in 1891: £400,000 to repay advances made by Morton, Rose & Co. on account of a loan authorized in 1889 but later withdrawn; £420,000 issued by The River Plate Trust Loan & Agency Co. to consolidate the service in arrears on the loans of 1886 and 1888; £350,000 issued by the River Plate Trust Loan & Agency Co. to pay £300,000 to cessionaires of the provincial railways and £50,000 for unpaid construction; £61,640 issued by Morton, Rose & Co. to consolidate interest in arrears on the two municipal loans to July and August, 1893. (Service on the last four bonds named was suspended early in 1894.) The total of these eight loans outstanding at the end of 1898 was £3,487,440, and interest in arrears amounted to £1,263,380, or a total of £4,750,820. The conversion bonds, amounting to £2,828,515, represented only 60 per cent of the liability of the Province to the bondholders.

<sup>5</sup> During the first five years, 1900 to 1904, inclusive, the Province had to pay only the following amounts of this service: 1900, 30,000 gold pesos; 1901, 50,000 gold pesos; 1902, 70,000 gold pesos; 1903, 120,000 gold pesos; 1904, 200,000 gold pesos. The National Government made up the difference in the amount of the annual service during these years.

In Table 6 there appear two loans for railway construction—those of 1885, for £1,530,800, and of 1888, for £1,745,600. These loans were canceled by virtue of an agreement with the bondholders whereby the provincial railways were ceded to an English company known as the Entre Rios Railway Co. (Ltd.), which issued shares in exchange for the provincial bonds outstanding. The Province also delivered £300,000 in bonds of 1891, and the National Government paid over £500,000 in railway rescission bonds for the cancellation of railway guaranties.

#### PROVINCE OF SANTA FE

By virtue of four railway construction laws enacted in the period 1882 to 1886, the Province of Sante Fe floated three loans in England, in the amounts of £1,079,500, £929,400, and £1,261,700.

In addition to these, the Province guaranteed, for a period of 20 years, the payment of 5 per cent interest on the fixed amount of £3,650 per kilometer of railway constructed by a French company. By a contract of October 12, 1888, the Province leased the provincial railways to the Fives Lilles Co. for 55 years, on the understanding that the company would build 310 miles of additional railway. The company also agreed to issue its own bonds for the purpose of retiring all of the provincial loans for railway construction and to meet the service on the new bonds. Fives Lilles Co. could issue £1,000,000 in its bonds for this purpose and to purchase rolling stock. The Province guaranteed a return of 5 per cent on all bonds issued or to be issued by the company, but the guaranty was to be paid in provincial 5 per cent bonds, and not in cash. Late in 1888 the Fives Lilles Co. transferred its concession to the *Compañía Francesa de Ferrocarriles de la Provincia de Sante Fé*. In 1892 the provincial government sought an advance of £600,000 from the National Government for payment of guaranties to the concessionaires. The request was granted but delivery was not made. In January, 1896, a referendum contract of agreement was signed by the government of the Province and the representatives of the railway lines, providing as follows: (1) That the *Compañía Francesa de Ferrocarriles de la Provincia de Sante Fé* should receive the absolute and definite ownership of all the lines which formed the railways of the Province of Sante Fe, with all their equipment and properties of all kinds, free of all charge, in consideration for the retirement of the English loans, for the cancellation of the guaranty on 500 kilometers of lines constructed, and for other expenses; (2) that the government of the Province should negotiate with the National Government for the delivery of £600,000 in bonds, conceded by decree of October 8, 1892, and when those bonds were received the company should return the £600,000 in provincial bonds.

Pursuant to clause 2 of this contract, the National Government, in a decree of June 28, 1899, consented to a loan of 4,874,688 gold pesos (£967,200), as follows: 3,024,000 gold pesos (£600,000), plus six years of interest at 4 per cent, 725,760 gold pesos, plus an indemnity of 30 per cent on account of delivery of 4 per cent instead of 6 per cent, as provided in the original decree, 1,124,928 gold pesos. This sum was delivered to the Province in national bonds authorized by Law No. 3378, and formed a part of the issue of 1900, which included the bonds on account of the Province of Tucuman.

### PROVINCIAL CEDULAS

The adjustment of the cedulas, or mortgage bonds, and of notes <sup>6</sup> of the Mortgage Bank of the Province of Buenos Aires was accomplished only after voluminous correspondence and extended negotiations. Agreement on this troublesome question was reached December 11, 1906. (Text of the agreement appears in the thirty-fourth report of the council of the Corporation of Foreign Bondholders, pp. 69-72.) In consequence of this agreement the Province issued £11,160,980 of conversion bonds, bearing 3 per cent interest for the first five years and 3½ per cent interest from 1912. On the basis of a message delivered by the provincial governor, the council of the Corporation of Foreign Bondholders estimated that there were 173,000,000 paper pesos of cedulas outstanding at the time of the adjustment. The principal of the sterling issue, converted at the rate of 5.04 gold pesos to the pound sterling and 2.2727 paper pesos to 1 gold peso, was equivalent to 127,842,418 paper pesos. Out of this amount certain expenditures had to be met, but the investors sacrificed about one-third of the nominal value of the Mortgage Bank securities.

### THE MUNICIPAL DEBTS

Table 7 shows that 5 municipalities issued a total of 10 foreign loans during the late eighties. Two of these, issued by the municipality of Parana, were adjusted in connection with the settlement of the Province of Entre Rios foreign debt. A brief summary of the measures taken in regard to the remaining issues is given in the following paragraphs devoted to the Federal District of Buenos Aires, and the municipalities of Cordoba, Rosario, and Santa Fe.

#### BUENOS AIRES (FEDERAL DISTRICT)

The footnote to Table 7 explains how the internal loan of 1884 became the external loan of 1888 through the sale of the bonds to the National Bank, which in turn negotiated the loan with a European syndicate. When Buenos Aires defaulted on its obligations the National Bank continued to meet service of this loan abroad, at heavy exchange losses, until the National Government placed the bank in liquidation. Service remained in suspense until January, 1893, when an agreement was reached with the bondholders in accordance with a municipal ordinance of August 27, 1892, regularizing interest service and postponing amortization until July, 1896. The arrears of interest from July, 1891, to January, 1893, were capitalized with interest and canceled by bonds of the municipal consolidation loan (internal) issued at 80.

From April, 1893, to January, 1898, the municipality paid the service of this loan in paper pesos (the municipality regarded it as an internal loan) the coupons and the drawn bonds being perforated and returned to the bondholders, who were then to apply to the national bank for the difference between paper pesos and gold pesos. The bondholders, through the issuing house, entered into long negotiations with the National Government to secure recognition of their claim

<sup>6</sup> Interest service on the cedulas went into partial default in January, 1891. Coupons falling due in the first half of that year were reported to have been paid partly in cash and partly in certificates. After July, 1891, "bonos," or notes of the Mortgage Bank, were paid in lieu of cash, but payment in this scrip was discontinued since October, 1892, and from that date the service of the cedulas was in entire default.

against the National Bank. Finally, an ad referendum contract was signed on December 3, 1897, whereby the bondholders received new 4 per cent national bonds at par for each £100 of their original holdings of the loan negotiated by the National Bank. In addition, an indemnity in the form of national bonds was paid to holders of perforated coupons and drawn bonds which had been paid in paper currency. This loan was issued in the amount of £1,527,778. This sum was arrived at as follows: £1,221,400 to convert the bonds of the loan of 1884-1888 in circulation; £121,884 in payment of matured coupons and bonds drawn; £35,684 for commissions, expenses, differences in exchange, etc.; £148,810 in payment for claims arising out of the National Bank's guaranty of interest on the national 5 per cent loan of 1887 issued in Germany for the National Bank.

Information is vague concerning the other Federal District loan, the £1,984,120 issue of 1889. It appears, however, from a variety of sources, that the interest in arrears from July, 1891, to January, 1893, was capitalized with interest and canceled by bonds of the municipal consolidation loan (internal) issued at 80, as in the case of the other loan. After January, 1893, interest was regularly paid in cash. In 1913, the National Government assumed the internal debt which had been issued in 1893 to capitalize arrears of interest, and in 1928 the municipality retired the sterling issue of 1889.

#### CITY OF CORDOBA

Next to the provincial cedulas, the municipality of Cordoba bonds in default were the subject of the most protracted negotiations. The debt consisted of loans of 1887 and 1889, issued for £198,400 and £595,200, respectively, or a total of approximately 4,000,000 gold pesos. Service was in total default from 1890, and on the date of the settlement arrears of interest amounted to 3,954,845 gold pesos. Under the adjustment agreement which was entered into in October, 1906, the Province of Cordoba assumed the outstanding principal of the debt, but canceled all arrears of interest. Conversion bonds were issued in the amount of £779,500, bearing annual interest at 2½ per cent from January 1, 1907, at 2¾ per cent from January 1, 1913, 3¼ per cent from January 1, 1919, 3½ per cent from January 1, 1925, and 4 per cent from January 1, 1931, until extinction of the debt.

#### CITY OF ROSARIO

The adjustment of the defaults by this, the second largest city in Argentina, was effected without the intervention of either the Province of Santa Fe or the National Government. The agreement signed by the municipality and the representatives of the bondholders on June 30, 1900, recognized that the outstanding amount of the two loans issued in 1887 and 1888 for £198,400 and £992,000, respectively, plus arrears of interest, was 9,575,194 gold pesos. It was agreed that this amount should be reduced to 7,500,000 gold pesos. In as much as the balance of the loans outstanding had been reduced to 5,864,625 gold pesos by amortization, the municipality agreed to issue 1,635,375 gold pesos in new bonds. Interest on the adjusted total was reduced from 6 per cent to 5 per cent, payable semiannually. During the first five years interest was to be paid in paper pesos and during the next five years half in paper pesos and half in gold. Thereafter serv-

ice was to be met wholly in gold. From 1910 the municipality was obligated to form a sinking fund at the rate of not less than 1 per cent per annum.

The third loan issued by Rosario, that of 1888 for £297,600, was adjusted by an ad referendum contract of August 13, 1899. The holders agreed to the loss of 66 per cent of matured, unpaid coupons, or 484,953 gold pesos. The municipality's debt on account of this loan was recognized in the amount of 1,750,000 gold pesos. It was agreed that this sum should bear interest at the rate of 4½ per cent, payable in paper pesos, over a 10-year period, and at 5 per cent payable in gold thereafter. Amortization service was suspended for 10 years after the date of acceptance of the agreement. Similar terms were rejected by the bondholders of the other two issues.

#### CITY OF SANTA FE

On May 30, 1905, the ad referendum contract adjusting the municipality of Santa Fe loan of 1889, issued for £257,900, was accepted by the bondholders. The outstanding amount of this loan, 1,277,136 gold pesos (£253,400), was unchanged, but the arrears of interest, amounting to 1,072,348 gold pesos, was reduced to 234,864 gold pesos, new municipal gold bonds being issued in that amount. The total debt, therefore, was recognized in the amount of 1,512,000 gold pesos. It was further agreed that interest payments should begin March 1, 1905, and should be payable in paper pesos at the rate of 4 per cent for 10 years, and thereafter at the rate of 6 per cent. Sinking fund was fixed at 1 per cent. The loan has the guaranty of the Province of Santa Fe.

## V. CONCLUSION

More than 15 years elapsed from the first defaults in Argentina, July 1, 1890, to the last settlement, in December, 1906. The national foreign debt was adjusted, late in 1893, on the basis of partial interest service for five years and suspended sinking fund for seven years. By the end of 1900, all the provincial foreign debts were adjusted, largely by means of national bond issues. The difficulties surrounding the negotiation of agreements relating to provincial cedulas and certain municipal bonds prolonged the period of adjustment by another six years.

Many concessions had to be made on both sides. Holders of national bonds did not suffer any scaling down of principal, but those holding certain issues lost part of their interest during the period of partial service. This loss was partially offset as a result of the Government's advancing the date of resumption of full interest service by one year. Sinking-fund payments in cash on most of the national foreign debt were delayed for 10 years after the default. The funding-loan plan, adopted in 1891 and abandoned in 1893, proved a failure in Argentina.

Not only were concessions made between creditor and debtor, but differences had to be settled among the creditors themselves before the problems arising from Argentine defaults were solved. This was the case in the dispute over the priority given the loans backed by customs duties.

Holders of provincial and municipal bonds, as well as investors in provincial cedulas, lost all accrued interest and suffered reduction of principal in most instances. It is needless to speculate what the outcome of debt negotiations with individual Provinces would have been if the National Government had not assumed responsibility for the provincial foreign debts. The holdings of national gold bonds, for which the Provinces issued most of their external loans, was in general the chief determinant in the amount of conversion bonds the National Government issued. In several cases, however, the Provinces employed their own credit to convert foreign issues of municipalities.

### ISSUES IN CONVERSION OPERATIONS

The following figures show the amounts of national bonds issued in conversion operations (all bear 4 per cent interest and one-half of 1 per cent cumulative amortization).

Railway guaranties rescission, 1896-1899.....	£11, 607, 100
Province of Buenos Aires unification, 1897.....	6, 746, 032
City of Buenos Aires unification, 1898.....	1, 527, 778
Province of Santa Fe unification, 1899.....	3, 035, 736
French loan of 1899-1900 (Provinces of Catamarca, Corrientes, Mendoza, San Luis and San Juan, and one Cordoba loan), 87, 844, 403 gold francs.....	3, 485, 889
Province of Entre Rios unification, 1900.....	2, 828, 515
Santa Fe Railway and Province of Tucuman unification, 1900.....	1, 628, 360
Province of Cordoba unification, 1900.....	1, 021, 302
Total.....	31, 880, 712

As of June 30, 1900, according to Anuario Pillado, the Argentine national funded debt was composed of the following items—external debt, 386,003,665 gold pesos; internal debt, 7,893,531 gold pesos and 96,819,854 paper pesos. Converting the paper pesos to gold, the total funded debt amounted to 436,497,932 gold pesos. Annual service on this total was computed at 27,923,853 gold pesos. W. R. Lawson, in the Bankers' Magazine (vol. 55, pp. 399–414) estimated the total funded national debt as of January 1, 1893, at £70,543,406, or 355,538,766 gold pesos. The last figure includes 93,693,429 gold pesos of Guaranteed Bank Loans, which were retired, of course, when the provincial bonds were converted into national bonds.

#### PRICES OF ARGENTINE ISSUES BEFORE AND AFTER DEFAULT

It is interesting to see the extent of depreciation of Argentine national bond prices after default and then to trace the steady rise after the resumption of full interest service. As an example, the Railway Loan of 1881, 6 per cent, was quoted at 101 to 102½, in January, 1890.<sup>1</sup> Exactly two years later the same issue was quoted at 40 to 50. By the first of January, 1895, its price had risen to 52½, stimulated by acceptance of the Arreglo Romero. A further jump was made in the next two years to a price range of 70 to 77½, as of January 1, 1897. Resumption of full interest service in 1897 carried the price of the railway bonds up to 88 to 92½ on January 1, 1898. Sinking-fund payments were resumed in 1901, and on January 1, 1902, this issue was quoted at 97½ to 99½.

The national conversion loan of 1888, bearing 4½ per cent interest, ranged in price as follows: January 1, 1890, 82 to 84½; January 1, 1892, 28½ to 31½; January 1, 1895, 39 to 40½; January 1, 1897, 52 to 56; January 1, 1898, 64¼ to 68; January 1, 1902, 66 to 71; January 1, 1904, 85½ to 87½; January 1, 1907, 94½ to 96.

Provincial bonds dropped from levels, in many instances above par, in 1890 to a range of 16 to 31 in January, 1892. The conversion bonds, issued by the National Government and bearing only 4 per cent interest, were quoted as high as 90 in 1907.

#### THE FIRST NEW LONG-TERM LOANS

In 1907 the Argentine Republic issued a so-called internal 5 per cent gold loan of 35,000,000 gold pesos (approximately £7,000,000). The entire loan was taken in London, Paris, and Berlin at 97½. (At the time of issue, March, 1907, the outstanding Argentine National Government 5 per cent's were quoted at from 98¼ to 103.) In 1908, 4 per cent sterling bonds were issued to the Argentine Northeastern Railway as a Government contribution toward the cost of extensions.

In 1909 another "internal" 5 per cent gold loan, authorized in the amount of 50,000,000 gold pesos, was floated in London, Paris, Berlin, and New York, at 98 to 99. The purpose of the loan was railway and other public works construction. Still another "internal" loan was issued in London in 1910 at 101. This loan was authorized in the amount of 6,048,000 gold pesos and was for the purpose of purchasing the Cordoba and Northwestern Railway.

<sup>1</sup> These prices are taken from the Investor's Monthly Manual, a supplement to The Economist (London).



In 1910 and 1913 three sterling loans were issued in connection with railway, irrigation, and port works. The first dollar loan was issued by the National Government in 1923, the 6 per cent, \$40,000,000 loan for redemption of 6-month treasury notes. It was offered in New York at 96½.

Aside from the conversion operations and several short-term loans, Argentina did not re-enter the foreign borrowing field until 16 years after the date of default on its obligations, and 12 years after the Arreglo Romero went into operation. The subsequent loans were made, however, on terms that reflected the restoration of Argentine credit.

## APPENDIX

### TEXT OF ARREGLO ROMERO

[Arrangement for resumption of debt service on Argentine national external debt]

This agreement ad referendum made on the third day of July, 1893, between Don Luis Lopez Dominguez, Envoy Extraordinary and Minister Plenipotentiary of the Argentine Republic in London, acting on behalf of the Government of the said Republic of the first part; and the Right Hon. Nathaniel Mayer, Lord Rothschild (hereinafter called Lord Rothschild), of the second part.

WHEREAS Lord Rothschild is the chairman of the committee known as the Rothschild committee some time since formed for the purpose of entering into negotiations with the Argentine Government in regard to the interest on the bonds of the National Government external debt;

AND WHEREAS Lord Rothschild was authorized by a meeting of bondholders of the said external debt convened by the Rothschild committee, in conjunction with the several houses charged with the service of the Argentine external loans held in London, on the 19th day of June, 1893, to enter into an agreement ad referendum as to the manner in which the Argentine Government shall hereafter pay the interest in cash on the fourteen loans specified in the first part of the schedule hereto, the particulars contained in which have been supplied by His Excellency the Finance Minister of the said Government;

AND WHEREAS the negotiations between the said Government and the said committee involved the formulation of a scheme for the release by the Government of the Buenos Aires Water Supply and Drainage Co. (Ltd.) from all claims on the part of the Government on certain conditions which are embodied in an agreement bearing even date herewith;

AND WHEREAS the present agreement is conditional on the same being ratified by the Argentine Congress;

*Now it is hereby agreed as follows:*

1. In order to meet and discharge the coupons for interest on the several loans specified in the first part of the schedule, hereto as and when they respectively mature, the Argentine Government will punctually and in due time remit in cash through the Argentine Legation in Great Britain to the Bank of England in London (which bank has been appointed the agent of the Rothschild committee to receive the same) to be placed to the credit of the several persons forming the Rothschild committee, viz, Lord Rothschild, Walter Hayes Burns, Esq., George Wilkinson Drabble, Esq., Herbert Cokayne Gibbs, Esq., Charles Herman Goschen, Esq., and Evard Alexander Hambro, Esq., the sum of £1,565,000 annually from July 12, 1893, to July 12, 1898, inclusive, which sum shall be distributed and apportioned by the Rothschild committee or through the medium of some other person or persons to be nominated by them in the proportions and manner which was arranged between the Rothschild committee and the bondholders present at the said meeting. The said sum of £1,565,000 shall include the commissions which the various houses charged with the service of the loans are entitled to under their respective contracts, but the said commissions shall be paid only in respect of the sums actually paid to the bondholders under this agreement.

2. From July 12, 1898, to July 12, 1899, inclusive, the Argentine Government will remit to the Bank of England as the agent appointed by the Rothschild committee to be distributed and apportioned as they have arranged with the said bondholders (which arrangement is set forth in the second part of the said schedule) the full amount of the interest for the said 12 months on the 14 loans specified in the first part of the said schedule.

3. From July 12, 1899, to January 12, 1901, inclusive, the Government will remit the full amount of the interest payable on the said 14 loans, but the remittances shall not be made to the Bank of England as such agent as aforesaid but shall be remitted as heretofore directly to the various financial houses in Europe charged with the service of the loans.

4. From and after January 12, 1901, the sinking funds on the said 14 loans shall be resumed and the sums required for the entire service of the said loans, including both interest and sinking fund, shall be remitted directly by the Government in cash to the several houses charged with the service of the loans, respectively, according to the tenor of the several bonds.

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5. In case the loan in the first part of the said schedule known as the 6 per cent funding loan of 1891 shall be increased beyond the amount stated by the said Finance Minister, viz, £6,583,000, then the excess required for the service of the increase shall be remitted separately over and above the said £1,565,000 per annum.

6. This agreement is subject to confirmation by the Argentine Congress and is not to be binding on either party until it has been so confirmed.

L. L. DOMINGUEZ.  
ROTHSCHILD.

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<sup>1</sup> Only material used in the preparation of this bulletin, and available in Washington, is included here.

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