

MASTER

UNIVERSITY OF SOUTHAMPTON

MONEY AND POLITICS IN CHILE, 1878-1925

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A Thesis submitted for the Degree of Doctor of Philosophy,
University of Southampton

December, 1976.

UNIVERSITY OF SOUTHAMPTON

ABSTRACT

FACULTY OF ARTS

HISTORY

Doctor of Philosophy

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The study examines the checkered history of Chile's currency and finances from the collapse of the bimetallic coinage in 1878 to the establishment of the Central Bank in 1925. The protracted debate between the supporters of inconvertible paper money and partisans of the Gold Standard was one of the major features of Chilean oligarchic politics in this period. Developments are related to broader political and social trends and to the position of Chile in the international economy.

After setting the scene by describing the country and its financial system in the 1870s, the study examines the chronological development of monetary policy. The role of President Balmaceda and the immediate post-civil war governments receives special attention. A description of Chilean politics in the parliamentary era is the background to post-1891 developments. In the early 20th century emphasis is placed on the inter-relation between monetary policy and inflation and the early growth of labour protest and organisation.

The nature and role of the two sides in the debate within the oligarchy, the papeleros and the oreros, is then examined. The traditional interpretation of the papeleros, with its emphasis on farming /debtor interests, is questioned. The part played by foreign, chiefly British, interests and their domestic allies in the Chilean ruling class is also assessed, as is the role of the important native banking sector. Finally, the study considers the longer-term relevance to later developments of Chile's early experience of debate about monetary policy and inflation.

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ACKNOWLEDGMENTS

During the preparation of this thesis I have incurred many debts of gratitude. Thanks are due to Dr. Michael Varley who set me off on the path and to my supervisor, Dr. Peter Calvert, whose encouragement helped to keep me going. I am indebted for the help of library staff in many places. The staff of the University of Southampton Library, the Guildhall Library and the Library of Congress merit special thanks. I much appreciated the help and co-operation of the Bank of London and South America (now L.B.I.) in allowing me to see their records. Finally I must thank my wife who has had to endure too much for too long and whose patience and encouragement have been invaluable.

CHAPTER ONE

THE CHILEAN ECONOMY, POLITICS AND SOCIETY IN THE 1870s

As the final quarter of the 19th century opened, Chile's rulers could view the situation of their country with considerable satisfaction and confidence. The previous twenty years had been a period of substantial economic growth accompanied by political stability. Both those in power in Santiago and foreign observers were fond of making comparisons with Argentina, Chile's large neighbour and later her rival. One such comparison, written from an Argentine viewpoint, appeared in a London newspaper in 1873, and could not avoid being favourable to Chile in many respects. After noting that both countries had about the same population (1.8 millions), the report continued

"The trade and tonnage of Chilian ports is on a level with those of Argentine ports; our revenue is larger, being about 18 millions to 15 millions. Public instruction in Chili is better organised than with us, but the actual numbers of children in this republic, attending school, is larger Chili had in that year (1872) 570 miles of railway and 1500 of telegraphs; we have 678 miles of rail and 5000 of telegraphs. As regards the number of immigrants, our yearly average is probably ten times that of Chili. On the other hand, Chili is twenty years ahead of us in all matters of public service and administration; with lighter taxes than we pay, it is better governed, because the system is simpler, and none of the public money has to be spent in wars among the provinces. The country also has been so long at peace that municipal institutions are better organised than with us ... suffice it to say that in numerical or material progress we beat Chili on most points, whereas in moral development and all that goes to make up good Government, public health, and municipal organisation, that country is equally in advance to us."¹

The population of Chile at this time was still largely engaged in agriculture.² Nevertheless, Chilean agriculture, taking advantage of the country's favourable geographical position and structure, was enjoying a period of prosperity

and expansion. This had begun with the Californian gold boom of the late 1840s and had been helped by the development of railways and by falling international freight charges. In terms of its export performance, Chilean agriculture reached its peak in the 1870s, when the country was a significant exporter of wheat to Europe.³

Chile also possessed an important mining sector. Throughout the 1860s and 1870s Chile was the world's leading copper producer, accounting for between 30% and 40% of the world total.⁴ Chile was also a significant producer of silver, with 5% of total world production in the peak year of 1873.⁵ Although of less importance than copper and silver, gold and coal were other minerals being exploited at this time. Foreign investment played an important role in the early development of Chilean mining,⁶ but foreign control in the 1870s was not as great as it was to become later.⁷ Chilean capitalists themselves were investing abroad in these years, in the Caracoles silver mine in Bolivian territory and in nitrate in the then Peruvian province of Tarapacá.⁸

This economic expansion was accompanied by and helped by political stability. Contemporary writers and historians have invariably identified political stability as the distinctive feature separating Chile from the development of her neighbours in the 19th century. It applied both to the relations of the ruling class to the rest of society and to relations within the ruling class itself. The expansion of agriculture and the emergence of new sectors of the economy in the 19th century did not undermine the existing social institution of the hacienda. In some respects the institutions of the hacienda and inquilinaje were strengthened as the century progressed.⁹ The hacienda continued to dominate the landscape and the social life of central Chile well into the 20th century. As late as 1925 over half the land in central Chile was concentrated in 375 farms.¹⁰ The hacienda spread south in the late 19th century as new lands were colonised.

The hacendados proved remarkably adaptable in accommodating new groups representing mining, commerce and banking into Santiago society and politics. This process was helped by the landowners themselves being drawn into the international economy through cereal exports from the 1840s. In this way Chile avoided a conflict between an urban exporting class and an agrarian class which afflicted other Latin American countries. Economic interests became interwoven into a very "hybrid"¹¹ ruling class as people who made their fortunes in mining, banking or commerce, bought land and became prominent members of Santiago society. These people included not only names of such native mining, industrial and banking magnates as Matte, Varela, Gallo and Ossa, but also recent foreign arrivals whose names were to become a familiar part of Santiago politics such as Edwards, Ross, Lyon, Walker, MacIver and MacClure from Britain, Cousiño and Subercaseaux from France and König from Germany. At the same time traditional landowning families diversified into such fields as banking.

With a passive and servile workforce on the hacienda and little conflict of economic interests within the ruling class, politics could become "thesport of the oligarchy."¹² The changes taking place in the composition of the top level of Chilean society were reflected in the political and constitutional sphere by the gradual liberalisation of the conservative and authoritarian system established in 1833. The Constitution of 1833 was in many ways designed to provide "government of the hacendados by the hacendados for the hacendados,"¹³ and reflected the hierarchical rigidity of life on the hacienda. The Constitution had initially endowed the President with great powers, particularly over the appointment of the judiciary and local officials, which enabled him to exercise control over the elections for Congress. By the time of the Presidency of Aníbal Pinto in 1876-81 this system had undergone considerable liberalisation. The 1833 system proved adaptable enough to allow and integrate dissent from liberals following the minor revolts of

the 1840s and 1850s. In a series of constitutional reforms in the early 1870s the power of the executive was circumscribed, by for instance the prohibition on his re-election beyond his initial term of five years. At the same time the role and authority of the bicameral legislature was enhanced vis à vis the President. At the party political level, many of the conservative and clerical hacendados who had ruled the country for twenty years or so after 1833 were by the late 1870s out of power. They had given way to a spectrum of liberal parties, ranging from the National Party, the Liberal Party to the more extreme anti-clerical Radical Party, in which the more progressive hacendados and many of the new names accepted into traditional Chilean society were to be found.¹⁴

This process of liberalisation still had some way to go. Chilean politics were still dominated by the issues of Church-State relations and of Presidential control of elections. The constitutional and political reforms up to the 1870s had not eliminated Presidential interference in elections and the President's power to choose his own successor. Some historians have interpreted Chilean political history from 1833 to 1925 as a struggle by the oligarchy to replace the authoritarian political structure created in 1833 by a truly parliamentary system.¹⁵

The growing acceptance of European liberal political ideals and the accommodation into Santiago society and politics of people whose money was made in non-agrarian pursuits went hand in hand with the expansion of trade. The growth and dominance of laissez-faire economic ideas was another part of the same process. Portales had not accepted all aspects of economic liberalism, as shown by his policy on customs duties and on the protection of the national merchant fleet.¹⁶ Other signs of State initiatives aimed at promoting internal economic development were evident in the early involvement of government in the railways and in the establishment of the official mortgage bank, the Caja de Crédito Hipotecario (described in more detail later). By the 1860s free trade ideals were the dominant

theme of Chilean economic policy. Between 1855 and 1863 a French economist, Juan Gustavo Courcelle-Seneuil, served as adviser to the Chilean Treasury.¹⁷ This liberal economist left an important legacy on economic policy and thought in Chile, as well as becoming a notorious scapegoat for many of the country's ills later in the 19th century.

The growth of Chile's trade also brought with it British merchants and shippers. Up to the 1860s Chile was second only to Brazil as a market for British goods in Latin America (before being pushed into third place by Argentina during the course of that decade). Up until 1914 Britain retained its share of Chile's trade rather better than she did in Argentina and Brazil.¹⁸ From an early stage British merchants and shippers dominated the Chilean carrying trade.¹⁹ The well-known British merchant houses of Gibbs, Duncan Fox and Williamson, Balfour were already well established in Chile by the 1870s.²⁰ These and other merchant houses did not merely act as intermediaries, but spread their activities to spheres other than trading, banking, agency work and insurance. For example, Gibbs were involved in producing nitrate in Tarapacá before the War of the Pacific.²¹ The firm of Duncan Fox was to play a large part in the establishment in 1893 of the Sociedad Explotadora de Tierra del Fuego, which became one of the largest sheep rearing companies in the world.²²

British banks came later to Chile than they did to other major countries of Latin America. The first, the Bank of Tarapacá and London, was established in 1889 by North as an adjunct to his nitrate interests.²³ The 90-day sterling commercial bill of exchange was effectively the external currency of Chile well into the 20th century. The exchange rate of the Chilean Peso was invariably quoted against the sterling bill. Later in the 19th century the sterling bill took on the character of legal tender currency for some internal transactions when it became accepted by the government in payment of export duty.

The new republic was quick to obtain foreign finance from Britain with a loan of £1mn placed in London in 1822. This first loan was not a happy experience for the country and it was not able to begin servicing the loan until 1842.²⁴ For the next 90 years Chile maintained an almost perfect external debt repayment record and in the eyes of British investors the country was in the front rank of the Latin American republics. The London financial journal, the Bullionist, saw reason to comment in 1874 that the market "places the bonds of Chili on a higher level than those of France, or on one almost on a par with those of some of our most flourishing colonies."²⁵

CHAPTER TWO

THE GROWTH OF BANKING

As a producer of silver (and to a smaller extent gold), and in a world where only Britain and Portugal by 1870 had dispensed entirely with silver in favour of gold as the basis of their currency, Chile not unnaturally continued the bimetallic coinage of colonial days.¹ In the first half of the century the growth of a money economy was slow.² Paper money "was looked upon with horror"³ during the early years of the republic. The first bank in Chile, the Banco de Chile de Arcos y Cía., set up in 1849, met with such strong opposition from the merchants of Valparaíso that the authorities were forced to prohibit the new bank from issuing notes, a move which led to the liquidation of the bank.⁴

The development of mining and commerce in the 1850s led to the establishment on an ad hoc basis of other banking institutions, often with an uncertain legal basis. This led the authorities to decide to put banking in a legal framework and in one which reflected the dominance within the ruling group of economic liberalism. The 1860 law on Bancos de Emisión was largely the work of Courcelle-Seneuil and was "one of the most liberal that has existed in the world."⁵ The law authorised the establishment of banks of issue. The combination of French liberalism and Chilean reality at the time appeared to point to a banking system akin to that developing in the United States. Only two restrictions were placed on banks which issued notes. The banks' note issue was limited to a maximum of 150% of their paid capital and, as a continuing hangover from the earlier suspicion of paper money, the denominations of bank notes were limited to 20, 50 and 500 Pesos. What the law did not impose was in practice more important. There was no minimum capital requirement, no cash reserve requirements against deposits or note issue, no limit on loans to directors and no provision for

government inspection or supervision. Nevertheless, the Banking Law of 1860 survived largely intact until 1925, except that the right of note issue was taken away in 1898 and some provision for the inspection of banks was made in 1912. A later Chilean economist described the implications of the 1860 law as follows:⁶

"The country was emancipated from the colonial prejudice against notes and was launched, with juvenile inexperience, on the ways of the use of financial methods that in capitalist Europe had been the result of a long banking tradition."

The mere absence of restrictions on banks did not lead immediately to a boom in banking. Such a boom did not come until after 1866 when it was dependent on official encouragement in the form of concessions to the banks. These concessions were the Government's reaction to the financial crisis which accompanied the war with Spain in 1865/6, when a Spanish fleet blockaded the Chilean coast. This action led to a loss of customs revenue for the Chilean Treasury and to a liquidity crisis which took the form of a run on the banks and the hoarding and exporting of coin. The circulation of bank notes was still small at this time and the withdrawal of coins from circulation placed commerce in considerable difficulty. Accordingly, in a series of laws in 1865/6 the authorities acted to remedy the shortage of coins by promoting the issue and acceptance of bank notes. The concessions to the banks included the removal of all limits on the denomination of notes between 1 and 500 Pesos and the acceptance of bank notes in arcas fiscales (in payment of public dues) for 22 years. In addition the convertibility of bank notes into specie was temporarily suspended until six months after the end of the war.⁷ In return for these concessions the five banks involved loaned the Government Pesos 4,539,000 (about £870,000 at the then value of the Peso of 46d).⁸

The war with Spain ended in July 1866. Confidence in

the banks was soon restored to a level which permitted them to resume the convertibility of their notes on 31st August.⁹ Chile's first experience of inconvertible paper money did not prove to be traumatic. During the period of just under a year in which specie payments were suspended the issue of inconvertible notes was small and the exchange rate showed little sign of falling. At the end of 1866 the total bank note issue stood at only just over Pesos 4.7mn,¹⁰ and paper money was still not regarded with complete trust.

Although the 1865/6 crisis was short-lived, it did have longer term implications. The authorities' reaction to the crisis, involving concessions to the banks, set the pattern of official policy for the next 50 years. In addition, it marked the take-off for banking in Chile. Boosted by the concessions granted in 1865/6 the five banks expanded their activities and by 1873 had been joined by eight new banks, which were set up despite the fact that they did not enjoy the privilege of the admissibility of their notes in public offices.¹¹ The growth of banking and credit was one of the most noticeable features of the general economic expansion and prosperity of the years 1867/73. By 1875 over half of all registered capital in joint stock companies was in banks.¹²

At the end of the 1870s Chile had a firmly established banking system. One indication of this development was the ratio of bank deposits to the total money stock, which was then around 70%¹³ The growth of banking and of a money economy in general was very largely an urban phenomenon. The inquilino received a large part of his remuneration in kind and the evidence points to an increase in the number of inquilinos in relation to peones (free rural labourers) in the second half of the 19th century.¹⁴ In spite of the reduced number of peones compared with the earlier plentiful supply, there is little evidence of a large increase in the money wage of peones in the latter part of the 19th century.¹⁵ The lower members of rural society were not the only ones to be left out of the

growth of the money economy. In the modern nitrate industry the ficha (token) to be spent in the pulpería (company store) was the common form of wages payment until the early years of the 20th century.

With the growth of banking came the emergence of a "powerful banking oligarchy."¹⁶ The first banks had evolved out of the needs of mining and commerce and were founded by such names as Edwards, Matte, MacClure and Ossa. But soon the traditional landowning families of central Chile moved into banking in a big way. As a result, from an early stage the banks enjoyed the patronage of a significant proportion of the political class in the government and in Congress. As we shall see later the next stage was that the business of banking became interwoven into the fabric of party politics and certain banks became the appendages of political parties, factions or influential families. All this led to the growth of an unusually strong relationship between banking and politics which was a striking feature of Chilean politics in the last quarter of the 19th century and the early 20th century.

Outside the mainstream development of private banking was the Caja de Crédito Hipotecario. This institution, established in 1855, was an example of early State intervention in the economy. The Caja played an important and sometimes crucial role in Chilean agriculture, monetary development and in political and social life in general.¹⁷

The Caja was essentially a semi-autonomous State mortgage bank. Its aim was to provide long-term credit to agriculture. The workings of the Caja were based to some extent on similar European mortgage banks, but it was the first of its kind in Latin America and served as a prototype for other similar institutions in the sub-continent.

A distinctive feature of the Caja was that it had no funds of its own, no paid-in capital. It issued bonds (letras hipotecarias) to property owners on the security of a mortgage in favour of the Caja on the property concerned. The recipient

then sold the bonds and the proceeds constituted the loan. The debtor received the bonds at their par value and contracted to pay a fixed rate of interest and amortisation over the life of the bonds. At the same time the Caja paid the same rate of interest to the holder of the bonds. Repayment of interest and amortisation could be made either in currency or in bonds received at par. The profits of the institution came from a $\frac{1}{2}\%$ commission charge on its debtors, the favourable balance resulting from the receipt of interest payments 6 months in advance of interest payments to bondholders and from penalties and fines on debtors in arrears. The commission charge was abolished in 1887. Profits were accumulated in a reserve fund; the State received nothing.

The terms of the loans were highly favourable to debtors. Before 1855 the hacendado seeking credit had to rely on private sources - probably family and friends - or on short-term funds from a few Valparaíso merchants. Interest rates were generally high.¹⁸ In contrast the interest rates on Caja Hipotecario bonds were in the range of 5% to 8% (the yield depended on the price of the bonds). The period of the loans varied from 20 to 30 years. The mechanism of the Caja contained other perquisites that benefited the debtor. At any time he could convert his debt to a new series of bonds carrying a lower rate of interest. The provision for repayment in bonds at par enabled debtors to take advantage of low bond prices to pay off their debts cheaply.

Every official encouragement was given to establish a market for the bonds. Mortgage bonds were exempt from all taxation and made acceptable as security in all cases where the law demanded it. The administrators of trusts and charities were authorised to place their funds in mortgage bonds. The Caja was authorised to set up savings banks which would be obliged to invest their funds in mortgage bonds. The first of these, the Caja de Ahorros de Santiago, was established in 1884.¹⁹ As we shall see later, the State invested money directly in these bonds on a number of occasions.

Appendix VI shows the growth of credit extended by the Caja de Credito Hipotecario. The bulk went to the large land-owners of Central Chile. Although the value of a loan was forbidden to exceed one half of the value of the property mortgaged, this proportion in practice depended on the location of the property. Up to 40% of the land value was lent on agricultural land between the Huasco Valley and the River Tolten. For unirrigated land in this area the maximum proportion was 30% and for any land south of the Tolten 25%. For loans on urban property, the better parts of Santiago and Valparaíso were especially favoured. In practice Caja Hipotecario operations were heavily concentrated in the four or five provinces clustered around Santiago, and particularly in Santiago province itself. Up until 1912 at least, no loans had been made on property in the southern provinces of Valdivia, Llanquihue and Chiloé (although a few had been made to livestock companies in Magallanes).²⁰ The large landowner was heavily favoured. In 1877, for example, half of the 90 loans granted by the Caja were on properties in Santiago province. Nearly 40% of the amount lent was concentrated in eight loans ranging from Pesos 50,000 to Pesos 240,000 and a further third in 18 loans of between Pesos 25,000 and Pesos 50,000.²¹

The Caja de Crédito Hipotecario was an exclusive institution run for and by the hacendados. It was directed by a board of six members, made up of the Director and the Fisco, both permanent officials appointed by the President, and two nominees from each of the two houses of Congress. The latter four consejeros had to be debtors of the institution. Membership of the board carried with it great political and social esteem. This is witnessed by the intense political in-fighting that occurred at the time of the elections for consejeros in Congress every two years. In 1909, for instance, the Consejo was made up of one ex-President (Germán Riesco), three future Presidents (Elías Fernández Albano, Ramón Barros Luco and Emiliano Figueroa) and one past and one future Presidential

candidate (Fernando Lazcano and Luis Barros Borgoño respectively.)

The 1855 law also authorised the establishment of private mortgage banks. They were to be subject to the same rules as the Caja Hipotecario, and in return were to receive the same privileges for their bonds. The company appointed the board of private mortgage banks but the government named the director. In the next half-century six private institutions were established and a number of commercial banks opened mortgage sections. By 1912, however, only three private mortgage banks were in existence as a result of mergers and failures. The disappearance of some of these private mortgage banks and the fact that their bonds were rarely as acceptable as those of the publicly-owned Caja de Crédito Hipotecario did not mean that they were unimportant. The outstanding level of mortgage bonds of the private banks was usually somewhere between one-third and one-half of the circulation of Caja Hipotecario bonds.²²

All in all the system of mortgage credit created by the State in 1855 was highly favourable to the hacendados. Whether it made an equally valuable contribution to the development of Chilean agriculture is a more contentious issue. Most observers have identified luxurious residencies in Paris and Santiago as the end use of mortgage borrowing. In a more dispassionate tone the British representative in Chile wrote in 1901 that

"almost all the farms and agricultural estates are burdened with heavy mortgages ... the money raised by way of mortgages upon the farms have not been applied to the improvement and stocking of the estates in very many cases. The building of luxurious houses in the cities, the keeping up of expensive establishments, constructing lavish houses and laying out expensive grounds upon the estates themselves, have in the majority of cases been the objects for which these loans have been raised, objects which give no return and are on the contrary incentives to expenditure upon an ostentation and social extravagance unsuited to the owners of estates with heavy mortgages ..."²³

CHAPTER THREE

THE FINANCIAL CRISIS OF 1878

The material progress and political and institutional development evident in Chile in the 1870s were amply demonstrated to the world by the War of the Pacific at the end of the decade. Yet in the midst of this era of prosperity and confidence many of the factors which had lain behind the economic progress of the previous twenty years were beginning to disappear. In 1873 there appeared the first signs of the long downward trend of world commodity prices, a trend which was not reversed until the last few years of the century.¹ Chile quickly faced falling prices for all her major export products.

The opening of new copper mines in the United States and Spain depressed prices. This coincided with the exhaustion of many of the high grade ore mines in Chile, and the relatively backward techniques and lower grade ores were unable to compete with the larger scale foreign production. The peak year for copper exports of 1876 when £3 $\frac{1}{2}$ mn of copper was sold abroad was not matched again until 1916.² Similarly silver prices fell and the average value of Chilean silver exports in 1893 was half the 1872 level.³

Chilean agriculture from the 1870s began to face the same problems as mining, with increased competition and falling prices coinciding with unfavourable internal changes. The 1870s in many ways marked the high-point for Chilean agriculture in the 19th century. In these years the cereal acreage reached its peak in the century as did wheat exports, the value of which in 1874 was not exceeded until 1924.⁴ The fertile, naturally irrigated and easily worked land in the Central Valley was almost used up and in the absence of more intensive techniques a further large expansion of cereal output was to have to await the extensive development of the south in the early years of the next century. The average sterling value of Chilean wheat

exports was halved between 1872 and 1894.⁵ Chilean exports were further damaged by a series of three consecutive bad harvests in the years 1875-7.⁶

As a result of all these factors, export receipts fell by 20-30% between 1872/3 and 1877/8.⁷ The decline in imports was somewhat more delayed. Conclusions about Chile's balance of payments position derived from official trade figures can only, at best be tentative, and may be misleading (see Appendix I). The figures do, nevertheless, indicate that, on trade account, the country's payments position was deteriorating in the years 1873/78. In addition, there are grounds for supposing that on non-trade items the external payments position was worsening. In the first place, the burden of the country's external public debt was rising. The war against Spain forced Chile to borrow about £3.6mn from abroad. Furthermore, one of the chief priorities of the Errázuriz administration was the building of railways. During his term of office, 1871/6, further loans totalling over £4.4mn were floated in London, largely to finance the construction of the Chillán-Talcahuano and Curicó-Angol railways.⁸ As a result of this foreign borrowing, external public debt service payments rose from an average of about £0.45mn over the years 1869/72 to £0.74 mn over 1876/8.⁹ To make matters worse, these increased debt repayments abroad coincided with a period in which no new foreign funds were entering the country in the form of new external public borrowing.

The balance of payments may further have been weakened in the 1870s by the export of capital on a significant scale to Bolivia for the exploitation of Caracoles and also by an outflow of capital to the nitrate fields of Tarapacá and Antofagasta. Although no doubt to some extent compensated by a corresponding inflow of income from these investments,¹⁰ the increasingly hostile attitude shown by the Bolivian and Peruvian Governments towards Chilean investment, particularly in nitrate, put many of the Chilean enterprises in difficulties and adversely affected their earnings.

Any net outflow of specie resulting from a deterioration of Chile's balance of payments position in the 1870s was compounded by the effects of the world-wide decline in silver prices. The coinage law of 1851 had established a mint ratio of 1:16.39, a ratio which for a number of years was unfavourable to silver. This situation began to be reversed from 1866, when the long fall in the price of silver first became apparent. By 1875 the price had declined sufficiently to have established a clear incentive for the export of gold coin. In the next 3-4 years gold disappeared from circulation. Only Pesos 4mn of metallic coinage was put into circulation over 1872/6, while the export of specie is shown in the following table:-

	Pesos (1 Peso = 38d)
1870	1,157,375
1871	918,111
1872	1,023,234
1873	2,023,052
1874	2,072,987
1875	4,305,576
1876	4,015,352
1877	2,472,538
1878	4,145,410

TABLE I: THE EXPORT OF SPECIE FROM CHILE, 1870-1878¹¹

This exported specie consisted largely of gold, and over the worst years, 1873/8, around £3mn left the country. From 1873 to 1878 Chile was on a de facto silver standard. By that later year, Germany had gone on to gold and the Latin Monetary Union countries (France, Italy, Belgium and Switzerland) had in practice abandoned silver in favour of the "limping" Gold Standard.¹²

In addition to the external payments problems which emerged from the mid 1870s, the economy was running into internal economic and financial troubles. These arose from the collapse of the speculative boom of the early years of the decade which had been led by the Caracoles silver mine discovered in 1870 and

fuelled by the expansion of banking and credit in these years. The bubble of the boom burst in March 1873 and many of the mining companies set up earlier were liquidated.¹³ The collapse affected other sectors; several true manufacturing industries had emerged by the 1870s, including flour milling (using steam power), brewing, tanneries and cart and carriage manufacture,¹⁴ but Chilean manufacturing industry showed little growth for the rest of the decade. In general the adverse effects of the 1873 crash on economic activity were more prolonged than had been the case with earlier similar crises, not least because it was compounded by adverse external economic trends.

The general slowdown in economic activity after 1873 was not joined by the banks. They continued to expand their activities, though on an increasingly unsound basis. The collapse of the boom, in which the rapid expansion of bank credit had been an important contributory factor, put the banks in difficulties. Even at the best of times the Chilean banks were accustomed to operating on very fine margins (as demonstrated in one respect, that of their metallic cash reserve, in the table below).¹⁵

<u>Position of the banks in</u>	<u>Pesos mns</u>			
	<u>Total deposits</u>	<u>Notes in circulation</u>	<u>Metallic cash reserve</u>	<u>Ratio of cash to total liabilities</u>
31 Dec. 1869	21.5	4.6	2.1	8.0%
30 June 1871	24.5		4.0	11.7%
1872	31.3		3.6	9.5%
1873	34.6		3.7	8.0%
1874	31.7		4.8	11.3%
1875	36.7	6.7	4.9	11.3%
31 Dec. 1876	38.7	9.0	3.6	7.6%
1877	41.2	8.2	4.6	9.3%
30 June 1878	37.2	8.3	3.4	7.5%

TABLE II: THE POSITION OF THE BANKS, 1869-1878

Although the statistics on Chilean banking are rather sketchy in this period, the above table gives some indication of the trend. The table gives a hint of the expansion of the banks' activities during the Caracoles boom years, particularly in 1871/2. Not surprisingly, when the downturn came the banks found themselves holding many bad debts. Their asset profile was made worse by the bad harvests of 1875/7 which effectively immobilised a further large part of the banks' assets, as a result of the farmers' inability to repay their debts. A good part of the responsibility for this situation can be laid on the banks themselves. Much caution was cast aside as the banks pursued their policy of increasing the circulation of their notes. They offered "all class of concessions to the public"¹⁶ to this end. At the same time the shareholders of the banks continued to receive large dividends.¹⁷ By keeping their cash reserves to a minimum, while expanding their note issues to the maximum and putting their assets in the most remunerative but non-liquid form, the banks maintained a high level of profitability at a time when the rest of the economy was in recession.

The withdrawal of gold from circulation and the immobilisation of the assets of the banks were important factors behind the rise of interest rates in these years. This accentuated the general deflationary trends. The best indicator of Chilean interest rates in this period, the yield on bonds issued by the Caja de Crédito Hipotecario, rose from an average of 7.5% in 1873 to 9% in 1878 (see Appendix VI). The 1878 level was not reached again for at least another 50 years. The low price of mortgage bonds did nothing to ease the plight of the hacendados, already suffering from poor harvests and low agricultural prices. This is best reflected in figures showing the proportion of payments in arrears to the Caja Hipotecario. These rose from 2.9% in 1874 to 33.6% in 1879, the highest level in the institution's history.¹⁸

The economic and trade depression soon affected the Chilean Treasury. About two-thirds of government revenue in

this period was derived from foreign trade, very largely from import duties. Falling trade meant that ordinary government revenue declined by about a third between 1874 and 1879.¹⁹ At the same time the Treasury was having to find increasing sums of money to meet the rising burden of servicing the public debt. The burden of the external debt was exacerbated by the fall in the exchange rate arising from the decline of the price of silver. The exchange rate in London of the Chilean Peso was based on the price of the silver Peso of 25 grams 9/10ths fine. Before 1873 this had generally been quoted at just over 45d, but by July 1876 had fallen to a little over 36d. As a result the Treasury had to find more Pesos to buy sterling commercial bills in order to make payments abroad. The Minister of Finance calculated that in 1877 debt service and exchange losses accounted for 25-30% of ordinary revenue.²⁰ The authorities had to resort to borrowing from the banks in 1876 and 1877, but in both years the Treasury was in deficit.²¹

In October 1877 Augusto Matte Pérez took over the position of Finance Minister. Matte was the son of Domingo Matte who was the founder of the family fortune and of the Banco de Domingo Matte y Cia., a middle ranking Chilean bank in terms of size. He was a member of the Liberal Party.²² Matte decided that stronger measures were necessary to halt the deteriorating fiscal situation. This took the form of a radical package of tax measures which included taxes on gifts and inheritances and a limited income tax.²³ The suggestion of anything resembling an income tax was profoundly abhorrent to a majority of the oligarchy in Congress, particularly to those in the Senate and it was rejected, showing in the view of one British merchant in the country "an apparent disinclination to get over present difficulties by some self-sacrifice."²⁴

In the absence of new taxes the Government was forced to continue its policy of internal borrowing in an effort to balance the budget. Ready available sources of domestic funds were, however, rapidly drying up. Matte had hoped to float

further bond issues of Pesos 3 mn to balance the 1878 budget and of Pesos 0.5mn to complete work on the Curicó-Angol Railway, one of the many public works projects initiated under the Errázuriz administration. The banks lacked the cash to take up these loans and anyway had already over-extended their supply of credit both to the Government and to the private sector. The Government, by making continuing demands on the meagre resources of the banks, which they in turn were over-eager to meet in order to obtain this profitable business, was exacerbating the weak position of the banks.

On the other hand, the onerous terms obtained by the banks on these loans to the Treasury meant that the State received only temporary, if any, financial relief. As one observer noted

"the deficit of the last few years has been met by loans from the local banks at a high rate of interest, in fact the service of the foreign debt may be said to have been met for some time by domestic loans taken up for the purpose and the differences in interest ... have formed a considerable element in the deficit."²⁵

The Government's failure to obtain a loan from the banks towards the end of 1877 led it to repeat the exercise of 1865/6. As then, the Government felt the need to grant concessions to the banks in return for a loan. A law of 16th January 1878 had authorised the Government to issue Treasury bills up to an amount of Pesos 3 mn.²⁶ Matte then set about discussing with the banks the terms that they would require in order for them to take up these bonds. The result of his efforts was set out in the contract between the Government and banks approved by Congress on 27th June 1878.²⁷ Nine of the eleven banks took part and agreed to subscribe to a loan of Pesos 2,525,000 in the form of Treasury bills with a maturity of two years and carrying 9% interest. In return these banks were to enjoy the privilege of having their notes acceptable in payment of all public dues until 7th August 1888 (the expiry date of the contract of 8th August 1866 which had granted the same

privilege to certain banks). The Government managed to induce the banks that had taken part in the loan contract of 8th August 1866 to renounce their exclusive privileges.²⁸ The contract limited the note issue of each of the nine banks to four times the amount of the loan taken up by each one, although the note issue limitation established in the 1860 law was explicitly maintained. This limitation was at the time of no great significance to the banks. Their total note issue was then only a little over Pesos 8mn, while the contract allowed for a total issue of over Pesos 10 mn, all of which was admissible in arcas fiscales. The law/contract of 27th June 1878 also demanded that the banks provide, as security for their notes, a deposit with the Government of Treasury bills to the value of 25% of their note issue.

The Banco de Valparaíso and the smaller Banco de Concepción refused to join with the other banks in subscribing to the loan and receiving the concessions. The Banco de Valparaíso made counter-proposals which included the demand that the Government should cease to maintain an account exclusively with the Banco Nacional de Chile, the principal competitor of the Banco de Valparaíso.²⁹ The Government rejected this scheme.

Apart from the two dissenting banks, there was no great opposition to the contract with the banks. A few politicians saw the implications of the extension of the banks' note issuing capacity. One deputy opposing the loan declared that "the bill carries the latent or manifest germ 1) Of an inconvertible issue 2) Of an issue of curso forzoso 3) Of an issue without guarantee."³⁰ Nevertheless, the Deputies as a whole approved the June loan contract bill easily, by 26 votes to 6.³¹ The largest part of the loan was taken up by the Banco Nacional (Pesos 1.1mn) and the Banco de Edwards (Pesos 540,000).

The loan gave a little temporary relief to the Treasury, but at the same time did nothing but harm to the financial position of the banks. As shown in Table II the banks' aggregate metallic cash/liabilities ratio tended to fluctuate

fairly widely. Although the ratio of 7.5% prevailing on 30th June 1878 was not exceptionally low by the standards of previous years, combined with the heavy lending to the Government and the high proportion of the banks' assets in the form of bad debts to the private sector, the banks were very vulnerable to any loss of confidence. In addition, some banks were more vulnerable than others. At 30th June 1878 the banks' cash ratio varied widely: from the Banco Mobiliario 3.0%; to Alianza, 4.7%; Nacional, 4.9%; Ossa & Cia, 5.0%; Agrícola, 5.9%; Valparaíso, 6.6%; Concepción, 7.5%; Consolidado, 8.2%; Matte & Cia, 8.6%; Edwards, 15.3%; la Union, 15.8%.³²

A number of inter-related factors sparked off the banking and financial crisis which hit the country in July 1878. Chile and Argentina had so far failed to agree on a fixed boundary between the two countries in Patagonia.³³ In May 1878 a Chilean negotiating team headed by the eminent historian and diplomat Diego Barros Arana was recalled from Buenos Aires after their talks had reached deadlock. The Chilean Government showed no alarm at this development, but there is evidence that some people in Santiago saw the return of Barros Arana as an omen of an on-coming war. Encina lays considerable stress on "the repercussions of the belief in the proximity of war against Argentina on the metallic cash reserves of the banks."³⁴

What seems to have raised more alarm, particularly abroad and among foreign residents, was the rumour that the Banco de Valparaíso had invited the other banks to discuss the advisability of recommending the Government to suspend, for two years, amortisation payments on all its debts, both internal and external. The idea was firmly rejected by the Government in the Diario Oficial of 1st July 1878, but it was suspected that the attraction of such a measure "has nevertheless taken root with many."³⁵

In the context of the generally depressed economic and financial climate in the country in mid 1878, such rumours and fears contributed to the withdrawal of funds from the banks.

An early hint of this was given by the failure of the small Banco de Pobre of Santiago in January of that year.³⁶ It was in fact the weak position of the largest bank, the Banco Nacional de Chile, that precipitated the bank crisis that hit the country less than a month after the banks' loan contract with the Government. The manner in which the bank was managed in the months preceding the crisis, has, not unnaturally, led to the suspicion that if the bank did not actively plan to put itself in such a position that the Government was forced to suspend the convertibility of bank notes, at least it passively accepted the inevitability of the crisis. The 1860 Banking Law had placed no restrictions on the banks lending to their own directors. This omission was taken advantage of by many of the Chilean banks, not least by the Banco Nacional. At 31st July 1878 the Bank's outstanding loans to its directors amounted to Pesos 1,960,019, almost one half of its total paid-up capital of Pesos 4mn. Moreover, the level of these loans to directors had been increasing steadily over the previous year or so. In July, the month of the crisis, the Banco Nacional lent net over Pesos 100,000 to its directors.³⁷

Probably a more important factor behind the particularly weak position of the Banco Nacional was its specially intimate relationship with the Government. This relationship had been clearly demonstrated in 1865 and it was institutionalised in 1873 when the Government contracted to place all of its spare funds in the bank for 22 years. As we have seen, in practice the Government had few spare funds in this period and instead of making deposits it obtained large overdraft facilities from the bank. These advances, which the bank was always ready and willing to grant to the Government, added to the various other loans to the State which the bank subscribed to, seriously over-extended the bank's diminishing resources. But to refuse to advance any more funds to the Government would have damaged the bank's special position.

In the first half of 1878 some Pesos 3.5mn net was

withdrawn by depositors from the Banco Nacional, bringing the bank's total deposits down to just over Pesos 15mn. By the end of the year a further Pesos 3.7mn had been withdrawn. This was reflected in the depletion of the bank's cash reserves in specie, which fell from Pesos 914,000 at end-June 1878 to a mere Pesos 400,000 by mid-July.³⁸

This withdrawal of funds from the Banco Nacional did not take the form of a general panic and a run on the bank. The public and the politicians outside of the narrow circle of bankers in Santiago appeared to be unaware of the parlous position of the Banco Nacional. Gibbs in Valparaíso commented at the end of June that "so far there is no panicky anxiety to get money out of the country, as would be the case were the ... 'curso forzoso' seriously entertained."³⁹

The following story of events in July 1878 is derived principally from El Mercurio of Valparaíso and Encina.⁴⁰ By mid-July some of the banks had agreed amongst themselves that they could no longer continue to redeem their notes for coin. On 20th July Melchor Concha y Toro, a director of the Banco Nacional, saw the Finance Minister, Augusto Matte. Concha y Toro was from a wealthy landowning family and also had mining as well as banking interests. He was also a prominent politician and was President of the Chamber of Deputies.⁴¹ Concha y Toro succeeded in impressing on Matte the need to give relief to the banks by suspending the convertibility of their notes into specie. Before proceeding further Matte first wanted to consult the elder statesman of Chilean finance, Antonio Varas, who had been Finance Minister during the Presidency of Manuel Montt. Varas agreed with Matte, and on the following day both attended a meeting in the President's sala, accompanied by Agustín Edwards Ossandon, Jorge Ross, the manager of the Banco de Edwards, José Besa, manager of the Banco Nacional, and several ministers, in an effort to find a way to save the banks and the Banco Nacional in particular. The main obstacle to agreement was the opposition of Edwards to inconvertibility.

The role of Edwards was crucial at this stage, as was to be the role of his family in the financial history of Chile for many years. Agustín Edwards Ossandon was the son of Jorge Edwards, a doctor who arrived in Chile in 1807 and settled in La Serena.⁴² By the 1870s he was probably the richest man in Chile. From his success in mining in Copiapó he moved into commerce and banking in Valparaíso and with other merchants of that city founded the Banco de Valparaíso in the mid-1850s. In 1867 he set up his own bank, the Banco de A. Edwards y Cia., a private family bank but one of the largest in the country. The Banco de Edwards had taken up a disproportionately large share of the June 1878 loan to the Government. This last point, together with the fact that his bank was the soundest and strongest financially and could have continued to exchange its notes for coin, gave Edwards an added authority. He was also a Senator for Valparaíso, but up to then had rarely ventured beyond the city and had taken little part in Santiago politics.

Edwards finally relented to the views of the others and joined with Ross, Matte and Besa in drafting a bill to send to Congress. The bill was rushed to a secret session of Congress quickly convened on the evening of 21st July. Many politicians arrived at the secret session with no idea of the real purpose of the meeting. Stories of an imminent declaration of war against Argentina, the illness of the President or a revolution were spread about. The inconvertibility measure was approved unanimously in the Senate and by a big majority (45 to 9) in the Deputies. A motion of censure on the Government attracted a few more votes in the lower house (19) but was still easily defeated.

In reality Congress had been presented with a virtual fait accompli. The bill came as a complete surprise and Congress could do little more than accept the Government's interpretation of events and support the proposed line of action. Moreover, the Government's heavily overdrawn account at the Banco Nacional was undoubtedly a useful lever for the

bank. The Government and Congress were presented with a choice of either helping the bank or facing the situation of the bank being unable to pay drafts drawn on it by the Government.

The law of 23rd July 1878 gave legal tender status to, and declared inconvertible, the notes issued by the nine banks which had subscribed to the loan approved by Congress on 27th June. Inconvertibility applied only to the Pesos 10,010,000 of notes admissible in arcas fiscales and was to expire on 31st August 1879. In return for this privilege the banks were to pay the Government interest of 4% per annum on the amount of inconvertible notes that each had in circulation. As a guarantee of their notes the banks were required to deposit in the Treasury, public or mortgage bonds to the value of their notes in circulation. The Government committed itself to guarantee the redemption of the inconvertible notes on the day specified. The two banks that had refused to participate in the loan, the Banco de Valparaiso and the Banco de Concepción, were to be granted the privilege of not having to redeem their notes into gold or silver when they subscribed their share of the loan to the Government. The maximum issue of inconvertible notes accorded to each was Pesos 3mn to the Banco de Valparaiso and Pesos 500,000 to the Banco de Concepción.⁴³

This law was a hastily conceived emergency measure. By leaving the notes of the Bancos de Valparaiso and Concepción convertible, it placed them in an untenable position. Although promising the return to specie payments in just over a year, the law provided no mechanism by which this was to be achieved. The inconvertible notes were to be backed only by more paper. One aspect of the law criticised by the Finance Committee of the Chamber of Deputies was the rather arbitrary distribution of inconvertible notes between the various banks. The distribution was made purely in proportion to the banks' share of the Pesos 2,525,000 loan to the Government and not on the basis of more logical and sounder criteria such as the level of the banks' capital.

After considerable discussion between the banks and the Government and in Congress, supplementary legislation was passed, tidying up some of the anomalies in the law of 23rd July. This took the form of a law of 6th September 1878. To accommodate the two banks left out of the previous law, the maximum issue of inconvertible notes was raised to Pesos 15,010,000, with some juggling around of the share allocated to each bank.⁴⁴ Specie was added to State and mortgage bonds as being eligible to form the guarantee lodged with the Treasury. Provision was made for the redemption of the notes on a date which the law fixed as 1st May 1880, after which gold and silver would resume being the sole legal tender currency. From 30th July 1879 the banks were to be required to surrender monthly to the Casa de Moneda 5% of their inconvertible issue for destruction and in return would receive back their guarantee in proportion. Alternatively, the banks could, from the same date, replace their guarantee deposited in the form of bonds by specie at a rate of 4% per month. The banks were obliged to pay a tax of 4% per year on their inconvertible note issue not guaranteed by deposits of specie.

In addition the new legislation added the Bancos de Valparaíso and Concepción to the list of banks whose notes were admissible in arcas fiscales. As was the case with the other banks, the amount of notes granted this privilege was limited to four times the banks' share in the loan to the Government. The Government could monitor the level of bank notes issued, since the banks were obliged to register each note issued with the Treasury.

In quantitative terms the new monetary position was briefly as follows. The existing banks were authorised to issue notes to the value of 150% of their paid-up capital, which on the basis of their accounts of 30th June 1878 meant a total combined note issue of Pesos 28,736,382. Of this total, Pesos 15,010,000 could be inconvertible until 1st May 1880 and acceptable in payment of all public dues until 7th

August 1888. As of 30th June 1878 the total quantity of bank notes in circulation amounted to only Pesos 8,349,089. It is clear that the monetary measures of 1878 not only saved the banks from having to close their doors, but also gave a large boost to the potential resource base of the banking sector.

The reaction in Valparaíso to the suspension of specie payments - a measure taken to relieve a crisis facing Santiago banks and politicians - was initially one of surprise and horror. The city's principal newspaper declared that the measure "took the whole country by surprise ... commerce was paralysed ... a true panic had been announced."⁴⁵ In Europe these events did not create the same shock. From that distance the rumours of an impending default on Chile's external debt were of more serious concern. This removed the possibility of the country obtaining external funds to help out the Treasury.⁴⁶

The exchange rate of the (new) paper Peso held up surprisingly well. The Peso fell from the rate of a little over 40d that it had averaged over May-July 1878 to just over 37d in October, but by the end of the year the rate had risen to over 39d.⁴⁷ The rate was, of course, no longer tied to the sterling/gold price of the silver Peso which fluctuated around, or just over, 40d during the period 1878/1882. Any adverse effect on the exchange rate of the crisis was likely to have been limited by the fact that the suspension of specie payments was not accompanied by a direct or immediate large increase in the quantity of paper money in circulation. The situation would have been different if the Government had at that stage itself issued paper money in any significant quantity. Another factor tending to bolster the exchange rate was the decline of imports in 1878 and again in 1879, helped by the recession in economic activity in the previous few years. Another event that may have reacted favourably on the exchange rate was the announcement in October 1878 that a treaty was to be signed with Argentina on the boundary question.⁴⁸

The emphasis given by different writers to the various

factors that contributed to the suspension of specie payments in Chile in 1878 has varied considerably. Most accept that the deterioration in Chile's external payments position and the fall in the price of silver were both important factors. Encina puts most emphasis on the worsening fiscal situation and the heavy debt burden of the Government. Roberto Espinoza questions whether inconvertibility was the result of the Treasury's need for funds at all.⁴⁹ He sees the whole episode in 1878 as a continuation of the policy started in 1865 of Government aid to bankers. In support of this thesis, Agustín Ross stresses the importance of the mismanagement of the Banco Nacional in the events of 1878. This view is largely shared by both Fetter and Subercaseaux; but these two also raise the question of the unnatural and rather sinister relationship between the Government and the banks. In 1861 Courcelle-Seneuil had advised against any Government help for the embryonic banking system in the midst of an acute economic and financial crisis: while "in 1878 the Government did not dare to take the same course, since it was then tied closely with the banks by means of the loans that it had received in order to balance the deficits of the Treasury."⁵⁰ In turn, "the loan of 1878 was merely a manifestation of the dangerous relations that for some time the State had maintained with the banks. These relations were a sort of custom, a special public right, that was in conflict with the liberal spirit of the banks of issue Law of 1860."⁵¹ The deep involvement of members of one of the leading banking families in the political steps which led to the suspension of specie payments is symptomatic of the intimate relationship that had developed between the State and the banks. The 1860 Law, by failing to establish any formal relations between the State and the banks, inevitably led to the growth of informal ties. In the circumstances of 1878, however, it is difficult to see what other course of action the Government could have taken, save letting the banks go to the wall - a politically unacceptable alternative. By 1878 the banks had a powerful

political voice, and interests and personnel that were interwoven into the traditional agricultural sector. In 1878 their influence was sufficient to overcome the traditional, and still strong, distaste for inconvertible paper money.

CHAPTER FOUR

FROM THE WAR OF THE PACIFIC TO THE CIVIL WAR OF 1891

Whether the banks would have been in a position to redeem their inconvertible notes on 1st May 1880 is questionable. It was in any case academic, since in February 1879 Chilean troops occupied the Bolivian port of Antofagasta, an act which marked the opening of the War of the Pacific. The story of the war and of how the nitrate wealth of the rich province of Tarapacá fell largely into British hands has been told elsewhere.¹ The "Nitrate Age" in Chile, spanning the fifty years 1880/1930, coincides fairly closely with the era of the "cuestion monetaria." Some of the characteristics of the "Nitrate Age" will evolve as the story of monetary affairs and politics unfolds.

The completeness of the Chilean victory in the War of the Pacific and the magnitude of the military disaster for her adversaries should not conceal the strain put on Chile's faltering finances by her war effort, albeit only for a short time.²

The options open to the Government as means of financing the war were limited. Any external assistance was out of the question. A substantial increase in internal taxation was, even in a war situation, politically unacceptable, and also probably administratively impossible. Congress had in May 1879 accepted a token sacrifice to the needs of war in the form of a 3% annual tax on income from capital. Once the first revenues from the export of nitrate began to flow into the Chilean Treasury and the real potential of this revenue source was realised, Congress became prepared to throw the whole burden of financing the war on to nitrate. No time was wasted in getting rid of unpopular internal taxes that were regarded as no longer necessary. In 1880 the State tobacco monopoly was abolished as a result of pressure from the Sociedad Nacional

de Agricultura. This source of revenue had accounted for more than 10% of ordinary receipts in the previous year. Although not as important as a revenue raiser, the alcabala on the renting and leasing of real estate was also abolished in 1880.³

Awaiting nitrate revenue, however, the Government had to find other sources of funds. One of its first actions after the formal declaration of war in April 1879 was to suspend the amortisation of the external public debt. This was done with the agreement of the foreign bondholders. Amortisation payments were not resumed until 1884, although the Government continued to make interest payments.⁴

The principal source of finance for the war in its first, and most critical stages in 1879 and 1880 was the issue of paper money by the State. The Government had initially hoped to avoid the direct issue of paper money, preferring instead to rely on the issue and subsequent Government borrowing of bank notes as it had in the past. Accordingly, immediately after the declaration of war the Government obtained the approval of Congress for the issue of Pesos 6mn of "billetes de curso forzoso".⁵ This law authorised the Government to arrange for the issue of the notes via the banks or, alternatively, to issue them directly. The Government was left with freedom to make what deal it could with the banks. The latter were reluctant to lend any more funds to the State even at the cost of having to accept the competition from the circulation of the State's own currency notes. In the absence of an agreement with the banks, the Government issued Pesos 6mn of Vales del Tesoro that were legal tender. Further State note issues followed to meet war expenditure. Laws of 26th August 1879, 10th January 1880 and 19th August 1880 provided for the issue of Vales del Tesoro to the amount of Pesos 6mn, Pesos 4mn and Pesos 12mn respectively. A further law dated 5th January 1881 authorised the issue of another Pesos 12mn of these Treasury notes. Although the authority granted to the Government under this latter law was extended for a further 12 months

beyond the original one year (by a law of 12th January 1882), the notes were never issued.⁶ In 1880 the Oficina de Emisión de Billetes Fiscales was set up to administer the issue and eventual redemption of these new State currency notes.⁷ From 1880 Vales de Tesoro began to be replaced in circulation by Billetes Fiscales to the same value issued by the new Oficina. Altogether, in a period of less than 18 months the Government issued Pesos 28mn of notes, that served to triple the total circulation of paper money in the country.

The issue of paper money by the State, previously regarded as an anathema by the overwhelming majority of Chile's rulers, was accepted with little relish, but as a necessary evil by the Government and Congress. The Minister of Finance, Augusto Matte, expressed this mood in his report for 1879:

"Launched on the country, not by its own will, but by the most legitimate demands of national prudence, an exceptional regime very distant from that under whose shadow the private and public wealth have prospered for many years, we must not begin to forget that our most constant desire must be, once the war has ended, to return to the regime of the metallic circulation, the only stable base for commercial and industrial transactions."⁸

In fact, the later paper money issues met with considerable criticism in Congress. This was reflected in the associated measures tagged on the various pieces of legislation in an effort to limit the impact of these note issues. A law of 11th September 1879 ordered that 5% per annum of the specie received by the State from customs duties should be used for the redemption of the State paper money. Besides providing for the issue of Pesos 12mn of notes, the law of 19th August 1880 also authorised the deposit in public offices of vales or billetes by private individuals or the Government up to a total amount of Pesos 12mn.⁹ Such deposits carried interest of 5% per annum if they were made for a period of at least one year. For 6-month and 3-month deposits (the latter being the minimum term allowed) the rate of interest received was 4%

and 3% per annum respectively. It is clear that at the time it was generally thought that these deposit facilities would provide a suitable receptacle for the notes issued by the State that were surplus to the requirements of the economy. The fact that by the end of 1880 Pesos 8mn of such notes had been deposited in the Casa de Moneda by the public was later taken as evidence that the issues of paper money in 1879 and 1880 had been excessive.¹⁰ The prevailing popular misconception was that these notes deposited were somehow withdrawn from circulation and sterilised. In reality, all that had been established was a State-run savings bank. With the fall in interest rates in 1879 and 1880, such deposits became a fairly remunerative and gilt-edged investment. There was, of course, nothing to prevent the public from deciding to hold these funds in a more liquid form and withdrawing the deposits, as we shall see was in fact later the case. At the time, the build-up of these deposits of newly issued notes may have done something towards bolstering confidence in the paper currency.

The issues of State paper money now circulated with the existing bank notes. The time limit for the inconvertibility of bank notes (1st May 1880) was not extended, and these notes became, strictly speaking, convertible on that date. In practice the banks could hardly have been expected to resume exchanging their notes for specie in war-time and, moreover, when the Government was issuing inconvertible paper; there was anyway very little specie in circulation. On 1st May 1880 inconvertible bank notes ceased to be legal tender, but were still acceptable in payment of all public dues. This latter factor meant that, although bank notes became legally convertible into fiscal bills, the public seems to have made little distinction between the two.¹¹

The relatively massive issues of Government paper might have been expected to have had a disastrous effect on the exchange rate of the Chilean Peso. An examination of the course of the exchange rate over the period 1879/1881, however,

indicates that the fluctuations of Chile's fortunes on the battlefield were at least an equally important influence. The rate dropped steadily after the outbreak of war in 1879 and the first paper money issue, from an average of 38.5d in March to an average of 31d in July. The rate of depreciation accelerated in August and September, at one stage in the latter month reaching a low of 24d. The effect of a further issue of notes in August was compounded by the uncertainty engendered by the absence of a decisive Chilean victory. The elimination in October of Peru's main military threat in the form of the capture by the Chileans of the Peruvian battleship "Huascar" led to a sharp recovery in the value of the Peso, which rose to an average of 36.5d in December 1879. Thereafter, until the final end of the war was in sight, the exchange rate fluctuated, in a generally downwards direction, with a particularly large fall occurring in August 1880, the month in which the Pesos 12mn note issue was authorised, when the rate averaged only 25.7d. The successful completion of the military campaigns in 1881 brought with it a steady appreciation of the Peso, which in 1882 and 1883 was relatively stable, with fluctuations in the range 34-36d. Official figures, although needing to be viewed with some scepticism, do not indicate a substantial flight of capital in the form of specie exports during the years of the war; on the contrary they show that specie exports were, on average, halved in the years 1879/1881 compared with the previous three years.¹²

In general, foreign financial opinion and the native speculator were prepared to judge Chile's action in going to war on its results rather than purely as a deviation from financial orthodoxy. The acceptance of State paper money was anyway no doubt eased by the fact that there was already a fairly wide circulation of inconvertible bank notes and that there was little circulation of metallic coinage. Moreover, in conditions of a national emergency paper money was more palatable as a consequence of it being widely regarded as a

temporary, albeit forced, loan to the Government.

There were other, and more tangible factors helping to maintain the stability of the paper Peso in these years. The large territorial additions to the country and the occupation for a time of areas of her two neighbours themselves created a demand for more currency, and so eased the pressure on the Peso. An equally successful military campaign against the Araucanians to the south further expanded the territory available for colonisation and economic exploitation. On the external side, the payments position was eased by the suspension of amortisation payments on the external public debt, which in the four years prior to 1879 had been running at an average of about £250,000 per year. The sharp improvement in Chile's trade position also contributed to the strength of the exchange rate. Official figures show that while imports in 1882 were about 40% up on 1878, export receipts in 1882 were more than double their 1878 level. In 1880 nitrate added 50% to total export receipts and in the following year exceeded receipts from copper exports.¹³

The export boom was one important feature of the general economic prosperity of the years 1880/3, a prosperity resulting principally from the physical and psychological effects of the war. Recovery was most marked in agriculture, that benefited from improved harvests as well as from the extra demand created by the needs of war and from the new market in the north. This was aided by the much easier monetary conditions that resulted from a revival of confidence, the relief given to the banks by the suspension of specie payments and by the Government's large issues of paper currency. The interest rate on bank advances, that had been as high as 12% in 1879, fell to 5-6% in 1882. Land prices rose in line with these trends.¹⁴ As a result the hacendados were able to relieve themselves from a good deal of the heavy debt burden that they had incurred in previous bad years. Farmers, as well as eliminating most of their arrears in payments to the Caja Hipotecario, also

succeeded in converting a large part of their debt to this institution to a lower rate of interest.¹⁵ Cheaper credit enabled a few farmers to undertake investment in these years, particularly in irrigation. Other sectors of the economy, notably manufacturing industry, received a substantial boost for a short time from the war.

The banks joined in this new era of expansion and prosperity. They had already benefited from the concessions granted to them in the legislation of 1878. By the end of 1879, the registered note issue of the banks (Pesos 14.5mn) was approaching the maximum authorised to be inconvertible and admissible in arcas fiscales.¹⁶ There was some rationalisation in the banking sector, perhaps a reaction to the excessive expansion in the number of banks during the 1870s. From 1878 to the end of 1881 only one bank was established, the Banco de Melipilla, while three were liquidated and taken over by other banks. The Banco de la Alianza was taken over by the Banco Nacional, the Banco Consolidado de Chile by the Banco de Valparaíso and the Banco de Ossa y Cía., was taken over by the Banco de Edwards.¹⁷ This contraction of the number of banks by no means implied a contraction in the activities of the banks as a whole. On the contrary, as shown in Appendix IV in terms of deposits the banks expanded rapidly in 1880. While a large part of this expansion was no doubt the result of the increase in the money supply brought about by Government issues of paper money, the banks also expanded their own note issues.

On the fiscal front, the Treasury saw its position transformed. Ordinary revenue collections, boosted by export duty on nitrate, were in the 4 years 1880/3 well over double their level in 1876/9 in gold terms.¹⁸ Even if the debit side of the equation, the financial cost of the war, is taken into account, the Treasury still emerged in a strong position. The total cost of the War of the Pacific to the Treasury over the years 1879/1884 can be estimated at around Pesos 70-80mn. Approaching one half of this was financed by the spoils of war,

comprising mainly revenue from nitrate and guano exports. The bulk of the remaining cost was covered by issues of paper money, essentially a non-interest bearing loan from the public to the State with no fixed redemption date.¹⁹ Only in the very narrow context of the money supply can it be said that this part of the war was financed by inflation, since the monetary expansion was by no means accompanied by a proportionate depreciation of the currency. The average sterling value of the Peso in 1878, the last full year of peace, had been 39.6d, and in 1883, the last full year of war, the rate had fallen to an average of only 35.2d. This, however, over-states the depreciation of the paper Peso in relation to the basic standard of the currency, the silver Peso, the value of which itself fell from an average of 41.2d in 1878 to 39.6d in 1883 (see Table IV). The silver value of the paper Peso thus only declined by just over 7% during the period 1878/1883. The war was financed without any net increase in internal taxation; in fact there was a net decrease. There was, moreover, no increase in the external public debt (except for a build-up of arrears on amortisation payments) and only a small rise in the State's interest-bearing internal debt.

The question of the paper money was the most difficult short-to-medium-term legacy of the war. In the midst of the jubilation and optimism prevalent among Chile's rulers in the aftermath of victory, the potential significance of the issue was not particularly apparent. Both circumstances and attitudes had changed. The generally accepted thesis that the country's past prosperity had been based on the existence of a metallic currency had been badly shaken by the events of 1878 and the economic expansion clearly observed in the early years of paper money. It did then not require a great logical step to come to the conclusion that at least some of this prosperity was directly attributable to paper money. Such ideas would have been heretical only a few years before. Once the currency question came to the forefront, however, even orthodox supporters

of a metallic currency such as Hermógenes Pérez de Arce (Minister of Finance in the final year of the Santa María administration) felt obliged to admit that

"mining and agriculture have been able to prosper singularly by means of the fiduciary regime that on other sectors of the national wealth has imposed considerable sacrifices ... and from this has resulted the rare phenomenon that at the same time as certain social classes have felt hurt by the paper money, the popular masses have remained in a state of a certain degree of relative well-being that has not given way to the complaints of a people harrassed by misery We must recognise that Chile has been fortunate enough to have used in a moderate way the curso forzoso, without producing substantial disruptions to internal market values."²⁰

This combination of an economic boom and a strong exchange rate meant that the Government could afford to give the resumption of specie payments a low priority. At the same time a return to convertibility should have, in theory, been relatively easy at any time during 1882 and 1883. In these years, with the exchange rate of the paper Peso little below the sterling price of the silver Peso, the redemption of the paper currency could have been achieved without a major disruption of internal prices. This would, however, have required a degree of commitment that in practice was clearly lacking. In retrospect, it is not difficult to find reasons for this apparent lack of commitment. Departing from the course adopted in 1865/6, the Government did not in 1879/80 set any firm date for the redemption of their inconvertible notes. This clearly put the onus on the supporters of a quick return to a metallic currency to push a measure through Congress, rather than putting the onus on their opponents to persuade Congress to revoke an existing piece of legislation, an act which would have been interpreted at best as the reneging on an obligation, and at worst as a straight default by the State on its debt. Moreover, the conversion of the paper money would have required the Government to take a tough line with the banks in order to

force them to accumulate enough specie to enable them to redeem their notes. The banks possessed enough friends in the Government and in the legislature to make such a course of action difficult at the best of times. The law of 6th September 1878 had anyway been rather vague about the question of a metallic cash reserve for the conversion of their inconvertible notes. Specie was only one of a number of optional assets declared eligible to act as a guarantee for bank notes, and in any case once convertibility was theoretically restored on 1st May 1880 these provisions of the law became inoperative. Far from making provision for the eventual redemption of their notes into gold or silver, the banks dissipated in later years most of what metallic cash reserves they had possessed at the time of the suspension of specie payments in 1878. Ten years later (at end-1888) the banks' cash reserves in specie stood at only about Pesos 1 mn (compared with Pesos 3.4mn at mid-1878).²¹

Even if it had wanted to, the Government would have had difficulty in getting the banks to take concrete measures in preparation for conversion unless it could itself show that it was fulfilling its own obligations in this respect. But the Government was in no hurry to prepare the way for the redemption of its own notes. The currency question was in some ways regarded as an irritating heritage of a war that in other respects opened up great political and economic opportunities for the country. The redemption of the paper money would have symbolised and required sacrifice and restraint at a time when expansion was the order of the day. In the absence of a strong lead from the executive there was virtually no chance of any action on the monetary front; and the Government was heavily preoccupied with other matters. Foreign policy naturally engaged a good deal of the Government's attention. Chile was technically at war until 1884, and even the most fervent advocate of financial orthodoxy would have had difficulty in proposing the withdrawal of the paper money while the circumstances that had caused its issue were still prevailing. The administration of the newly

acquired provinces and of the associated nitrate and guano deposits put an added burden on the administrative machine. The radical changes in the scale and nature of fiscal revenue necessitated a major reform of the Treasury and budgetary procedure. The confidence induced by territorial expansion to the north encouraged the Government in Santiago to embark on the successful military campaigns against the Araucanians in the south. On the political front Santa María and the Liberal majority in Congress took full advantage of their strong position after the war to push home many of the anti-clerical measures that they had been advocating, against the opposition of the Conservatives, for many years.²² It is, perhaps, not without significance that it was only when the clerical question had been removed from the centre of the political stage that the "cuestion monetaria", among other issues, became prominent.

Either from a lack of will, or a lack of ability, the Chilean Government in the early 1880s seemed to have no clear idea of how convertibility might eventually be restored. The major stumbling block to the formulation of any conversion plan was the dual circulation of bank and State notes. There was a good deal of uncertainty in Government circles about the line to take on the circulation of bank notes. The Oficina de Emisión de Billetes Fiscales tended to concentrate on the issue of relatively large denomination notes. For example, in 1881 over 40% of the value of their notes in circulation was in the form of 100 and 1,000 Peso notes. These large denomination notes were designed to serve, among other things, as the banks' vault cash in the absence of any substantial quantities of specie. The banks were, therefore, free to concentrate on the issue of small denomination notes for everyday use, and usually around three quarters of their total note issue was in notes of denominations of under 20 Pesos. Disagreement within the administration over the question of the banks' note issue came out into the open in 1881. In his report for the year 1880, the Director of the Oficina de Emisión de Billetes Fiscales,

Pedro P. Ortiz, put forward the hypothesis that to achieve convertibility, the notes issue must be made the responsibility of one body, and that body should be the State. On this basis, he went on to propose the phasing out of the circulation of bank notes. This was to be achieved by the simple device of the derogation of Article 3 of the law of 24th September 1865. Such a move would have reverted the rulings on the denomination of bank notes to that dictated by Article 15 of the 1860 Banking Law; i.e. bank notes would have been limited to denominations of 20, 50 and 500 Pesos. This would have seriously limited the use of bank notes and opened the way for their gradual replacement by notes issued by the State. Ortiz' proposals were firmly rejected by the Minister of Finance, José Alfonso, who wanted to return to the pre-1878 situation, with the State withdrawing its own note issue and leaving the banks to control the paper currency, which was in normal circumstances properly their exclusive field of operations. For the time being Alfonso saw nothing wrong with the dual nature of the paper currency, and commented that the two types of note appeared to circulate together quite easily.²³

The law of 11th September 1879 had ordered 5% of customs duties received in specie to be used for the withdrawal of the State's notes. In practice, the amounts involved were so small that this measure had little more than a token effect on the note circulation. In order to accelerate the withdrawal from circulation of the State's notes under the officially-favoured gradualist policy, from 1882 provision was made annually in the budget for the incineration of a specified amount of notes. The amounts actually withdrawn from circulation up to end-1886 (of the original Pesos 28mn of notes issued by the State between 1879 and 1881) are shown in the following table:-

<u>Year</u>	<u>Item in budget</u>	<u>Pesos</u>	
		<u>Actually withdrawn under budget authorisation</u>	<u>Amount with- drawn under Law of 11/9/79</u>
1879	-	-	-
1880	-	-	9,600
1881	-	-	40,280
1882	2,000,000	1,000,000	14,391
1883	3,000,000	-	7,763
1884	1,000,000	-	14,669
1885	1,000,000	200,000	25,381
1886	600,000	600,000	-
<u>TOTAL</u>	7,600,000	1,800,000	112,084
		<u>TOTAL</u>	<u>1,912,084</u>

TABLE III: STATE CURRENCY NOTES WITHDRAWN FROM CIRCULATION,
1879-1886 ²⁴

Until September 1885, when the Government began regular incinerations of Pesos 50,000 per month, fiscal policy gave a low priority to the withdrawal of the State's paper currency. Despite the addition of nitrate revenue, the Government was obliged to keep a fairly tight rein on its expenditure in the 1880s. One problem was the unpredictability and sharp fluctuations of nitrate revenue, which made budgeting more difficult and uncertain than it had been before 1878. The conclusion of the war and resulting large cuts in military expenditure did not produce a cash surplus, since in 1885 the savings on war expenditure were more than compensated by a sharp fall in receipts from import and export duties and the resumption of amortisation payments on the external debt.²⁵ The resumption of these debt payments seemed to focus the Government's attention on the external and internal debt burden, and the reduction of this burden became one of its financial priorities, while the question of the redemption of the paper money stayed in the background.

Concern about the external debt service burden induced

the Chilean authorities to try to reduce it by the conversion of the existing debt to a lower rate of interest. Such a move was quite feasible given the country's enhanced standing in Europe, the result of her military success and the growing awareness of the importance of nitrate as a fertiliser. Conditions in London were particularly propitious, with interest rates falling from 1885. In that year Chile raised her first loan on the London market for 10 years. The interest rate on this loan of £809,900 was $4\frac{1}{2}\%$, but the issue price of 85.65% was not good. The product of this loan was used to cancel the 1866 loan. In the following year investors' faith in Chilean bonds increased sharply, and these 1885 $4\frac{1}{2}\%$ bonds attracted an average quotation of just over 98%. The popularity of these $4\frac{1}{2}\%$ bonds encouraged the Government to convert the rest of the external debt on much less onerous terms. Rothschilds acted as agent for the loan of £6,010,000, which was issued at 96%, and that was used to cancel the outstanding balances from the loans of 1858, 1867, 1870, 1873 and 1875 (amounting to £5,454,500 at end-1886, although the 1867 loan was not in fact cancelled until 1st January 1891). This financial deal was the cause of no small amount of self-congratulation by the Government. The Minister of Finance pointed to the resulting saving on interest payments (a saving worth some £20,000 in 1887), and also noted that Chile's $4\frac{1}{2}\%$ bonds commanded a higher price in London than the bonds of Argentina, Brazil, Spain, and also those of much larger countries such as Italy, Austria and Russia.²⁶ Notwithstanding further loans in the 1880s (£1,160,200 arranged by Rothschilds in 1887 and £1,546,400 arranged by the Deutsche Bank in 1889), Chile's external debt remained low by international standards. Moreover, total service payments on the external debt were on average lower in sterling terms in the 4 years 1887-90 than they had been in the years 1873/9, while over that same period the country's capacity to meet these payments in terms of exports had expanded greatly. In 1888 the Finance Minister could declare that in terms of exports

per head of population Chile ranked fifth in the world behind Great Britain, France, Argentina and Canada.²⁷

However much the Government wanted to ignore the question of the redemption of the paper money, pressure began to mount for some action to be taken. The underlying source of this pressure was the depreciation of the paper Peso against gold/sterling which began in late 1883/early 1884. For some two years up to then the rate had been fairly stable, keeping within the range 34-37d. By September 1886 the monthly average quotation for the Peso had tumbled to under 22d, the lowest point prior to 1891, representing about a 40% depreciation in less than three years. This fall in the external value of the currency led to a good deal of debate in Congress. This debate in the mid-1880s was the opening shot of a long drawn-out verbal battle that was to be a key feature of Chilean oligarchic politics for 40 years. The philosophy and economic theory behind this debate will be analysed in later chapters. At this early stage the source of the controversy was whether the depreciation of the Peso was the result of a deterioration in Chile's trade account or of an excessive circulation of paper money which the Government was not sufficiently committed to redeem.

In this argument one factor behind the fall in the exchange rate was often missed or ignored. The decline in the price of silver, which had slowed down in the years 1879/1884, accelerated from 1884, and over the period 1883/6 amounted to over 15% (see the Table below). This accounted for nearly one-half of the decline in the sterling value of the paper Peso.

	<u>Average exchange rate on London against 90-day bill of exchange</u>	<u>Sterling value of silver Peso</u>
1878	39.6	41.2
1879	33.0	39.9
1880	30.9	41.1
1881	30.9	40.3
1882	35.4	40.3
1883	35.3	39.6
1884	31.8	39.5
1885	25.4	38.0
1886	23.9	35.4
1887	24.5	34.8
1888	26.3	33.5
1889	26.6	33.3
1890	24.1	37.2
1891	18.8	35.2
1892	18.8	31.1
1893	15.0	27.8
1894	12.6	22.6
1895	16.8	23.4

TABLE IV: THE EXCHANGE RATE OF THE PAPER AND SILVER PESO,
1878-1895²⁸

Chile's rulers were slow to become disenchanted with silver as the basic unit of value of the currency, despite the fall and fluctuations in the price of the metal. The Peso fuerte de plata continued to be the currency unit although it had largely disappeared from circulation after the suspension of specie payments in 1878. Some silver and other metallic coinage circulated as moneda divisionaria, in denominations of less than one Peso. When the question of conversion of the paper currency was raised it was invariably contemplated as a conversion into silver. Gold was rarely mentioned in the early 1880s. As an important silver producer it is not difficult to

see why Chile was reluctant to abandon the metal and thereby add further to the already strong downward pressure on its price. Chileans looked hopefully at the movements in Europe and the United States which were trying to preserve or revive the monetary role of silver. Throughout the 1880s two Great Powers, Russia and Austria-Hungary, stayed on a silver standard and India and China were still on silver. In South America only Argentina had any experience of the Gold Standard (from 1881), but gold convertibility was suspended in 1885.²⁹ In 1885 the Finance Minister, Ramón Barros Luco, felt sufficiently confident to declare that "it appears undoubtable that the idea of demonetising silver has been abandoned."³⁰

The commonly expressed theory that the depreciation of the currency in 1883/6 was the result of a deterioration in the balance of payments is discussed in Appendix I in so far as such theories applied to the whole period 1878/1925. Clearly apparent at the time was the falling price of Chile's staple export commodities which led to a decline in export receipts in both 1884 and 1885.³¹ In the nitrate industry over-production in the early boom years and a depression in the European sugar beet industry led to falling nitrate prices and the formation in 1884 of the First Combination of producers to restrict output.³² As a result of lower shipments and falling prices, nitrate export receipts in the two years 1885/6 were on average over 40% below their level in 1883/4.³³

Others pointed to the growth of the circulation of inconvertible paper money as the real cause of the depreciation of the currency. They often added that the government's failure to redeem the notes as promised damaged confidence in the currency.³⁴ Appendices III and IV show the State and bank note issue and bank deposits, together with an estimate of the total money stock. The conclusion which can be drawn from these figures is that neither the note circulation nor the total money stock was growing particularly rapidly in these years. In 1885/6 the money stock was still below the

level of 1881. These figures suggest that the circulation of inconvertible paper money contributed to the fall in the exchange rate in 1883/6 more through the factor of confidence than through the expansion of the note issue in itself.

The differential impact of a depreciating exchange on the various classes and economic interests in Chilean society played a key role in the political debate which began in these years. The benefits of a low exchange rate for the farmer and the mine-owner were clear to see. Even those who deplored currency instability, such as Henry Huck Gibbs of Antony Gibbs and Sons, recognised this advantage of a depreciating exchange rate. When giving evidence many miles away in London to the Gold and Silver Commission in 1887, Gibbs stated that

"the fall in the European price of wheat has been more than counterbalanced by the depreciation in the Chilian Exchange ... the falling Exchange, assisted by the decline of freights, has enabled the Chilian farmer to do considerably better than he did formerly with a high price of wheat in Europe and a high exchange on the coast ... if the exchange should rise from its present point of 25d to the dollar to somewhere between 36d and 40d, not another quarter of wheat would be grown in Chile for export; many copper mines which subsist on the low exchange would be closed, and many nitrate establishments would be in the same case."³⁵

Gibbs was right in the sense that the average price of wheat in Santiago in current Peso terms rose by about 50% between 1871/5 (the peak years of agricultural exports) and 1886/90, despite the 42% fall in London wheat prices over the same period.³⁶ This was sufficient to encourage the Chilean farmer to export on a scale not much below the 1870s peak until 1887.³⁷ In the absence of a depreciating exchange the hacendado would probably have ceased exporting cereal on a significant scale some time before he actually did.

Much the same applied to mining. Even with the substantial fall in world copper prices between 1871/5 and 1886/90, the Peso price actually rose (by some 15%) as a result of the

depreciation of the exchange rate.³⁸ This helped copper exports to continue in the 1880s, though at a third below the levels of the peak years of the 1870s.³⁹

Among the beneficiaries of a falling exchange rate nitrate was mentioned much less frequently than mining or agriculture. In part this stemmed from the much higher degree of foreign ownership in the nitrate industry than in these other sectors, which divorced Chilean politicians from such a direct interest in the finances of exporting nitrate. For the foreign producer the extra profits made out of a depreciating currency were in part off-set by losses on capital invested in the country. This still left a net gain; as noted by Gibbs, "happily the benefit as a producer has been greater ... than the loss to the capital account."⁴⁰ Apart from the foreign ownership factor, the benefits of a declining exchange rate accruing to nitrate were less than in the cases of agriculture and copper.⁴¹ The import and foreign currency costs of producing nitrate were high. Coal, rail freight and managerial and technicians' salaries all involved expenditure in sterling. Export duty on nitrate was fixed in constant sterling terms, while neither mining nor agricultural exports were subject to export duty.⁴² There is little evidence that the nitrate industry depended on a falling exchange rate to make its profits. In the case of British producers, the largest group in the 1880s and after, the profits were very large in any case and probably "more profits were made at the expense of the unsophisticated British investor than by producing and marketing nitrate of soda."⁴³

While a depreciating currency can bring benefits to exporters, it makes life more difficult for importers. The dominant foreign element in the mercantile community in Valparaíso and Iquique were particularly unhappy about the state of affairs, a concern reflected in the following comments written by the British Minister in 1886:

"The country should be solvent enough, but it is flooded with dubious paper ... private banks of more or less

doubtful solvency have been allowed to go on issuing notes far beyond their proper means ... foreign exchanges are ruinously speculative and ... render all merchantile transactions precarious; the price of Bills on European markets becomes opportunely depressed at the right moment for shipping wheat or copper in order to rise again, when that movement has passed, without any evident reason; the administration is not above all suspicion of dealing tenderly with financiers, wealthy owners of raw produce and persons largely interested in the export trade."⁴⁴

The impact of the falling exchange rate on the bulk of the Chilean population is much more difficult to assess. There is no cost of living index for Chile in the 19th century so that any statements about prices and standards of living can only be very tentative. An analysis of the relation between monetary growth and price movements is even more hazardous. Dr. Arnold Bauer has constructed an index of food prices in Santiago consisting of flour, beans and beef prices weighted on the basis of the estimated content of a peon diet.⁴⁵ This is shown below:

	Bauer index (average)
1876/80	100
1881/5	117
1886/91	137

TABLE V: FOOD PRICES IN SANTIAGO

Although this series can be used to illustrate only very broad trends, the presumption that food prices at least were rising in the 1880s is clearly strong. At the same time falling gold prices of Chilean imports probably ameliorated to some extent the impact of the depreciating Peso on domestic prices.

Data on wages in 19th century Chile is even more sparse. Bauer estimates that peon wages rose little in the 1880s and in fact lagged behind prices from the 1860s.⁴⁶ Moving from the hacienda to other occupations, Edward Strobel the United States Minister in Chile from 1894 to 1897 collected historical data on wages from various U.S. consuls. He concluded that wages

in general rose by about 50% between 1875 and 1885,⁴⁷ which would have more than compensated for the rise in food prices (Bauer) in the same period. The expansion of employment in the north and in public works in the 1880s no doubt contributed to a rise in money wages in this period. About 20,000 people worked in railway construction in the latter half of the decade and received three to four times the wages of agricultural labourers.⁴⁸ This trend surprisingly does not appear to have pushed up peon wages. However, peones were protected from rising food prices to the extent that they received payment in kind and this applied even more so to inquilinos.

This rather unclear picture of the trend of living standards in the 1880s is in any case somewhat divorced from the reality of Chilean politics at that time. There was some small awareness among the ruling class of the potentially harmful social effects of a depreciating currency. This was expressed by, for example, Miguel Cruchaga Montt, the Deputy for Curepto and a strong disciple of the sound money and liberal economic ideas of Courcelle-Seneuil.⁴⁹ Nevertheless, in the 1880s there was little sign of the sort of working and middle class unrest about monetary inflation which was to emerge some twenty years later.

It was the effect of exchange depreciation on another interested party, the Chilean Treasury, which initially brought the currency question into Santiago politics. By 1885 the depreciation of the exchange was becoming an inconvenience for the Treasury, which necessitated the matter being raised in Congress. The particular problem was import duties. These duties were payable in currency, and their value needed to be maintained by the addition of surcharges to compensate for the depreciation of the paper Peso. Santa María's annual message to Congress delivered on 1st June 1885 had made no reference to the monetary question. On 13th June, however, the Finance Minister, Ramón Barros Luco, presented a bill that proposed the imposition of a customs surcharge at a level needed to maintain

the value of duties at the equivalent of a Peso of 38d. This bill also proposed the derogation of the law of 11th September 1879 and with it the provision ordering 5% of any customs duties collected in specie to be devoted to the amortisation of the paper money. The Government's justification for the deletion of this provision was the inconvenience of withdrawing an unspecified and varying amount of paper currency; it would have preferred either to withdraw a stated and fixed amount or to be allowed the freedom to use its own discretion.⁵⁰ The Government did not, however, take any lead in proposing any alternative scheme for the withdrawal of the fiscal note issue. Although the provision had made little impact on the note issue, its proposed removal aroused those in Congress who wanted a quicker path to convertibility than that envisaged by the executive.

The anti-paper forces were most vocal in the Deputies, and were led by the Comisión de Hacienda of the Chamber. This committee included in its membership the strongly orthodox economist Zorobabel Rodríguez, a disciple of Courcelle-Seneuil and also Augusto Matte who was generally also to be found on the side of those attacking paper money. The committee stressed that it was not enough merely to alleviate the effects of the falling exchange as proposed by the Government; they sought to eliminate what they saw as its cause by tagging on to the bill a clause requiring the Government to incinerate monthly Pesos 50,000 of fiscal notes.⁵¹ They followed this up by presenting a separate bill proposing the legalisation of contracts denominated in metallic currency, intending in this way to re-establish the dual circulation of paper notes and metallic coinage which would "put us on the way, although slowly, to the conversion of the curso forzoso, without violating one right nor prejudicing one interest."⁵²

The Government, or at least the Finance Minister, Barros Luco, displayed an ambivalent attitude towards the proposal for the incineration of currency. While recognising, as all Chilean officials felt obliged to do publicly, that the

State note issue was a debt of honour, and hence nominally supporting the proposal, he did not disguise his reluctance to see the reduction of the note issue. Barros Luco, a distinguished Liberal politician and a member of a wealthy land-owning family, did not tire of stressing the benefits to agriculture and also industry and mining from a depreciating exchange rate.⁵³ He also discounted the value of withdrawing substantial quantities of notes from circulation by stressing that "the exchange rate has risen or fallen without any relation to the quantity of notes of curso forzoso issued by the State,"⁵⁴ while at the same time warning of the dangers of a sudden contraction in the money supply. He pointed to falling export prices and a worsening balance of trade as the real causes of the depreciating exchange. Nevertheless Pesos 50,000 per month was a slow enough rate of withdrawal of notes for it to be acceptable to Barros Luco and a majority of Congress. Regular incinerations of this amount began in September 1885. (A customs duty surcharge and the removal of the 5% specie provision were also approved).

This was as far as the Santa María administration was prepared to go on the conversion issue at the time, and matters rested here until the following May (1886). This period of inaction coincided not only with the Chilean summer holidays, but also with the political row that broke out in late 1885/early 1886 over the Presidential nomination. This crisis centred on the nomination of José Manuel Balmaceda as the Government candidate. Santa María's choice, and the way he proposed to impose it, met with strong opposition from the few Conservatives, resenting Balmaceda's close association with the 1882 anti-clerical measures and from the Radicals and Independent Liberals, who disliked Santa María's authoritarian methods. Santa María won through, and Balmaceda was elected in 1886.⁵⁵

In May 1886 the Valparaíso exchange market was particularly volatile and the rate at one stage dropped to 21d. The

Administration was faced with renewed pressure to take action. A deputation from the Valparaíso Chamber of Commerce, representing mainly British commercial interests, saw the President in May and urged on him the need to restore a sound currency. The Chamber's main concrete proposal was for the immediate incineration of Pesos 5mn of fiscal notes and of Pesos 150,000 per month thereafter. Santa María promised to consider the views of the commercial interests.⁵⁶ With the opening of the ordinary sessions of Congress approaching, this was a timely moment for the exertion of pressure. Furthermore, Barros Luco had departed from the Finance Ministry in the previous September to replace Balmaceda as Interior Minister when the latter resigned after a series of political storms connected with the Presidential nomination.⁵⁷ The present incumbent, Hermógenes Pérez de Arce, showed himself to be more sympathetic to the demands of the sound money interest than Barros Luco had been. Pérez de Arce was a technocrat rather than a politician, an economist and ex-public official in the Customs and State Railways. He was in the following decade to become closely associated with the Edwards family through his editorship of El Mercurio of Valparaíso, a staunch voice for sound money.⁵⁸

In his annual message to Congress on 1st June, Santa María declared "it will be necessary that we do not delay the time in which we must initiate a calculated plan to arrange cautiously the gradual retirement of the fiduciary currency and its proportional replacement by metallic money, in such a way that in no case is there produced a scarcity of cash for the ordinary transactions of our market," and promised to present a bill in a few days.⁵⁹ The preamble accompanying the bill presented on 8th June laid emphasis on the improved fiscal position, which now permitted a speedier retirement of the paper money. The debt service burden had been reduced and the Treasury was heading for a healthy surplus in 1886.

The executive's bill contained two main strands. The first concerned the State's note issue. The bill proposed

to increase the monthly rate of retirement and incineration of notes from Pesos 50,000 to Pesos 125,000. At the same time a reserve of silver was to be accumulated in the Casa de Moneda from the 10% of the customs duties which the bill proposed to make payable in silver Pesos, this reserve being earmarked for the redemption of the fiscal note issue. These proposals involved the annual retirement of Pesos 1.5mn of notes and, according to official estimates, the accumulation of some Pesos 1.6mn of silver at the current level of customs revenue. On the basis of these proposed figures, the Government calculated that "there are well founded reasons for confidence that before the end of eight years, the billete fiscal will be quoted at approximate parity with silver."⁶⁰ Assuming the Government's proposals had been implemented, then within eight years the silver accumulated in the Casa de Moneda would, in theory, probably have covered the redemption of the reduced State note issue. Whether over that same period, the value of the paper Peso would have appreciated to reach par with the silver Peso is a different question. An appreciation in the gold value of the paper Peso of over 40% would have been required in 1887 to raise its average quotation to the average value of the silver Peso. In reality, there was probably little economic calculation behind the forecast of an eight-year transition period to conversion (involving a return to a metallic standard in 1894/5). More likely, it was based on the point of precedent first raised by Barros Luco in 1885 that "a phenomenon has been noted in Chile analogous to what occurred in the United States after the civil war. In spite of the enormous riches of that country, 15 years were needed for the restoration of the metallic currency, and for the conversion of the paper money issued by the State."⁶¹

The other main strand in the Government's bill was the limitation of the note issuing capacity of the banks and provision for the constitution of a guarantee for their notes. The concern at the expansion of bank note issues was largely

directed at the new banks established since 1878, numbering eight up to mid-1886. The view of Santa María and Pérez de Arce was that, "the efforts of the State to retire gradually its issues are annulled by the issues of new banks,"⁶²

"almost all of them have issued the maximum permitted by the law, that is an amount equal to 150% of their paid capital, while the most credited banks of the country, under the metallic regime, did not issue an amount greater than their paid capital."⁶³ At mid-1886 these eight new banks had a combined paid capital of Pesos 3,916,960 and a total registered note issue of Pesos 5,251,486. The note issue of the older banks, on the other hand, remained just below their paid capital and within the amount admissible in arcas fiscales.

By far the largest of these new banks, the Banco de Santiago, received special mention and criticism. At this time its paid capital was Pesos 2,815,000 and its note issue Pesos 3,827,500, placing it third in size behind the Banco Nacional and the Banco de Valparaíso. There was also an element of politics in the Government's concern at the rapid expansion of the Banco de Santiago. Attacks on individual banks were a common feature of Chilean politics at this time. The case of the Banco de Santiago is described in the memoirs of Abdón Cifuentes, a noted figure in Chilean public life.⁶⁴ The establishment of the Banco de Santiago in 1882 had been politically motivated for the defence of the Conservative Party and the Church. This was in response to the feeling that there was no "catholic" bank lined up against, particularly, the Banco de D. Matte at a time when the Liberals and Radicals were launching a major anti-clerical campaign.

The measures proposed by the Government aimed to freeze the bank note issue at its existing level as long as the State's outstanding note issue exceeded Pesos 16mns. Once again following the example of the United States, the bill proposed that banks should guarantee their notes by placing public, municipal or mortgage bonds in the Casa de Moneda, according

to the following time schedule; 25% within three months, 25% within a further six months, and the remaining 50% in 5 equal instalments every six months from the date of the second deposit. Once the fiscal note issue had fallen below Pesos 16mn, only those banks that had fully guaranteed their note issue would be able to increase their note issue. The draft law also forbade the establishment of new banks of issue until the State note issue was reduced to below Pesos 16mns.

The change of administration later in 1886 probably did not affect the fate of the draft monetary law to any great extent. Balmaceda began his term of office in a mood of reconciliation after the political antagonism which had accompanied his nomination and election as President. His aim was to reunite the Liberal Party and he set about this task by forming governments representing all the various liberal groups. A central figure in this policy was Agustín Edwards Ross, a leading member of the National Party. Edwards Ross was the son of Agustín Edwards Ossandon who had died in September 1878. He had further expanded the family's mining and banking empire and also took more of a direct role in public life than his father. In 1880 Agustín Edwards Ross acquired the main newspaper of Valparaíso, El Mercurio.⁶⁵ Balmaceda appointed Edwards as Finance Minister and he held the post for two years. Edwards was an enthusiastic supporter of the Santa María/Pérez de Arce bill.

In Congress opposition to the proposals came from a variety of sources and on a variety of themes. The Finance Committee of the Chamber of Deputies put forward a much simpler measure which they hoped could be passed quickly. This merely provided for the immediate incineration of the Pesos 4,765,666 of State notes still held by the Treasury in deposit with the Casa de Moneda. The Committee contended that such a move would increase confidence in an eventual conversion and could be accomplished quickly, while at the same time avoiding a con-

traction of the note circulation since the notes were unemployed anyway.⁶⁶ This proposal was designed as an interim measure while the Government's more comprehensive bill was being discussed, but it represented a split on tactics in the ranks of the more committed pro-metal supporters because it was opposed by Edwards who wanted to push ahead with the official bill without interruption. On this issue the Finance Committee's views were out of tune with the thinking of the executive and of the majority of congressmen, who were not prepared to support the strictly orthodox financial stance taken by such members of the Committee as Zorobabel Rodríguez and David MacIver. The latter was the son of a British merchant who had arrived in Chile in 1835. Like his brother Enrique, David MacIver was a member of the Radical Party; he owned a number of nitrate and mining companies.⁶⁷

The failure of the Committee's proposals did not mean that the Government's bill would have an easy passage. On the contrary, opposition in varying degrees came from a variety of quarters and on a wide range of themes and took the form of a proliferation of counter-bills and amendments. Many feared the possible deflationary effects of the proposed contraction of the currency, particularly a rise in interest rates. On the other hand, the bill was attacked by those who opposed restrictions on banks and supported the liberal provisions of the 1860 Banking Law. Prominent in this group were Barros Luco and David MacIver.

The Finance Minister, Agustín Edwards, was forced to make concessions to both lines of opposition. After consultations with various members of Congress, he announced amendments to the original proposals. The first of these cut the monthly incineration of notes from Pesos 125,000 to Pesos 100,000 per month, until the note issue was reduced to Pesos 18mn.⁶⁸ The accumulation of silver was to be a fixed amount of Pesos 1.2mn in 1887 and 1888 and Pesos 1.5mn per year thereafter. The other main change involved a substantial

watering down of the original proposals for restricting the bank note issue. Instead of a complete freeze, Edwards' new proposals limited the note issue to 100% of the banks' paid capital, thus allowing some flexibility and the establishment of new banks. The banks' compulsory guarantee was reduced to 50% of their total note issue from the 100% stipulated in the original bill. Specie as well as bonds was named as an eligible guarantee.

These compromises put forward by the Government early in 1887 were accepted with little dissent by Congress and came into force in a law of 14th March.⁶⁹

As a compromise, the law satisfied few. Neither could it ever have been particularly effective, since it did not specify a fixed date for conversion of the paper money, nor order the banks to accumulate bullion to redeem their notes. The law did little to engender confidence in the likelihood of a future conversion of the paper money among commercial and financial interests, who were unhappy that their original demands made in mid-1886 were met only to a limited degree.⁷⁰ Nevertheless, the law as passed did represent the majority view on the monetary question at that time. This was expressed by Pérez de Arce when he declared that a prerequisite for conversion was the appreciation of the exchange rate to around par, something that "is not achieved by acts of Government nor by legislative acts, but by the natural course of events, that can be influenced by indirect measures ... the present situation is not propitious to take measures taking us directly to the metallic conversion."⁷¹

Although the Government thought that it had little control over the exchange rate, the course of the rate was inevitably taken as the best test of the success of the 1887 currency legislation. On this basis, if anyone had any illusions about the law, they were soon dispelled. The rate did rise, though unevenly, to average just over 29d in February and March of 1889, but then fell sharply to under 23d in August 1890.

The paper Peso depreciated in 1890 in spite of the recovery in the price of silver which followed the passing of the Sherman Act in the United States; this meant that, in relation to the silver Peso, the average quotation of the paper Peso was at a greater discount in 1890 than it had been in 1887.

By mid-1889 the Government had become openly critical of the 1887 law. In his report for that year the Finance Minister, Justiniano Sotomayor G., declared that "not one effect has been produced on the value of the paper money by the incineration of notes nor by the metallic reserve. It is believed even that the effect of the latter has been counterproductive."⁷² Although Sotomayor suggested an alternative path to a metallic currency, he did not translate this into concrete legislation. In fact, despite some pressure in Congress for a speed-up in the process towards conversion, after 1887 Balmaceda gave the question a low priority. Until the civil war most discussion of the currency conversion question occurred in relation to subsidiary issues, notably the issue of the admissibility of bank notes in public offices and the matter of the deposits of Treasury funds in the banks.

The first of these issues arose because the privilege, originally granted to some banks in 1866, of having their notes accepted in payment of all public dues, was due to expire on 7th August 1888. By this time Balmaceda had a new Finance Minister, Enrique Salvador Sanfuentes. Having entered public life in the same year as Deputy for Rancagua, his appointment represented a rapid rise to prominence. Sanfuentes was a wealthy landowner who had made much of his fortune in business in the 1870s and 1880s and then invested his money in land, particularly in vineyards. He was a close personal friend of Balmaceda.⁷³ The opposition parties, which by 1888 included the Nationals and the Radicals, and even some Government Liberals regarded Sanfuentes with a good deal of suspicion. He was held up as a major example of Balmaceda's growing tendency towards personal rule.

With regard to the banks, Balmaceda and Sanfuentes believed that in order to facilitate the free circulation of bank notes the privilege granted in 1866 had to be extended. Accordingly, the Government presented a bill, providing for an extension, to the Senate on 6th July 1888. As a safeguard, the privilege was only to apply to those banks that had constituted the 50% guarantee as laid down in the 1887 law. The Senate were on the whole less inclined in favour of the banks than the Government appeared to be on this issue. Despite Sanfuentes' protestations that the bill was meant to be only temporary, awaiting a Government bill for the definite retirement of the paper money to be presented in June 1889, the Senate showed itself to be rather sceptical of the Government's intentions. The bill was passed on 3rd August, but in a form which limited the duration of the privilege to 31st December 1889 and allowed it only to those banks that lodged an additional 10% guarantee on their notes (above the 50%).⁷⁴ The Deputies could not find enough time to discuss the bill in the ordinary sessions, so the right of admissibility of bank notes in payment of public dues expired. Thereafter, the Government dropped the whole idea of prolonging this concession to the banks. Balmaceda did not include the bill, pending in the Deputies, in the Convocatorio of proyectos for discussion in the extraordinary sessions of Congress which began in October. Sotomayor replaced Sanfuentes at the Finance Ministry on 9th October 1888 and perhaps disagreed with the Balmaceda/Sanfuentes bill. Alternatively, Balmaceda and Sotomayor may have decided to keep things calm on the currency front by quietly dropping the project.⁷⁵

The other subsidiary issue, the deposits of public funds in the banks, gave considerable trouble to Balmaceda's Finance Ministers. Under an agreement signed on 15th January 1873 the Government had committed itself to deposit all of its spare funds with the Banco Nacional, in exchange for the bank's participation in the £2,140,000 loan. The State received

a fixed rate of interest of 2% per annum on these deposits, a practice which attracted some criticism, particularly after 1880 when the Government itself was obliged to pay up to 5% on deposits of fiscal notes in the Casa de Moneda (and a sizeable proportion of the private deposits were made by the Banco Nacional). Moreover, the continuation of the Banco Nacional's monopoly position became more difficult after the establishment of the Banco de Santiago in 1882. The contract was due to run for 22 years (the lifetime of the loan), but as a result of criticism, the Government attempted to obtain the annulment of the contract and this was accomplished in 1888. A new agreement for the deposit of idle public funds was made in April 1888 with three banks, the Banco Nacional, the Banco de Santiago and the Banco de Valparaiso. This new agreement gave the Treasury greater flexibility and made more financial sense. The banks were to pay 2% on sight deposits and 4% on 6-month time deposits, and in turn the banks were forbidden to receive more than 4% on their deposits of fiscal notes in the Casa de Moneda. The three banks further agreed not to raise their existing lending rates except in extraordinary circumstances. Sanfuentes calculated that the new contract would save the Treasury some Pesos 300,000 per year.⁷⁶

Although undoubtedly an improvement, the new arrangement by no means muted criticism of Treasury deposits of funds in the banks. These deposits were large. In November 1888 they amounted to Pesos 19.4mn, equivalent to more than a third of total Treasury expenditure in any year up to then, and to nearly a third of the total deposits of the three banks combined. Pesos 15mn of Treasury deposits at this time were placed in the Banco Nacional, accounting for about 50% of the bank's total deposits.⁷⁷ The most vociferous opposition to the deposits of Treasury funds in the banks came from Ricardo Letelier, the Deputy for Talca who ran his own personal party in the area and who spent much of his time in Congress attacking what he saw as the financial abuses of the Government. His

family were involved in the small Banco de Talca.⁷⁸ Besides attacking the discrimination in favour of a few (the largest) banks involved in these deposits, Letelier argued that the large accumulation of reserves deposited in the banks in the 1880s could have been better used to amortise the paper money issue.⁷⁹ The main defender of the status quo was Sanfuentes, the instigator of the 1888 contract with the banks, who argued that "the public interest demands that the fiscal surpluses must be destined to promote agriculture, mining, commerce and other industries, placing these funds in banks of well-known responsibility, under easy conditions and at a low rate of interest,"⁸⁰ besides stressing the disruption that would ensue from the sudden withdrawal of these funds from the banks.

Pressure on the Government was increased by allegations in Congress in 1889 relating to small deposits of public funds in the Banco Popular Hipotecario, whose manager, Alejandro Maturano, was a Government supporter in the Deputies.⁸¹ Sanfuentes' successors in the Finance Ministry were forced to back down on the issue, and agreed to make no further deposits with the banks and to reduce gradually the level of existing deposits. By end-1889 the outstanding level had been reduced to just over Pesos 12.2mn.⁸²

After 1887 Balmaceda clearly decided not to take any further initiative on the monetary question and was content to let any move towards a redemption of the paper money come from Congress. In July 1889 Congress decided to take such an initiative by setting up a joint commission of both houses to study measures to help increase the exchange rate and to prepare for conversion. In line with Balmaceda's attitude to the question, the Finance Minister of the day, Pedro Nolasco Gandarillas, merely presented the Government's ideas to the commission. The proposals made by Gandarillas, however, formed the basis of those recommended by the commission in its report presented in October 1889.⁸³ Although nothing came of the commission's proposals, they were the last comprehensive

representation of views on the issue before the civil war, and as such are worth outlining in some detail.

The commission joined in the general criticism of the 1887 law. The majority report considered that the existing policy of incinerating fiscal notes while the issue of bank notes was restricted and bank notes were not admissible in arcas fiscales was causing a scarcity of currency. The solution was proposed of restoring the admissibility of bank notes in arcas fiscales and at the same time increasing the rate of incineration of notes to Pesos 2mn per year for five years beginning in 1890. The commission proposed a fixed date (1st January 1895) for the conversion of State and bank notes into silver. The purchasing of silver for the conversion fund under the 1887 law, already not being fully complied with in this respect, was opposed by the commission which recommended the derogation of this provision. Under these proposals the banks' note issue was to remain limited to 100% of paid-up capital. To prepare for conversion day, the banks were to raise the guarantee on their notes to 70% from 1st January 1891 and the remaining 30% had to be lodged in the Treasury entirely in the form of silver Pesos at a rate of 6% per year from 1st January 1890. (The 70% was to be entirely in public or mortgage bonds). The commission favoured legislation authorising contracts specifying payment in metallic currency, but did not include such a proposal in their draft law because one had been pending in the Deputies for some years. Finally, the commission proposed that from 1st January 1895 customs duties should be paid in silver Pesos.

The commission represented a reasonable cross-section of political views at the time, from Government supporters Julio Bañados Espinosa and Sanfuentes; to the Conservative Party, and Walker Martínez; to the Radicals, represented by Enrique MacIver. The majority report reiterated official thinking on this question that conversion must be achieved without substantial deflationary effects. This danger was

to be avoided by allowing an expansion of the bank note issue to compensate the withdrawal of fiscal notes. Within the limit of 100% of paid-up capital there was considerable room for the banks to expand their note issue. In 1888 their total note issue was just under Pesos 18mn, while the banks' total paid capital amounted to nearly Pesos 24mn.⁸⁴ Dissent within the commission came mainly from the orthodox supporters of a metallic currency, notably from Ricardo Letelier, who presented a minority report opposing all concessions on bank note issues and discounting the prospect of a scarcity of currency.⁸⁵

Despite the reasonable degree of consensus between the Government and different groups in Congress demonstrated in the report of the joint commission, there was little enthusiasm to push ahead with the discussion of the bill and test the consensus in practice. The commission's bill was not included by Balmaceda in the Convocatorio for the extraordinary sessions beginning in October 1889 and was placed eighth in the order of bills for discussion in these sessions by the Comision de Tabla of the Deputies.⁸⁶ There was some pressure in Congress to begin discussing the bill, but when the time came Balmaceda's Finance Minister, Pedro Montt, succeeded in obtaining a postponement until the extraordinary sessions which he stated would be convoked in April 1890.⁸⁷ In fact, these sessions were not convoked. Both Congress and the executive agreed to shelve the joint commission's monetary bill for the ordinary and following extraordinary Sessions of 1890.

By 1890 the Balmaceda Government had ceased making even the token public commitment to the retirement of the paper currency that had characterised the previous administration. In his June message to Congress he expressed considerable scepticism about the future chances of conversion:

"While larger agricultural production is not facilitated and cheapened, and while the provinces of Atacama and Coquimbo do not receive a stimulus to mining and easy and cheap transport for their production, it will not be possible to re-establish the metallic circulation.

Artificial procedures will not give stable or positive results.

It is a fact proved by the state of the banks' cash position and by the development of business that there is a scarcity of currency, and that the economic position is constrained by lack of circulating media..."⁸⁸

Balmaceda stressed the dangers of deflation with, at the same time, the implicit assumption that the exchange rate must appreciate to around par before conversion could be accomplished. With deflation ruled out, an export boom became the only real chance for conversion. In 1889 and 1890, however, with copper prices still falling and the price of nitrate depressed compared with the sort of levels that had ruled in the early 1880s, the prospects of a rapid and sustained growth of exports did not appear good, a point stressed by Balmaceda in both his 1889 and 1890 messages to Congress.

Deeply involved in Balmaceda's policy of national economic development was a commitment to public works. This was reflected in the establishment of a separate Ministry of Industry and Public Works in 1887. Considerable improvements in the infrastructure of the economy were made during his administration, particularly in the fields of transport and communication and education.⁸⁹ Railways were of particular concern to Balmaceda, and the years 1886-91 saw the resumption of plans for the extension of the State railway network, which had been halted by the economic crisis of the late 1870s and by the War of the Pacific. It is, however, worthy of note that few railways were actually completed during his term of office, particularly by the State.⁹⁰

Balmaceda's enthusiasm for public works has led some writers to suggest that this was a major factor in his lack of commitment to a resumption of specie payments. Pike, for instance, points to the inflation and budget deficits involved in Balmaceda's public works policy.⁹¹ In looking at this question, in common with many other features of his years in office, a clear distinction must be made between Balmaceda's

words and his actions. While the same could no doubt be said of many political leaders in many eras, it has a particular point in the case of Balmaceda, not least because of the many myths that have been created about his policies and government by both his contemporaries and historians and by his critics and supporters.⁹²

It does appear clear that by 1890 Balmaceda saw progress towards conversion as a restraint on economic growth, which in turn he believed was dependent on an expansion of public works. However, his public works policy in practice did nothing significant to undermine the chances of conversion and was not inflationary. Public works expenditure certainly expanded rapidly. Outlays of the Ministry grew from Pesos 10.7mn in 1888 to Pesos 26.7mn in 1890 (expressed in Pesos of 18d), in the latter year amounting to over a quarter of total Treasury expenditure, although comparisons with years before 1888 are difficult. The expenditure of the State railways (not included in the above figures) also grew rapidly, as did resources devoted to education, which more than tripled between 1886 and 1890.⁹³

The effect on total expenditure of these heavy outlays on public works was reduced by the funds released by the sharp cut in war expenditure from 1884. Moreover, revenue grew rapidly, and in most years of the Balmaceda administration the Treasury ended with a reasonably healthy surplus.⁹⁴ This was achieved without recourse to substantial external borrowing. Balmaceda contracted only two external loans; one of £1,160,200 in 1887, issued through the London Rothschilds, to pay off the nitrate certificates issued by Peru and one of £1,546,400 issued in 1889 through the Deutsche Bank for railway development.⁹⁵ The interest-bearing internal public debt fell during these years.⁹⁶ Balmaceda did not make any serious attempt to push ahead with his stated intention of considering all receipts from nitrate as extraordinary and of devoting them entirely to public works. On the contrary, he presided

over the dismantling of most of the remaining alternative internal sources of Government revenue. During his period of office the colonial alcabala on the transfer of property and the inheritance and gift tax introduced in 1878 were both abolished.⁹⁷ As a result the share of internal taxes in total ordinary revenue fell from 11 $\frac{1}{2}$ % in 1886 to under 4% in 1890, while the proportion of total revenue derived from nitrate export duty rose from under a third to nearly a half in the same period.⁹⁸ Balmaceda's belief in promoting national economic development was in no way reflected in any move towards protectionism in tariff policy. On the contrary, the growth of nitrate revenue allowed the reduction and abolition of some import duties. The proportion of imports entering Chile free of all duty rose from 20% in 1886 to 34% in 1890, while the share of import duties in total government revenue fell from 46 $\frac{1}{2}$ % to under 43% over the same period.⁹⁹ In this sense the 1880s could be considered as marking the high-point of free trade in Chile in the 19th century. The campaign of the powerful Sociedad Nacional de Agricultura for tariff protection against imports of cattle from Argentina failed in the 1880s, but was to meet with success in the following decade.¹⁰⁰

In practice therefore Balmaceda continued the orthodox and sound fiscal policies of his predecessors, the only major difference being that he enjoyed substantially larger revenue to play with. At no time before 1891 did Balmaceda attempt to pursue the more expansionary and inflationary policies advocated by some of his supporters. He could with some justification push out propaganda about the favourable financial position of the country, such as that published in France in 1889, which concluded that a comparison of Chile with other countries gives "un résultat bien flatteur pour le Chili; ce résultat, en effet, montre notre pays comme jouissant d'un crédit public des plus solides du Globe."¹⁰¹

Although Balmaceda did not make a serious effort to

implement many of his stated economic policies, his words and "style" of government were sufficient to cause a backlash. His public works programme, although in retrospect not as ambitious and radical as it appeared at the time, attracted a good deal of criticism in Congress and outside. Opposition in specific terms was directed at maladministration, corruption and lack of planning in some of the schemes. On a vaguer level it was based on suspicion of the growth of the State bureaucracy. This in turn was only a part of the general breakdown of relations between the group centred around Balmaceda and the majority of the ruling class in Congress. Economic issues became an important source of dispute, but they were not the prime cause of the conflict.

The political fragmentation and breakdown which characterised the period 1886-91 was itself a major obstacle to currency reform. As early as November 1886 Balmaceda's first cabinet had resigned after a split between the Nationals and the Liberals. There followed periodic rapprochement, but the overall trend was a gradual defection to opposition of most of the political groups, the Radicals, the Nationals led by Agustín Edwards, Independent Liberals led by the Matte brothers and finally in 1889 a group of Government Liberals led by Julio Zegers.¹⁰² For Balmaceda, unable to halt this process, the task of forming ministries became increasingly difficult, particularly when his Congressional majority completely disappeared in 1889. One reflection of this was the rapid turnover of cabinets, sixteen under Balmaceda compared with the five under Santa María. However, the tenure of the Minister of Finance was little less secure under Balmaceda than under his predecessor (up to 1891 Balmaceda used ten compared with the eight who held the post during the Santa María administration).¹⁰³

The final act of the monetary debate before the outbreak of civil war took place in this context of the breakdown of relations between Balmaceda and the majority in Congress. Following a decision by both houses of Congress in June 1890

to postpone all discussion of the bill authorising tax collections until the President appointed a cabinet enjoying Congressional support, Balmaceda sent a circular to the banks giving them 30 days' notice for the withdrawal of all public deposits in the banks.¹⁰⁴ This provocative act may have been designed as a precaution against Congress refusing to vote funds or to exert pressure on the opposition. Although these deposits had been reduced substantially in the previous two years, the sudden withdrawal of the Pesos 7.1mn remaining would have had a serious impact on the three banks involved. Their combined cash holdings (mainly in the form of notes) at the time amounted to only Pesos 8.8mn (on 30th June 1890)¹⁰⁵ and Balmaceda's annual message in June had commented on the banks' tight liquidity position.¹⁰⁶

Congress reacted quickly to Balmaceda's circular to the banks. The Chamber of Deputies passed three bills, which were sent to the Senate on 4th July 1890.¹⁰⁷ The first stipulated that public funds should not be withdrawn from the banks and placed in public treasuries, unless the funds were to be spent. This was aimed at preventing the funds being stored by the Government for some emergency. The second bill provided for the suspension for one year of the incineration of fiscal notes and in compensation, ordered the purchase of Pesos 225,000 per month of silver for the conversion fund. This would have accelerated substantially the rate of accumulation of the silver fund, which at end-April 1890 had stood at Pesos 3,898,163.¹⁰⁸ This bill also proposed the derogation of the law of 19th August 1880, although by this time there were few funds left deposited in the Casa de Moneda under this law.¹⁰⁹ The third bill aimed to restore authorisation for the banks to issue notes of denominations smaller than 20 Pesos, a measure designed to give a boost to the circulation of bank notes at a time when they were not automatically accepted in *arcas fiscales*.¹¹⁰

The Senate approved the first and third of the above

bills, but the suspension of the incineration of fiscal notes met opposition and discussion of the bill was shelved.¹¹¹ In its place, the Senate proposed that bank notes should be accepted in payment of public dues, as long as the banks enjoying this privilege guaranteed their entire note issue in the forms laid down in the 1887 law. The remaining 50% guarantee was to be constituted in ten equal half-yearly instalments.¹¹² The two branches of Congress did not find time to resolve their differences on the best means to alleviate the alleged currency shortage and their respective bills made no further progress. Neither of the other bills passed by both houses became law. Balmaceda vetoed the first, arguing that it was unnecessary since the Government always acted cautiously in respect of the public deposits in the banks.¹¹³ Rather than veto the bill on bank note denominations, Balmaceda proposed to modify it, by adding provisions on the admissibility of bank notes in arcas fiscales similar to those contained in the Senate bill of 21st July 1890 (the main difference being that under Balmaceda's proposals banks would gain this concession once they had guaranteed 50% of their notes). Balmaceda's action aroused intense anger among the opposition in Congress, who argued that Balmaceda had no right to modify in this way legislation passed by Congress and that any modifications must be contained in a separate bill.¹¹⁴ After a heated constitutional and political debate, the Deputies decided to refuse to discuss the bill and to return it to the President.¹¹⁵

Whether Balmaceda's proposals were genuine or merely designed to be provocative is not clear. The deadlock over the cabinet which had been censured by Congress early in June, but whose resignation Balmaceda was refusing to accept, meant that no ministers were present during the currency debates in the ordinary sessions between June and September 1890. The result of this conflict was that no action was taken to remedy what both Balmaceda and a majority in Congress considered to be a situation of currency shortage, even though there was

apparently a measure of agreement between the two on the measures needed.

There was no further discussion of the currency/banking question in Congress in 1890 and the issue does not seem to have played any role in the immediate build-up to the civil war. However, it is worth looking briefly at the relation of this question to the wider dispute between Balmaceda and his opponents. A major pitfall to avoid is viewing pre-1891 developments in the light of events and attitudes during and after the civil war. In the first place, it is not correct to place the Congressional party on the side of conversion and the Presidential party against.¹¹⁶ It is true as will become clear later that many of the first real papeleros were to be found among Balmaceda's supporters, although the attitude of Balmaceda himself to the paper money question can best be described, before 1891 at least, as a lack of interest rather than outright opposition. He was prepared to leave the question to Congress, which increasingly meant the opposition, but which itself exhibited no great enthusiasm for a speedy end to the paper money regime. The extreme supporters of a metallic currency were among the most harsh critics of Balmaceda, but they were only a relatively small minority before the 1891 revolution. The report of the 1889 joint Congressional committee was signed by men who fought on both sides in the civil war. There is, moreover, little evidence to support the view that the banks favoured a metallic currency, except in the conspicuous cases of those owned by the Edwards and Matte families.¹¹⁷ Banks conducting their business largely in paper Pesos would have had little to gain from the appreciation of this currency which comprised the bulk of their liabilities, while the redemption of the paper currency would have obliged them to accumulate a large metallic reserve at the expense of profitable business. These considerations would not have applied to foreign banks operating in Chile, but the first of these was not established until 1889.

The relationship between Balmaceda and the banks is more important than the conversion question itself in the context of the causes of the civil war. Balmaceda's supporters controlled none of the largest banks in the country. That is not to say that Balmaceda or his supporters were hostile to the banks, at least until 1890. Some of the Government's actions point to the opposite conclusion. These included Balmaceda's proposal in 1888 to extend the privilege to the banks of the admissibility of their notes in arcas fiscales and Sanfuentes' spirited defence of the Government's contract with the three major banks and of the public deposits in these banks, all of which met opposition in Congress from those apparently less favourably disposed towards banking interests. For their part the banks became enmeshed in the intensifying political bitterness between the President and the majority of the political class. The Government's circular to the banks of June 1890 was an extension of this conflict and not its cause.¹¹⁸ After the outbreak of war, however, the banks became a major target for attack from the Government in Santiago.

Finally, one must ask the question of whether, without the civil war, the paper money would have been redeemed. It can be surmised with some degree of certainty, that the 1887 law by itself would not have led to a conversion operation, even if it had remained on the statute book. A successful currency reform would have required a significant new initiative. There is little evidence to suppose that sufficient majority support existed to sustain such an initiative. The consensus, as far as one existed, among the majority of Chilean politicians was that a metallic currency should not be established at the cost of monetary contraction; and by 1890 the familiar cry of a scarcity of currency was leading to widespread demands for the suspension of further incinerations of paper money. As long as the circulation of paper money was not expanding rapidly nor having strong inflationary effects and as long as the influence of those groups hurt by paper money was limited,

then the chance of a successful conversion was small. As we shall see, these conditions did not prevail in the immediate post-civil war years, and it is not valid to conclude, like Yrarrázaval, that the 1892 Conversion Law responded to the "almost general desire of opinion of 1889 and 1890."¹¹⁹

The 1891 civil war changed Chilean monetary history in two ways; firstly, by bringing different sections of the political class to power and, secondly, by creating sufficient disruption to make a post-war reform seem essential. The disruption arose from issues of paper money made by the Santiago Government. Balmaceda had recourse to the printing press both to provide funds to compensate for the loss of customs revenue from the north and to ease the acute currency crisis which arose early in 1891 as a result of widespread hoarding of cash.

The first move on this front in the war came from the banks. On 1st February 1891 representatives of the Banco Nacional, Banco de Valparaíso and Banco Mobiliario petitioned the Government to suspend both the incineration of notes and the accumulation of silver, to issue up to Pesos 12mn of notes and to loan up to Pesos 1.5mn to the banks.¹²⁰ In his reply, Balmaceda announced that the Government would oblige the banks on the first two points of their petition. He then struck a somewhat less friendly posture towards the banks by announcing the appointment of "interventors" to regulate these institutions. The banks, particularly the Banco de Edwards, were one of the closest and easiest targets for Balmaceda and his supporters, and they were suspected of giving financial aid to the Congressional forces in the north. Agustín Edwards Ross was declared by Balmaceda to be "the recognised leader of the revolution."¹²¹ The second Government move against the banks came with the regulations of May 1891 which ordered them to retire their notes at a rate of 10% per month.¹²² The withdrawn bank notes were to be replaced in circulation by the issue of an equivalent quantity of fiscal notes in what amounted to a forced loan from the banks to the Government. In the

following month Balmaceda made an about turn in his policy on bank notes. A law dated 6th June 1891 declared bank notes to be legal tender (strictly speaking the first time they had gained this status) and, instead of the State issuing notes to replace retired bank notes, the banks were to make available to the Government their note issue at a rate of 15% per month by means of current accounts opened in the name of the Government.¹²³ Over the next three months the Santiago Government borrowed a total of Pesos 8,918,838 from the banks in this way. In addition to this credit, Balmaceda issued directly almost Pesos 12mn of State notes.¹²⁴

In May 1891 Balmaceda appointed as Finance Minister Manuel Arístides Zañartu, a Government Liberal deputy and a personal friend of the President. Zañartu was the son of Miguel José Zañartu, who had been Minister of the Interior under O'Higgins and one of the signatories of the Acta de Independencia. The Zañartu family were landowners in Concepcion and M.A. Zañartu also had interests in coal mining in the province. Zañartu rejected the liberal economic ideas which were accepted as the norm by the majority of the political class in Chile. His views were first expressed in a book, "Luis Rios", published in 1884.¹²⁵ In this work Zañartu attacked Chile's adherence to free trade and the official laissez-faire approach to banking. In particular he objected to the State's promotion of private banking and private note issues involved in the legislation of 1878, as well as criticising the policy of reducing the circulation of State notes adopted in the 1880s. In 1887 he formulated his ideas into a bill presented in the Chamber of Deputies which provided for the establishment of the "Banco Nacional".¹²⁶ This was a radical departure from the then prevailing financial orthodoxy in Chile. The newly proposed bank, which was to be two-thirds State-owned and one-third privately owned, was designed by Zañartu as a combination of a central bank and a development bank, and was to have the exclusive right to issue currency

notes.

Zañartu's thinking on economic matters influenced Balmaceda, although until the civil war the latter showed little sign of putting these ideas into practice. When Balmaceda asked Zañartu to be Finance Minister, the latter accepted on the condition that the Government would include his "Banco Nacional" bill in its programme. Accordingly, the bill was presented to Congress in July 1891.¹²⁷ Zañartu's proposals were never passed by Balmaceda's Congress in Santiago let alone implemented, since the following month congressional forces landed at Quinteros, near Valparaiso, and within days the Government was overthrown and within a month Balmaceda was dead.

CHAPTER FIVE

THE POLITICS OF THE 'PARLIAMENTARY REPUBLIC'

The civil war of 1891 has been covered by a large number of writers and historians.¹ Space does not permit here a detailed account of the causes and course of the war, between the final break between Balmaceda and Congress in January 1891, the defection of the navy and the formation in Iquique in February of the revolutionary Junta de Gobierno headed by Admiral Jorge Montt and dominated by leading anti-Government politicians, and the defeat of the Government forces at Concón and Placilla in August and the suicide of Balmaceda in the following month.

The period which followed - often termed the "Parliamentary Republic" and bounded by the civil war of 1891 and the Constitution of 1925 - has not been treated so well by historians either in terms of quality or quantity. It is as if the era has been considered as one of the dark periods of Chilean history, containing no achievements worth mentioning nor any lasting monuments to its existence. Alberto Edwards, when referring to the period 1891-1925 wrote, "if there was some truth in the statement that the peoples without history are happy, Chile would have been the happiest of all."² Certainly it would be an imposing and arguably futile task to describe in detail each twist and turn of Chilean parliamentary politics in this period. An American observer noted in 1909 that "perhaps no other country in the world exhibits the action and interaction of political motives and principles in so pure and interesting a manner, than does the Chilean Republic of our own day."³ The ability of the ruling oligarchy to play this game of politics, uncluttered by economic and social considerations, depended of course on the fundamental unity of interest within the oligarchy. This was amply demonstrated by the remarkable speed with which the supporters of Balmaceda

were allowed by their erstwhile conquerors to return to active politics after the bitter and bloody civil war. This unity was in turn based on the inter-marriage of old and new elements within the ruling class, on inter-locking economic interests, on the common adherence to the social goal of landownership and finally on the basic dependence of all on the same export industry. The intricacies of the development of Chilean party politics after 1891 will be discussed only in so far as they touched on the monetary question. Nevertheless, a brief description of the institutional structure of Chilean politics is in order at this stage.

The opponents of Balmaceda had aimed at the reduction of the power of the President and after 1891 no President for over 30 years dared to challenge the ascendancy of Congress, nor to interfere in elections. This was achieved, however, without the necessity of any major reforms of the Constitution. Except for the key factor of executive intervention in elections, a parliamentary system had effectively been created prior to 1891, and the most authoritarian sections of the 1833 charter constitutionally removed. During the Balmaceda administration the President lost his absolute power of veto, and the franchise was extended to all males over the age of 21 and literate. In practice the electorate was very limited. As late as 1915 only 302,000 people were eligible to vote out of a total population of over three millions. The post 1891 constitutional reforms were comparatively only of minor importance. The law of 14th December 1888 was finally ratified in 1892; it extended the so called "incompatibilidades parlamentarias", forbidding public employees to serve in Congress. The law of 26th June 1893 allowed a two-thirds majority of both houses to override a Presidential veto. Finally on 12th December 1891 a law ratified one passed under Balmaceda which authorised a majority of Congress or the Comisión Conservadora to convoke Congress into extraordinary session.⁴ The advocates of the parliamentary system wished merely to practice those constitutional

procedures which had been established before 1891 but resisted or ignored between 1886-91.

Similarly before 1891 Congress had developed a number of procedures within its own rules to limit and control government power. These were used abundantly and effectively in the parliamentary era. The unlimited right of debate permitted the obstruction by a fillibuster by an opposition minority. Another practice used frequently by the legislature against the Government was the interpolación. This involved the interrogation of a minister by a member of Congress to which the minister was obliged to reply within eight days and face supplementary questions.⁵

The result of these constitutional and parliamentary practices, and equally important, of the unwillingness of any Head of State to emulate Balmaceda and challenge the supremacy of Congress, was a succession of weak Presidents and a far more rapid succession of ineffectual governments responsible to and dependent on the whims of the ruling clique in Congress. The régime created in 1891 was not a true parliamentary system in the British sense of the word. It was closer to the system of the Third French Republic. The principle was firmly established that the government was exclusively responsible before the legislature, but the executive lacked the all important power to dissolve the legislature. Congress was free to reject and create governments at will. Many cabinets and ministers were defeated over the most trivial of matters. The appointment of public officials, officers of Congress, and of the Caja de Crédito Hipotecario and of members of the Consejo de Estado often caused sufficient controversy and jealousy among the various political parties to justify a change of ministry. Furthermore each branch of Congress was authorised to ratify the elections of its own members. This procedure, which often took anything up to a year (of a deputy's three-year term), again caused party divisions and the fall of governments. In contrast the most important questions of the day, such as

the nitrate industry, the monetary debate or other economic issues were declared "cuestiones abiertas", or non-party questions on which no government considered its existence to depend and on which each member of Congress was free to vote according to his own personal interests or conscience. The ultimate sanction of the legislature against a recalcitrant President was the refusal, or postponement of approval, of the budget. It was such a decision by Congress in January 1891 that had precipitated the civil war. Although it was never found necessary to resort to that extreme thereafter, Congress not infrequently had recourse to the practice of delaying approval of the budget.

In this climate the lives of governments were generally short. The turnover of cabinets and ministers accelerated after 1881 as the conflict between the executive and Congress developed. Between 1831 and 1881 there were 29 cabinets; Santa María (1881-6) presided over 5 cabinets and 15 ministers and Balmaceda (1886-91), 16 cabinets and 59 ministers. The initial unity of the victors of 1891 limited the changes under Jorge Montt (1891-6) to 10 cabinets and 40 ministers. Thereafter the rotation of ministries and their personnel accelerated. Federico Errázuriz Echaurren (1896-1901) presided over 17 cabinets and 59 ministers; Germán Riesco (1901-6), 17 cabinets and 73 ministers; Pedro Montt (1906-10), 11 cabinets and 43 ministers; Ramon Barros Luco (1910-15), 15 and 55 respectively; Juan Luis Sanfuentes (1915-20), 15 and 78; and finally Arturo Alessandri (1920-4) presided over 20 whole changes of cabinet and 71 different ministers.⁶ This constant rotation of ministries reduced the government to impotence in many situations and prevented the formulation and implementation of any coherent policy.

All the governments from 1891 to 1924 were coalitions of the various political parties. No single party at any stage enjoyed an absolute majority in either chamber. This division was accentuated by factionalism within the parties and the use

of the cumulative vote in elections. In general the groupings of parties in Congress which formed a government were of two types; any combination containing the Conservative Party was designated the Coalition, while a combination excluding this Party was termed the Liberal Alliance. A somewhat rare exception to this rule was the so called "gobierno de administración", which included all major parties and was an interim measure designed to fill in until a new majority could be manoeuvred in Congress.

The practice of the intervention by the executive in congressional elections was ended from 1891. The vacuum was filled by a system of corruption and bribery which became an established part of the political process accepted by all parties and the electorate. Referring to the elections of 1912 in Talagante, the British Minister reported that he had been informed that the Conservatives had paid 80 Pesos (£3.5) per vote and the Liberals 50 Pesos (£2.2) for the election to the Chamber of Deputies. A seat in the Senate was more expensive.⁷ Inevitably the parties resorted to choosing the most affluent to represent them, especially in the upper chamber.

One of the first and most important of the reforms introduced under the new regime in 1891 was in the field of local government, the creation of the Comuna Autonoma. In line with the ideologies of some of the revolutionaries power and revenue were decentralised to new local communes and their elected municipal councils which were granted, in theory, extensive powers over public health, education, local industry and the police. Most important, the communes were given the task of running elections and drawing up the lists of electors. In practice the system was a failure. The resources given to the municipalities were inadequate and hence appeals were made to central government funds. These appeals, however, had to be made through Congress and the party leaders. This helped lead to a subservience to local interests in the legislature

and much time was spent in manoeuvres to create coalitions and majorities to obtain the approval of local appropriations or the appointment of local officials. The municipalities merely fell into the hands of local political chiefs.

Five major political parties were in existence at the end of the civil war; the Conservative, Liberal, Radical, National and Democratic parties.⁸

The Conservative Party was in essence the party of the hacendados and the Roman Catholic Church. From its foundation in 1857 its chief political role was in the defence of clerical values against the rising tide of liberalism. After being continually out of office since the 1870s, the Conservative Party achieved a sharp revival after 1891, becoming the largest single party in the Chamber of Deputies. The main strength of the Conservatives lay in their large *inquilino* vote controlled by the hacendados, and in their high level of unity and cohesion in contrast to the divisions within other parties.

After achieving the religious reforms of the 1880s the Liberal Party found itself without a programme. Excluding a continued common adherence to anti-clericalism the Party, from 1891, possessed little real unity and descended into factionalism and personalism. In practice the chief function of the Liberal Party appeared to be as the centre, or equilibrium, of the party system: any combination of parties in the government almost had to include the Liberals.

The Radical Party first developed in the 1860s from the mining area of Copiapó. The party with its close ties with the Masonic lodges put forward a more radical brand of anti-clericalism than the Liberals. The first national convention of the Radicals in 1888, created a programme based on constitutional questions, notably the reduction of the power of the executive, and the relationship between Church and State. At this stage, beyond a strong ethos of individualism, social and economic questions found little place in the party's priorities. The years of the 1890s saw the beginnings of the

infiltration of socialist ideas pushed by Valentín Letelier. This encroachment on the traditional individualist philosophy of J.S. Mill and his early disciples in the Radical Party in Chile was vigorously opposed by the party's leading figure, Enrique MacIver. In the 1906 Convention this division was formalised and resulted in a nominal victory for Letelier, and future programmes included measures to deal with the growing social problem. It was not until the 1920s, however, that social questions became the central feature of the Radical programme.⁹

The National Party was formed out of the supporters of President Manuel Montt and his Minister Antonio Varas after a section of the aristocracy in Congress had broken with the Government and formed the Conservative Party in 1857. Thereafter the party remained loyal to the principles of strong government as represented by the original montt-varistas. Although many of its supporters were among the congressional faction in 1891, the party was weakened thereafter by the inability of the executive to exert itself. With no theological base to appeal to the electorate the party suffered a slow decline after 1891, being not "endowed with very definite principles of action, outside of loyalty to the leadership and belief in the political capacity of the Montts."¹⁰

The only political party to achieve any significant representation in Congress and with any claim to represent the Chilean labouring classes was the Democratic Party. It was formed in 1887 by Malaquias Concha from a meeting of workers in Santiago, and Concha was to maintain his position as the party's leading personality for over 30 years. Their first deputy was elected in 1894, the first Democrat senator in 1912 and the party achieved its first ministry in 1916. As the Democrats' representation in Congress expanded so did their separation from the working and artisan classes. Increasingly they compromised with, and were integrated into, the politics of the oligarchy. The Partido Democrático in Congress was at times

to be found in the ranks of the Coalition alongside the Conservatives, if any material advantage could be obtained from this allegiance.¹¹

Conclusions about the social composition of Chilean political parties in the late 19th century can at best be only very tentative. By the end of the century the economic interests of the political class were so entangled that it is hazardous to try to assign distinctive economic interests to each party or group. For instance, over half the members of Congress at the turn of the century owned large landed estates.¹² This figure undoubtedly understates the importance of land-ownership in Chilean politics, since many more congressmen were the sons of landowning families though not yet themselves the titled owners.

Family connections give a more productive correlation with party affiliation than does economic interests. Certain names appeared regularly in the parties' respective ranks in Congress: for the Conservatives, such names as Cox, Pereira, Larraín, Ovalle, Fernández, Echenique, Concha, Subercaseaux, Irarrázaval, Lyon, Walker; for the Liberals, Valdés, Pinto, Toro, Matte García de la Huerta, Figueroa; the Nationals, Montt, Varas, Rodríguez, Besa, Edwards; and for the Radicals, Matta, MacIver and Robles.¹³

From these names it is clear, for instance, that the Conservatives were not limited to the traditional landowning families of central Chile. They included among their number members of immigrant families whose wealth was derived from non-agrarian pursuits and who were attracted to the Conservative Party on the grounds of religious convictions. The National Party, often associated by historians with banking interest,¹⁴ did include among its members two of the major banking families, the Edwards and the Besa's, the latter being the founders of the Banco Nacional de Chile. But at the same time both of these families owned large rural estates. The Montt family owed its wealth and position to its landowning origins in

Santiago province.¹⁵ Family connections appear to have been less strong in the Radical Party. In terms of vote catching power the Radicals' strength was most concentrated in the mining and nitrate areas of the north. The party also attracted the support of large agricultural proprietors from Concepcion as well as of intellectuals, professionals and other sections of the middle class.¹⁶ The Radical Party contained its fair share of employees and lawyers of foreign companies in Chile, but the party was not alone in this respect.¹⁷ The whole range of economic interests - from old landowning families through to aspiring members of high Santiago society from the middle class - were to be found among the ranks of the Liberal Party.

Although the theological question declined in importance after the reforms of the 1880s it remained the chief feature dividing the parties until the First World War. These "cuestiones doctrinarias" as far as they still existed after 1891, centred on the role of religion in education. Further than this few questions of principle separated the parties. As early as 1893, when referring to the coming elections, an editorial in El Heraldo commented that "there is not up to now in the arena any questions of principle."¹⁸ Social and economic issues were not considered sufficiently important, or impinged too much on legislators' own personal interests, to be allowed into the field of party politics. Even in the important sphere of foreign policy, no straightforward correlation existed between political parties and policies. Family and personal rivalries were as important as party differences in the formulation and execution of policy and it is debatable whether such policies existed in a defined and coherent form to any significant degree, either in the parties or in government.¹⁹ The extent of party affiliations and alignments on the monetary question will be discussed in a later section.

With the power of the President severely curtailed, and his ministers strictly responsible to Congress, real political power in the "Parliamentary Republic" was transferred

to the permanent committees of Congress, and perhaps to an even greater extent, to the party leaders. The committees of both chambers became the effective controllers of the progress of legislation, all of which had to pass through them unless specifically exempted by a vote in Congress. Party leaders rarely themselves assumed ministerial office (although Pedro Montt, a National, and J.L. Sanfuentes, a Balmacedist, became President). Their function was to negotiate and manoeuvre for their party's representation in the government. For much of the 19th century the Chamber of Deputies, with its constitutional precedence in matters of finance, was the leading branch of Congress. From about 1903 the Senate, which came to include all the major party and faction leaders, became the centre of political power, wealth, social status and influence for the maintenance of the existing social order.

CHAPTER SIX

THE TRIUMPH OF THE OREROS: CHILE GOES ON TO THE GOLD STANDARD

A future President of Chile, Eduardo Frei, when commenting on the era of the "Parliamentary Republic", wrote:

"the Revolution victorious and almost from the day following the establishment of the new Government until the creation of the Central Bank in 1925, there was dominant in the parliamentary debates relating to economic matters a single dialogue, or the sound of a single contest, between two forces; the partisans of the gold standard and the supporters of paper money."¹

In fact, this somewhat understates the situation. In terms of parliamentary debating time, the "cuestion monetaria" was probably the single most important political issue in Chile, at least in the period 1891-1914. It is true that Congress spent more time discussing certain other matters, but these were generally questions of procedure, the election of its officers or the ratification of the elections of its own members.

Opinions within the oligarchy on the monetary question became much more polarised after the civil war. Pre-war debates had been based essentially on the limited consensus among a majority that, while a return to a sound, metallic-based currency was a worthy long-term aim, the authorities should not actively work for this end by any form of deflationary policy. The immediate post-war administration broke with this consensus and in effect opened the long parliamentary struggle that ensued. The terms orero and papelero came into common usage at this time.

A number of factors were involved in this change. The first was the need for financial reconstruction after the war of 1891, which inevitably re-raised the question of currency reform. Many had seen the conflict with Balmaceda as a campaign for legal and constitutional order against authoritarian and unconstitutional Presidential rule. In the eyes of many

of the victors of 1891, paper money became associated with the "Dictadura" and disorder and was regarded with the same distaste.² One stage further, the emphasis given by the Congressional side to constitutional order found a parallel in a growing support for the Gold Standard, the symbol of international financial order.

The Gold Standard had attracted very few supporters prior to 1891. Besides the rather academic reference in the Finance Minister's report for 1889, the main advocate of the Gold Standard had been Agustín Ross Edwards. Ross was the son of David Ross, a British merchant who arrived and settled in La Serena in 1822 and who married the sister of Jorge Edwards. Agustín Ross became involved in banking through his association with the Banco de Edwards and was a prolific writer on economic and financial affairs.³ Along with Augusto Matte, Ross played a crucial role in the civil war as a congressional agent in Europe, where for much of 1891 the real battle was fought in terms of propaganda, financial support and arms supplies.⁴ In two articles written in 1890 Ross proposed a gold Peso of 48d as the basic monetary unit.⁵ Although little notice was taken at the time, Ross' ideas formed the basis of the post-civil war monetary legislation.

As long as the 25gm silver Peso was regarded as the numeraire of the system, then the question of the conversion of the paper money was in a sense unreal and academic, since it involved stabilisation on a base that was itself unstable and which had been abandoned in most important countries of the world. Conversion could wait until the two fluctuating rates were more or less in line and meanwhile the paper Peso could follow the silver Peso in its prolonged decline in relation to the world's and Chile's chief trading currency and unit of value. With a gold/sterling base, there was no such room for manoeuvre, compromise or delay. A fixed exchange rate had to be stated explicitly, rather than to conversion to 25gm of silver at some date in the future for

which no rate could be fixed. The opposition to the idea of a fixed rate and the controversy over the actual rate to be selected brought into question the whole principle of conversion in a way that it had not before 1891.

The shift of support from silver to gold, which occurred gradually over the 12 months or so following the defeat of Balmaceda, owed something to the growing awareness of the unsuitability of silver. This was highlighted by the exceptionally rapid fall in the price of silver after 1891. The value of the silver Peso fell from an average of 35.2d in 1891 to 31.1d in 1892 and to 22.6d in 1894 (see Table IV).

The key factor in the eventual ascendancy of the Gold Standard was, however, the changed political situation after 1891. One aspect of this was the growth in influence within the Government of British and pro-British interests in the 2-3 years following the civil war. Notwithstanding the controversy over the direct role of British interests in the revolution, there is no doubt that "the establishment of the new regime was looked upon by the merchantile community as an augury of coming prosperity."⁶ During the eight months of the conflict, the price of Chilean bonds in London fell less than those of Argentina, despite the heavy fall in Argentine bonds prices which had already occurred in 1890. For the £1,800,000 loan issued through Rothschilds in London in August 1892, "the rush was simply unparalleled."⁷ An estimated £30mn was subscribed and Rothschilds closed the list at 11a.m. the morning after the prospectus was circulated. The exchange rate stood very close to its December 1890 level a year later.

The country's new President, Admiral Jorge Montt, with his long association with the Royal Navy, valued highly this British esteem and was favourably disposed towards everything British. Montt was generally unassuming and unambitious and in large part played the role of a constitutional monarch. He had no choice but to accept the dominance of the legislature, but he also gave considerable freedom of action to his Ministers.

The one question on which he did take a definite lead and which was a constant feature of his administration was his support for the conversion of the paper money.⁸

A good deal of what might be described as Montt's "obsession"⁹ with conversion was the result of the powerful influence of his closest advisers in the immediate post-civil war years. These were largely Anglo-Chileans such as the Edwards family, Ross and MacIver, and Anglophiles such as the Matte family. The influence of all of these reached its peak in the first few years after the revolution. All had played key roles in the conflict, MacIver as leader of the Radicals and a prominent opponent of Balmaceda, the Edwards through their financial aid to the revolution, while Agustín Ross and Augusto Matte were national heroes as a result of their work as Congressional agents in Europe during the conflict. Another influential figure in the circle around the President was the Conservative politician and economist Zorobabel Rodríguez, who in the Chamber of Deputies in the 1880s had been one of the major voices in favour of the replacement of the inconvertible paper money with a specie-based currency. President Montt offered Rodríguez the post of Finance Minister, but the latter chose instead to become the director of the Valparaíso customs.¹⁰ From this position Rodríguez put up a staunch defence of his strongly orthodox economic and financial views.¹¹ The Edwards, Ross, Matte, MacIver and Rodríguez were all "sound money" men and were instrumental in the formulation, with the President's blessing, of the currency legislation of 1891/3.

Montt and his close circle of doctrinaire orero advisers, unlike their predecessors who had professed a faith in sound money, were in a hurry to rush the conversion through. They recognised that, although conditions following a bloody civil war might not be the most propitious for currency reform, delay would be disastrous for their cause. In their eyes, delay would give the opposition more chance and make the passage of

measures through the legislature more difficult as the expected breakdown of the immediate post-war party political truce inevitably led to greater ministerial instability and obstruction in Congress. They made frequent appeals to patriotism, stressing that any obstacles placed in the way of the draft currency legislation would be viewed unfavourably abroad, thus harming confidence and sabotaging conversion. Most important from the viewpoint of the reaction to the oreros schemes, Montt and his circle were very intolerant of any dissent on the monetary question, even of constructive criticism of the details of their schemes.

Before any direct moves could be made towards the resumption of specie payments, political normality had to be restored and a number of measures taken to create the preparatory financial conditions. One of the most immediate tasks facing the Junta de Gobierno after its assumption of power was to decide on the fate of the currency notes issued by Balmaceda during the civil war. A decree of 9th March 1891, issued by the Junta in Iquique, had declared illegal all notes issued by the Government in Santiago. Once holding the reins of government, the Junta was forced to moderate its stance in order to avoid monetary chaos. In September 1891 a number of banks petitioned the Minister of Finance in the Provisional Government to recognise Balmaceda's note issues, stressing that enforcement of the March decree would mean ruin for many banks. The Government assented to the wishes of the banks, and without giving the notes full legal status, declared them admissible in arcas fiscales.¹² The Government's aim, however, was to withdraw Balmaceda's note issues as soon as possible. This involved the payment of close to Pesos 12mn issued directly together with some Pesos 8.9mn issued indirectly through the banks. The new Administration made it clear at an early stage that it would recognise this latter amount as a debt of the State in favour of the banks.

At the same time, the Provisional Government scrupu-

lously implemented the 1887 currency law in relation to the withdrawal of notes and the Conversion Fund. At end-1890, 3,841,987 of silver Pesos (25gm, 9/10ths fine) had been accumulated in the Casa de Moneda under the 1887 law. Of this sum, Balmaceda had in 1891 taken Pesos 851,482 for the minting of (debased) coins and he had sent a further Pesos 936,938 abroad, leaving Pesos 2,054,667 at the end of the civil war. In the period September-December 1891, the Provisional Government bought a further Pesos 254,459 for the Conversion Fund. In this same period, the Government also incinerated Pesos 400,000 of fiscal notes and ordered the banks to provide the full guarantee for their notes required by the 1887 law.¹³

In order to meet its immediate expenses, the new Government, soon after the defeat of Balmaceda, contracted a Pesos 10.5mn overdraft with the banks. This sum, together with Balmaceda's note issues, amounting to a total of about Pesos 31mn, constituted the officially-recorded public debt arising from the civil war. The payment, or at least the consolidation of this debt was one of the main priorities of the Montt administration. The settlement of this debt and the eventual redemption of the paper money, were clearly going to be very expensive for the Chilean Treasury. The realisation of this fact, together with the strong desire to restore Chile's financial standing abroad after the disruption of the civil war and the reaction against what was seen by many as the extravagance of the Balmaceda regime, led to a strict economy in public expenditure being one of the hallmarks of the Montt administration.

Particularly in the early years of his term of office, the political situation was relatively favourable for Montt to keep a tight rein on Government expenditure, at least compared with the difficulties faced by his successors in their relations with Congress on public expenditure. In relation to their levels in 1889/90, cuts were made in most fields of public expenditure. The axe fell heaviest on public works, particularly on Balmaceda's creation, the Ministry of Industry

and Public Works; the expenditure of this department was, on average, halved in the 4 years 1892/5 compared with 1889/90. In fact, the 1890 level of expenditure of the Ministry was not reached again until 1910 (in constant Peso terms).¹⁴ Many public investment projects, already postponed as a result of the civil war, were further delayed or shelved under Montt. No extensions to the State railway network were completed until 1895, despite the large number of projects planned or initiated in the years 1886/90.¹⁵

The Government's revenue base was also lower after 1891. This reflected partly the elimination of the last of the internal taxes in the late 1880s and also the transfer, in 1891, of the impuesto territorial to the municipalities. Equally important from the point of view of revenue, was the gradual liberalisation of import duties that had occurred in the 1880s and which was continued in the early 1890s. The overall fall in revenue, however, was by no means as sharp as the cutback in expenditure. This meant that during Montt's term of office, expenditure was generally kept within ordinary revenue, leaving extraordinary revenue - chiefly receipts from external loans and sales of public land - to be used for the payment of the floating debt and eventually of the paper money.

Following the resumption of constitutional rule in December 1891, the Government moved quickly to settle the question of the notes issue by the "Dictadura" in 1891. A law of 2nd February 1892, ordered the withdrawal by the end of 1892 of all notes and coins issued directly by Balmaceda.¹⁶ Holders of these notes were to be paid out of the proceeds of a loan of up to Pesos 21mn authorised in the same law. The Government went abroad for these funds, with a £1.8mn loan, authorised by a further law of 9th August, and issued through Rothschilds in London. Another law, also dated 2nd February 1892, authorised the Government to contract with the banks a loan of up to Pesos 15mn over a period of no longer than 2 years, in order to cancel the existing overdraft with the banks, the remaining funds to go

towards the general budget for the year.¹⁷

Simultaneously with measures to withdraw notes issued during the civil war, the first steps were taken towards the resumption of specie payments. The first move made by Montt amounted to an attempt to switch from silver to gold. This was proposed in a bill presented to the Deputies on 7th January 1892, which provided for the silver conversion fund being used to buy sterling which would be deposited in the Bank of England.¹⁸ This scheme immediately aroused opposition from silver supporters, particularly the newspaper El Ferrocarril. At this early stage, the silver lobby still had a powerful voice, led by mining interests.¹⁹ The most important expression of this was the continued appeal of the 25gm silver Peso as the unit of currency, which was to be reflected in subsequent currency legislation even when the Gold Standard received majority acceptance.

There was also a split in the Cabinet over the gold/silver question. The Finance Minister, Francisco Valdés Vergara, a banker (ex-Manager of the Banco de Valparaíso) and a former Director of the Treasury in the 1880s, was opposed to any move away from silver and wanted a gradual path to a silver-based currency. On the other hand, Agustín Edwards, the Minister of Public Works since September 1891, proposed the Gold Standard with a monetary unit of a 24d gold Peso. On the proposal for sales of silver, Valdés Vergara won the day and announced later in January 1892 that the Government did not intend to push ahead with its bill. At the same time, he probably went beyond his authority by declaring that the Government had no intention of recommending the Gold Standard.²⁰ In any event, Montt took his first opportunity to remove Valdés Vergara. The post-revolution pact, or truce, between the Liberal groups and the Conservatives lasted only seven months. In March 1892 bipartisan government ended with the resignation of the Conservatives in the Cabinet and for the remainder of Montt's term Liberals and Radicals were in power

uninterrupted. The President appointed Eduardo Matte to head the new Cabinet, with Agustín Edwards replacing Valdés Vergara who had been in office only 3 months, as Finance Minister.

Augmenting the influence of the Edwards on official financial policy was another member of the clan, Alberto Edwards, who in October 1891 had been appointed First Official in the Treasury.²¹ There was, however, no shortage of members of the oligarchy who resented the influence of the Edwards and other Anglo-Chileans and Anglophiles in the Presidential palace. Such resentment came particularly from those who disliked their pro-conversion policies. The sentiment was expressed that,

"... the Edwards and Mattes are in league together to carry out the conversion - not from patriotic motives but simply to burst up the other Banks and make spoil for themselves out of the wreck. That Don Jorge Montt (President) is under so many obligations to the Edwards (principally to Doña Juana) and has such perfect confidence in them, being himself a simple and upright, though not an intelligent man, that he is being led by the nose"²²

The unpopularity of the Edwards and Mattes among the Conservatives and some Liberals was an important factor behind the defeat of the Government in a vote in the Deputies on 2nd June 1892 over the election of the Vice-President of the Chamber. In the new Cabinet Edwards was replaced by Enrique MacIver in the Finance portfolio.

On 1st June 1892 President Montt, in his annual message to Congress, announced his plans for monetary reform. Without giving full details of the scheme, he declared "I judge that 1st July 1895 can be fixed immediately as the date for the termination of the inconvertibility of the notes and for the conversion of these into metallic money, corresponding to the value of silver in which they are to be presented."²³ He was, in effect, proposing that the price of the silver Peso should determine the rate at which the paper money would be redeemed. However, neither in the Presidential Message, nor in the draft

law published on 5th July, did the authorities specify the nature of the metallic currency to be adopted after the withdrawal of the paper money. Here Montt and his advisers were being very cautious and not proposing a fully-fledged gold currency, but rather leaving the question open for the time being. In the Finance Minister's report for 1892/3, MacIver gave a retrospective justification for the proposals made by the President and himself in July 1892.²⁴ According to MacIver, the 25gm silver Peso was preserved in the scheme on the grounds that in July, being worth 32d, it seemed likely to decline further to reach a rate equivalent to 1gm of gold 9/10ths fine, about 30d. He considered that 1gm of gold would have served as a "scientific" basis for the new currency system. However, these proposals were by no means made clear in the draft legislation. More likely than this post facto defence of his proposals was MacIver's and also Montt's difficulty in reconciling their support for the Gold Standard with their strong legalistic/moral belief (particularly strong in the case of MacIver) in the payment of the State's obligations at the rate that prevailed prior to inconvertibility in 1878, (i.e. 25gm of silver, 9/10ths fine).

The executive, in fact, presented three separate bills in one package to the Deputies on 5th July 1892.²⁵ The first proposed the creation of a Caja de Conversión, in which funds for the redemption of the paper money were to be accumulated. These funds were to comprise those stipulated under the 1887 law (i.e. accumulated silver and the Pesos 1.2mn per annum from the incineration of fiscal notes), 50% of the proceeds of the sales of nitrate lands up to £400,000 and Pesos 750,000 per quarter from the Tesorería Fiscal de Santiago. The Caja was to convert all of these funds into (unspecified) Chilean coinage by 1st June 1895, on which date the Caja would also incinerate all of the paper money held by it. By this time, the funds accumulated in the Caja would be sufficient to cover the exchange of the State's entire note issue. In an

attempt to provide a safeguard against excessive monetary deflation arising from the withdrawal of notes from circulation, the Caja was authorised to deposit in banks of established solvency all or part of the paper currency held by it, if the rate of interest should rise above 7%.

The second bill related to the redemption of bank notes, stipulating that 60% of the guarantee established in the 1887 law must be in the form of gold or silver and lodged in three equal instalments on 1st April and 1st October 1894 and 1st April 1895. This meant that the banks were required to back one-third of their notes with bullion by the time of conversion. The final bill introduced by the Government on 5th July was the one requesting authorisation for a £1.8mn loan to pay the floating debt; this was approved quickly and became law on 9th August 1892.

These bills disappeared for a time into the Finance Committee of the Deputies. Meanwhile, this body was reviving another scheme which had originally been presented in 1885 by Enrique MacIver and some other members of the then committee. This bill proposed the legalisation of contracts stipulating payment in gold or silver money. With the Government's blessing, it was presented to the Chamber of Deputies on 16th July 1892.²⁶ The conversionistas in the Government and in Congress saw this measure as an important preparatory step towards the resumption of specie payments and also as the first real test of strength with their opponents. The fact that the bill was passed - by 36 votes to 11 in the Deputies, but only by 7 to 5 in the Senate²⁷ - was an indication of the change in attitude since 1885, when the proposal had been shelved. Nevertheless, the most vocal and important opposition to the measure came from those who were not among the hard-line anti-conversionistas, principally from the Minority (Julio Zegers) Report of the Finance Committee of the Deputies, the Radical and mining magnate, Federico Varela, in the Senate and El Ferrocarril (although most of the other leading newspapers

supported the bill).²⁸ The opposition was strengthened by the clear technical defect in the proposal that the use of gold and silver in a contract would amount to a vote of no confidence in the existing paper currency, and therefore the legalisation of such contracts would institutionalise the depreciation of the paper money. In the absence of any guidance on the metal to be used, and given the instability of silver and the lack of a gold coinage in circulation, it is not surprising that very few metallic contracts were made before 1895.²⁹

Once the metallic contracts bill had been passed, the Deputies' Finance Committee, under the chairmanship of Eduardo Matte, presented its report on the Government's conversion bill.³⁰ While supporting the general aim of conversion, the Committee's proposals differed in many points of detail and on one basic principle from those made originally by Montt and MacIver. The main change was the explicit adoption of the Gold Standard and the proposal for a gold Peso of 24d as the basic monetary unit. This remedied the lack of any reference to the coinage in the executive's bill.³¹

A 24d gold Peso had been proposed several times since the civil war, for instance by Agustín Edwards in January 1892 and in draft legislation presented in the Deputies by Eduardo Edwards and Enrique Montt (of the National Party and brother of Pedro Montt) in January and July 1892 respectively.³² An important influence on the Committee's recommendations was Agustín Ross, who returned to Chile from England in August 1892 to a hero's reception. His banner was really a 48d gold Peso, but he justified halving this rate on the following grounds. In the years 1879/1892 inclusive, the exchange rate averaged about 27d, while in November 1892 (at the time of the enactment of the conversion law) the silver Peso was quoted at 29d and the paper Peso at 19d: averaging these three rates gave a figure of around 24d.³³ Others who made attempts to justify logically the rate chosen usually did so on the grounds that it approximated to the average rate existing in the years

1879-1891/2. To the staunch pro-British authors of the bill, 24d (one-tenth of £1) had obvious advantages. Given the actual level of the exchange rate prevailing in 1892, most accepted that 24d was fairer to debtors than the rates that were proposed at various times as being representative of the pre-1878 era, such as 48d, 45d, 38d or the rate corresponding to the 25gm silver Peso. However, in order to satisfy those who saw conversion more as a payment of a legal and moral obligation of the State rather than as a currency reform, the concept, if not the actual substance of the 25gm silver Peso was conserved in the Committee's bill.

The main provisions of the draft law presented to the Deputies on 20th August were as follows. Authorisation for a loan of £1.2mn was requested, the proceeds to be used to withdraw and incinerate up to Pesos 10mn of fiscal notes at a rate of £50,000 (about Pesos 650,000) per month and the remainder to buy and mint gold and silver coinage. During the first half of 1894, a further Pesos 3mn of notes were to be withdrawn from circulation and replaced by an equivalent amount of gold coin, this operation being dependent on the average rate of exchange in the previous six months being above 23½d. A further Pesos 5mn were to be withdrawn in a similar fashion in each of the next three semesters, although only under the same exchange rate conditions. Article 7 stipulated that from 31st December 1895 the State paper money would be payable at the rate equal to the gold equivalent of the silver Peso of 25gm 9/10ths fine. From 1st July 1896 the State paper was to be demonetised. In effect, the bill proposed two conversion dates and rates; the first from 1894 at a rate of 24d and the second from end-1895 at a rate corresponding to the price of the silver Peso. Silver, however, was relegated to constitute the small and subsidiary coinage (moneda divisionaria) and nobody was to be legally obliged to accept more than 10 Pesos worth of silver coinage. Three gold coins were proposed; the Escudo (5 Pesos), the Doblon (10 Pesos) and the Condor, equal

to 20 Pesos. The English and Australian pounds were to be legal tender and equal to a Doblon.

Other provisions of the draft law related to the banks' note issue. While inconvertible (up to 31st December 1895), the total bank note issue could not exceed Pesos 20mn, and from 1st July 1895 the banks were to be required to keep in gold the equivalent of 20% of their note issue. Another article provided for the payment in sterling of 25% of import duties in 1893 rising to 50% in 1894 and 1895. Finally, Article 20 stipulated that obligations contracted before the issue of paper money would, from 31st December 1895, be settled in silver Pesos of 25gm or in the equivalent of gold.

The Committee's package, as a whole, was approved easily by the Deputies, with a vote of 43 to 5 in favour.³⁴ There was little outspoken opposition to the principle of the bill. On individual points, however, there was sufficient dissent to rattle the authors and sponsors of the bill. The Finance Minister, MacIver, vigorously pushed and defended the bill as if it were his own and at the same time lambasted its opponents for their alleged selfishness and lack of patriotism, even though at this stage the opposition was more shadow than substance.³⁵

Article 7 aroused the greatest controversy. Eduardo Edwards, who along with MacIver and Matte was the main protagonist of the bill in the lower house, strongly opposed this article. He argued that it implied that from 31st December 1895 paper currency would be redeemed at a rate higher than the legal money created in the law and stressed that this would encourage speculation and the hoarding of notes. He proposed that the conversion at the rate corresponding to the silver Peso be postponed until the end of 1896 or 1897, which would at least increase the risk involved in delaying the redemption of notes in the hope of getting a better rate than 24d.³⁶ This proposal attracted widespread support, even from a majority of the Finance Committee. MacIver, on the other hand,

was adamant that the article should stay intact and in a bitter speech attacked Edwards and others for using the same tactics as the papelero opposition to conversion.³⁷ In the event, Edwards' amendment was narrowly rejected (22 votes to 21), but only with the votes of those few who opposed the whole principle of the bill.³⁸

The restriction on the banks' note issue, seen by the bill's sponsors as essential for the success of a conversion operation, met stiff resistance from the banking lobby. This was led by Ramon Santelices a member of the Finance Committee, the Conservative Deputy for Osorno and an economist and banker who had participated in the establishment of the Banco de Santiago in the previous decade. The opposition argued that the provision was a violation of the freedom of the banks and would cause a shortage of currency.³⁹ The existing level of the banks' registered note issue (Pesos 14.3mn at end-1892) was well below the Pesos 20mn limit, but the 1892 level was exceptionally low in relation to past and future levels. The Pesos 20mn limit would have been a real restriction in the sense that it was below, albeit by only a small amount, the bank note issue at end-1891 and end-1894.⁴⁰ On this issue the Government was defeated in the Deputies, and the provision was thrown out by 21 to 14.⁴¹

There was some controversy over the question of the payment of import duties in gold/sterling, although the provision was retained in the law as finally passed. This and the similar question of the payment of export duty in sterling bills of exchange drawn on London accepting houses provided a constant source of debate throughout the discussions on the currency. In simple terms, on one side it was argued that the State's expenses abroad demanded a certain amount of gold or sterling. In order to avoid having to buy this in the market with the resulting depreciation of the exchange, some revenue needed to be collected directly in hard currency; any excess above needs could be auctioned with a beneficial effect on the

exchange rate. On the other side, it was contended that for the State to refuse to accept its own notes in payment of certain taxes did not contribute towards confidence in the paper currency and, moreover, that importers themselves would in any case have to buy the gold or sterling in the market.⁴² The result of the debate in 1892 was that import duties became payable partly in Chilean gold money or sterling, in obligatory proportions of 20% in 1893 and 50% in 1894 and 1895. In addition a law of 4th July 1892 stipulated that 30% of nitrate export duty should be payable in first class commercial bills on London.⁴³

The Deputies' final version of the draft law, with only one significant omission from the original bill (the restriction of the banks' note issue), was presented in the Senate on 26th September. With only a matter of a few days left of the ordinary sessions, MacIver was keen that the bill should receive top priority. But a motion to that effect presented by Agustín Ross, who had been elected to one of the Senate seats for Santiago in a by-election earlier in the year, was narrowly defeated on precedural grounds.⁴⁴ The renewal of the discussions had to await the extraordinary sessions convoked in October 1892. The Senate Finance Committee suggested two main changes: firstly the removal of the retroactive Article 20 and secondly, the addition of a provision laying down a new limit of Pesos 24mn on the bank note issue. Other minor and technical changes proposed included the raising to 20 Pesos of the maximum amount of silver anybody was obliged to accept after conversion.⁴⁵ With these modifications, the bill had a fairly smooth passage in the Senate. The Senate's amendments were accepted by the Deputies, although only narrowly in the case of the limit on the issue of bank notes, and the law was enacted on 26th November 1892.⁴⁶

Given its aims, the 1892 law contained many defects, some of which were recognised at the time. The retention of Article 7 was eventually to be accepted as a mistake, although the

principle behind it attracted support for a number of years. The condition that the exchange rate of the paper Peso should average $23\frac{1}{2}$ d in the six months prior to a conversion before the end of 1895 was meaningless in the sense that this rate was higher than the gold export point for a 24d Peso.⁴⁷ The gold/silver guarantee for bank notes, to be applied only for the last six months of 1895, was insufficient by prevailing standards of sound banking. The comparable guarantee in England was 40%. Moreover, the law provided no guarantee for the banks' main liability, their deposits, whose level was 8-9 times that of their note issue.

Most politicians in Santiago and merchants and bankers in Valparaiso, Iquique and also in London judged the law on the criterion of whether it contributed to an appreciation of the exchange rate to approaching the par rate of 24d by 1894/5. On this point the legislation would stand or fall. Within six months it was quite apparent that the law was a failure. The exchange rate, which had averaged $19\frac{1}{4}$ d in November 1892, fell to 14d in May 1893 and to a little over 11d in May 1894. The extent to which the Conversion Law itself was responsible for this exchange crisis and also for the parallel internal financial crisis of 1893/4 was hotly disputed by the law's apologists and critics.

Certainly, external conditions were not propitious for such a monetary reform. Official trade figures give some explanation of the depreciation of the Peso. Exports had a bad year in 1892, being even lower than in 1891 and than in any year since 1887. The chief reason for this poor export performance was the depression in the nitrate industry which involved restricted shipments and continued low prices. Following the boom in nitrate sales in the period 1886 to mid-1889, overproduction caused prices to fall. This led producers - among whom British companies controlled 60% of output - to agree to restrict production. The Second Combination of nitrate producers was set up in March 1891 and lasted until

1894.⁴⁸ The Combination was successful in holding down exports, which were lower in 1891/3 than in 1888/90,⁴⁹ and in preventing prices falling more sharply than they did. The Combination attracted the criticism of the Government, which was dependent on nitrate for about half of its revenue,⁵⁰ and was also attacked in Congress and in the press.⁵¹ In the eyes of many of its critics the Combination formed one branch of what became known as the "Triple Syndicate", the other two parts of which were North's Nitrate Railways Company and his Bank of Tarapacá and London.

Imports, on the other hand, were exceptionally high in 1892; in sterling terms the 1892 level was not reached again until 1905.⁵² This import rush was, in part, a release of the backlog of 1891, with the figures being further swollen by the last minute rush at the end of the year by importers trying to avoid the payment of 20% of customs duties in gold starting in 1893. More important, was the release of pent-up demand from the months of war combined with very easy bank credit conditions, which resulted in a flood of luxury imports. Much of these went to fuel a building boom in the major cities. In November 1892, El Mercurio, when commenting on the beginning of the downward trend in the exchange rate, noted that, in spite of the inflow of foreign exchange from the £1.8mn loan, the exchange was falling due to "a violent and exaggerated consumption of foreign goods, which is manifest in the hundreds of buildings under construction in Santiago."⁵³

The trade accounts showed an improvement in 1893 and 1894. On the export side, nitrate prices revived and the volume exported increased to reach a record level in 1894, helped by the collapse of the Second Combination in March 1894.⁵⁴ Imports, on the other hand, fell sharply in both years and in 1894 were nearly 30% below their 1892 level.⁵⁵ In addition to the effect of the reaction to the overstocking of imports in 1892, British interests associated with Chile were unanimous in their explanation of this slump in imports. Their explanation, which

is largely supported by the figures, was the deleterious effect on purchasing power for imports of the depreciation of the currency in these years. This did not affect imports of luxury goods, which fell little in 1893/4. Worst affected were imports of textiles which accounted for nearly half the total fall and which were consumed largely by the working and artesan classes.⁵⁶ This provides further evidence that wages were fairly unresponsive, at least in the short-term, to a fall in the value of money. Another factor was the impact of the currency depreciation on the not insignificant class of people, including widows and orphans, whose income was dependent on their holdings of mortgage bonds and which was related directly to the fall in imports of such goods as tea and sugar and also some textiles.⁵⁷ The clear evidence of a decline in 1893/4 in the real income of the lower and middle classes, provided both by contemporary comment and by the trade figures, suggests a redistribution of income away from these groups to the wealthy and the landowners in particular. This common effect of inflation was accentuated in the case of Chile by the mechanism of mortgage bonds.⁵⁸

Not recorded in the trade figures were the remittances to Europe in 1892/3 to pay for the armaments acquired by both sides in 1891. In addition to this, Chile's balance of payments was adversely affected throughout the 1890s by the slowing down of inward direct investment, reflecting the general trend of British investment in Latin America following the Baring crisis and particularly the ending of the nitrate boom in London and the extrication of North from his Chilean nitrate interests.⁵⁹

The fact that the fall of the Peso was delayed until 1893/4, despite the very unfavourable trade position which built up from the beginning of 1892, has been well explained by Mr. Henderson, the President of the Valparaiso Chamber of Commerce. He noted that, following the suspension of orders during the civil war,

"Importers therefore bought large supplies which were readily sold and the country thus became indebted

for heavy sums to the importing merchants. It had been early declared that the policy of the new Government included a return to specie payments at a not distant date, so that instead of remitting their collections for sales as usual, importers deposited them in the Banks waiting for a rise in Exchange. This policy was generally followed, even by such companies as the English Nitrate Railways. The natural consequence was a rise in the rate of exchange occasioned by the want of demand for sterling bills. This rise unduly increased the confidence in the future already existing, while it rendered the Banks, who were large depositories of money, unusually liberal in their lending"

However, after the promulgation of the November 1892 Conversion Law,

".... Its measures were undoubtedly too drastic and by establishing two different rates of conversion, ... it excited speculative feeling ... and led to the putting by of Government notes, thus inducing a scarcity of circulating medium. The Banks too in order to make ready for their obligations to pay in gold, began to draw in their advances. A revulsion of feeling took place and holders of currency began to withdraw their deposits from the Banks and buy steadily drafts for remittance. This feeling speedily became almost a panic to which English companies, by withdrawing their deposits, and competing for bills on the market greatly contributed. The result was a fall in the rate of exchange"⁶⁰

This explains in part what ^{lay} behind the apparently paradoxical phenomenon of a strong run on the Peso coming so soon after legislation designed to stabilise the currency at a higher rate and immediately following the huge vote of confidence in Chilean credit expressed by subscribers in London to the October 1892 loan. British interests, although strongly supporting the aims of the Conversion Law, soon became disenchanted with what they saw as its results and they singled out Article 7 for particular criticism. The merchant and banker also saw reasons to be unhappy about some developments in Chilean politics at this time. These involved the disclosure, in December 1892, of a number of military conspiracies by supporters of ex-President Balmaceda.⁶¹ A state of siege

was declared and the crisis contributed to the financial panic, both domestic and external that ensued early in 1893. The mercantile community were particularly concerned at what they interpreted as the weak and conciliatory response of the Government to these conspiracies.⁶²

The loss of confidence abroad in Chile was reflected also in the fall in Chilean bond prices in London. After being at a premium in the three years prior to the civil war, they fell to an average of around 86% in 1891, before recovering to just over 90% in 1892, but then slumped to 82-83% the following year.⁶³ In turn, the Chilean Government felt obliged to reply to what it saw as "the persistent crusade which is carried on in England against the credit of Chile."⁶⁴

The position was not helped by the lack of any exchange "Bolsa" in Valparaíso such as existed in Buenos Aires. Exchange dealing was carried on by brokers, whose main interest lay in multiplying the number of transactions, which in turn led to a disorganised and highly speculative market.⁶⁵ The market was also small enough that, especially at a time of crisis, only a small amount of selling could cause panic and a sharp fall.

Once the exchange rate had begun on its downward path:

"since then unscrupulous firms and speculators have not hesitated to help the downward course We have chiefly to thank Englishmen for this, for the most persistent bajistas were two well-known banking concerns Although the speculation was highly prejudicial to one of the firms in question, it was kept on for some time until exchange dropped below 13d, when they were aghast at the result of their tactics."⁶⁶

The identity of one of these British banks was quite clear at the time. North's Bank of Tarapacá and London faced widespread allegations, from Chileans and other British merchants and bankers, that it was speculating against the Peso and, by various other disruptive practices, contributing to the financial panic.⁶⁷

To the supporters of the Conversion Law, the weakness of the exchange rate was both disappointing and perplexing. But it would not have been so bad for them had not the law itself been attributed with most of the blame for the crisis. The oreros were further weakened by the failure of the foreign financial and mercantile community to come to their aid with monetary or moral support. The authorities' equivocal response to the crisis in the first half of 1893 served only to undermine further the confidence of the exchange operators and speculators in an eventual return to specie payments.

The first news of the liquidity crisis facing the banks in early 1893 was a key factor in the decision of merchants to withdraw their funds from the country. This of course created a vicious circle in which the banks were hurt further. The seeds of the liquidity crisis were sown early in 1892, with the withdrawal from circulation of the Balmaceda note issue, which accounted almost entirely for the Pesos 10.8mn reduction in the fiscal note issue during that year. This still left over Pesos 1mn of these notes in circulation at end-1892, by which time they should have been completely withdrawn.⁶⁸ The State's note issue was further cut in January and February 1893 by the incineration of Pesos 1.3mn of notes in accordance with the 1892 Conversion Law.

At the same time, the banks were cutting their own note issues. The free circulation and widespread use of bank notes were still limited by the fact that bank notes were not automatically acceptable in State offices. To this hindrance was added the prospect, and in November 1892 the fact, of a regulation ordering the accumulation of a gold/silver guarantee for bank notes. The banks in 1892 reduced their outstanding note issues in anticipation of such a regulation. The registered bank note issue fell by nearly a third in 1892 and most of the decline occurred in the second half of the year.⁶⁹ There are no available figures for the amount of bank notes actually in circulation at end-1892; but in the first

half of the year the level fell from Pesos 14.4mn to Pesos 13mn and the fall in the latter half was probably much greater.⁷⁰

The level of State notes issued and bank notes issued and in circulation in the period 1891/4 is shown in the following table:-

<u>end-year</u>	<u>Pesos mns</u>			
	<u>Fiscal Notes</u>	<u>Treasury Notes</u>	<u>Registered Bank Notes</u>	<u>(of which in circulation)</u>
1891	41.7		20.3	(14.4)
1892	30.8		14.3	(13.0)*
1893	29.5	8.9	17.3	
1894	29.5	8.9	21.4	

* June 30th

TABLE VI: THE NOTE ISSUE 1891-1894⁷¹

All in all, the simplest measure of the money stock in use in Chile at this time, the total registered note issue, fell by over 25% during 1892.

Although the figures on the position of the banks are incomplete for this period, those available give an indication of the deterioration that took place. This is shown in the following table:-

<u>Pesos mns</u>							
	<u>Deposits</u>	<u>Advances</u>	<u>Fiscal Notes</u>	<u>Cash Bank Notes</u>	<u>Metal</u>	<u>Other</u>	<u>Total</u>
30.6.90	90.4	117.0	6.8	2.0	1.1	4.1	14.0
30.6.91	129.2	130.7	21.0	3.9	0.5	8.5	33.9
30.6.92	130.8	145.9	12.3	2.9	0.6	8.3	24.1
31.12.92		155					
31.3.93			10.0	0.5			
30.6.93		145					
31.12.93	117.3	147.1					
31.12.94	121.4	147.9		9.8			

TABLE VII: THE POSITION OF THE BANKS 1890-1894⁷²

The level of bank deposits, which expanded sharply along with the note circulation in 1891, fell in 1893 and remained depressed in the following year. While deposits were static or falling, the banks expanded credit rapidly in 1892 using the cash reserves which had been built up during the civil war. Early in 1893, with cash reserves at a relatively low level (about half the mid-1891 level) and deposits being withdrawn, the banks began to restrict credit. Although in absolute terms, the banks' cash reserves were larger in 1893 than they had been in, say, 1890, they were too low to cope with an outflow of funds without credit restriction. In real terms, this restriction was greater than shown by the above figures owing to the depreciation of the currency in 1893.

The controversial Article 7 of the November 1892 law took the brunt of the blame for the critical liquidity position of the banks. This provision allegedly encouraged speculators to hoard fiscal notes in the expectation of getting a better rate of exchange at the time of the conversion into silver. While the supporters of this article retorted that such an operation would not make financial sense - and with the benefit of hindsight they were right, given the fall in the price of silver in 1893/4 - there is evidence of such speculative hoarding of State notes.⁷³ A further factor operating was the seasonal outflow of funds from Valparaiso and Santiago to finance the harvest in the South, which in early 1893 was accentuated by the exceptionally good harvest and by the spread of wheat growing to remoter areas.

A sizeable portion of the funds which flowed into Chile in 1892 found their way into bank shares, which at the time, with business expanding rapidly, were a good investment. When these funds began to flow out of Chile, bank share prices fell sharply, as shown in the following table:-

<u>Bank</u>	<u>October 1892</u>	<u>January 1893</u>	<u>April 1893</u>
Internacional	144	121	100
Nacional	171	166	150
Valparaiso	225	196	167

TABLE VIII: BANK SHARE PRICES 1892-1893⁷⁴

Falling share prices added to the banks' troubles. The first victim of the crisis in banking was the Banco Comercial, the third largest bank in terms of deposits. The other banks had to bail out this ailing bank in March 1893. The liquidity and share price problems facing the banks encouraged mergers, and late in 1893 three of the largest banks, the Nacional, Valparaiso and Agrícola, announced their amalgamation to form the Banco de Chile.⁷⁵ This new bank was by far the largest commercial bank in the country, with a paid capital of Pesos 20mn and a registered note issue of about Pesos 11mn, of which over Pesos 8mn was in circulation. The next largest bank, the Banco de Santiago, had only some Pesos 2mn of notes in circulation.⁷⁶

The oreros faced a great deal of hostility and criticism aroused by the economic and financial crisis of 1893. The newspaper El Heraldo, not usually friendly towards the conversion laws in any case, summed up a common sentiment when referring to the November Law as "a law that in the course of three months has completely disrupted our business ... taken the exchange to 15d, caused a loss of Pesos 11mn on the value of our shares, the liquidation of a bank, the increase of 2% in interest rates and the absolute suspension of credit ... how can it be imagined that all these should be a sacrifice in homage to an idea in respect to the infallibility of the authors of a law?"⁷⁷

On the political front, the first rumblings of the economic crisis were heard in January 1893, with complaints about the tightness of money and credit.⁷⁸ As in previous



crises, the banks put up a fairly common front to the Government. At first they returned to their old theme of the admissibility of their notes in payment of public dues. This was requested formally in a petition presented to the Government on 30th January 1893. In return for this concession, the banks would undertake to guarantee 75% of their note issue in bonds by the end of March that year. In addition, the banks would accumulate gold and sterling up to 50% of their note issue (with at least 20% being in gold) in stages up to December 1895 (1% per month for 19 months, 2% per month for the next 8 months and $3\frac{1}{2}\%$ per month for the next 5 months).⁷⁹

In the eyes of the Gold Standard supporters, the proposals of the banks would not undermine their conversion scheme while at the same time would provide some compensation for the incineration of State notes, which it was by then widely recognised was causing problems. A draft law on the lines of the banks' proposals and signed by Montt and MacIver was presented to Congress on 3rd February 1893.⁸⁰

At the same time, the banks were receiving official help in another way. As one of the Government's final measures to deal with the problem of Balmaceda's note issues, a law was passed on 1st February 1893 which authorised the Government to issue, and give to the banks, non-interest bearing bonds with a one or two year term in payment of the some Pesos 9mn of bank notes effectively expropriated by Balmaceda in 1891.⁸¹ This was in recognition of the Government's earlier promise to pay Balmaceda's debts to the banks. The bonds were to be redeemed using funds from sales of state land in the south. Awaiting action by Congress on the bill to make bank notes acceptable in arcas fiscales, the Government ordered the State Railways, the largest entity concerned, to accept bank notes in payment of fares.⁸²

Such measures were too little and too late to stop the financial panic that hit Valparaiso in March 1893. Coming on top of the political unrest arising from the discoveries of

military conspiracies, the economic and financial crisis led the following month to a new coalition Government, with a Conservative, Alejandro Vial, replacing MacIver in the Finance Ministry. At the same time, the banks went back to the Government to ask for more help. Immediately following the panic in Valparaíso on 18th March, a deputation of bank representatives saw the Minister of Finance. At this meeting MacIver agreed to suspend the incineration of notes, both those issued by Balmaceda still in circulation and those being incinerated under the November 1892 law. The suspension was ordered immediately by decree awaiting a definite ruling by Congress. MacIver also promised to send other modifications to the Conversion Law to Congress and, in addition, to study the idea put forward by a number of banks that the State should guarantee the redemption of their note issue. As a further aid to the banks, the Government also agreed to deliver immediately to the banks the bond issue provided for in the law of 1st February 1893.⁸³

The principle of raising the exchange rate by withdrawing currency notes from circulation was, therefore, abandoned. Two of the leading champions of monetary contraction, MacIver and Ross, both conceded that, in retrospect, such a policy was a mistake.⁸⁴

The discrediting of the oreros and the departure of MacIver from the Government left a void. Montt and the new Ministry gave all indications of panic in the face of the financial crisis and even Montt showed signs of wavering from his previous unflagging support for the conversion legislation. The result was considerable confusion.

Congress was convoked in extraordinary session late in April to deal with both the financial crisis and the threat to public order. By this time, the Government and a majority in Congress believed that the suspension of the incineration of notes was not enough to counter the monetary contraction and that an actual expansion of the note issue was called for.

This was achieved by amending the law of 1st February 1893. As promised by the Government, the bonds issued to pay the banks for the notes expropriated in 1891 had been delivered to the banks in March. The new law ordered the replacement of these bonds by new bonds in the form of 2-year non-interest bearing Treasury notes which were to be admissible in arcas fiscales (although, strictly speaking, they were not legal tender).⁸⁵ In effect, the State was making an interest-free loan of some Pesos 8.9mn for two years to the banks with the dual aim of paying off an obligation accepted by the Government from the civil war and of easing the liquidity problems of the banks. As shown in Table VI, this resort to the printing press had the effect of increasing the total registered note issue by just under 20% in one step. This law, dated 13th May 1893, was not passed without opposition. Some conversionistas, notably Ross and Agustín Edwards, were opposed to the whole principle of paying the banks anything and did not accept that the State had any obligation.⁸⁶ Even before these bonds were granted partial legal tender status, La Unión of Valparaíso had criticised them for possessing "all the characteristics of paper money."⁸⁷ Commercial interests became alarmed at the gathering momentum of opinion against the conversion legislation brought about by the financial and exchange crisis. In a petition to the Government in March a group of Valparaíso merchants stressed that "the actual extraordinary fall of the exchange cannot be attributed in any way to the law of conversion."⁸⁸ But by then it was too late to save the 1892 law.

At the end of April, the Government presented a draft law amending fundamentally the November 1892 Conversion Law. The bill, signed by Jorge Montt and Alejandro Vial, proposed the derogation of Articles 1-6 and 8 and the amendment of the rest of the previous legislation. This involved, as promised and already implemented by decree, the suspension of the incineration of notes. The Government accepted that the "double" conversion involved in Article 7 was causing the speculative

hoarding of notes and therefore proposed the removal of the offending article. The most important deviation from the principle of the 1892 Conversion Law in the proposed new legislation, however, was the removal of the fixed and unconditional date for the redemption of the paper money. The basic provision of the conversion as now proposed was:-

"From 31st December 1895 the paper money of the State will be paid on its presentation at the public offices designated by the President of the Republic in the money established by the Law of 26th November 1892 if the average rate of international exchange during the previous six months has not been below 23d. In the event of this condition not being fulfilled in the period laid down, the conversion will be effected in the semester following that in which this condition is met."⁸⁹

The theme of a conditional conversion had been frequently aired by those who opposed the existing conversion legislation and the Government's apparent volte face in this bill provided a powerful argument for the papeleros for some years.

The new draft law proposed to sweep away most other features of the 1892 law. Conversion was to be purely on a gold basis. The bill itself made no provision for raising funds to redeem the paper money, but merely stipulated that the President should present such a project in the first half of 1895. The remaining receipts from the external loan authorised in the 1892 law were to go towards payment of the floating debt. The banks would have to begin the accumulation of gold to back their notes from May 1895 only if the exchange rate had reached 22d by then.

The Finance Committee of the Chamber, which had played the leading role in the formulation of the 1892 Conversion Law, supported the bulk of the Government's new proposals. This included Eduardo Matte who, although not accepting that the 1892 law was the cause of all the evils attributed to it, did reluctantly recognise that the law was not perfect and needed

amendment.⁹⁰

With the support of the Government and the Finance Committee of the Chamber, this radical revision of the conversion legislation would have had little difficulty in getting through Congress as a whole. At this stage, however, the Government did another about-turn, regained its nerve, and proposed another conversion law more in line with the principles of the November 1892 law. This came only 12 days after the Chamber had approved in general terms the Government's original proposed revision of the 1892 law (with only two votes against) and had passed Article 1, which provided for the suspension of the incineration of notes, as a separate bill, at the suggestion of the Finance Minister.⁹¹

The Contra Proyecto presented by Vial on 16th May 1893 returned to the conversionistas' original principles in two important respects, although the proposals amounted to a watering down of these principles in practical terms. The most important change was the re-introduction of a fixed date for an unconditional conversion. The date proposed for conversion at 24d was 1st July 1896 (compared with 31st December 1895 in the previous 1892 law). The option was included of a conversion six months earlier if the exchange rate averaged not less than 22d during the six months prior to the conversion. The new bill also proposed to continue the principle of Article 7 of the 1892 law and to maintain the conversion at a rate equal to the gold/sterling value of the silver Peso. As a concession to the opponents of this "double" conversion, the Finance Minister proposed to postpone the date of the "silver" conversion until 31st December 1899. The six-month period in which under the 1892 law the banks were obliged to hold gold to the value of 20% of their note issue was correspondingly postponed for six months (i.e. to the period between 31st December 1895 and 1st July 1896).

The Finance Minister's counter proposals were taken as the basis of the debate in the Chamber of Deputies. A con-

certed effort by the outright anti-conversionistas to remove all reference to a redemption of the paper currency from the statute book received ten votes.⁹² Although easily defeated (with 24 votes against), this did represent a stronger tide of feeling than registered hitherto and was an indication of a growing respectability for papelero views induced by the economic crisis which followed the first conversion legislation in 1892. The bill was passed quickly by both houses of Congress and became law on 31st May 1893.⁹³

After serious equivocation and a substantial retreat, President Montt and the oreros just about managed to emerge from the financial crisis of early 1893 with some sort of conversion legislation intact. However, the more ardent supporters of the Gold Standard had been discredited and silenced and the conversion laws had taken a considerable mauling. The deflationary bite of the 1892 law had been removed and, in fact, the paper currency had been inflated by about 20%. In itself, this need not have damaged the prospects for a successful conversion operation to any significant extent, since the Government's financial ability to redeem its notes at any date it chose was not in question. Nevertheless, the Government's retreat on this point together with the postponement of conversion by six months did strongly affect views about the political commitment to the redemption of the paper currency. The retention of a provision on the lines of the notorious Article 7 of the 1892 law, albeit in a watered-down form, was widely criticised and was indicative of the unsatisfactory and rushed compromise that had emerged in the form of the new law. El Ferrocarril was not alone in thinking that the new law was the worst of all worlds and in commenting on the Finance Minister's counter-bill, declared that "the dispositions continue the co-existence of the two values of the paper peso, that has caused the pernicious effect which we are experiencing .. modifications, amendments or reforms such as these do not conform to, and on the contrary, are the most evident contra-

diction of the pledged word of the President."⁹⁴

Most important, was the view taken by the mercantile and banking community of the political reaction to the crisis. Their confidence, which was already low, in a future conversion was further undermined by the Government's temporary abandonment of a fixed and unconditional date for the operation. As noted by Kennedy, the continued downward course of the exchange rate in 1893 clearly demonstrated that "the sale of scarcely a single bill has been influenced by the belief that in the course of time the existing paper will be converted into a currency possessing intrinsic value."⁹⁵

To a large extent quite separate from the exchange and bank liquidity difficulties, more trouble and problems were building up for the conversionist administration of Jorge Montt. A major obstacle to the Government's plans to restore a metallic currency was the sharp expansion of mortgage indebtedness in Chile in the years immediately following the civil war. During the four years 1892/5, Pesos 125.5mn (at nominal value) of mortgage debt was issued, of which Pesos 54.5mn was in the form of Caja Hipotecario bonds and the remainder in the form of bonds issued by private mortgage banks. This total exceeded the mortgage debt issued during the previous ten years and was also greater than the amount issued in the following six years. As a consequence, the total outstanding of mortgage debt nearly doubled in these years, from Pesos 34.3mn at end-1891 to Pesos 68.0mn at end-1895. This increase was larger than the growth of outstanding mortgage debt that had occurred in the previous 36 years (1856-1891), the first bonds having been issued in 1856. (See Appendix VI)

This debt was contracted in a four-year period in which the exchange rate of the paper Peso averaged about 15.8d, thereby giving the debtors a strong vested interest against a redemption of the paper currency at a rate of 24d. Before 1891, the average monthly exchange rate had fallen below 22d in only one month (September 1886) and the average annual rate in the

worst full calendar year (1886) had been 23.9d. People who had contracted mortgage debt before the civil war were, therefore, not going to be hurt financially by a conversion at 24d, but for those who had taken on their debts in the period 1885/1890, a 24d Peso meant the erosion of much of the gains that would have accrued from the sharp depreciation of the currency in 1892/4. The rapid expansion of mortgage credit in 1892/5 meant that by 1895 about one-third of total mortgage debt by value had been contracted in a period in which the exchange rate averaged under 16d, thereby giving a substantial boost to the strength of interests opposed to the conversion legislation.

The oreros pointed out, with justification, that debts contracted in the years 1892/5 were taken on in the full knowledge that legislation was on the statute book providing for the stabilisation of the currency at 24d. In their eyes any losses incurred by debtors were purely their own fault. Orero resentment was no doubt intensified by the realisation that the large expansion of mortgage credit, particularly in 1893/4, at a time of general austerity and deflation, represented a sizeable vote of no confidence in the successful implementation of the conversion legislation by an important section of the political class. Some Gold Standard supporters made more inflammatory attacks on the mortgage debtors and the use to which many put the proceeds of their loans, complaining bitterly of "these magnificent palaces ... the funds to make this expenditure do not come from increases of production but from the depreciation of the currency by these mortgage bonds ... these palaces are constructed with my misery."⁹⁶

The expansion of mortgage credit gave a boost to land and property prices, which more or less doubled between 1890 and 1894, at a time when agricultural prices were generally falling.⁹⁷ This completed the inflationary spiral, seen in a more pronounced form in Argentina in the late 1880s, in which rising land and property prices enabled further mortgage credit

X to be taken on to buy more land which in turn pushes land prices up etc.⁹⁸

It has been argued by Pike that much of the increased mortgage debt after 1892 was incurred by frontier settlers south of Concepción rather than by the hacendados of the Central Valley.⁹⁹ The records of the Caja Hipotecario for this period lend little support to Pike's thesis. There is little evidence to show that the Caja departed from its traditional lending pattern in this period. For example, in 1894 Caja Hipotecario loans were heavily concentrated in the centre-south, with nearly half in number going on urban property, very largely in Santiago, and most of the largest loans being made in Santiago City and Province and in Valparaíso. No loans were granted on property in the South.¹⁰⁰ While this still leaves the possibility of lending by private mortgage banks to frontier settlers, there is little evidence to support this. In the early 1890s, the largest private mortgage banks were the Banco Chileno Garantizador de Valores, based in Santiago, and the mortgage section of the Banco de Valparaíso, which together accounted for about half of outstanding private mortgage debt. This was before the merger of the mortgage sections of the Bancos Nacional, de Valparaíso and Agrícola to form the Banco Hipotecario de Chile in 1894. Compared to these banks operating principally in the centre-south, the private mortgage banks based in the south of the country were small fry (the main ones were the Banco Chileno Garantizador de Valores del Sur, based in Concepción, and the mortgage section of the Banco de Concepción).¹⁰¹ It would appear unlikely, therefore, that frontier settlers took a significant portion of the private mortgage credit granted in the early 1890s, particularly since the size of loans was related to the size and value of the property. These were not likely to have been large unless the debts were taken on by wealthy hacendados and merchants who wished to extend their interests and land ownership into the south. But such people could not be des-

cribed as frontier settlers. Moreover, later figures for the geographical distribution of mortgaged property in Chile do not support the contention that the south took more than a small proportion of mortgage lending, at least before 1925.¹⁰²

Pike goes on to use his argument about frontier settlers to attack the "hacendado/debtor conspiracy" theory of opposition to the Gold Standard in the early 1890s. The fact that the growth of mortgage debt in these years was largely associated with the already large proprietors who dominated Chilean politics does not make it much easier to find a direct causal link between mortgage debtors and political opposition to conversion. The Sociedad Nacional de Agricultura at no time openly and directly opposed the Gold Standard in its own right. It did not need to because of the substantial overlap, both direct and through family connections, which existed between the membership of the Sociedad and Congress. The Society had traditionally kept out of direct involvement in general monetary and banking affairs, except in the sense that it was always interested in ensuring an adequate supply of cheap credit to agriculture, an aim which had largely been achieved with the establishment of the Caja Hipotecario in 1855. The Society instead concentrated on technical issues more directly related to agriculture.¹⁰³

There are a few clear examples of agrarian-inspired opposition to the conversion policy of the Government in this period. In 1892, when political support for conversion was at its height, vocal opposition to the whole principle of conversion was limited almost to two Conservative hacendados and champions of the farming interest. These two were Carlos Concha Subercaseaux and Antonio Subercaseaux. The latter was a member of a family descended from a French immigrant who arrived in Chile in the 18th century and who made his fortune in commerce and silver mining. His money was invested in land and the Subercaseaux family entered high Chilean society and married into traditional Central Valley families such as the

Concha's.¹⁰⁴

The pro-conversion Montt Administration could not ignore the effect on agriculture of the appreciation of the exchange involved in its currency reforms, notwithstanding the anti-hacendado pronouncements made by some of its more extreme orero supporters. The Government asked the National Agricultural Society to look into ways of ameliorating the effects of the Gold Standard on agriculture and in particular to propose ways to increase exports of agricultural produce in order to ease the path towards conversion. The Society, in its report written in 1894, proposed a variety of devices, including Government subsidies for some products, notably sugar beet, and tariff protection for cattle producers.¹⁰⁵ Such consultation was as far as the conversionistas were prepared to go on this question to appease the agricultural interest. These protectionist proposals were not acceptable to the generally liberal and laissez-faire Governments under Montt and had to wait for the next administration for more serious consideration.

The administration in general, and the Caja de Crédito Hipotecario in particular, were aware of the threat to a successful conversion posed by the rapidly growing level of mortgage debt. The Times noted; "turning from the commercial banks to the group of mortgage banks ... I do not find nearly such strong opposition to the conversion on the part of managers and shareholders."¹⁰⁶ The mortgage bank made efforts to facilitate the transition to the Gold Standard by attempting to persuade debtors to convert their debts on to a gold basis before the Gold Standard was instituted. As noted by a future director of the bank, "debtors have felt up to now fearful of making the conversion in the face of the risk of a fall in the rate of exchange."¹⁰⁷ Debtors were no keener in the early 1890s to convert their debts on to a gold basis. This was not surprising in view of the scheme proposed by the Caja.¹⁰⁸ This involved the issue, from 1st June 1893, of gold mortgage bonds,

with interest of 6%. Payment of amortisation and interest was to be in sterling or in Pesos at a rate of 48d. Although a 48d Peso bore some relation to the value of the Chilean currency at the time of the first issues of mortgage bonds and thereby satisfied moral and legal criteria, it clearly ignored economic reality. Nobody took up the conversion offer and no gold bonds were issued in 1893.

In spite of the lack of confidence in the conversion legislation indicated both in the large mortgage borrowing by the hacendados and in the continued depreciation of the exchange rate, President Montt put on a brave face to the world in his annual message in June 1893. He expressed confidence that the existing legislation would be successfully carried through to the letter and he optimistically pointed to the current year's good cereal harvest as a promising sign of an upturn in the economy.¹⁰⁹

Beneath this official optimism, however, was a growing underswell of opposition in Congress to the conversion legislation. The first serious manifestation of this was the placing before the Chamber, in December 1893, of a motion signed by twenty deputies which proposed that conversion on 1st July 1896 should be conditional on the exchange rate having averaged not less than 23d in the previous six months.¹¹⁰ This represented over a fifth of the total number of deputies (95). Although, as strongly emphasised by its proposers, the motion was on the same lines as the provisions agreed at one time earlier in 1893 by both the Government and the Finance Committee of the Chamber, it was opposed and defeated by Government supporters.¹¹¹ The twenty also proposed that the portion of the customs duties payable in gold or sterling bills should be paid in paper currency, using as a basis the average exchange rate in the previous month. This proposal was a reflection of a widespread fear that the enforced payment of customs (mainly import) duties in gold or sterling bills was contributing to the shortage of these bills and, consequently, to the weakness of the paper

currency. The Government was thinking on much the same lines and on 3rd January 1894 proposed that 20% of customs duties currently payable in gold or sterling should be paid in paper currency. Although this went a small way to meet the demands of the twenty deputies, the Government's draft law intended that the State should not lose hard currency revenue and, in compensation for the loss of gold and sterling from import duties, provided for the increase from 25% to 50% in the proportion of nitrate export duties payable in sterling bills. Moreover, the Government's bill proposed that 16% of the revenue in sterling bills from nitrate export duty should be earmarked for the conversion fund. This bill was supported by the Finance Committee of the Chamber,¹¹² but took second precedence to other matters and was not brought to a full vote before the closure of the extraordinary sessions early in 1894.

The indications of political opposition to Montt on the monetary question were not yet strong enough to force a change of policy on the administration. Jorge Montt could still count on a sizeable majority in both houses of Congress and was able to keep in office throughout most of 1893 and 1894 ministries under the leadership of two of the most influential conversionistas, Pedro Montt and Enrique MacIver.

The picture changed radically following the March 1894 Congressional elections. These elections were of particular significance since all but six of the 32 Senate seats were up for re-election. These elections marked the return to politics of many of the supporters of ex-President Balmaceda who had been exiled or dismissed from public office and faced the expropriation of property following their defeat in 1891. A series of amnesties granted by the victorious regime in 1891/4 allowed many of these people to organise politically and to enter the elections of 1894. As early as June 1892 an assembly was organised with the aim of the reconstruction of the pro-Balmaceda wing of the old Liberal Party. This led to the Convention of Talca which gave form and a programme to

the new party, called the Liberal Democratic Party. Prominent in the formation of this party were old friends of Balmaceda, notably Manuel Arístides Zañartu and Enrique Salvador Sanfuentes, together with the four brothers of the dead President.

The political ideas of the Liberal Democrats were initially based on the heritage of Balmaceda and his critique of the parliamentary system. This early idealism soon gave way to opportunism as the Balmacedists joined in the political games of parliamentary politics with great enthusiasm. Their chief political objective became the procurement of the maximum number of public appointments for their supporters. To this end they engaged in constant manoeuvring and shifts of allegiance between the Liberal Alliance and the Coalition, an activity which contributed much to the ministerial instability that afflicted the parliamentary era. In a political and constitutional sense it could be said that

"the balmacedists ... have not left any trace in the spiritual history of Chile ... deprived of meaning and direction to disappear afterwards, without leaving any other memory than having existed in the shadow of the President whose name they recognised as a symbol; but whose true historical significance they did not interpret."¹¹³

While their lasting impact on Chile's political and constitutional development was arguably minimal, the Balmacedists' economic and financial ideas were of greater significance, at least at the time. During the election campaign of 1894 many of the Balmacedist candidates expounded their ex-leader's commitment to public works expenditure and some went further than Balmaceda had in proposing other measures, such as tariff protection, in order to increase employment. From an early stage opposition to the conversion legislation of the post-civil war governments became a central plank of Balmacedist policy. Julio Bañados Espinosa, the Minister of War in Santiago during the civil war, included an attack on the conversion legislation in his work on Balmaceda

published in 1894.¹¹⁴ The Balmacedists also expressed their resentment that such an important decision as conversion should have been taken when a large section of the political class were forceably excluded from politics.¹¹⁵

Opposition to the schemes for the conversion of the paper money did not appear in any manifesto of the Liberal Democratic Party since the Balmacedists accepted the principle of the "cuestion abierta". Nevertheless, the Balmacedists in Congress acted to a large extent in unison on the currency question and their opposition to the Gold Standard was the most distinctive feature of the party separating them from the other parties. The Balmacedists found some difficulty in projecting the years 1886/91 as a model for their policies. After all, had not Balmaceda himself taken measures, including the incineration of paper money, aimed at the eventual redemption of the paper money? Their solution to this dilemma was invariably to place responsibility for their dead leader's apparent deviation firmly with the banks and with the Edwards family in particular. In the eyes of the Balmacedists it was the subversive influence of Agustín Edwards, the Finance Minister at the time of the passing of the 1887 law, which urged Balmaceda in the direction of financial stringency and a return to convertibility and away from his own natural inclination towards an expansionary policy of economic development through public works.¹¹⁶

At a time of economic depression and tight monetary and fiscal policies, the Liberal Democrats' reflationary ideas found favour among sections of the artisan and middle classes.¹¹⁷ This factor, together with the Balmacedists' organisational skill in regaining their influence and the already emerging mood of disillusion with party politics, helped the party to do well in the March 1894 elections. The Liberal Democrats came out of the election with nearly a quarter of the seats in Congress. The Balmacedists' success was at the expense primarily of the Liberals, Radicals and Nationals, while the

Conservatives maintained their 29 seats in the Chamber and more than doubled their representation in the Senate (to 12 seats). The out-turn did not affect significantly the balance of forces on the main issues that formally divided the parties, since the Liberal groups (with the promised support of the Balmacedists on such issues) enjoyed a substantial majority in both houses of Congress.¹¹⁸

However, the addition to the already growing anti-conversionist sentiment in the legislature of a substantial body of new papeleros posed a considerable threat to the Government's conversion legislation. The realisation of this changed political climate for currency policy was evident in President Montt's message to the new Congress in June 1894. In contrast to the confidence of a year before, Montt conceded that the conversion legislation "has continued to be the object of lively controversy" and that economic conditions prevailing were "certainly not propitious elements for the abolition of a forced currency." While still supporting the twin pillars of the conversion legislation, the accumulation of specie and the fixed date for the conversion, Montt was "disposed to accept and even to propose the reform of these Acts."¹¹⁹ He promised that the Government would shortly introduce two bills amending parts of the conversion legislation. The first would have the object of putting on the State the responsibility for the redemption of bank notes. This would make the banks the debtors of the State, but would ease the existing liquidity crisis by relieving the banks of the obligation to accumulate specie for conversion. The second bill would remove the need for importers to pay part of customs duties in gold, replacing this by payment in paper currency. The latter proposal was on the lines of that tentatively put forward by the Government in January 1894.

Two draft laws were duly introduced on 17th July 1894. The first proposed that the portion of customs duties payable in gold be cut from 50% to 25% and, in compensation, that all

nitrate and iodine export duty be paid in 90-day bills on London at a rate of 68d per kilogram of nitrate. In introducing the second bill, the Government indicated another reason for taking over responsibility for the redemption of bank notes. This was that "it is essential to prevent the existing circulation of bank notes from disturbing the conversion."¹²⁰ The State would be willing to exchange bank notes presented for fiscal notes up to an amount of Pesos 17mn for a period of 60 days. In return the banks would be required to deposit within six months in the Casa de Moneda gold Treasury notes or other public bonds in an amount equal to the total of their notes exchanged for fiscal notes. Although this system was purely optional for the banks, in the sense that some may have preferred to exchange their notes for gold directly, the bill proposed that the note issue of such banks be limited to the level registered on the date of the promulgation of the law.

The interminable discussions in Congress on the ratification of the election results meant that in the session June-October 1894 there was little time left to debate other matters and the Government's two draft laws had to wait for the next sessions. The report of the Finance Committee of the Chamber of Deputies proposed a far more fundamental reform of the conversion legislation than ^{was} contained in the Government's bills.¹²¹ The Committee accepted, implicitly rather than explicitly, that in present circumstances the existing conversion legislation was untenable. Such a view did not emanate from a Committee less strongly committed to conversion than previously. On the contrary, the oreros had maintained a strong hold on the membership of the Finance Committee, which included such ardent pro-conversion politicians as Pedro Montt, Eduardo Edwards, the Liberal, J.E. Tocornal, the Conservative, Joaquin Díaz Besoain and a relatively large contingent of Radicals in the form of David MacIver, Carlos T. Robinet and Alfredo Delano. The only papelero on the Committee was Manuel Salinas, the holder of the post of Intendente and other public appointments in the

1880s and an agent of Balmaceda in Paris during 1891.¹²²

Accepting the existing reality of the low exchange rate and the changed electoral situation, the Committee proposed a conversion operation designed to be based on that adopted in Britain after 1797. These proposals involved the gradual increase of the conversion rate. The State paper money would be redeemed at a rate of 16d between 1st April and 30th September 1895, at 20d between 1st October 1895 and 30th June 1896 and at a rate of 24d thereafter. The Committee's draft law included also provisions on the same lines as those contained in the Government's bill; i.e. payment by the State of the bank notes presented for redemption (at the same rates as proposed for State notes) and the halving of the proportion of customs duty payable in gold with a corresponding doubling (to 50%) of the proportion of nitrate and iodine export duty payable in sterling bills. The draft law also proposed to augment the conversion fund by earmarking £400,000 per annum from export duty to the fund and authorising a £2mn loan to be used exclusively for conversion.

Two members of the Committee, Edwards and Díaz, went still further in their criticism of the tactics of the oreros and in their minority report attacked "the grave error that in our view was committed in the dictation of these conversion laws was that of not having established the immediate retirement of paper at a rate approximately to the value it had then, preferring a date more or less remote and unconditional, thus leaving the conversion subject to the eventualities of the struggle between opposing interests and of contingencies that were not foreseen at the time of dictating the law."¹²³ Edwards and Díaz proposed an immediate redemption of the paper money at a rate around the present exchange value of the notes and a conversion at 24d on 1st July 1896 only if the exchange rate averaged over 22d during the previous six months.

The Montt Administration was in no hurry to see any discussion in Congress on a fundamental reform of the conversion

laws. Against a motion by the anti-conversionists for priority to be given to the debate on the monetary question, the Government succeeded in getting any discussion of the various monetary bills before the Deputies postponed, first until after the debate on municipal reform and then until after the debate on the budget and appropriation laws.¹²⁴ This meant that there was no discussion on the conversion laws in the Chamber from the end of October to the beginning of February 1895.

During that period, the Senate for the first time assumed a pre-eminent role in the monetary debate in the country. Before the March 1894 elections, the Chamber of Deputies was the dominant branch of the legislature in the discussions on this topic, both because of its constitutional role as the first chamber in matters of money and because of the quality and length of debates. The Senate tended merely to follow the Deputies' lead. After 1894 the Senate became at least as important as the Deputies, particularly when it came to opposition to conversion. The major factor in this change was the entry into the Senate in 1894 of a number of politicians who were to become leading protagonists in the continuing debate on the currency. These included Balmaceda's ex-Finance Minister, Enrique Salvador Sanfuentes, who in 1893 was elected President of the Liberal Democratic Party, and José María Balmaceda, the brother of the dead President. In the Senate they joined Vicente Sanfuentes, the uncle of Enrique Salvador Sanfuentes and a close supporter of both Santa María and Balmaceda in the previous decade. Alongside these Balmacedists in the Senate was Marcial Martínez, a Liberal representing one of the Santiago seats. Martínez was a notable lawyer and diplomat and also a prolific writer on economic affairs. In the 1880s he had engaged in a long correspondence with J.G. Courcelle-Seneuil in which he had attacked the liberal economic and financial views propounded by the French economist and which were then accepted by most Chilean politicians. He also criticised the conversion policy pursued after 1886.¹²⁵ Although not a supporter of Balmaceda, Martínez

shared the Liberal Democrats' dislike for the conversion legislation of 1892/3. Lined up against these in the Senate, on the other extreme, were the staunch Anglo-oreros such as Agustín Ross and Agustín Edwards Ross. This combination was sufficient to keep the monetary question at the centre of Chilean politics, even without the intervention of other, but perhaps less vocally committed protagonists, such as Ramón Barros Luco, Carlos Walker Martínez and the Conservative banker Ramón E. Santelices.

The Balmacedists did not wait long to launch their offensive in the Senate against the conversion legislation. The monetary question featured strongly in the debate on a motion of confidence in the Government which opened the extraordinary sessions in October 1894. The Government's response was generally conciliatory and stressed that the monetary question was open. This response in turn attracted the criticism of pro-conversion voices such as The Chilian Times, which declared that

"it is difficult to comprehend how a Ministry so deeply committed to conversion as the actual Cabinet, can have consented to such an abdication of its claims on its supporters as is implied in the statement that it has agreed that the economical questions, which, of course, include conversion, shall be considered as open and non-party ones ... one would have thought, after the repeated declarations of Ministers and the President of the Republic on conversion, that if there were a question on which the Cabinet should decide to fall, it would be on the economical question of the hour."¹²⁶

Later in October five papeleros in the Senate proposed a bill to derogate the November 1892 and May 1893 laws in their entirety and the Senate experienced the first of many marathon speeches by E.S. Sanfuentes, this one spreading over several days.¹²⁷ On 2nd November, Marcial Martínez put forward a motion, much milder in tone than the Balmacedists' proposal, but which was aimed to be tactically more embarrassing to the Government and the oreros. This called

for the inclusion in the convocatorio of a proposed amendment to the conversion legislation, providing for a conditional conversion (i.e. conversion to be conditional on the exchange rate averaging 23d throughout the six months prior to the actual date).¹²⁸ Although traditionally Governments did not regard votes on economic matters as votes of confidence, this motion touched on the executive's constitutional prerogative of drawing up the convocatorio and the Government opposed the motion on these constitutional grounds. Giving an indication of future trends, the Conservatives and the Balmacedists formed a temporary alliance which carried the motion by 16 votes to 11.¹²⁹ This defeat amounted to the most serious setback so far for President Montt and the oreros. Directly as a result of the vote in the Senate, the MacIver Ministry resigned en bloc on 5th November.

President Montt aimed to form a new Ministry of Liberals, Radicals and Conservatives which would be in favour of conversion. This task took some time and the new Government was not installed until 7th December 1894. Even then, the membership of the new Government represented a compromise between the Conservatives and the Liberal parties and also between the anti-conversionists on the one hand and the oreros on the other. The new chief of the Cabinet, Ramón Barros Luco, who replaced MacIver, epitomised the spirit of conciliation within Chile's oligarchic party politics. The Finance portfolio was given to Manuel Salustio Fernández, who had held the same post for a short time under Balmaceda in 1890 and who was as a result in a better position than previous Finance Ministers to come to terms with the Balmacedist opponents of the administration's financial policy. In general, conversion tended to be more vulnerable when the Conservatives were out of the government and hence going out of their way to embarrass the administration and the same was broadly true of the Balmacedists.

Montt clearly realised that some sort of compromise was needed if the Gold Standard was to be established, in view of

the existing mood in the legislature and of the continued low exchange rate. The practical outcome of the Government's re-appraisal of its strategy was an initiative to bring its opponents into a discussion on some sort of compromise scheme for conversion. Soon after taking up office, the Minister of Finance, M.S. Fernández, organised an extra-parliamentary meeting of Senators and Deputies, most of whom had been prominent in the economic debates, in order to draw up proposals to end the paper money regime in Chile. A wide variety of views were represented. Those present at the first meeting on 26th December were, on the orero side; Enrique MacIver, Joaquín Díaz Besoain, Pedro Montt, the prominent Liberal, José Antonio Gandarillas, and the Conservative hacendado and industrialist, José Rafael Salas; and on the papelero side; the Balmacedists, E.S. Sanfuentes and Raimundo Silva Cruz, the Liberals, Marcial Martínez and Aníbal Zañartu (the brother of M.A. Zañartu), together with Joaquín Santa Cruz, one of the leading protagonists of a purely silver standard. These were joined by three men whose views on the question were less clearly known and which fell somewhere between the two extremes, but who were leading figures in their own parties; Federico Errázuriz and Enrique Videla for the Liberals and Joaquín Walker Martínez for the Conservatives.

A sub-committee was set up to draw up actual proposals, composed of Salas, MacIver, Martínez, Sanfuentes and Walker M.. On the key question of the rate for conversion there was not surprisingly considerable disagreement. But the success of Montt/Fernández's initiative was chiefly in forcing the papeleros to make concrete proposals as a part of rather than separate from the decision making process. Sanfuentes and Martínez could not be seen to be totally opposed to stabilisation of the currency, which they both claimed to be their ultimate goal, whatever their disagreements with the oreros over the means. The Government, in turn, was prepared to go some way to meet the objections of the anti-conversionists to the

existing legislation and hoped that the compromise proposals that emerged, endorsed by people representing all shades of opinion in Congress, would have little difficulty in passing through the legislature. In the event, Sanfuentes and Martínez proposed conversion at the prevailing exchange rate, around 14d. Walker Martínez wanted 16d, Salas wanted 18d while MacIver still wanted the paper currency to be redeemed at a rate equivalent to that of the 25gm silver Peso, then about 21d. The Committee could not agree on a single compromise rate so they decided to propose a rate of either 16d or 18d, leaving the final choice to Congress.

The reduction of the conversion rate from 24d to 16d or 18d was one of the main features of the bill presented on 15th January 1895 to the Senate by most of the Senators present at the first meeting. In return for this concession, the oreros obtained the advance of the date for conversion to 1st June 1895. The preamble to the bill declared that the meeting recognised "the impossibility of uniting the majority in favour of any of the ideas that circulated in our debates" and the bill "does not conform to the ideals nor to the doctrines that each of us have maintained in economic matters; it is a compromise, perhaps painful for many ..."¹³⁰

The bill provided for conversion into gold on 1st June 1895 at a rate of either 16d or 18d. Conversion at a rate equivalent to the silver Peso was retained, with a choice of dates, either 31st December 1897 or 31st December 1899, from which time the State paper money would be demonetised. All receipts from sales of State nitrate lands were to be used for the acquiring and minting of gold and silver coins. Banks were to be obliged to guarantee their entire note issues with specie, fiscal notes and Vales or mortgage bonds with 70% of the guarantee having to be deposited in the Casa de Moneda within three months. The total bank note issue was to be limited to Pesos 24mn in proportion to each bank's capital. The bill also proposed that the English and Australian pound be legal

tender in Chile.

After taking the initiative in getting the opposing Congressional factions together to draw up a conversion scheme, the Government could do little else but accept the result. While admitting that the bill did not satisfy the Government on all points, Fernández supported it as a means of obtaining an immediate conversion which would enjoy majority support. On the key issue of the conversion rate, the Government carried on with its tactics of leaving it entirely up to the legislature and stated no preference for 16d or 18d.¹³¹

The bill was attacked from both sides in Congress. In the Senate the main attack came from the oreros, particularly from Ross and Gandarillas. The latter proposed a 20d gold Peso instead of 16d or 18d with no later conversion at the silver Peso rate (since 20d was close to the actual gold value of the silver Peso). This amendment was defeated easily, by 18 votes to 6. The papeleros, however, were not strong enough to prevent a rate of 18d being passed, albeit narrowly, by 14 to 10. They did, nevertheless, manage to make a nonsense of the bill by successfully tabling an amendment providing for the conversion at the silver Peso rate (or gold equivalent) to be on 31st December 1895 as long as the exchange rate in the previous six months was maintained within 1d of the value of the silver Peso. Since the rate for the paper Peso was hardly likely to exceed 18d (its gold value) in the second half of 1895, such a provision could have had little or no practical significance. Nevertheless the orero newspaper El Mercurio considered the amendment to be "a triumph for morality."¹³² A number of Senators maintained a legalistic and moralistic attachment to the silver Peso and supported the papeleros on this amendment. There was some opposition to the pound sterling being made legal tender and a compromise was reached by which this provision would only last for two years.¹³³

The oreros' voting strength was relatively greater in the Deputies. An amendment proposed by the Balmacedist, Manuel

Salinas, making the whole conversion operation conditional on the exchange rate being maintained at the gold value of the silver Peso for six months, was easily defeated by 39 to 17.¹³⁴ The oreros could manage to put together 20 votes to maintain a conversion at 24d and 25 votes for a rate of 21d, although in both cases they were defeated (by 37 and 31 votes respectively). The Deputies supported 18d and also threw out the Senate amendment on the silver Peso rate conversion, returning to the Committee's original bill by proposing the redemption of the paper money at the gold equivalent rate of the silver Peso on 31st December 1897. The same applied to the question of the legal tender status of the pound sterling and the Deputies supported Pedro Montt's motion to remove the two year time limit, returning to the original bill as introduced into the Senate. The Senate accepted all the Deputies' modifications and the bill became law on 11th February 1895.¹³⁵

Although President Montt and his orero advisers had been forced to give ground on the issue of the actual conversion rate in deference to the confirmed papeleros and to the growing body of others who were unwilling to accept the extent of deflation involved and of the impact on debtors necessarily implied by the 1892 law, they had at least ensured that conversion would be accomplished well before the end of Montt's term of office, a factor which weighed heavily with the Government.¹³⁶ The new Conversion Law, by providing for a more or less immediate conversion at a rate not too far from the actual exchange rate, was more in line with the proposals made by some of the less doctrinaire oreros and by some of the foreign mercantile community. The rise in the exchange rate, from an average of just over 14d in January 1895 to nearly 17d in May 1895, shows that there was a good deal more confidence in the new law than there had been in the 1892 law.

However, this rise in the exchange rate, amounting to about 50% between May 1894 and May 1895, accompanied by continued credit restriction and a tight fiscal policy, also served

to further increase opposition to the conversion. The Valparaiso House of Antony Gibbs reported in May 1895 that although the odds were still on conversion being accomplished on 1st June, "the 'Anticonversionistas' appear to have rather increased in number during the past month or so as several previous supporters of conversion have had their views modified by the effect on their pockets of the recent improvements in exchange." Gibbs went on to report that they had heard from a good source that Marcial Martínez went to the Senate with a bill for the repeal of the Conversion Law, but at the last moment lacked the nerve to present it; "we learn from several sources that it is nothing but this same fear of the consequences to their individual reputations which prevent the majority of either House of Congress from openly favouring the repeal of the Conversion Law."¹³⁷ In fact, circumstances between February and June 1895 did not favour a major attack on the Conversion Law by the papeleros. The appreciating exchange rate, although against the economic interests of many politicians, was a success for the aims of the law and did not provide sufficient pretext for a move that could attract majority support in Congress. At this stage, in the absence of a crisis atmosphere such as existed in early 1893, a sizeable proportion of Congress were reluctant to follow their interests and inclinations to openly support the papeleros against the contention that the redemption of the paper money was a debt of honour for Chile. This reluctance was partly due to deference to President Montt and also reflected the unwillingness of some Liberals and Conservatives to become too closely associated with the Balmacedists so soon after the civil war. Thus, barring major accidents, the February 1895 law was safe for a while, at least from Congress. The Government then set out to ensure that there would be no accidents from other quarters.

The next major threat to the success of the Government's financial/monetary policy came from the banks. It is

difficult to draw firm conclusions on the attitudes of the banks to the currency question in this period. So many Chilean politicians were involved in one or more banks that it becomes almost impossible to identify a separate banking lobby, or indeed to separate politicians' banking interests from other economic interests (mining, agriculture, industry) in the determination of attitudes towards paper money. Certainly, some of the leading banking families were to be found in the centre of the orero camp, notably the Edwards, Mattes, Ross and José Besa (the first President of the Banco de Chile). Other politicians with close banking ties were less enthusiastic about the Gold Standard and in the early 1890s were sometimes to be found voting against the official orero line: these included Ramón E. Santelices (Banco de Santiago and de Chile), Onofre Bunster (Banco José Bunster), Javier Arlegui (Banco Chileno Garantizador de Valores) and Ramón Rozas (Banco Crédito Unido). In fact, the influence of the banks in the monetary debate is best not considered in terms of political views for or against conversion on the part of bankers, but rather in terms of the power of the banks to frustrate or even sabotage government financial/monetary policy.

The banks had in general made good profits since the ending of specie payments in 1878 and it would have been surprising if a good many bank shareholders had not viewed the prospect of the Gold Standard with some trepidation. In the first place, Chilean banks speculated widely in the exchange market and their commission on exchange transactions formed a good part of their profits.¹³⁸ A stable exchange rate would have seriously cut this business. The removal of the need to back their note issues with specie eliminated an important constraint on the banks. The legislation of 1887 and 1892 provided only for a guarantee in specie or bonds, and not surprisingly, when the banks did make some small effort to comply with the law, they preferred to back their notes with bonds - with more paper - than to accumulate gold or silver.

As noted by Kennedy, "those who controlled the banks were the first to realise that a metallic currency would necessitate stricter and less agreeable methods of management and as a rule applied an indirect but steady resistance to the measure."¹³⁹

In 1893 and 1894, when the conversion legislation was looking increasingly untenable, Gibbs commented that "the banks are doing nothing towards the conversion of their notes."¹⁴⁰ The risk to conversion posed by the unwillingness of some banks to make preparations for an eventual redemption of the paper money and by the precarious cash position of others prompted President Montt in his June 1894 message to raise the possibility of the need for the State to take responsibility for the redemption of bank notes. Provision for this was contained in the draft laws proposed by the Government and Finance Committee of the Deputies in July and October 1894 respectively. This question slipped into the background until the February 1895 law was passed and conversion of the State's notes was imminent. The conflict of interest between the banks and the Government then came out into the open.

The key in all this was the Banco de Chile. This bank accounted for over half the registered bank note issue and for nearly a fifth of the total note issue. A theme frequently found running through the papers of the Bank of Tarapacá and London in this period was the great power and political influence of the largest Chilean bank and the need for the English bank to avoid doing anything that would attract the disfavour of the Banco de Chile.¹⁴¹ The prospect of a quick conversion operation after the February 1895 law was not viewed with equanimity by many people associated with the Banco de Chile and for a short time the bank put up a strong resistance to the measure. By the end of March 1895, the British Minister reported that:

"most of the Banks have now guaranteed their issues as required by the Law. The Bank of Chile, the chief Bank of the country held out for some time. The Directors made a great outcry and talked of refusing to comply with the provisions The Directors

endeavoured to alarm the Government with hints of the possible failure of the Bank and its consequences, but the Government remained firm and the Bank has now come to its senses and given the required guarantee."¹⁴²

Differences between the Government and the Banco de Chile over the conversion legislation had a counterpart in an internal conflict within the board of the bank. The board itself was split between supporters and opponents of the Government/orero policy. The main conflict centred on two directors who were conducting a vigorous campaign in the country against the conversion and thereby inevitably creating doubts about the bank's ability and willingness to redeem its own notes. These were two of the leading papeleros outside Congress; the financier, Mr. Sandiford, and Francisco Valdés Vergara, the former Finance Minister and the owner of the leading anti-conversionist newspaper at that time, El Heraldó.¹⁴³ There were also allegations made in Congress that a decision by a number of directors of the Valparaíso branch to withdraw their funds from the Banco de Chile after the promulgation of the February law placed the bank in cash difficulties.¹⁴⁴

The compliance of the banks with the terms of the February law did little, in itself, to increase the chances of the banks being able to redeem their notes in gold from the date laid down. Like previous legislation, this law allowed bonds as eligible backing for bank notes. Given the political constraints on any action to force the banks to accumulate sufficient specie in the short time available, the Government was to have to make a major concession to the banks in order to give the conversion operation a chance of success. This concession took the form of a bill presented to Congress on 25th April 1895, which provided for the State to take responsibility for the redemption of bank notes from 1st June 1895 until 31st December 1897. The banks in turn would repay the State in gold for their notes redeemed with State funds. This payment by the banks was to be on deferred terms; with payment spread over nearly three years with interest of 3%

half-yearly. Until the end of 1897, the banks note issue was to be limited to its existing level. The bill also requested authorisation ^{to contract} for the contraction of a £2mn external loan. Strictly speaking, in the text of the bill, this loan was to be utilised for the extraordinary amortisation of municipal debt taken over by the central Government in December 1891. In the Government's own declaration, the loan was designed to bring extra resources to back conversion and the precedent was quoted of the United States, where in 1875 the Government was given authorisation to contract the necessary loans to accomplish conversion. In practice, the loan was designed to finance the payment of the bank notes, and this was admitted explicitly by the Government. The official justification for State aid to the banks was declared to be that the banks were co-operating with conversion, but that the public's lack of confidence was placing them in a difficult position.¹⁴⁵ It is not clear exactly how enthusiastic or reluctant Montt and his Ministers were to shore-up the private banks. There was little evidence in the Government's public statements of the distaste for such State aid to banks that was voiced in the public pronouncements of many members of the legislature. It was clear to the executive that, as declared retrospectively by a later Minister of Finance in 1897, "if the State had not taken responsibility for the redemption of bank notes, the metallic conversion would have failed."¹⁴⁶

In fact, the Government was already facing allegations of using other public funds to assist the banks. These involved the transfer to Chile from the country's legation in France of £300,000 of funds which were ultimately used to pay the Vales de Tesoro issues following the law of May 1893. These funds were brought to Chile in two instalments, £200,000 in February and £100,000 in May 1894, and the money was initially deposited in the Banco de Chile. The Government faced criticism on two fronts; first that the funds were remitted to Chile merely in order artificially to raise the exchange rate and, secondly,

that the operation was aimed at bailing out the Banco de Chile with a temporary loan of the funds.¹⁴⁷

With the Government facing criticism even from some of its own supporters on the conversion issue, such as Agustín Ross, over State aid to the banks, it was taking a certain risk in raising the whole question again by convoking the legislature to discuss its bill presented on 25th April. The Government's proposals provided strong ammunition for the anti-conversionists, who argued that the need for State aid to the banks was just another symptom of the weakness of the conversion scheme. Despite the public show of reluctance expressed by most of those who participated in the debate, a vote against was tantamount to outright opposition to the whole conversion. In the Deputies, therefore, the bill was approved comparatively easily, by 40 to 19 in a general vote on the principle of the bill.¹⁴⁸ In the Senate, the papeleros took the opportunity to launch a final offensive against the impending establishment of the Gold Standard. Amendments proposed by E.S. Sanfuentes for the derogation of the February 1895 law and its replacement by a conversion conditional on the level of the exchange rate, were defeated only narrowly, by 14 to 10 in both cases.¹⁴⁹ After this, the main features of the Government's bill, the loan and assistance to the banks, were approved and became law on 28th May. The £2mn loan was signed with Rothschilds in London by the Chilean Minister in London, Augusto Matte, on 31st May.

The following day, the conversion began. At this stage conversion was strictly speaking only voluntary, awaiting the final conversion at end-1897. However, on the first day over half of the vales and 15% of the fiscal notes outstanding were presented for redemption.¹⁵⁰ The conversion did not begin auspiciously. The rush with which it had been pushed through meant that the Government did not have sufficient gold coins to meet the immediate needs of note-holders. In the first place, a large part of the bullion in the conversion fund had not yet been coined and, secondly, the £2mn loan had only just

been contracted and the funds had not arrived in Chile. The same applied to some of the funds obtained by the discounting in London of obligations issued against proceeds from the sales of nitrate lands. In the absence of sufficient new coinage, the authorities were forced to deliver English sovereigns against the presentation of some notes. English sovereigns were both better known and more appreciated than the new national coinage and, as a result, tended to be hoarded. To the many foreigners who came to Government offices demanding gold for their notes, the authorities were in many cases forced to give sterling bills. Since these bills could not go into normal circulation, the equivalent paper money was not withdrawn and destroyed but deposited by the Government in the banks, or in the case of bank notes merely left in the banks to the account of the Government.¹⁵¹ Besides being contrary to the whole logic and discipline of the Gold Standard, the further accumulation of State funds in the banks led to renewed criticism of the Government. Such criticism had already revived following the deposit in some banks by the Government in June of about Pesos 10.8mn of the proceeds of the external loan obtained at end-May. The Government was attacked from both sides, from the oreros (e.g. Gandarillas) and from the papeleros (e.g. Martínez).¹⁵²

Apart from these initial teething troubles arising largely from the lack of gold coin, there is little evidence that the conversion operation suffered from an insufficiency of funds to redeem the notes. However, the frequent official presentations of the size of the conversion fund matched against the amount of notes outstanding needed to be treated with some caution, since they often gave an over-optimistic picture. In particular, the presentations often included in the conversion fund amounts which could not be immediately realised, such as money still held abroad and funds held in native banks which could not in practice be withdrawn on sight.

The amount of paper money outstanding on 1st June 1895

was as follows:-

	<u>Pesos</u>
Fiscal notes	29,601,242
Vales de Tesoro	8,898,729
<u>Total</u>	<u>38,499,971</u>
Bank notes	21,338,757

TABLE IX: THE NOTE ISSUE OUTSTANDING ON 1st JUNE 1895

It was, of course, not envisaged that a large part of the bank notes would be permanently withdrawn from circulation and replaced by coins.

The sizeable fiscal surpluses of 1894 and 1895 allowed the accumulation of a conversion fund amounting to Pesos 39.3mn by 1st June 1895, not including the £2mn loan. This was made up of the silver accumulated until the end of 1892 (Pesos 4.3mn), import duties collected in gold (Pesos 12.3mn) and the rest was made up from anticipated or actual receipts from sales of nitrate land.¹⁵³

In May 1897, by which time, in the view of the Finance Minister, "this delicate and important operation can be considered as completed,"¹⁵⁴ Pesos 79mn had been collected in the conversion fund. This was made up as follows:-

	<u>Pesos</u>
Silver accumulated until end-1892	4,319,226
Portion of import duties collected from 1st January 1893 to 1st July 1896	20,304,954
Funds received from sales of nitrate land	14,884,541
Funds from bonds issued through Rothschilds against anticipated receipts from sales of State lands (£1,177,000 loan of 1895)	14,423,567
The external loan of £2mn	24,333,333
Other	736,164
<u>TOTAL</u>	<u>79,001,785</u>

Up until that same date, 1st May 1897, some Pesos 62mn had been spent out of the conversion fund. This was broken down as follows:-

	<u>Pesos</u>
Amortisation of the municipal debt	1,877,772
Fiscal notes redeemed	26,537,829
Vales de Tesoro redeemed	8,862,829
Bank notes exchanged	8,753,905
Payment of paper issued against anticipated nitrate land receipts	15,693,333
<u>TOTAL</u>	<u>61,725,668</u>

TABLE X: THE CONVERSION FUND, 1897

This left the fund with a positive cash balance of Pesos 17.3mn. Looking at remaining obligations and funds yet to accrue to the conversion fund, the picture looked even healthier, at least on paper. On 1st May 1897, there remained in circulation some Pesos 3mns of State notes. It was estimated that of these some Pesos 1.5mn were lost or destroyed.

Up to that time, Pesos 8,753,905 of bank notes had been presented for exchange into gold coin at State offices. Of this total owed by the banks to the Government, the banks had repaid Pesos 696,163 by 1st May 1897. The remaining Pesos 8,057,741 was to be added to the conversion fund along with a further Pesos 9,567,389 from expected future receipts from sales of State nitrate land. After deducting State notes outstanding, the Finance Minister calculated that the conversion fund would show a positive balance of Pesos 33,316,572 (i.e. when conversion of the State paper money was complete). These official figures do show clearly that even after having to change Pesos 8.7mn of bank notes, the Government's resources were quite adequate to accomplish the conversion.

The state of the Treasury's coffers was not a problem

in the establishment or maintenance of the Gold Standard, particularly given the Government's ability to borrow abroad at that time, and few doubted the State's capacity to redeem its notes. But as the critics of the oreros frequently pointed out, a major currency reform which profoundly affected political and economic life had to be seen in a much wider context than that of a mere accounting operation.

CHAPTER SEVEN

THE COLLAPSE OF THE GOLD STANDARD

In 1895 Chile was the only country in South America on the Gold Standard. Certainly, in the mid-1890s conditions, both economic and political, were not the most propitious for such a currency reform. The years 1895/8 saw the trough of the long downturn of world commodity prices that had begun in the early 1870s.¹ As a primary producer, Chile's staple exports were affected as badly as most. In each of the four years 1895/8, nitrate prices in London averaged less than 8 shillings per English quintal, the lowest point reached in the whole of the nitrate age. Copper prices in this same period, although not falling any further, remained depressed at a level on average over the 5 years 1893/7 lower than in any comparable period between the 1860s and the 1930s. Much the same was true for wheat - 1893, 1894 and 1896 were the fifth worst, the worst and the fourth worst years respectively for the wheat farmer in terms of London prices in that same period of around 60 years.²

Low prices were not compensated by a higher volume of exports. After picking up in 1894 and 1895 following the collapse of the Second Combination, nitrate exports fell back in the next two years following the setting up of the Third Combination early in 1896. The year 1897 saw the lowest copper shipments in any year between 1854 and the present day, with the exception of the war year of 1891. After four consecutive good years in 1891/4, wheat exports fell following relatively poor harvests in 1894, 1895 and 1897. In the four years 1895/8, the volume of wheat shipped from Chile was more than 30% below exports in the previous four-year period.³

Export receipts, therefore, showed virtually no increase between 1893 and 1897, remaining in the range Pesos 152-157mn (18d). Imports recovered in 1895/7 from the low of 1894 but

over the three year period the official trade accounts showed a small surplus.⁴ Chile received substantial foreign exchange from the external loans of £4mn and £265,000 negotiated in 1896, which exceeded external debt service payments in the years 1896/8.⁵ This inflow was to some extent countered by the substantial increase in military expenditure in 1896, much of it abroad, which followed the renewal of tension with Argentina. Special votes of Pesos 23.3mn for the navy and Pesos 2.7mn for the army raised total military expenditure in 1896 to Pesos 49mn, nearly half of total Government expenditure in that year and nearly double the previous year's total military budget.⁶

Added to the poor export performance in 1895/7 was a general lack of confidence in the conversion. In July 1895 another ministerial crisis led to the collapse of the Barros Luco Ministry and there followed a period of uncertainty about whether President Montt would be able to form a new cabinet of pro-conversionists. In the event, he organised a Ministry under the Radical, Manuel Recabarren, with Enrique MacIver as Finance Minister and Claudio Matte as Foreign Minister; all of whom were strong supporters of the Gold Standard. This short-lived political crisis was accompanied by the first of many waves of rumours of an international crisis over the boundary with Argentina. Although the war scare died down in a matter of weeks, it contributed to a considerable hoarding of newly minted gold coin and also to some exporting of bullion. As a result the Peso was under pressure from the beginning. In the first few months after June 1895 the exchange rate stood at little over 17d, well below the gold export point. There was some recovery in the rate towards the end of 1895, but the rate did not stay at or above the gold export point for any sustained period until 1897. The Valparaiso House of Gibbs in their annual accounts for 1895, commented:

"the excitement and uncertainty both before and after the date of the 'Conversion' and the severe restriction

of credit and constant alarms of international complications and financial crises during the latter months rendered the past year a very anxious one in business; and we may even say that, although the ultimate effect of the Conversion cannot fail to be good, the immediate effect was almost disastrous. Foreign investors took advantage of the occasion of a maximum value being assigned to the Chilean dollar to withdraw large sums of money from the country; a certain quantity of the new gold coinage was exported ... the circulating medium was inadequate, credit was almost unobtainable and small commercial failures were frequent."

Although Gibbs were no doubt seeking to justify the exchange losses incurred by the Valparaíso House by playing up the difficulties facing them, their statement of conditions in Chile during 1895 undoubtedly contained a good deal of truth. The rigours of the Gold Standard were imposed upon the country, involving a substantial appreciation of the currency and deflation, at a time of relative economic weakness both internally and externally.

Reports on the economic situation in the country in 1895/6 were invariably gloomy. The British Consular representatives in Coquimbo and Caldera both referred to the alleged or real adverse effect of conversion on business in their localities, and particularly the closure of a number of smaller copper mines that hitherto had only survived on a low exchange rate. The standstill in the building industry in Valparaíso was put down to the same cause.⁸

The clearest indicator of the depression in Chile in these years was provided by the balance sheets of the banks, as shown in the following table:-

	<u>Pesos mns</u>			
	<u>Capital</u> (paid-up)	<u>Deposits</u>	<u>Advances</u>	<u>Cash in</u> <u>Specie</u>
31/5. 1895	46.8	128.4	154.0	3.3
30/6. 1895	46.8	132.1		11.3
31/12. 1895				14.1
30/6. 1896				
31/8. 1896		90	113	
31/12. 1896	53.2	100.4	125.2	16.4
30/6. 1897		96.5		13.5
31/12. 1897	51.9	96.3		14.6
30/6. 1898		91.0		13.3

TABLE XI: THE POSITION OF THE BANKS, 1895-1898⁹

Although incomplete, this table shows the stringent restriction of credit by the banks, particularly during the first year of the Gold Standard. This credit contraction was the result both of the need for the banks to accumulate gold and silver and of the substantial withdrawals of funds from the banks. During 1896 both outstanding loans and advances fell below the levels they had held at mid-1890. Deposits fell despite the growth of State deposits in the banks after the conversion.

Credit restriction was accompanied by rising interest rates and falling bond and share values. In 1895 and 1896 mortgage bond prices fell to the sort of levels they had plunged to in 1878, being quoted as low as 72 in the case of the 6% bonds issued by private mortgage banks.¹⁰ There was also in 1896 a sharp rise in the payments in arrears to the Caja Hipotecario, and the Bank of Tarapacá and London referred to the "forced sale of numerous properties."¹¹

These conditions in the country contributed to a decline in confidence abroad. After recovering strongly in the year of Chile's resumption of specie payments, Chilean bond prices in

London fell in 1896 and 1897. This all led to a crisis of confidence in the survival of the Gold Standard, which reached its height during 1896. A clear demonstration of this was to be seen in the forward rate for the Peso. It was a common practice for importers to offer three months credit to local buyers and to cover themselves against a fall in exchange by purchasing sterling bills for delivery in three months. Such importers in 1896 were willing to pay as much as a rate of 16 $\frac{1}{4}$ d for three-month forward sterling.¹²

In the face of the clear economic difficulties confronting the infant Gold Standard in Chile, the Montt Administration set out to bolster the new currency system. The Government's first action was to resort to a loan. In mid-August 1895, the British Minister reported that Montt was considering requesting authorisation for an external loan of up to £10mn or even £20mn to assist the conversion.¹³ In the event, the Government asked for a loan of £6.5mn later that month. The proceeds of the loan were to be used for public works, largely for the completion of railways contracted by Balmaceda which were still uncompleted due to the civil war and economies in public expenditure. Funds from the loan not needed immediately for public works could be invested, up to an amount of £3mn, in a new series of Caja Hipotecario bonds proposed in the same draft law. These mortgage bonds were to be denominated in sterling, with interest of 5%, and would be payable in Santiago, London, Paris or Berlin.¹⁴

The idea of issuing gold or sterling mortgage bonds in order to promote the Gold Standard had been proposed before in 1893 and was later frequently put forward by oreros, but met with little enthusiasm from mortgage debtors. Now the Gold Standard was established, the Government aimed to get such a scheme off the ground by, in effect, loaning to the hacendados, at least for a short period, a sum of up to £3mn, equivalent to more than 50% of the total outstanding bond issue of the Caja Hipotecario in 1895. By making the bonds payable abroad,

the Government clearly hoped the scheme would be a way of attracting funds to Chile. This would provide concrete financial assistance to the maintenance of the gold currency in addition to the political assistance which would derive from the widespread circulation of sterling/gold mortgage bonds.

The majority in Congress were not convinced of the need for a loan of this magnitude, particularly so shortly after the controversy that arose over the £2mn loan of May 1895. Eventually, the Government obtained authorisation for a £4mn loan for railways, the port of Talcahuano and for development of the Punta Arenas cable, but the proposed sterling mortgage bonds scheme was shelved. Besides attracting insufficient political support, the scheme floundered against the fact that it depended to a large extent on eventually creating a market for these mortgage bonds in Europe. This was not a good time for placing Chilean paper in Europe and the Government had difficulty in raising the £4mn loan. In the first place, the Chileans could not obtain the whole £4mn in a single operation, but had to resort to a temporary loan of £2mn via the issue through Rothschilds of short-term bonds, that were to be paid with the product of the full loan. Moreover, the Chileans were eventually obliged to pay 5% for the loan, in contrast to the two previous loans that had been placed by Rothschilds at 4½%.¹⁵ The idea of a sterling mortgage bond issue was revived by the Caja Hipotecario in 1897 and the President of the Caja approached the Santiago branch of the Bank of Tarapacá and London to see whether the bank would be willing to place £0.5mn of these bonds in London. Head Office turned down the proposal on the grounds that the market for Chilean bonds in London was too weak at that time to enable any new issues.¹⁶

As another measure to strengthen the Gold Standard, Montt sought to remove the provision for the "definite" conversion on 31st December 1897, involving redemption of notes

at a rate equivalent to the silver Peso. This provision, amounting to a double conversion, had received widespread criticism in the past and was now generally recognised as being at best obsolete and at worst a dangerous source of speculation. One of the main champions of this clause in the conversion legislation had been Enrique MacIver and his departure from the Government (and Finance Ministry) in November 1895 no doubt eased the path towards the removal of the clause. This was proposed by the Government in June 1896. It stressed the lack of justice or financial sense in paying 24½d per Peso (the current value of the silver Peso) to some note-holders while others received only 18d.¹⁷ The bill was accepted by Congress and became law in December 1896.

Some, but by no means all oreros recognised that the major threat to the establishment and survival of the Gold Standard in Chile came from the weak cash position of the banks. Any permanent solution to this problem, however, would inevitably have demanded revision of the 1860 Banking Law, involving tighter legislative controls over the operations of banks. Any departure from the principles of free banking enshrined in the 1860 law invariably met with strong and usually overwhelming opposition. The drafters of the conversion legislation envisaged that bank notes would eventually replace coin for most transactions. Some of them realised that for this to come about, public confidence in the bank note would have to be restored and that legislation to force the banks to operate within sounder limits could achieve this. One of the first tentative moves in this direction was proposed in the report of the Finance Minister, Manuel Salustio Fernández, for 1895.¹⁸ While opposing the idea of a State or central bank on British, French or German lines, Fernández recommended the reform of the 1860 law to ensure bank notes were safe and guaranteed within the framework of free banking on the Swiss and United States model. Fernández left the Finance Ministry a couple of months after the report was published and, despite the obvious con-

tinuing difficulties of some banks, nothing was heard of the idea from the Government for another two years.

In fact, the position of the banks and the severe contraction of credit led the administration in 1896 to consider more direct and immediate aid to the banks. This involved a scheme conceived by the Finance Minister, Hermógenes Pérez de Arce, early in 1896 for the issue of Pesos 20mn of 5-year Treasury bills denominated in gold and with 5% interest. These bonds would be given to the banks in exchange for an equivalent amount of mortgage bonds valued at par, held by the banks. Given the existing low price of mortgage bonds, this move would have amounted to a loan to the banks with the aim of getting them out of their liquidity troubles. Perez de Arce floated the idea with a number of interested parties. They included Mr. Geddes, the Acting Manager of the Santiago branch of the Bank of Tarapacá and London, who informed the Minister that the scheme "would probably cause a bad effect as it might arouse fears of a return to paper currency We further informed the Minister that we were of the opinion that the effect in Europe would be bad...."¹⁹ Geddes agreed to consult Head Office who in turn asked Rothschilds for their views. Rothschild's reply, shown to Pérez de Arce and President Montt, was also unfavourable to the scheme and contained the thinly disguised warning that any such issue of bonds would make more difficult the placing of the £4mn loan in London. In view of this reaction and also opposition from other quarters, including the Valparaíso banks, the Minister shelved his proposed scheme.

The above episode was indicative of a degree of panic within the orero and Government camps in the face of the clear lack of confidence in the Gold Standard and the economic and financial crisis that accompanied the currency reform. There was, however, at this stage little open criticism of the Gold Standard in the press or in Congress and certainly no sustained campaign by the papeleros to remove it. The political calm on the monetary question during the first year of the Gold Stand-

ard was unlikely to survive the change in administration due in September 1896 following Presidential elections in July and this factor no doubt weighed heavily with the oreros and Montt in their efforts to consolidate the Gold Standard. From the end of 1895, the scope for any action by Montt was limited by the political necessity of establishing a sufficiently politically neutral government to oversee the July 1896 elections. Following the resignation of the Recabarren Ministry in October 1895, Montt formed a Ministry composed mainly of moderate Liberals, designed to be a makeshift Government to see the administration out, which it did. For the remainder of Montt's Presidency, the economic and financial situation was pushed into the background by both the increasing international complications with Argentina and to a lesser extent with Peru and Bolivia and the election campaign.

Montt was the first Chilean President since 1833 who did not influence the election of his successor. In the months preceding July 1896 an electoral line-up emerged that was to characterise the Parliamentary era, between on the one hand the Liberal Alliance and on the other, the Coalition. The candidate of the former grouping of parties was Vicente Reyes, a distinguished Liberal politician. He received the backing of the more radical and anti-clerical elements in the political class, chiefly the Democrats Doctrinaire Liberals led by Eduardo Matte and the Radical Party led by Enrique MacIver. Reyes' neutrality in the civil war enabled him to attract the support of Enrique S. Sanfuentes and a good part of the Liberal Democrats. Against Reyes, the Conservatives, Nationals, and a faction of the Liberal Party that became known as the Coalition Liberals, chose Federico Errázuriz Echaurren, a conservative Liberal and a son of the former President from one of Chile's oldest and most aristocratic hacendado families. Over the period 1830-1930 the Errázuriz family provided three Presidents, 50 congressmen and an archbishop.²⁰ Errázuriz's wealth and wide circle of family and friends within the oligarchy gave

him a big advantage over his rival who maintained an intellectual aloofness from the campaign and who from all accounts refused to engage in a spending spree to win or buy votes. Nevertheless, the election in the country was indecisive with Errázuriz gaining 137 electoral votes to Reyes' 134. Before the issue could be decided by a vote in Congress, the legislature had to decide the question of whether Errázuriz's numerous relatives in both chambers would be eligible to vote. The Deputies, in which the Alliance enjoyed a majority, voted to exclude them, but a full meeting of Congress over-ruled the lower house and declared them eligible to vote. Errázuriz was elected President by Congress by a margin of two votes.²¹

The currency question played a not insignificant part in the election and the outcome had important implications for monetary developments. Reyes was a committed orero and counted among his closest supporters many leading pro-conversionists, with the notable exception of Pedro Montt and other Nationals. The views of Errázuriz on the "question monetaria" were more ambiguous. He made no public statement on the question during the election campaign. His voting record so far in the Senate placed him more or less half way between the extreme oreros and the papeleros. In an interview with the Acting-Manager of the Bank of Tarapacá and London in Santiago, Errázuriz said that he was not committed to either paper or gold and that he counted partisans of both among his supporters.²²

The paper money followers of Errázuriz certainly held sway in the formation of his first Ministry in September 1896. Errázuriz named as Minister of the Interior and head of the Cabinet, Aníbal Zañartu, a Liberal who was acceptable to the Conservatives. Zañartu, like his brother M.A. Zañartu was a hacendado and well-known papelerero. He had been a minister under Balmaceda, but had taken no part in the civil war. Errázuriz gave Aníbal Zañartu a free hand in choosing his Cabinet. The result was a Cabinet comprising a Liberal (Zañartu), three Conservatives, one Balmacedist and a National.

The appointment of this Ministry and of Zañartu in particular aroused a strong reaction from the oreros and British commercial interests. The Bank of Tarapacá's view was that "so far as conversion is concerned the Government will remain neutral, although all the Ministers have been in the past avowed 'papeleros' with the exception of Sr. Fabres about whose views little is known."²³ Zañartu was accused of refusing to accept the leading Conservative banker and orero, Alberto González Errázuriz, as his Finance Minister.²⁴ One of the first actions of the new Finance Minister, José Francisco Fabres, another banker and Conservative, was to name a "comisión financiera" to study the current situation. This caused further alarm as rumours spread that the commission was studying a draft law for the issue of Pesos 120mn of paper money.²⁵

The Government did not have a majority in the Deputies where the Liberal Alliance held more seats (although the Coalition had a majority in the Senate). When Zañartu presented his Cabinet to the Chamber in October it was defeated and resigned on 6th November. This defeat amounted to a setback for the papeleros. The new Ministry formed under the leadership of Carlos Antúnez González, a widely liked, prominent and non-partisan figure in the oligarchy, made public pronouncements of support for the Gold Standard and confidence returned to some extent. Even so, The Chilian Times was sceptical and commented that, "the actual President of the Republic and his Minister of Finance have declared in a vague kind of way that they accept Conversion as an accomplished fact, and that they will not go back on it. But in spite of these declarations there is not a conversionist in the country who does not feel that conversion was safer under the Montt administration than it is under the present one."²⁶

Congressional elections soon followed early in 1897. The Government (Coalition) did well and increased their majority in the Senate, while the Radicals lost all but two of their seats in the upper chamber. The Liberal Democrats gained two

seats in the Senate. The position in the Deputies was not changed greatly.²⁷

Errázuriz's lack of a majority in the Deputies contributed to even greater ministerial instability. In order to sustain his Governments, he needed and generally obtained (at least up to mid-1898) the support of the Balmacedists and also of the two Democrats elected in 1897. In contrast to these two parties in which papelero views were prominent, the Radicals were excluded from office throughout the Errázuriz Administration. On balance, the election of the Democrats in the Deputies and the increased representation of the Balmacedists in the Senate meant that the anti-gold forces were stronger than before in the legislature and in the Government. Agustín Ross considered that the 1897 election resulted in a majority for paper money and asserted bitterly that, "by means of the personal and direct exertions of the Head of State, the most decided partisans of the metallic regime were kept out of Congress, one of them being the writer of this book, whose election was strenuously opposed by the President of the Republic."²⁸

Throughout 1897 and early 1898, the administration's attitude to the Gold Standard remained generally passive and neutral. With the elections out of the way, the Government was, however, obliged to take some action to help the banks to endure the new monetary system. Both the State's obligation to redeem bank notes and the admissibility of bank notes in public offices were due to expire at the end of 1897. Following pressure from the Banco de Chile in particular, the Government felt the need to extend both these provisions in order to sustain any confidence in bank notes. In May 1897, there were already Pesos 7.2mn of bank notes lying in the Oficina de Canje having been exchanged for gold but which had not re-entered circulation. This situation was interpreted by the Minister of Finance as a sign of the lack of confidence in bank notes and of a preference for gold.²⁹

As a means of preventing a further loss of confidence in the bank note, the Government proposed in 1897 the extension for one year of the State's obligation to redeem bank notes and also the indefinite extension of the admissibility of bank notes in public offices. Along with these concessions to the banks, the Government proposed a reform of the banking legislation on the lines of that put forward in 1895 by the Finance Minister, M.S. Fernández. This involved a limit on the banks' total note issue equal to their paid-up capital and the stipulation that the banks must maintain a guarantee against their note issue consisting of at least 20% in gold and the rest in bonds. In recognition of the worst abuses of some banks and of the lessons of the 1878 crisis, under these proposals banks were to be forbidden to lend to directors more than 5% of their capital and not more than 20% to shareholders.³⁰

These proposals made little progress in Congress. The extension of the Government redemption of bank notes and of their admissibility in arcas fiscales was rejected by the Joint Finance Committee of the two houses of Congress.³¹ This body saw no need to prolong State aid for the redemption of bank notes and considered that the acceptance of these notes in public offices should be voluntary. This decision by a committee that included both papeleros and oreros was a reflection of the mood of a majority in Congress. On the one hand, the papeleros were unenthusiastic about any move that might strengthen the Gold Standard. The Balmacedists among them were in many cases no friends of the banks. On the other side, there were a substantial number of oreros and neutrals who wanted to maintain the laissez-faire philosophy of the 1860 Banking Law. Many of this latter group were unhappy about State assistance to the banks. For their part, the banks themselves showed little enthusiasm for the Government's proposals which would have limited their freedom of action.³²

Despite their increased strength in Congress and the continued financial crisis, the papeleros in the legislature

appeared content to bide their time, awaiting the fulfilment of their forecasts of disaster that they righteously asserted would accompany the Gold Standard. Meanwhile, opposition to the Gold Standard outside the narrow political circles of Santiago was increasingly vocal and articulate. The most important organ of papelero views became the Santiago newspaper La Tarde founded in 1896 by the brothers Alfredo and Galo Irarrázaval Zañartu. Alfredo Irarrázaval, who was associated with the Democratic Party, had supported Errázuriz in the 1896 election, but soon became very critical of what he saw as official acquiescence in the Gold Standard.³³ La Tarde became the bête noir of the oreros and British commercial interests.

The confirmed oreros in Congress, most of whom were now excluded from the Government and from the circle around the President, were on the defensive and uneasy. In July 1897, they heard rumours that Domingo Fernández Concha, a leading Conservative papelero, with some following in his own party, had arranged with leading Balmacedists to unite forces and push a bill for an issue of paper money through Congress. In response, the oreros set out to obtain a vote of confidence in the Gold Standard. A motion signed by 50 Deputies and tabled by Enrique MacIver on 23rd July, read "the Chamber considers that the subsistence and strengthening of the metallic regime are tied to the public faith and prosperity of the Nation."³⁴ The motion was passed the following day by 50 votes to 4 with 8 abstentions.³⁵ The tactics of the opposition were not to oppose the motion outright. Instead they proposed an alternative motion, under the name of the Balmacedist, Emilio Bello Codecido, which highlighted the fact that the Gold Standard had failed to bring the promised prosperity. The motion itself was innocuous enough, reading: "the Chamber considers that the maintenance of the present monetary system conforms to the national interest and believes at the same time that the Government must adopt with all haste a financial

plan to strengthen the metallic conversion and to deal with the economic crisis that afflicts the country at this moment."³⁶ This motion attracted 44 votes, but was considered heretical enough by a few oreros, including MacIver and Pedro Montt, to justify a vote against by 11 of them.³⁷ In the Senate, the two motions were passed 21 to 1 and 22 to 1 respectively.³⁸ The Government announced that it supported both motions.³⁹

In the event, this exercise was a tactical mistake by the oreros. It raised in the legislature the issue of the benefits and survival of the Gold Standard at a time when there was no other discussion of economic or financial affairs, thus providing an additional forum for papelero views at a time when there was no serious political threat to the Gold Standard. By obtaining barely more than half of the votes in the Deputies and less than two-thirds of the Senate, the proposers did little to enhance confidence in the survival of the new currency system.

The chief threat to the Gold Standard in 1897 came not from any attempt by the papeleros in Congress to revoke conversion legislation, but from the worsening situation of the banks. This was not helped by the failure of the Government and Congress to push through the proposals made by the former in June 1897.

The resumption of specie payments was for the banks an added, and for some an intolerable burden. In the absence of controls, at the best of times most banks operated on fine margins, particularly in relation to their cash reserves. Since the civil war the banks taken as a whole had not been able to expand their operations. The general situation of economic recession in 1895-7, with low share and bond prices, and the associated increase of bad debts, made their position worse. The obligation to accumulate even a limited amount of specie as a guarantee for their note issue forced the banks to further curtail their activities. The basic problem remained, however, the banks' lack of cash reserves. The Montt

Administration had not been able to force or persuade the banks to build up sufficient gold in their vaults to enable them to redeem their notes without State aid. Even with a substantial loan from the Government for this purpose, it was by no means certain that the banks would be able to cope on their own when official assistance ran out at end-1897. The fact that over a third of the banks' note issue was lying unused in the Oficina de Canje was a strong indication that the Chilean public shared these doubts. Yet with the State's note issue withdrawn, the success of the Gold Standard depended to a large extent on public confidence in bank notes and the banks' ability to redeem them.

Table XI shows the development of the cash position of the private banks in 1895-8. The figures for cash in specie held by the banks give a misleading picture of the banks' capacity to redeem their notes, since the largest part of their holdings was in the form of silver, the subsidiary coinage which the public was legally obliged to accept only up to a limited amount.⁴⁰ These figures disguise also a wide variation between individual banks. Figures reproduced in The South American Journal of 20th July 1895 showed cash/liability ratios varying from 20.5% for the Banco Comercial to the Banco de Edwards, 15.2%; de Chile 11.8%; de Santiago 8%; Mobiliario 1.9%; and the Banco de Concepción 1.6%.

Despite the relative strength of some of the larger banks shown in the above figures, it was they that tended to find themselves in the greatest difficulties in this period. There were three bank failures in the two years 1896 and 1897. One was the small Banco de la Unión in 1897; the others were the Banco Comercial and the Banco de Santiago, the two largest Chilean banks after the Banco de Chile. The Banco Comercial failed as a result of taking on some Pesos 12mn of short-term funds (compared with its paid capital of Pesos 8mn) at high interest and lending this money long, without the necessary cash in reserve to tide itself over. The liabilities of the

Banco Comercial were taken over by the Banco de Chile.⁴¹

The winding-up of the Banco de Santiago appeared to have more to do with party politics than banking. The bank had been set up by Conservative and clerical interests and their association with it had remained close. The failure of the bank appears to have been the result of unsound loans to members of the Conservative Party and the Church.⁴² On the other hand the bank's supporters alleged that the closure of the Banco de Santiago in June 1897 was the result of a deliberate campaign against the bank conducted by Radicals and Doctrinaire Liberals.⁴³ While such allegations are clearly difficult to prove either way, such an occurrence would not have been out of character with the party politics of that period. The Conservatives certainly saw it as a political act and reacted accordingly. Their retaliation took the form of a bill presented in the Senate by Domingo Fernández Concha in October 1897 which proposed the establishment of a "Banco Privilegiado".⁴⁴ This bank was to be a private bank in which existing banks could be incorporated and would have borne some resemblance to the Bank of England. The retaliation involved in the bill took two forms. Firstly, it was directed against the oreros in the opposing political parties in that the bill provided for the State to issue up to Pesos 50mn of paper money backed by gold or State bonds or mortgage bonds. Secondly, by giving the proposed new bank the exclusive right of note issue for 15 years, the bill was directed against the remaining note issuing banks and particularly the Banco de Chile. Hostility towards the Banco de Chile on behalf of those associated with the fallen Banco de Santiago probably had less to do with politics than with the fact that the Banco de Chile undertook the liquidation of the Banco de Santiago. The conflicts of interest which arose in this arrangement led to enmity between the shareholders of the Banco de Santiago and the Banco de Chile. The former were particularly aggrieved at the refusal of the Banco de Chile to allow it to continue to take deposits.⁴⁵

Fernández proposed that his bill be studied by a special commission. This was narrowly rejected by the Senate by 12 votes to 10.⁴⁶ Nevertheless, this exercise represented the most serious attack in Congress on the Gold Standard so far mounted by the papeleros.

The fact that the Gold Standard was able to survive the banking crisis of 1896/7, involving the collapse of the second and third largest banks, was an indication of the pre-dominant position held by the Banco de Chile. The close ties between the bank and the Government led the former to conduct a semi-officially inspired rescue operation to limit the repercussions of these bank failures on confidence in the rest of the banking system. Although this operation was a limited success, it was achieved only at the cost of a further weakening of the position of the Banco de Chile itself, as a result of the bank assuming the added burden of the liabilities of these failed banks. Moreover, the news of difficulties between the Banco de Chile and the shareholders of the Banco de Santiago in June-July 1897 caused alarm and some panic withdrawals of funds from the banks. One small bank, the Banco Popular, was forced to close its doors temporarily and only opened them again after help from the Banco de Chile. The Banco de Chile itself was not immune and faced sizeable withdrawals, but the situation was relieved by a timely deposit of funds by the Government.⁴⁷

Given these pressures on the Banco de Chile, it is unlikely that it could have survived in 1895/7 without the help of loans from the Government in the form of periodic Treasury deposits and also of loans from abroad. The continuation of the Gold Standard depended to a large extent on the soundness of the Banco de Chile and on the politicians' ability and willingness to come to the aid of the bank if needed. There were already signs in 1896 and 1897 that these conditions might not prevail for long. In the first place, the Banco de Chile failed to persuade Congress to extend the

State's guarantee of the bank note issue beyond the end of 1897 or to extend the admissibility of bank notes in arcas fiscales.

Secondly, the Treasury's financial position and its ability to help the banks was considerably weaker after 1895 with the disappearance of the substantial budget surpluses of the years 1892/4. Ordinary revenue was stagnant in the years 1895/8. Total revenue rose in 1896 as a result of large foreign loans, but in the absence of such loans in 1897, fell back to substantially below the 1895 level. On the other hand, expenditure was rising rapidly, particularly in 1896 when an increase of one-third was recorded. The chief factor was arms expenditure necessitated by growing tension with Argentina. A Special Vote for the navy in 1896 of some Pesos 23mn meant that naval expenditure in that year accounted for about 30% of the total, with the army adding another 17%.⁴⁸ Much of this expenditure was in the form of purchases of military equipment from abroad. As noted by President Montt in his last annual message in June 1896, "the indispensable necessity the country has experienced recently of increasing its defences has obliged it to disburse funds abroad that have disturbed the natural course of the metallic conversion."⁴⁹ The pressure on the Government's limited supply of sterling bills was intensified by the steady rise in external debt service payments over the years 1895/8 that resulted from the external borrowing of the early 1890s. In the three years 1896/8, debt service payments abroad were on average some 50% more than in the previous three years and accounted for nearly one-sixth of total Government expenditure.⁵⁰ The shortage of sterling bills forced the Government early in 1897 to borrow £100,000 for two months from the Bank of Tarapacá and London in order to enable it to meet external commitments for debt service and arms purchases.⁵¹ The weaker position of the Treasury in these years was to some extent the result of the reduced control exercised over the budget by the Errázuriz Administration compared with its predecessor. This

arose from Errázuriz's vulnerable position in Congress and particularly his dependence on the votes of the Balmacedists. Congress asserted itself quickly and Errázuriz's first budget law was not passed until 22nd February 1897 as a result of obstruction in the legislature.

The effect on the banks of a much more depleted Treasury was quite pronounced, as shown in the following table:-

	<u>Pesos</u>
1890	7,471,772
1891	1,555,902
1892	3,769,805
1893	6,614,816
1894	13,975,593
1895	16,637,543
1896	31,127,542
1897	7,279,083
1898	4,914,242

TABLE XII: THE OUTSTANDING LEVEL OF TREASURY DEPOSITS IN THE BANKS, 1890-1898 ⁵²

The initial impact of the resumption of specie payments on the banks was cushioned by the large accumulation of Treasury funds deposited directly in the banks. In 1896/8 the Government found it necessary to withdraw and spend the bulk of these deposits. Little, if any, of this money seems to have found its way back into the banks; no doubt this was partly because a substantial portion was spent abroad and also because of the low confidence in the banks.

By 1898, the financial crisis was pushed firmly into the background by the threat of war with Argentina, in terms of discussion time in Congress and in the Cabinet. There were links between the two major issues which dominated politics in Santiago in this era, the monetary question and the boundary disputes with her neighbours, although the connection was not clearly strong or direct. The papelero newspaper, La Tarde

was also the most jingoistic in its comment on relations with Argentina and faced frequent allegations that it attempted to stir up the war scare purely in order to bring down the Gold Standard. It is difficult however to show any clear relationship between monetary and foreign policy given the nature of parliamentary politics. Neither issue was fought on formal party lines. The Conservatives appeared to take a tougher line on Argentina than many politicians on the Liberal side. This in turn was related to the campaign led by the Sociedad Nacional de Agricultura and many prominent Conservatives for a duty on cattle imports coming into Chile across the Cordillera from Argentina. Such a duty was included in a new tariff law passed in 1897 with the support of the Conservatives and the Balmacedists, which marked the first tentative move away from the policy of free trade which had been dominant for about 40 years. Besides imposing an import duty equivalent to about 20% of the 1897 price of Argentine cattle, the new tariff law also included increased protection for other agricultural products and finished goods based on agriculture.⁵³ Moreover, the Conservative Party leader, Carlos Walker Martínez, was one of the principal hawks in the Argentine dispute. Beyond this, any generalisation about party attitudes on foreign policy, let alone its relation to the monetary question, would be extremely hazardous.⁵⁴

For the first eighteen months or so of his administration, Errázuriz was handicapped by his lack of a majority in Congress, particularly in the Deputies. During the second half of 1897, Errázuriz made overtures to the Balmacedists in an attempt to detach them from the Liberals and Radicals. In this he was successful, at least for a time, while the Balmacedists increased their representation in the Government to two in the cabinet reshuffle of December 1897. In April 1898, the Balmacedists were persuaded to serve in a Cabinet under the leadership of the Conservative, Carlos Walker Martínez, well known in the past for his strong anti-Balmacedist views and who had been

a leading opponent of Balmaceda in 1891.⁵⁵

From the early days of January 1898, Cabinet meetings were almost exclusively devoted to foreign affairs and defence. The crucial factor at this time was the availability of funds to finance the arms race with Argentina. The question of the survival of the Gold Standard was very much a secondary consideration and from the latter half of 1897 the administration showed little inclination to support it publicly. Resort to an increase in taxes was out of the question, so the Government was left with the options of a loan, either from abroad or, much less likely given the position of the banks, from domestic sources, or an issue of paper money. By April 1898 a paper money issue was being actively considered in Government circles. In an interview on 1st April with the then Minister of the Interior, Antonio Valdés Cuevas, the Acting-Manager of the Bank of Tarapacá and London in Santiago was told by the former that an issue of paper might be unavoidable.⁵⁶ The Cabinet crisis which followed a few days later served to highlight the question. Errázuriz asked Eulogio Altamirano, a distinguished elder statesman, to form a new Government. Altamirano would only accept on the condition that inconvertible paper money was reintroduced. The President was not prepared at this stage to go as far as that and eventually Carlos Walker Martínez formed a new Cabinet.⁵⁷ A suspension of specie payments then would have very likely eliminated the possibility of a loan from abroad.

It was to obtain such a loan that the Government began intense financial diplomatic activity. The Government wanted a loan of £3mn and a secret session of the Senate gave its authorisation on 19th January 1898. The loan was ostensibly to be devoted to railways, but was in fact to be left deposited in Europe as a sort of strategic reserve. The Deputies did not have time to approve the loan before the closure of the Congress. With or without authorisation, the Government decided to seek a loan in Europe. Emilio Orrego Luco was

despatched to Europe and with the chief Chilean representatives in France and Germany, Ramón Barros Luco and Ramón Subercaseaux respectively, and also Augusto Matte, formed a mission to raise funds. Orrego Luco saw Rothschild on 4th April, but obtained a negative response. Rothschild's refusal to float a loan for Chile came as little surprise to the Chileans. As soon as news had leaked out about the Government's bill requesting authorisation for a £3mn loan, Rothschilds sent a telegram to the Chilean authorities expressing displeasure and requesting an explanation.⁵⁸ Only a few days before the Bank of Tarapacá and London in Santiago had been approached by the Government about the feasibility of raising a loan without Rothschilds. The Government asked the British bank for a loan of £4mn to be guaranteed by nitrate duty revenue. The Bank of Tarapacá and London was in no position to chance going behind the back of Rothschilds to float a bond issue of this magnitude in London.⁵⁹ The Chileans were thus faced with the dilemma that Rothschilds would not lend them any more money and yet without Rothschilds' participation ^{neither} nor would anyone else. Chile's credit in London was going through a temporary bad patch and her bond prices were low as a result of her dispute with Argentina. British investors and commercial interests in the country were not so much concerned at the possibility of an actual outbreak of war - which they tended to discount - but more at the potential consequences of the large expenditure on the arms race.⁶⁰

The Government's need for funds did not diminish. On the contrary, in early June a number of additional appropriations for the military were made. In mid-June the Chileans received an offer of a warship being built in the United States which could be ready for delivery within six months. This warship, costing 1.5mn US dollars, would have, in Chilean estimation, given them naval superiority over the Argentines. This temptation proved irresistible. Baulked in their attempt to obtain a large foreign loan, the Chileans

set their sights on a more limited sum to cover the cost of the warship. Negotiations were resumed with the Bank of Tarapacá and London for a short-term loan of £500,000. The loan was made via the issue of Treasury bills, since in this way it was hoped to present the loan as internal rather than external. Even so, the Government was uneasy and hesitant about the relatively hard terms of the loan - the Treasury bills were payable over 6, 18 and 24 months at 5% interest, although the effective interest charge was more than double that - and about the impression it would create abroad. The bank exerted considerable influence through its friends in order to overcome the opposition within the Cabinet to the terms of the deal. After some delay, the Government acceded. The loan was approved by secret sessions of the Senate and Deputies on 15th and 23rd June respectively, following a plea from Walker Martínez that the Government could see no way of covering the impending deficit of the Treasury even excluding the purchase of this warship. The loan contract was signed on 27th June 1898.⁶¹ News of this loan, and particularly the fact that it was not placed in London through Rothschilds, led to widespread concern and rumours in London and Chile.⁶²

The frequent secret sessions of Congress in the first half of 1898, especially during June and early July, provided enormous scope for the spreading of rumours and alarm about relations with Argentina, the state of the public finances and about the future of the Gold Standard. In June, the monthly average exchange rate fell to its lowest level since August 1895. The train of events that led to the collapse of the Gold Standard began with a statement about the weak position of the Banco de Chile made by the Finance Minister Rafael Sotomayor in a secret session of the Senate on 4th July.⁶³ The following day, Sotomayor, during a private conversation with a group of senators, remarked informally that one solution to the present crisis would be the issue of Pesos 20mn of inconvertible Treasury bills. By the end of that day reports

of both of these statements were general in Santiago and the Banco de Chile began to face large demands for withdrawals of gold in the capital. On 6th July there was a full scale run on the Banco de Chile in Santiago. The extent of the direct causal relationship between each of Sotomayor's remarks and the events of 6th July is difficult to assess. Both Walker Martínez and Sotomayor were adamant that the latter's remark about a paper money issue, which in no way was intended to be a statement of Government policy, had no influence on the run on the Banco de Chile the following day.⁶⁴ As noted by Fetter, there is considerable evidence that the run on the bank was a deliberate and concerted move by a small number of conspirators. This involved the spreading of rumours and sending anonymous letters to depositors urging them to withdraw funds from the bank.⁶⁵ One rumour current in Santiago at the time was that a ship left Valparaíso on 5th June carrying Pesos 3.5mn of gold; it later proved to be only Pesos 300,000.⁶⁶ Another rumour was spread alleging that José Besa, the President of the Banco de Chile, had withdrawn Pesos 40,000 in gold from the bank.⁶⁷

In these conditions, Sotomayor's role would appear to have been that of innocently providing some official credence to rumours and alarm that were already widespread as a result both of the war scare and clear economic and financial difficulties and of the exploitation of these conditions by a small group of conspirators. It would be difficult to say to what extent any conspiracy was organised by papeleros with the aim of bringing down the Gold Standard or by the political, personal or banking enemies of the Banco de Chile.

The Banco de Chile met the demands for withdrawals on the 5th and 6th of July but was in no position to sustain such a loss of deposits and gold.⁶⁸ Its situation was already weakened by sizeable withdrawals of funds by the Government, as a result of the Treasury's shortage of cash. Between 28th June and 7th July 1898, the Treasury itself ran down its

deposits in the bank by Pesos 2.4mn (from Pesos 3.7mn to Pesos 1.3mn, out of the bank's total deposits of a little under Pesos 50mn).⁶⁹

The Government's response to the financial panic in Santiago was to order the closure of the banks until 11th July (by a decree issued on the night of 6th July), following a formal request for such a closure from the leading banks.⁷⁰ On 8th July a group of leading banks, including the Banco de Chile and the main foreign banks, sent representatives to a meeting in the boardroom of the Banco de Chile. The meeting agreed to ask the Government to grant a 90-day moratorium on all debt obligations.⁷¹ On the following day, the Finance Committee of the Deputies presented a draft law for a 60-day moratorium. There was a good deal of opposition to a moratorium of this length, both from those who stressed the disruption it would cause and from doctrinaire oreros who attacked the proposal because it amounted to a suspension of specie payments. One of the latter, Enrique MacIver, proposed the reduction of the moratorium to 30 days and this was passed by the Deputies on 9th July and by the Senate the following day, in both cases by large majorities.⁷²

The moratorium relieved the banks of their obligation to pay their notes in gold for 30 days. At the time of the passing of the moratorium bill, there was no official indication of what was to happen after the 30 days, nor any official statements about the position of the banks. Nor was there any real confidence that 30 days would be sufficient, since the banks themselves had wanted 90 days and the Finance Committee of the Deputies had proposed 60 days. As late as 7th July, Sotomayor pronounced that "we shall maintain in all its integrity the law of metallic conversion."⁷³ This statement carried little conviction, being overshadowed by the events of the previous three days.

Within a few days the administration unfolded what it had clearly been contemplating for some time, but had held

back awaiting a suitable opportunity to put forward. On 14th July 1898, the Government presented a bill to the Deputies providing for the suspension of specie payments. At the same time, Sotomayor declared that "the Government has accepted paper money as an unfortunate necessity and accepts it because it does not have the disastrous consequences here attributed to it."⁷⁴

The Government's bill provided for the issue of Pesos 50mn of inconvertible fiscal notes which would be legal tender for all obligations not contracted expressly in gold. The existing bank note issue (Pesos 19mn) was to be taken over by the State and included in the Pesos 50mn. The banks were to repay the State over three years, and while inconvertibility existed the banks would be forbidden to issue notes. Since the primary aim of the exercise was to bail out the banks, the bill authorised the Government to lend Pesos 20mn of the note issue to the banks at 4% interest. The remainder of the note issue was to be invested in Caja Hipotecario bonds; if sufficient demand existed these would be 4% gold bonds, (sufficient being defined as Pesos 10mn within three months); if not they would be ordinary 8% bonds. These bonds would be used for the eventual payment of the note issue. There was no provision for a specie guarantee for the notes; the bill merely declared that they would be redeemed within four years with the proceeds of a £4mn loan which the Government was authorised to contract.

The Government's proposals were accompanied by a plethora of other bills on the same subject. The majority of these came from the orero side and were essentially aimed at avoiding a straightforward issue of State paper money.⁷⁵ They generally provided for the issue of short-term, interest bearing and convertible Treasury notes, which would be lent to the banks and which would be acceptable in payment of public dues. The majority sentiment, backed by the Government and the majority of the Finance Committee of the

Deputies, was for a simple paper issue. Some of those who were by no means on the papelero side accepted reluctantly that convertible Treasury notes would not do the job and that inconvertible notes would be indistinguishable from a simple paper issue.⁷⁶ A general vote in the Deputies on the question produced a majority of 52 against 30 for fiscal notes rather than Treasury notes.⁷⁷

A large number of Deputies wanted more than Pesos 50mn and a proposal from Balmacedists for a Pesos 60mn issue (including the bank note issue) was only narrowly rejected (by 42 votes to 38) after a tied first vote.⁷⁸ Outside of the ranks of the most committed papeleros, there was little support for the Government's proposal for a completely unguaranteed note issue. The majority report of the Finance Committee of the Deputies proposed the accumulation of a conversion fund in specie at a rate of Pesos 2mn per month and the redemption of the notes within 20 months. This proposal, from the largely orero majority on the Committee, was rejected in favour of a scheme involving a longer period of inconvertibility (3 years) and a slower rate of accumulation of specie (Pesos 1mn per month, the funds to be invested in bonds abroad).⁷⁹ Although favoured in general terms by some papeleros and others, there was insufficient support for such a large use of the note issue to buy mortgage bonds as provided in the Government's bill. It was difficult to justify such a large bonus to the agricultural interest while at the same time maintaining that the paper money issue was made necessary by the weak position of the banks. The final wording of the law amounted to a compromise and left the exact share of the banks and Caja Hipotecario bonds to be decided by the Government. The authorities were authorised to deposit all of the note issue in the banks at 2% interest, but that the part not so invested could be used to buy mortgage bonds.⁸⁰

Opposition to the Pesos 50mn paper money issue was even weaker in the Senate. A proposal for a Pesos 60mn issue was

defeated only narrowly (by 15 votes to 13), while the Pesos 50mn was approved by 25 to 3 and even these 3 opposed it only because they wanted a larger note issue.⁸¹ Changes made in the Senate weakened the bill from the oreros point of view. Firstly, at the suggestion of the Finance Minister, the accumulation of the conversion fund was slowed from Pesos 1mn per month to Pesos 10mn per year beginning from 1st June 1899. Secondly, the Senate approved, by 14 votes to 11, an amendment proposed by E.S. Sanfuentes that conversion on 1st January 1902 should be conditional on the exchange rate having been maintained at 18d for six months.⁸² The Deputies narrowly supported the first Senate amendment (by 37 to 35 after a tied vote); but the stronger orero representation in the Chamber enabled them to defeat the Senate's proposal for a conditional conversion. The papeleros in the upper house were unable to raise the necessary two-thirds majority to over-ride the Deputies.⁸³

The collapse of the Gold Standard was accepted by a sizeable majority in the Deputies and by a large majority in the Senate. Opposition to paper money came very largely from the Radicals, led by MacIver, and from sections of the Doctrinaire Liberals among whom the most vocal was Maximiliano Ibáñez. The entire contingent of 13 Radicals, voting as a block, were alone in voting against the Pesos 50mn paper issue after all the alternatives had been rejected in the Deputies.

Many alternative schemes were proposed in an effort to save the Gold Standard. As noted by Guillermo Subercaseaux;

"it was impossible to import any gold from abroad to calm the excitement of the bank depositors, because the small amount of gold nearest at hand was in Buenos Aires, which, owing to the fact that the communications over the Cordilleras was cut off by severe winter weather, was fifteen days distant."⁸⁴

Agustín Ross believed that there was in any case ample gold in Chile: the problem was that it was not in the Banco de Chile. Ross' solution, therefore, was the liquidation and reorganisation

on a sound basis of the Banco de Chile.⁸⁵ Politically more realistic alternatives involved some means of aiding the banks without resort to a paper money issue. In order to save the Gold Standard, such schemes had to avoid causing the export of gold, an almost inevitable consequence of the suspension of convertibility. This would have ruled out a simple suspension of the convertibility of notes on the lines of July 1878. The same objection could have been made against a short-term loan to the banks via some form of Treasury bill. The hostile attitude of Rothschilds and the Bank of Tarapacá and London to the similar scheme proposed by the Minister of Finance in 1896 pointed to the conclusion that anything smacking of paper money in the conditions of tension with Argentina would have been likely to lead to a flight of capital. It is arguable that, in any case, paper money became inevitable after the declaration of the moratorium, since this de facto suspension of specie payments was followed by a sizeable export of gold. The Valparaíso house of Gibbs thought that there was "gold and gold enough for all present requirements though of course there is not enough if everybody sets out to export it as hard as they can."⁸⁶ Official figures put the export of specie in 1898 at Pesos 14mn (just over £1mn).⁸⁷ Gibbs knew of one or two shipments of gold after the declaration of the moratorium which were made without going through the required customs formalities.⁸⁸ This suggests that the official figures of specie exports are too low.

The likely danger of a flight of gold from the country left as perhaps the most feasible alternative scheme to preserve the Gold Standard, the assumption of responsibility for the payment of bank notes by the State. This idea had been rejected by Congress in 1897 and could have involved the Government paying out substantial (but beforehand indeterminate) amounts of scarce gold or sterling bills. Despite the clear threat to the Gold Standard that existed at the time, the Government felt able in June 1898 to propose that the surplus funds

in the conversion fund be transferred to general revenue. This gold reserve, amounting to some Pesos 10mn (plus a further Pesos 6.4mn due from sales of nitrate lands) would have gone a long way to acting as a guarantee of the bank note issue.⁸⁹ Few Chilean politicians, however, dared to argue that these or other funds should be used to back the note issue rather than for the defence of the country, particularly at a time when nitrate prices were still falling and when the loan market in London had dried up. The much more frequently expressed proposal from the oreros of a short-term loan to the banks in the form of an issue of gold-denominated Treasury bills suffered from the same drawback that it would have involved the State in paying out gold at an unfortunate time. It is in this sense that the war scare made a real contribution to the collapse of the Gold Standard. Although considering that they could match the Argentines in strength of arms, the Chileans were concerned at their ability to finance a prolonged war. The argument put forward by some oreros that the Gold Standard was a symbol of economic strength, while its collapse would be a demonstration of financial weakness, cut little ice; anyway Argentina was not itself on the Gold Standard.⁹⁰

Again, although the paper money was not issued ostensibly and directly in order to relieve the Government's financial troubles, it certainly did help in the medium-term and turned what would have been a large Treasury deficit in 1898 into a surplus. The immediate cause of the suspension of specie payments was the Banco de Chile's liquidity crisis. However, as noted by the Acting Manager of the Bank of Tarapacá and London, "the deeper causes are the exaggerated military expenditure which has depleted the Government Treasury and prevented the State coming in as on former instances to the assistance of the Bank of Chile, which institution as you are aware has never been in a sound cash position."⁹¹

The Government self-righteously laid the blame at the

door of the previous administration by stressing that a key factor in the 1898 crisis was to be "found in the lack of confidence in the stability of the law that created the existing monetary system, a lack of confidence engendered by the ease with which the representatives of foreign commerce, on whom depends in large part the economic fate of the country, saw that the first conversion law of 26th November 1892 was not complied with."⁹²

The other major factor in the demise of the Gold Standard was the erosion of political resistance to paper money. Economic conditions in Chile in 1895/8 were in many ways a vindication of the views of the papeleros. The oreros were demoralised while the papeleros, although not themselves in a majority in Congress, successfully inculcated the view among a majority of the ruling class that the Gold Standard was no longer worth the cost involved in preserving it. Orero writers such as Roberto Espinoza and their later defenders such as Fetter lay great stress on the political causes of the fall of the Gold Standard in Chile in 1898. They both contend that any of the alternative schemes put forward at the time to save the Gold Standard would have been feasible if the political will had existed in government and in Congress.⁹³ This view gives insufficient weight to the real and objectively unfavourable economic and international (i.e. with Argentina) conditions under which the Gold Standard was operating. It is true that by 1898 almost all of the major countries of the world had gold-backed currencies; Russia had adopted the Gold Standard in 1896 and Japan and India had followed in 1897. In Latin America there was also evidence of a clear move towards financial orthodoxy in many countries, but by 1898 it had not gone very far. Costa Rica went on to gold in 1896; Peru started the process in 1897 and was followed by Ecuador in 1898. However, not one of the largest countries in the area (Argentina, Brazil and Mexico) was yet on the Gold Standard.⁹⁴ In this international context the suspension of specie payments by Chile in 1898 need

not necessarily be viewed as a major aberration at that time - arguably it became one only in the light of later developments, as will become clear.

The often mentioned association of the gold currency and economic depression leads on to the argument, which raged between the oreros and papeleros, about the extent to which the Gold Standard was a deflationary influence in 1895/8. The argument tended to concentrate on the narrow monetary definition of currency issued and in circulation and ignored bank deposits. As shown in Table XI the level of bank deposits showed a clear deflationary trend. Appendix IV shows estimates of the total money stock (notes and coins in circulation plus bank deposits). It indicates a clear deflationary trend. The figures serve only as a very approximate indication of monetary developments, since there is no way of knowing how much gold was hoarded or illegally exported in 1895/8. Contemporary comments suggest that gold exports were higher than shown in the official figures and that the lack of confidence in the Gold Standard and banks led to some hoarding of gold coin. Even a committed orero, Eduardo Edwards, was concerned at the fall in the currency in circulation (according to his figures, from Pesos 59.4mn in June 1895 to Pesos 42.5mn in May 1896).⁹⁵ The argument of Ross that even if the currency circulation did decline (he estimated from Pesos 42.3mn in December 1894 to 38.7mn by August 1896), the currency in 1896 was worth more in gold terms, ignores the reality of deflation.⁹⁶

These figures suggest that the papeleros' attacks on the conversion policy carried a good deal of substance. At the same time, the deflationary impact of the Gold Standard in Chile was superimposed on an already deflationary international trend of falling prices. This has led one modern writer to describe the 1895 conversion as "probably one of the most disastrous monetary operations of all time."⁹⁷ It is certainly not difficult to identify the faults in the oreros' policies and tactics. They tried to redeem the paper currency at too high a rate,

although in this they were merely applying, albeit in a rather harsh manner, the financial orthodoxy of the day. They failed to recognise that the Gold Standard could not be left to the automatic play of market forces and required a greater level of Government control, particularly over banks. The level of State control necessary was, however, neither doctrinally acceptable nor politically feasible at that time. Moreover, the oreros were not alone in believing in the automatic nature of the Gold Standard - this remained the authoritative view in Britain for nearly 30 years. Adding to these shortcomings, the general weakness of the Government, the inauspicious trade and economic conditions and the impact of the relatively small but influential group of papeleros, then it is not difficult to understand why the oreros failed.

How did those outside of the charmed political circle of Santiago perceive and respond to the 1898 financial crisis and the lengthy debates between their political masters in Congress? One strong orero and bitter opponent of the Errázuriz Administration, the Doctrinaire Liberal Deputy, Abraham Gazitúa, described the contrast between the response of the two main cities:

"When the artificial panic was created ... I was in Valparaíso ... the impression produced by that event among men of business and the representatives of labour and of industry was a reaction of sorrow and of surprise, since nobody wanted to place any importance to this upheaval ... and at the time, the prospect of a modification to this regime (metallic) was viewed by all with deep anguish, as an attack against the very life of this country. What a distinct picture crossed the faces in the capital! Here the possibility of the return to curso forzoso ... brought laughter to the lips and joy to the heart It appeared that this panic and the gloomy prospect were celebrated like a triumph of our heroic armies, achieved over a foreign enemy."

Gazitúa was drawing the contrast between the reaction of the merchants of Valparaíso and the agricultural/industrial/banking interests in Santiago. Lower down the strata of

Chilean society, where as yet little organisation was evident, views on the monetary question were less clearly formulated. The South American Journal reported that the small tradesmen, artisans and workers were in favour of maintaining the Gold Standard.⁹⁹ There was considerable popular agitation following the declaration of the moratorium since this move caused disruption to business life and to the payment of wages. This led to a gathering in Santiago on 20th July 1898 of some 20,000 workers, the main outcome of which was a petition to the Chamber of Deputies. This petition complained of the hardships caused by both the moratorium and the scarcity of currency in circulation and urged the repeal of the moratorium decree. It did not explicitly propose the retention of specie payments, but the leaders of those at the meeting clearly saw the dangers of the depreciation of the currency which would result from an issue of paper money. The petition thus declared that "in the event of returning to paper money it must not be for long nor its legal value be less than 18d."¹⁰⁰

The most important political party to have any real claims to represent popular opinion, the Democratic Party, had no such apprehension about paper money. The party's convention held in Concepción on 14th July 1898 passed a resolution supporting the Government's proposals for the issue of paper money and expressed no concern that they lacked any provision for an eventual return to specie payments. The Democrats' only reservation was their opposition to the money being lent to the banks. They wanted instead the paper notes to be used exclusively to aid agriculture, either via a direct loan to farmers or indirectly through the purchase of Caja Hipotecario bonds with a low interest rate.¹⁰¹

It was to be a few years yet before "sound money" became the battle cry of middle and working class organisations in Chile. There is little evidence of widespread popular concern or agitation about rising prices in Chile in the 1890s. The evidence suggests that domestic food prices continued to

rise in this period. The Bauer index rose by about a third between 1890/2 and 1897/9.¹⁰² Falling world prices no doubt continued to cushion some of the effect of the depreciation of the currency on domestic prices.¹⁰³ In spite of the upward trend of prices suggested by Bauer's figures, unemployment and recession appear to have been a more important pre-occupation of the lower sections of Chilean society in the 1890s. This was reflected in the propaganda of the Balmacedists and of the Democratic Party.

CHAPTER EIGHT

CHILE AT THE TURN OF THE CENTURY

At the turn of the century Chile's rulers did not view the state of their country with quite the same mood of confidence that they had 25 years earlier. The closing years of the 19th century and the early years of the 20th century were characterised by a good deal of gloomy introspection and self-criticism both from within and outside the ruling oligarchy. Enrique MacIver's "Discurso sobre la crisis moral de la República", written in 1900, was one of the first and most famous declarations of the moral decline of the Chilean.¹

Many writers have seen the War of the Pacific as marking the beginning of a period of stagnation in moral, political and economic terms. In this interpretation Chile followed the path of Peru in the "Guano Age" in failing to avoid the dangers of providential wealth. As a result "nitrate corrupted the Chilean soul to an outrageous extent, and the first to be corrupted was the oligarchy before proud, honourable and dignified."² Other writers, notably Francisco A. Encina, saw the War as merely accelerating a process that had begun before; the premature imposition on Chile of European ideas and education leading to the decadence of the ruling class as European standards of ostentation spread through upper Chilean society. Encina considered that the Chile of the first half of the 19th century, though one of limited resources, had been self-supporting and dynamic; but which had been converted into a dependency of Europe both in an economic and intellectual sense.³

In the eyes of the supporters of ex-President Balmaceda, the civil war marked the beginning of the period of decline. Even a modern writer such as Burr has asserted that the rejection by the majority of the ruling class of Balmaceda's programme, "represented a decline in the dynamic vision,

vitality, and enterprising spirit, which had, since the colonial period, characterized the Chilean elite and had been an important factor in raising Chile to a preeminent position upon the continent."⁴

One feature of the intellectual mood of stagnation and despondency was the frustration with the politics of the parliamentary era. This was reflected very soon after the civil war, for instance in the writings of Kennedy, the British Minister in Chile. Kennedy, like most Englishmen in Chile in 1891, had few kind words for Balmaceda. But with no more than a year's hindsight Kennedy completely changed his view of the character of Balmaceda and of the motives of the men who had overthrown him, motives which he saw as offering poor prospects for the future of the country.⁵

The lack of dynamism and the weakness of the governments of the 'Parliamentary Republic' was a factor in Chile's relative international decline. The mood of confidence which followed the War of the Pacific and the expectation of Chilean supremacy on the Pacific coast was by the mid-1890s being deflated as the country's position became more vulnerable. In the 1880s Chile's navy was the most powerful in South America after Brazil and the country for a time under Balmaceda possessed the largest ironclad in the western hemisphere.⁶ By the end of the century Chile's military power was being overtaken by Argentina, while she had still not been able to force Peru and Bolivia to settle the outstanding disputes from the War of the Pacific.

Alongside and related to the weakening of Chile's international position was the economic decline in relation to her large neighbour. This was most marked in terms of population. At mid-19th century the Chilean population substantially exceeded that of Argentina; but by 1914 it was only half the Argentine population. The major factor was immigration, which was never on a large scale in Chile. Between the arrival of the first European colonists in the 1840s and 1914 only around 100,000 European immigrants entered Chile.⁷ Furthermore,

Chile's population growth appears to have slowed from the 1870s. Between 1835 and 1875 the population grew at about 2% per year on average; over the period 1875-1920 the rate declined to 1.2%.⁸ This trend was worrying many Chileans by the end of the century.

The generally depressed economic conditions prevailing in the country in the 1890s also contributed to the mood of pessimism. This contrasted with the pick-up in the Argentine economy in the late 1890s which enabled the country to restore gold convertibility in 1900. The whole period from the 1850s to the First World War does not appear to have been one of rapid growth in the Chilean economy. Gross national product (in real terms) is estimated to have grown by about 2½% per annum in that period, half the rate estimated for Argentina.⁹ Economic expansion was probably lower than this in the 1890s and even in the 1880s. While reliable production figures for agriculture and industry are not available for these periods, other indicators suggest a slow pace of growth in relation to both the periods before and after. Exports in sterling terms grew by only a quarter between 1881/6 and 1896/1900. This compares with the near doubling of exports recorded in both the period 1856/60 to 1871/5 and in 1896/1900 to 1911/15.¹⁰

As mentioned earlier, Chilean agriculture reached its peak, at least in terms of exports, in the 1870s. Thereafter there was a clear trend of steady decline, although wheat exports held up well in a few years. In 1871/5 agricultural exports were worth three times the value of imports defined as animal and vegetable products; in 1896/1900 such imports exceeded agricultural exports.¹¹ By the turn of the century wheat exports had declined to almost nothing and in some years of bad harvests thereafter (1900, 1901, 1906 and 1907) Chile was a net importer of wheat.¹²

Industrial progress in the last quarter of the 19th century was steady but unspectacular. In 1900 an official survey found 16 manufacturing establishments employing over

100 people and a further 26 plants employing over 50. Included in the largest plants were a shoe-making factory and a heavy engineering works (making railway equipment) in Coquimbo, a brewery in Valparaíso and a copper foundry in Tacna.¹³ This suggests that by the 20th century Chilean industry had developed away from its agricultural-based beginnings.

The closing years of the 19th century were a depressing time for Chilean mining. Copper production reached a trough in the 1890s and in 1900 accounted for little more than 5% of world production.¹⁴ Production was then carried on in small, dispersed and largely Chilean-owned mines. The first development of the country's enormous deposits of low-grade copper ores began soon after the turn of the century with American capital and technology when the Braden Copper Company bought an area of land in O'Higgins. This area became the giant El Teniente mine, the first of the Gran Minería.

Alongside copper, other sectors of Chilean mining were also depressed. The course of the 19th century saw the virtual extinction of gold mining in Chile. Silver production reached its peak in the 1880s. Thereafter the richest silver mines were exhausted, while world prices continued to fall. In the late 1890s there was a sharp contraction of production and the quantity of silver exported in 1900 was smaller than in any of the previous 50 years.¹⁵

The decline of mining in Chile was readily apparent to the country's rulers. The 1894 Congress of the Sociedad Nacional de Minería, under the Presidency of the Minister of Public Works, compiled a long list of the causes of the "decadencia" of mining. These included the lack of easy and cheap transport between mines and ports, the lack of skilled technicians and labour and the lack of protection and credit.¹⁶

The depressed state of most other sectors of the economy around the turn of the century meant that these years marked in many respects the high-point of the dominance of nitrate in the economy. This dominance was most marked in

terms of government revenue. By the year 1900 the few remaining internal sources of taxation had been virtually eliminated and export duty on nitrate provided over half of total revenue.¹⁷

Even with other parts of the economy flagging, nitrate did not provide a significant alternative direction for Chilean capital and entrepreneurs. The nitrate industry was still in many respects a foreign enclave in the north. In 1901 the 48 British-owned oficinas were allocated over half the production quota in the Combination, while Chilean producers could manage only 15%.¹⁸ Many of the Chilean oficinas were staffed entirely with British administrators and technicians. The servicing, financing and transportation of nitrate was even more concentrated in foreign, mainly British, hands. Commercial houses such as Gibbs, Duncan Fox, Huth, Weber and Vorwerk, bought directly about a third of total nitrate output, acted as agents and administered oficinas for their owners, as well as financing the industry and owning several nitrate works themselves. In 1913 the Valparaíso and Iquique houses of Gibbs, as producers and agents, paid about £700,000 in nitrate duty, over 10% of the total received by the government in that year.¹⁹ The lucrative iodine trade (a by-product of nitrate production) was tightly controlled by a combination organised by Gibbs. In spite of the efforts by the Chilean government and other producing interests to break the monopoly of the notorious Nitrate Railways Company, it still carried well over half of all nitrate carried by rail in 1902.²⁰ Through all this the attitude of the country's rulers to the nitrate industry remained like "that of the contented consumer towards the cow."²¹

The depreciation of the currency in the last quarter of the 19th century was seen by many people as a symptom of the economic and moral decline of Chile. As noted by one British banker, the pre-1879 Chilean "was a hard worker and unspoilt. But since the oceans of money have been poured down his throat he like his 'peso' has sunk in value."²² This de-

preciation of the currency brought with it some economic benefits. Without it wheat exports and many copper and silver mines would have ceased some years before they actually did. The country's experience of stabilisation policies and the Gold Standard in the years 1892-8 coincided with depression at home, involving unfavourable internal trends in mining and agriculture, as well as with low export prices abroad. This association of the Gold Standard with economic depression was to be a constant theme in the monetary debate in the early years of the 20th century. At the same time the inflationary impact of the depreciation of the currency in the last quarter of the 19th century was mitigated by falling world prices. This situation changed fundamentally in the years that followed and gave a new dimension to the monetary question.

CHAPTER NINE

THE ERA OF PAPER MONEY INFLATION, 1898-1907

Although the amount of paper money issued in July 1898 was not itself wildly inflationary in relation to the previous currency circulation, the suspension of specie payments led to a substantial flight of capital from Chile. The exchange rate of the Peso dropped to under 12d by January 1899, although remaining above the low-point reached in the pre-Gold Standard days of mid-1894.

In early 1899 the downward course of the exchange was reversed and the rate recorded a steady rise over the next 20 months and reached over 17½d in September/October 1901, nearly touching on the gold export point. One factor in the strengthening of the Peso was the improvement of relations between Chile and Argentina. This began in September 1898, when the two agreed to ask for British arbitration in their boundary disputes. Better Argentine/Chilean relations were given an outward show by the celebrated Straits meeting between Errázuriz and President Roca of Argentina in February 1899.

At the same time, international trading conditions began to move in Chile's favour. The years 1896/7 marked the low-point of world commodity prices and in the following two years an upturn was clearly discernible. As regards Chile's main export products, copper and wheat prices began to move up in 1897. Copper prices were the first to show a big jump; in 1899 London prices rose on average over 40% above their level a year earlier. This sharp rise in world copper prices, although not immediately translated into increased export receipts for Chile, did contribute to the appreciation of the exchange rate in 1899. The revival of nitrate prices was a little more delayed and did not begin until 1899. Thereafter prices rose steadily each year until 1906, by which time they stood some 50% above their level in 1898. Rising nitrate

prices were accompanied by the demand of European farmers for increasing quantities of Chilean nitrate, and production and exports expanded accordingly. As a result, the country's receipts from nitrate exports more or less doubled over the period 1898/1905.¹

While exports, with the exception of wheat which was affected by poor harvests, were doing reasonably well in 1899 and 1900, Chile's import trade was depressed. The previous pattern of a collapse of the exchange rate being accompanied by a sharp cutback in imports was repeated in 1898, when imports fell to their lowest level since 1886 (in sterling terms). Imports remained at this very depressed level in 1899 and not until 1901 did the value of imports approach the levels of the Gold Standard years of 1895/7.² This swing into substantial surplus on Chile's officially recorded merchandise trade account in the years 1899-1901 was another factor in the rise in the exchange rate at this time. Another influence acting in the same direction early in 1899 was mentioned in The Times of 2nd February which reported rather cynically that the recent recovery in the exchange was caused inter alia by the fact that Congress was in recess and hence no more paper money could be issued until June 1899 at least.

Internally, the suspension of specie payments had a favourable effect on business confidence. Share prices, particularly those of the banks, staged a marked revival in August 1898. Banco de Chile shares, which had been quoted at around 70 in the weeks leading up to 31st July 1898, jumped to over 80 by mid-August. Prices of Caja Hipotecario bonds did even better; the 8% bonds rose from 82½ on 18th July to 95 on 13th August 1898.³

Improved relations between Chile and Argentina gave a further boost to confidence and share prices later in the year. The relief given to the banks in 1898 eased their difficulties and allowed, for instance, the reconstitution of the Banco de Santiago within a few years. Nevertheless, the suspension of

specie payments did not lead to a boom in banking. Looking at the private banks as a whole, it took 3-4 years for their operations to recover to the level attained before the failures of 1896/7. In 1901 the aggregate level of bank deposits and advances was still below that of the mid-1890s and the banks' total capital was very little higher.⁴

The fact that the July 1898 law was designed primarily to shore up the banks did not please everyone, even among those who had opposed the Gold Standard. Many had pushed the cause of agriculture as deserving a share of the benefits of the note issue. In the event, the hacendados received only a little over Pesos 5mn of the note issue in the form of government purchases of Caja Hipotecario bonds. The Balmacedists, who were still largely excluded from the banking oligarchy, were particularly dissatisfied. Their leader, Enrique Salvador Sanfuentes, described the July 1898 law as "the most shameful law that has been dictated by any Congress; the law of 31st July that had as its sole object to surrender at a contemptible price the credit of the State to the private owners of the banks and to the shareholders of Chilean and foreign banks The State has presented profits of millions of pesos annually to known industrialists, owners of banks and to shareholders."⁵ The role played by the Banco de Chile in the events of July 1898 came in for particular attack from the Balmacedists, especially its close ties with the Government and with sections of the Doctrinaire Liberals and the National Party.⁶

Added to this, the Balmacedists and a sizeable section of the Conservative Party considered the Pesos 50mn issue to be insufficient. It was not long, therefore, before the cry for more paper money was heard in Congress. Against increasing pressure for more paper, the Government - or strictly speaking President Errázuriz, Carlos Walker Martínez, the Minister of the Interior, and Rafael Sotomayor of the National Party, the Finance Minister - held firm. Although all three had presided over the collapse of the Gold Standard, they maintained that

following the ending of the war scare, "there would not be one need of the State that could justify a new issue of paper money."⁷ They declared the question to be closed and would permit no resumption of the debate in the extraordinary sessions of Congress of late 1898/early 1899.

This situation was intolerable for the Balmacedists, who had two seats in the Cabinet with Juan José Latorre, a naval hero of the War of the Pacific, in the Foreign Relations Ministry and a young leading light of the party and grandson of Andrés Bello, the eminent Chilean intellectual, Emilio Bello Codecido in the Ministry of Public Works. The party already felt aggrieved at what it saw as unfair and unequal treatment from its Coalition partners in the Government, the Nationals, the Conservatives and the Coalition Liberals. In particular, they alleged that these other parties had broken their pledge over the Balmacedists' share of public appointments. Moreover, Bello Codecido was at variance with most of his Cabinet colleagues over his ambitious scheme for the organisation of the State railways. It was ostensibly this that prompted the resignation of the two Balmacedists from the Government in December 1898. Errázuriz offered the vacant posts to two other Balmacedists, Agustín del Río, a Deputy for Santiago, and Ramón Antonio Vergara Donoso. However, the party leadership decided that this presented a suitable moment to withdraw its support from the administration and the two were instructed to refuse the ministries.⁸ This decision was announced formally by the party leader, E.S. Sanfuentes, in a long speech in the Senate on 20th December 1898.⁹ In this he stressed that the policies of the then Coalition Government were no longer compatible with Balmacedist principles. Prominent among these principles was the assertion that "the liberal-democrats have one view; we believe that this country must be given a currency circulation for the development of business, that will attract capital and lower the rate of interest."¹⁰

Another factor behind the defection of the Balmacedists

was the division within the ranks of the party between the supporters of Sanfuentes and the vicuñistas, the supporters of Claudio Vicuña. The latter had been Minister of the Interior and President-elect during the civil war before his exile and subsequent return and position of prominence in the Liberal Democratic Party. Vicuña was unhappy about the party's support for the Coalition and the administration on political grounds. He and his supporters were closer to the Doctrinaire Liberals and Radicals on such questions of doctrine as the Church and education, and were keen to break with the Coalition. The demand for more paper money, on which the party as a whole was united, provided a good common plank on a matter of principle for such a course of action.

After leaving the Coalition, the Liberal Democrats were free to attack the Government. They began by obstructing the 1899 Budget bill and managed to carry this on until 19th January 1899 when the other parties pushed through the closure of the debate in Congress.¹¹ On 4th January 1899, a bill signed by 15 Senators was introduced into the Senate by Elías Balmaceda, a brother of the ex-President who had risen to prominence in the Liberal Democratic Party since 1891 after being a rich but non-political hacendado in the period before the civil war. This bill provided for the further issue of paper money equivalent in value to 90% of the annual customs revenue, about Pesos 62mn according to the authors of the bill. The future redemption of the paper currency was to be conditional on the exchange rate staying at or above 17½d for six months and on the conversion fund exceeding the outstanding note issue by at least 10%.¹²

The bill was presented very close to the end of the extraordinary sessions of Congress, so that it stood little chance of becoming law in the immediate future. More likely, it represented an effort to break the unity of the other parties in the Coalition.¹³ Nevertheless, the proponents of more paper currency could count on considerable support and,

in the final analysis, may well have had a majority in Congress. The 15 Senators who had put their names to the proposal constituted nearly half of the total membership of the Senate (32). Within the 15 were four Conservatives and four Liberals as well as the Balmacedists. Fernando Lazcano, a leading Coalition Liberal, the President of the Senate and one of the 15, considered that half the Conservatives and Liberals in the Coalition were in favour of a new paper money emission and "thus it is that those within the Coalition who are convinced of the existence of a scarcity of currency have four sixths of the representatives of Congress to make triumph their view."¹⁴

Given the defection of the Balmacedists and the division in the Government parties, particularly within the ranks of the Conservatives, over the currency question, the Coalition Government seemed to be in a very weak position. Nevertheless, it survived long enough to make a successful stand against the Balmacedists on this issue. Carlos Walker Martínez, the Interior Minister, had managed to fill the two vacant Cabinet posts left by the Balmacedists with a Conservative, Carlos Concha Subercaseaux (ironically an ardent papelerero) and Arturo Alessandri, a young lawyer and Coalition Liberal and the brother-in-law of Fernando Lazcano. The principal factor sustaining the Government at this time was the tacit support of the Radicals, given their opposition to the economic policy of the Balmacedists.

The Government stood firm against any new paper currency and Walker Martínez announced that the Senators' bill would not be included in the convocatorio for the current session of Congress.¹⁵ This aroused an angry reaction from a large section of Congress, even from some oreros such as the Radical Deputy, Jorge Huneeus, who considered that the question should be aired and decided in order to remove the uncertainty affecting business.¹⁶ A few days later the Government received support from two quarters. In a note to the Minister of Finance, the Valparaíso Chamber of Commerce stressed "the

enormous and prejudicial disturbance that would accrue to the commerce of the country from an increase of paper money ... and there is nothing in the opinion of this Chamber, which indicates or demonstrates that the circulating medium of today is sufficient ... the ideas of new issues can only have their origin in a paralogism of ideas or in merely personal interest.¹⁷

Probably more decisively, on the same day, the 12th of January, the leader of the Cabinet and chief of the Conservative Party, Carlos Walker Martínez, succeeded in closing the ranks of his party behind the Government. This was achieved in an almost unanimous vote in the Directorate of the Conservative Party against more paper money at this time. The Chilian Times considered that "the importance of this vote cannot be over-estimated."¹⁸ Certainly, after this vote the Conservative members of Congress were not willing to go against their chief and the Directorate of their party by voting the Government out of office on this matter. The episode represented a temporary setback for the Balmacedists in their political manoeuvring. It was to some extent also a defeat for the papeleros in their efforts to capitalise on the disillusion with the Gold Standard. But the decision of the Conservatives was purely tactical and did not represent a permanent breach of the principle of the "cuestion abierta."

There followed a six-month respite from political debate over the currency question. The Walker Martínez Cabinet, with no firm majority, resigned soon after the beginning of the ordinary congressional sessions in June 1899. The President, in his annual message, was able to say that the financial position of the country was sufficiently favourable to assure the return to the Gold Standard on the date set in the 1898 law.¹⁹ After a short-lived Liberal Alliance Ministry in which the Liberal Democrats participated, a new Coalition Government was formed under the leadership of Rafael Sotomayor of the National Party with the Balmacedist, Manuel Salinas, as Finance Minister.

Meanwhile, other pressures were acting to provoke a re-emergence of the currency debate. The winter of 1899 was a bad time for Chilean agriculture. Storms and floods caused considerable damage to crops, particularly in the south. This in turn led to widespread demands from farming interests for some form of State aid for agriculture. These demands took various forms. The Sociedad Nacional de Agricultura proposed in July 1899 a reduction in the interest rate on mortgage bonds in order to relieve the position of debtors. Soon after there was a more extreme demand for a Pesos 100mn note issue made by the Balmacedist Deputy, Manuel Novoa. The pressure outside Congress came mainly from agricultural interests in the south. In October 1899 Congress received a petition from 500 farmers of Concepción demanding a Pesos 50mn paper money emission and a moratorium on mortgage debt payments.²⁰ Leading the campaign in Congress was Domingo Fernández Concha, the Conservative Senator for Chiloé and champion of the interests of the hacendados.

The administration, concerned to avoid another break in the Coalition, decided to leave the matter entirely to Congress. In its turn, the legislature was little less indecisive. The Finance Committee of the Senate was hopelessly divided. A bare majority of the Committee rejected a bill presented by Domingo Fernández Concha which provided for a two-year moratorium on repayments of mortgage debts and a compensatory State subsidy to the Caja de Crédito Hipotecario and other mortgage banks. But the Committee came up with no alternative, although half the members expressed reservations and urged discussion of some sort of measures to aid the farmers.²¹ Finally, the Senate abdicated all responsibility by passing a motion recognising the plight of agriculture, but shelving all bills on the subject before the house and asking the Government to study possible measures.²²

The Chamber of Deputies went only a little further towards any action. The Finance Committee, the majority of

which was staffed by people who before 1898 had been conversionistas, rejected proposals for a new paper money issue. The Committee did, however, propose that the Conversion Fund should be invested in Caja Hipotecario bonds instead of being sent abroad. Since this move would have eliminated the fund as a means of redeeming the paper money at the beginning of 1902, the Committee proposed the contraction of a £4mn external loan to pay for the conversion. This proposal was supported by Salinas, the Finance Minister.²³ Nothing came of the ideas of the Committee, although the episode was indicative of the lessening enthusiasm of former oreros to press for the restoration of the Gold Standard.

An important factor in the failure of the papeleros and the agricultural interest to press home their case for help in 1899 was the proximity of the parliamentary elections due in March 1900. Both the Government and a large section of Congress were reluctant to be seen to be helping one sectional interest, albeit a big one, so close to an election.

The elections gave the Coalition Government a precarious majority. The Conservatives lost their position as largest party, but their losses were compensated by gains made by the Coalition (or Errázuriz) Liberals. The Balmacedists recorded small gains but sufficient to restore them as the largest party in Congress.²⁴ After the elections, the Government was supported by the Conservatives, the Nationals, the Coalition Liberals and the Balmacedist supporters of Sanfuentes, while the opposition was provided by the Radicals, Doctrinaire Liberals and the vicuñistas who were then the stronger faction of the Liberal Democratic Party in terms of number of seats.

It is difficult to judge the effect of the March 1900 election on the balance of forces between the oreros and the papeleros, given the absence of any debate for nearly another 18 months. The United States Minister in Chile, Henry Lane Wilson, considered that President Errázuriz was successful in his aim of obtaining a majority for gold and that this was a

"gratifying and overwhelming success."²⁵ This view was endorsed by the Bank of Tarapacá and London.²⁶

After the elections of March 1900, there was little pressure for a renewal of the currency debate, which in any case was going to have to occur before the end of the following year. This was no doubt influenced by the fact that most economic indicators were showing favourable trends in the years 1899/1901. Nitrate prices were rising; Chilean bond prices in London were recovering from their low of 1898; and the exchange rate was rising. An appreciating exchange rate was usually disliked by farming interests, but at this time they were receiving the compensation of rising prices of mortgage bonds and falling interest rates. In any case, in 1900 and 1901 Chilean farmers were exporting only very small quantities of cereals because of bad harvests.

There was also the major distraction of the 1901 Presidential election to keep the politicians occupied. By March 1901 the two opposing groups had been formed. The Conservatives and Nationals joined to choose Pedro Montt as their candidate. The various parties on the liberal side had become alarmed at the Conservatives' efforts to push their clerical policies on relations with the Church and with respect to education policy during the Errázuriz Administration. As a result, the Liberals, Radicals and Balmacedists united to put forward a candidate. At their convention in March 1901 this task proved to be difficult. There followed a number of days of voting deadlock between the supporters of Claudio Vicuña, Fernando Lazcano, and Augusto Matte, each representing different parties and factions within the Liberal Alliance. Eventually a compromise candidate emerged, in the form of Germán Riesco Errázuriz. Riesco was an ex-Supreme Court Judge, a director of the Banco de Chile and Senator for Talca since 1900. He was a Liberal, with leanings towards the Coalition faction. Riesco was almost a political unknown, except in the sense that he was a nephew of the first President Errázuriz and a brother-in-law

of the second (although President Errázuriz' sympathies lay with Pedro Montt). At the time of his nomination Riesco had already left the convention and was away in the resort of Viña del Mar.²⁷

Riesco, with the superior weight of party political backing, won the election with ease. Pedro Montt had for many years been a leading and outspoken orero. Riesco, although having a vague reputation as a sound money man, was not an enthusiast either way. He expressed no strong views on economic matters and there was no mention of the monetary question in his election programme. Although Montt's well-known views did not commend themselves to many Conservatives - some of whom in fact withheld support from him - the monetary question appears to have played little part in the election.

Riesco's approach to government might generously be described as low-key. His administration was hampered by the lack of a consistent majority in the legislature as a result of the constant switching of the Liberal Democrats, a tendency that became even more pronounced in this period. At the same time, Riesco was by inclination less willing to take any kind of lead or initiative than had been his more politically astute predecessor. It was during Riesco's administration that the Senate became firmly entrenched as the centre of political power as well as of social prestige and wealth. From 1903, all the major party leaders had seats in the Senate: José Tocornal and Carlos Walker Martínez of the Conservatives, Pedro Montt of the National Party, Fernando Lazcano of the Coalition Liberals, Vicente Reyes of the Doctrinaire Liberals, Enrique MacIver of the Radicals and Claudio Vicuña and Juan Luis Sanfuentes of the Liberal Democrats. The last-named took over the prominent position in the Balmacedist ranks previously held by his brother, Enrique Salvador Sanfuentes. Juan Luis Sanfuentes proceeded to take a dominant role in Santiago politics as the leader of the largest party in Congress and as the leading political 'wire-puller.' His residence, the

Casa Azul in La Calle Compañía, became a centre of political power more important than the Presidential Palace.

Even before the change of administration, the currency question re-emerged. President Errázuriz died only a few months before the end of his term of office and shortly before his death he had named his friend, Aníbal Zañartu, as Minister of the Interior. Zañartu, who had headed Errázuriz' first Government in 1896, duly became Vice-President on 1st May 1901 and served as Head of State until Riesco assumed office in September. The name of Zañartu was anathema to oreros and to commercial interests. The Times correspondent noted that "Señor Zañartu is the head of a party entertaining strong convictions that the prosperity of Chile is bound up with the maintenance of a fluctuating currency, expressed in terms of paper money, which preserves people from the temptation of rushing banks and exporting gold."²⁸ The exchange rate fell by more than 1d to little over 15d in the three months following Zañartu's appointment.

The Minister of Finance in Zañartu's Government was Juan Luis Sanfuentes who shared the economic views of the Vice-President and who was also regarded as a threat to the resumption of specie payments due on 1st January 1902. In fact, Juan Luis Sanfuentes, unlike his brother, was not to become a leading papelero theorist. In spite of his position as leader of a party containing many of the most fervent papeleros, Sanfuentes kept well out of the monetary debate, rarely speaking on the subject even from his frequent positions as Minister of Finance or on the Senate Finance Committee. His dedication to party political manoeuvring and his single-minded determination to take on the Presidency seemed to have precluded him from taking an outspoken and principled stand on any of the issues of the day.

For the interim Government of Aníbal Zañartu, continuity was the order of the day. Accordingly, the message read by Zañartu to Congress on 1st June 1901 contained the

promise that "the Government will maintain in all its parts the law on metallic conversion."²⁹ However, Zanãrtu put his own stamp on this policy statement in a passage that expressed undisguised regret that money going to the Conversion Fund could not be spent on public works and increasing the wealth of the country.³⁰

Once Congress had dealt with the formalities involved in the Presidential election, the monetary question again rose to the fore as the major domestic issue and took up a large part of the time of the legislature until the end of the year. Manuel Salinas, a Balmacedist and former Finance Minister, opened the battle on behalf of the anti-conversionists with a bill for the postponement of conversion until the beginning of 1904.³¹ At this stage Congress was prepared to wait a little while, at least until the changeover of the Presidency, before acting.

Sanfuentes continued as Finance Minister in the first of Riesco's governments which comprised representatives of the parties that had supported him in the election. This Government, like so many others in the period 1901/6, was plagued with the problem of the manoeuvrings of the Balmacedists and was consequently short-lived. This particular cabinet difficulty arose out of the division within the ranks of the Balmacedists which spilled over into the Cabinet. Sanfuentes accused the Government of favouring the vicuñistas in the apportionment of public positions (in this instance the Intendente of Coquimbo) and he resigned on 2nd October 1901. The President, faced with the dilemma of the hostility between the two Balmacedist factions, chose a Liberal, Luis Barros Borgoño, to replace Sanfuentes.³² Barros Borgoño was the son of the historian Barros Arana, and for many years was Director of the Caja de Crédito Hipotecario. Barros Borgoño was not a papelerero and his appointment was welcomed by the Bank of Tarapacá and Argentina (renamed from the Bank of Tarapacá and London) as increasing the prospects of conversion.³³ In reality Barros

Borgoño's brief stay in the Ministry of Finance did not alter the trend of events. Neither he nor, least of all, Riesco was prepared to defend conversion against the pressure for postponement.

On 14th October, the chief of the Cabinet, Ramón Barros Luco, announced in a statement of Government policy that "the Government proposes to submit shortly for the consideration of Congress some measures leading to the fulfilment of the obligation to redeem the notes, to permit the realisation of the exchange operation at such a time and in such a form as to ensure the circulation of gold."³⁴ This promise of a bill for the postponement of conversion was fulfilled on 7th November when such a proposal was presented to Congress by Barros Borgoña. The resumption of specie payments was to be postponed until 1st October 1903. The Conversion Fund was to remain intact and be augmented periodically by profits from the sales of gold from customs revenue. A further article provided for the minting of Pesos 10mn of silver coin. The Finance Minister's principal justification for this move was that, although the Conversion Fund, put at Pesos 54.1mn, was sufficient, conditions, which included a depressed exchange rate, were not propitious.³⁵

The exchange rate averaged 16d in September 1901, the last full month before the Government's postponement announcement. A 12% appreciation of the Peso was thus necessary. Comparing the 12 months prior to 1st January 1902 with the same period leading up to the establishment of the Gold Standard in June 1895, it is clear that much less appreciation of the external value of the currency would have been necessary in 1901 than was required in 1894/5. External economic conditions in 1901 were in fact quite favourable for a resumption of specie payments with a minimum of disruption.

Such arguments carried little weight among Chilean politicians. A much more important factor in the support for a postponement of conversion was the state of relations with Argentina. After an improvement in 1899, Chilean-Argentine

relations deteriorated from May 1900 and there followed a series of border incidents and war rumours.³⁶ A key feature of the strained relations was a naval race. Chile's concern that she was losing her previous naval superiority led her to order two new cruisers in Britain costing some £2.1mn. Even without the cost of these warships, military expenditure recorded a 40% rise in sterling terms in 1901 compared with the previous year and was becoming a strain on the Treasury.³⁷ Since strictly speaking adequate money was said to exist in the Conversion Fund, the question of a financial restraint on conversion was not raised explicitly. However, in the light of later events, it was no doubt in the minds of some who argued for a postponement of conversion.

The dispute between the two countries equally affected monetary developments in Argentina. The Argentine experience is relevant to the Chilean case. A law establishing the Caja de Conversión and gold convertibility was passed in Argentina on 3rd November 1899. But no significant amounts of gold came into the Caja de Conversión until 1903. This suggests that the Gold Standard did not function properly in Argentina until the border dispute with Chile was out of the way.³⁸

Poor relations with Argentina strengthened the hands of the doctrinal opponents of conversion in Congress. But what ensured the success of the postponement proposals was the general demoralisation of the oreros after the events of 1898. In 1901, despite the favourable external economic conditions, very few Chilean politicians were prepared to argue strongly for a restoration of the Gold Standard in the immediate future. An example of this change is provided by El Mercurio of Valparaiso, formerly the leading pro-orero newspaper. In October 1901 the newspaper declared that the due date for conversion "has not coincided with a period or situation appropriate for the re-establishment of the metallic currency."³⁹ In fact, along with other Gold Standard supporters of the 1890s, El Mercurio had begun to place a different interpretation on the events of 1898.

In place of the papelero conspiracy theory, the collapse of the Gold Standard in 1898 was attributed to the dispute with Argentina, and El Mercurio went on to assert that the lesson of 1895/8 is that "it is not wise to establish with a long period of notice a fixed date on which to initiate the metallic conversion but best to arrange things so that the Executive is authorised, with safeguards, to fix the date for the commencement of the withdrawal of the paper money taking advantage of a situation in which favourable circumstances are manifest."⁴⁰ This amounted to an attack on the fundamental strategy of the oreros in the 1890s.

Even the Radical Party which, united, had opposed the 1898 paper money law, did not continue its support for the Gold Standard in or outside of Congress. The programme that emerged from the 1899 Convention of the party referred in a general way to the damage caused by an unstable currency, but the unwritten rule of the *cuestion abierta* and the disillusion with the Gold Standard prevented it going any further.⁴¹

The absence of all but a very few people willing to speak up for conversion on 1st January 1902, did not ensure the prompt despatch of the Government's postponement bill. The Government's bill was accompanied by a large number of other proposals and counter-proposals. Most of these originated from the papelero side in the form of bills proposing more paper money or the removal of any fixed date for conversion. Such bills were rejected in the Deputies, although only after frequent and extremely long discourses by two relatively new papeleros in the lower chamber.⁴² These were Malaquias Concha, the leader of the small Democratic Party which then possessed three seats in the Deputies; and Alfredo Irarrázaval Zañartu, who after ~~forming~~ ^{founding} the papelero and jingoistic newspaper La Tarde in 1896, entered the Deputies in 1897 with the support of the Democratic Party. The bill that finally emerged from the Deputies did include one victory for the papeleros in the sense that the date for the resumption of specie payments was

put back even further, to the beginning of 1905. At the same time, the oreros and commercial interests could point to one redeeming feature. The Conversion Fund was not only maintained intact but was also to be increased by Pesos 5mn per annum from export duties (a much more definite commitment to increase the fund than ^{was} contained in the executive's bill).⁴³

During the monetary debate in November the Balmacedists expressed their resentment at the reduction of their representation in the Government that had resulted from Barros Borgoño's appointment by engineering a successful vote of censure and the resignation of the Government. The new Liberal Alliance Ministry restored the Balmacedists' representation to two, with one of them, Enrique Villegas Encalada, in the Finance portfolio.

Villegas was not happy with the Deputies' provision for the increase in the Conversion Fund.⁴⁴ But by the time that the Deputies' bill was passed and sent to the Senate (23rd December), there was too little time for the Government or Senators to make amendments to it. The bill was approved by 23 votes to 1 in the Senate,⁴⁵ with only the isolated voice of Pedro Montt attacking the postponement of conversion. The law dated 31st December 1901, besides providing for conversion on 1st January 1905 and for a Pesos 5mn per annum addition to the Conversion Fund, also replaced with gold the non-gold portion of the Fund (principally some Pesos 7mn of mortgage bonds) which was to be used effectively as ordinary Treasury revenue. A separate law passed at more or less the same time dictated that the question of the banks' note issue should be ruled by a special law. This was merely a device to continue the 1898 ban on bank note issues.⁴⁶

The postponement of conversion for three years left the Conversion Fund lying idle. This proved too much of a temptation for the Government which was facing difficulties in finding sufficient funds to meet payments due on the two warships, the "Constitucion" and the "Libertad", under con-

struction in Britain. The Government had authority to contract an external loan to cover their cost, but could not find a lender on anything but onerous terms. Therefore, on 20th January 1902, during the recess of Congress, the Government decided to take Pesos 20mn out of the Conversion Fund to meet payments falling due on the warships.⁴⁷ After having taken some of the funds, the Government then asked for legislative authority when the congressional sessions resumed in April.⁴⁸ The Government stressed the crisis faced by the Treasury earlier in the year in meeting external payments. In reply to criticisms of their failure to obtain prior authority for their action, the Minister of the Interior, Ismael Tocornal, stressed that at the time most members of Congress had been away from Santiago. After undertaking to repay the Conversion Fund and also to comply with the provision in the December 1901 law for the Pesos 5mn per annum increase of the Fund, the Government obtained retrospective approval of its action and also survived censure motions.⁴⁹

Even the Pesos 20mn from the Conversion Fund was not enough to meet the heavy bunching of external payments due in 1902. In order to meet further payments due on the warships, the Chileans were forced to contract a £500,000 18-month loan from the Bank of Tarapacá and Argentina on the relatively hard terms of $6\frac{1}{2}\%$ interest. This loan was renewed the following year.⁵⁰

In May 1902 Chile and Argentina signed the Pactos de Mayo. The pacts were a general declaration of friendship and co-operation and paved the way for the negotiation and the settlement of the boundary dispute in Patagonia, based on the British arbitration award. The pacts also envisaged a naval disarmament protocol, which was signed in January 1903. Under this protocol both countries agreed to sell the two warships which each had under construction.⁵¹ Chile eventually sold her two ships (through Antony Gibbs and Sons) for £1.8mn, which represented a loss of £300,000 on the whole exercise.⁵² A

decree of October 1904 ordered the proceeds of the sale of the two battleships to be returned to the Conversion Fund.⁵³ After various deductions and expenses, only Pesos 14.9mn (£1.1mn) was given to the fund, so that it was never wholly reimbursed.

From the point of view of the few remaining supporters of conversion, this episode provided a potentially unfortunate precedent. It also served as an example for the papeleros, the more extreme of whom advocated using the Conversion Fund for more productive purposes than lying around in the Treasury or in foreign bank accounts. On a more practical level, the missing Pesos 20mn was to provide a part of the case for the further postponement of conversion put forward in 1904.

The Pactos de Mayo, besides easing the Treasury's problems, also marked the beginning of a general economic upswing. The exchange rate jumped immediately on news of the pacts and from August 1902 through 1903 and 1904 was relatively stable at between 16d and 17d. Rising exports were a major factor in this upturn, but economic conditions were also improving internally. For the hacendado this involved lower prices of mortgage bonds and falling interest rates. In 1902, the average yield on mortgage bonds fell below 7% for the first time since 1893.⁵⁴

The improving international situation facing the country and easier financial conditions at home contributed to a speculative boom that began in 1903 and which peaked in 1905. The boom was characterised by a flurry of company formation. The capital of new companies registered in Chile doubled in 1903 and again in 1904 and nearly tripled in 1905 when 170 new companies were registered with a combined capital of Pesos 271mn.⁵⁵ Many of these companies, spread throughout agriculture, nitrate, mining, industry and banking, were not founded or run on the soundest of financial principles. An official British representative, after warning of the possibility of a collapse of the boom leading to a financial crisis

of the order of that of 1890 in Argentina, reported that, "very many of the new companies have been formed to engage in stock rearing in the South of the Republic, many of them do not own a single sheep as yet, and it is difficult to say where sufficient sheep could be found to stock them."⁵⁶

In order to finance this increased activity, the banks expanded their operations considerably. New banks were established and existing ones raised their capital, so that the total paid capital of the banks, which in 1903 was still only at the level of the mid-1890s, nearly doubled to Pesos 98mn by end-1905. The year 1902 saw the revival of bank lending, although to a level only a little above that of 1895. In 1904, there was a further surge in the banks' operations and deposits rose by about 20%.⁵⁷ This expansion of banking and of economic activity in general provided the source of a lengthy argument about the adequacy of the note issue in 1904 as the date fixed for the redemption of the paper money approached. The debate centred on the relationship between the note issue and such other variables as the level of bank deposits and cash reserves and the level of economic activity in general. The debate, based on incomplete information, was inconclusive. There were complaints of currency shortages in 1904, but on the other hand they were by no means as widespread or vocal as had been voiced on occasions before. There is also little evidence of a serious liquidity crisis facing the banks in 1904 and little indication of strong pressure from the banks for a new paper money issue.

Demands for more paper money nevertheless began in Congress soon after the 1903 elections. A series of bills on this theme were introduced by Balmacedist and Democratic Party Deputies in July and August 1903.⁵⁸ The elections seem to have increased the papeleros' representation, at least in the lower house. Their position in the Finance Committee of the Deputies was strengthened by the new membership of three hardline papeleros, Malaquias Concha, Alfredo Irarrázaval Z. and the

Conservative Darío Sánchez.

The 1903 Congressional elections gave a majority to the Coalition, that then included the Liberal Democrats. The latter consolidated their position and became the largest party in both houses. In April 1904, the Balmacedists switched allegiance again towards the Alliance and the Coalition Government collapsed.⁵⁹ A new Ministry was formed under the Balmacedist, Manuel Egidio Ballesteros. For Finance Minister, Riesco chose the Doctrinaire Liberal, Maximiliano Ibáñez, a banking lawyer and more recently a hacendado, who in 1898 had been one of the leaders of the rearguard action in defence of the Gold Standard. The President was at this stage thinking in terms not only of a further postponement of conversion but also of a new paper money issue. However, over the years Ibáñez' views had modified - he had supported postponement in 1901 - and in 1904 was prepared to go a stage further to openly expounding a contrary policy in order to obtain his first ministerial office.⁶⁰

When the ordinary sessions of Congress opened in June 1904, Ibáñez faced hostile questions from oreros about his attitude to conversion. The Finance Minister accepted that conditions for conversion were then more propitious than three years earlier. The exchange rate was not far off par and the economy was in better shape, although he did not believe that the improvement had yet been consolidated. Equally important, the threat of war with Argentina was now removed. However, Ibáñez argued that the key factor preventing conversion on 1st January 1905 was the absence of the Pesos 20mn from the Conversion Fund. A mere Pesos 23mn remained in the fund. The lack of gold in the Conversion Fund was also the result of the fact that governments since 1901 had not replaced with gold the mortgage bonds taken from the fund nor augmented the fund by Pesos 5mn per year as provided in the December 1901 law. Implicitly laying the blame on previous governments and on the previous legislature, Ibáñez asserted that the removal of the Pesos 20mn from the Conversion Fund meant that "from that moment the conversion was

derogated, not in law, but in reality."⁶¹ At the same time, he supported the argument that the existing currency in circulation was inadequate and he proposed a Pesos 25mn note issue to be matched by an equal increase in the Conversion Fund.

In spite of rumours that some members of the Government were thinking in terms of a much larger paper money emission than the Pesos 25mn mentioned by Ibáñez, the bill signed by Riesco and the Finance Minister and presented to Congress on 22nd June 1904 closely followed Ibáñez' ideas.⁶² The redemption of the paper money was to be postponed until 1st July 1907. The Conversion Fund was to be increased by the proceeds of sales of State-owned nitrate lands and of public land in Magallanes. The increase in the fund above the level of Pesos 50mn would be matched by an issue of paper money up to a maximum of Pesos 25mn which would be used to meet general Treasury expenditure needs.

The Finance Committee of the Deputies rejected the Government's bill in favour of their own. This proposed a Pesos 50mn note issue and a postponement of conversion until end-1908.⁶³ There followed a long and tedious debate in the Deputies which lasted throughout the ordinary sessions, resumed in November and did not end until early December. The debate was characterised by the usual large number of bills and long theoretical speeches and by a sparse attendance in the chamber at many stages.

The vocal oreros, although small in number, did this time nearly succeed in matching the papeleros in verbal stamina. The debate marked a departure for at least a section of the pro-gold forces. They now introduced the strategy of supporting a Caja de Conversión on the lines of that set up by Argentina in 1900. Such an institution, it was argued, gave the advantages of a gold currency together with a flexibility in the note issue clearly lacking in the existing paper money regime.⁶⁴

The bill which eventually left the Deputies, although falling short of the demands of the Finance Committee, still represented a victory for the papeleros. The conversion date

was put off until the beginning of 1910. Only by 40 votes to 36 did the papeleros fail to tag on to the bill the provision that conversion on that date would be conditional on the exchange rate being maintained at an average level above the gold export point in the previous six months. The note issue was raised to Pesos 30mn (approved by 49 votes to 31, although a motion for a Pesos 50mn issue was rejected 71 to 19). Of the Pesos 30mn, 10mn was earmarked for Treasury expenditure. As a rather blatant concession (or cheap loan) to the interests of the agricultural/debtor class, the remaining Pesos 20mn was to be invested in mortgage bonds. The one minor crumb of comfort for the oreros was that the bill proposed that the Conversion Fund should be sent abroad for safe-keeping and to earn some interest. In addition there was a provision that would forbid the Government to use the fund for anything but its proper purpose without special authorisation.⁶⁵

During the long period in which the monetary question was before the Chamber of Deputies in 1904, the Government changed. Dissatisfaction among some sections of the Liberal parties with the Government's handling of this and other economic matters led them to withdraw their support and the Government resigned in October 1904. A new Ministry under the Balmacedist, Emilio Bello Codecido, was formed with a Radical, Ernesto Hubner, as Finance Minister. This change did not represent any alteration in the Government's monetary policy; the matter was, anyway, out of the Government's hands.

The fact that the original executive bill had effectively been lost did not stop the Finance Minister, Hübner, from making a vigorous defence of the Deputies' bill against the conversionistas in the Senate, on the principle that any bill was better than none. The conversionistas were relatively more numerous in the Senate than in the lower house in 1904. The Finance Committee of the Senate, which contained an anti-papelero majority, rejected any paper money issue, although it accepted the need for a three year postponement of conversion.⁶⁶

This move opened up the whole debate again.

The long delays and debates in the discussion of the paper money bill led to unease in business and financial circles. Towards the end of the year, the Government came under pressure from business interests in both the north and south of the Republic who demanded the speedy issue of more paper money. In the words of the Finance Minister, "commerce has already discounted this issue," demonstrated by the large number of companies floated recently, especially in nitrate in the north and in livestock in the south, in anticipation of a larger currency circulation.⁶⁷ He asserted that there were shortages of currency appearing in both of these regions of the country. The supporters of a larger note circulation clearly feared that a failure to emit more money would bring an early end to the economic boom and speculative company formation that had just got under way.

The nitrate producers provided a special case for more paper money. Under pressure from the authorities, the salitreros were in the process of eliminating the use of fichas (tokens) in payment of wages to nitrate workers. The view of employers in the north was that the abolition of fichas would leave inadequate means of payment for wages in the area. They mentioned a figure of Pesos 2mn of notes and coins as being necessary to make up for the shortfall.⁶⁸ The Finance Minister, Ernesto Hübner, later put the extra currency needs of the salitreros at Pesos 6mn.⁶⁹

Countering these pressures for more paper money were at least some of the commercial interests of Valparaiso. In December 1904, 53 merchant houses of that city signed a petition to the Senate supporting the proposals of the Senate Finance Committee. These comprised mainly German, Chilean and Spanish firms and a few English houses.⁷⁰ El Mercurio of Valparaiso attacked especially the use of the note issue to buy mortgage bonds, arguing that "this part of the paper money that is going to be issued meets no essential or important need of the State."⁷¹

The conversionistas were not strong enough in the Senate to stop the paper money bill going through virtually unchanged, with votes of 14 to 9 in favour of the principle of the bill and of the Pesos 30mn issue. At the Finance Minister's instigation, the Senate did cut the portion of the new money being invested in mortgage bonds in favour of more for general government expenditure. The Deputies insisted as before, that two-thirds of the money should go to the benefit of mortgage debtors and the Senate (with a tied vote) failed to over-ride the lower house on this point.⁷²

The initial effect of the Pesos 30mn paper money emission was to ease monetary conditions. In early 1905 many Chilean banks found themselves holding surplus cash, a fact used by the anti-paper money people to argue that the December 1904 note issue was not necessary. Lending interest rates were forced down and some banks were lending against the security of mortgage bonds at rates as low as $6\frac{1}{2}\%$.⁷³ The average yield on mortgage bonds fell further in 1905 to 6.64%; only in 1887 and 1888 had the rate been lower in the previous 40 years.⁷⁴ Such easy monetary conditions clearly added fuel to the speculative boom in Chile. The banks soon found a use for their funds, lending expanded rapidly, and they ended the year with deposits nearly double their December 1904 level.⁷⁵

However, the exact relation - cause or effect - between the expansion of the note circulation and the speculative boom is less clear. In his book Riesco (Junior) asserts in his defence of the administration of 1901/6 that the paper money issue did not cause, but merely prolonged the boom that had begun well before 1904.⁷⁶ There is, however, evidence that the level of activity did not reach boom proportions until the second half of 1904. One indicator, the capital subscribed to newly registered companies, was in the first half of 1904 (Pesos 29mn) running only at the 1903 level (Pesos 48.9mn over the year as a whole). In the second half of 1904, this figure more than doubled to Pesos 65mn.⁷⁷ It was at the beginning of this

period (mid-1904) that it became clear that a new paper money issue was strongly on the cards and from then companies were floated on the basis of the expected easier credit which a larger note circulation would bring. In this sense, the inflationary expectations created in the latter half of 1904 and fulfilled in December were a key factor in the very sharp upturn in speculative activity that occurred in late 1904 and 1905.

The exchange rate, although slightly weaker in the last few months of 1904, stayed above 16d until May 1905. This gives credence to the view of Fetter that, but for the paper money issue in 1904, the exchange rate would have gone over the gold export point by 1905 as a result of the country's favourable external payments position.⁷⁸ At the same time, the absence of a sharp drop in the exchange rate in late 1904/early 1905 provided more ammunition for the papeleros in their argument that paper money did not have the bad effects attributed to it.

Inflationary expectations were fed further by frequent rumours, followed by official denials, that the authorities were proposing to print more paper money. The relatively large representation of the Balmacedists in government provided a continuing base for such rumours. In fact, the papeleros did not wait long in trying to capitalise on their success in 1904. In November 1905, four papelero members of the Finance Committee of the Deputies produced a minority report to the main Committee report on a Government request for authorisation for an external loan to finance public works. The four Deputies proposed instead that the public works should be financed by a Pesos 50mn note issue and that the external debt should be reduced by using the Conversion Fund to pay a part of it off.⁷⁹

The new Coalition Government was headed by the Conservative orero Miguel Cruchaga Tocornal. He was the son of Miguel Cruchaga Montt who had been a notable economist and a disciple of Courcelle-Seneuil. The younger Cruchaga was a lawyer, diplomat and a writer on financial and external affairs and was Deputy for Melipilla from 1901 to 1906.⁸⁰ His Government, with

a Balmacedist, Belfor Fernández, as Finance Minister, hedged its bets in the face of these demands for more paper money.

Fernández declared that existing pressures were not strong enough to justify a further issue of paper money.⁸¹

It was not long before these pressures became irresistible. The Chilean banks, having over-stretched themselves in the rapid credit expansion during the previous year or so, once again found themselves in difficulties early in 1906. The banks' overall cash reserves, although of only limited use in assessing the soundness of the banking system as a whole because of the uneven distribution of these reserves among the individual banks, was used as the principal indicator of the crisis. According to some sources, the cash in the banks' vaults fell dramatically from Pesos 34mn at end-January 1906 to Pesos 11mn at end-March and by mid-May stood at as little as Pesos 7mn.⁸² A further factor, according to El Mercurio, operating at this time to place pressure on the banks' liquidity was the seasonal needs of the harvest and also "the electoral expenditure at the beginning of March that meant a violent withdrawal of some five millions of pesos from the vaults of the banks."⁸³

Early in May, the President convoked extraordinary sessions of Congress to discuss the banking situation as well as the similarly controversial question of the import duty on cattle. The banks were short of currency notes but some of them did have access to foreign credit. They therefore asked for measures to allow the issue of paper money against the deposit in the Treasury of an equivalent sum of gold. On 9th May 1906, the Government presented a bill on these lines to Congress.⁸⁴ The bill provided for the issue of notes in exchange for the deposit of gold, sterling or sterling bills of exchange at par (1 Peso = 18d). The depositor of the gold would also receive a certificate entitling him to withdraw his gold on the return of the currency notes. The right to withdraw gold against the deposit of notes would not, of course, apply to the existing note issue of Pesos 80mn.

The banks, no doubt wary of the time taken by the legislature to discuss measures of this type, wanted the authorities to anticipate the discussion and allow them to obtain notes immediately against the deposit of guarantees of gold. A 'Presentation' to the Minister of Finance signed by ten of the leading banks in Chile, including the Banco de Chile and the leading British and German banks, and dated 9th May 1906, declared that "the undersigned banks ... dispose of more than sufficient resources to meet their obligations, but they cannot convert them into legal fiduciary currency As a provisional measure that will permit the tranquil discussion of the law presented by the Executive to Congress, we offer to give immediately guarantees in gold that are calculated to be sufficient in exchange for a sum of notes that will suffice for the normal functioning of the institutions of credit."⁸⁵

The Senate acted on the Government's bill very quickly. On 10th May a Special Committee appointed the day before, and including at the two extremes Enrique MacIver and Juan Luis Sanfuentes, presented its report. This accepted the basic purpose of the Government's proposal, but in order to achieve the same end recommended instead a direct State loan of Pesos 20mn to the banks. This loan was to involve the temporary issue of more paper money and was to be short-term with 5% interest and be made against the guarantee of an equivalent sum of gold or sterling pledged by the borrowing banks. The Committee's proposals were approved immediately by the Senate without a discussion or vote.⁸⁶

The papeleros in the Deputies were not content with the limited solution recommended by the Government, the banks or by the Senate. The majority report of the Finance Committee of the Chamber proposed a Pesos 50mn paper currency issue, with Pesos 20mn to be deposited in the banks, 20mn to be invested in mortgage bonds and Pesos 10mn to meet ordinary public expenditure. A minority of the Committee supported the Senate's bill in general terms and attacked the idea of a large note issue.⁸⁷

The minority comprised Maximiliano Ibáñez and Darío Urzúa, a Conservative and staunch conversionist. Urzúa was the Deputy for Puchacay. He was a lawyer and economist and a journalist up until 1891. In that year he obtained a post in the Valparaíso customs working under the Conservative orero Zorobabel Rodríguez. After the death of Rodríguez in 1902, Urzúa left this post, took a more active role in politics for the Conservative Party and entered the Deputies in 1903.⁸⁸

After the prompt passage of a bill through the Senate to meet the immediate crisis, there was a clear deadlock in the lower house between the papelero supporters of a large paper money issue and those who merely wanted measures to relieve the immediate liquidity crisis facing the banks. However, the outside pressure on the legislature arising from the banks' difficulties for some sort of quick compromise was much greater than it had been in 1904. The Government continued to support its own proposals, but was quite prepared to see them sacrificed in the cause of speed. Demands for prompt action were received by the Government from such quarters as livestock producers in the south and nitrate producers in the north in the form of the Directorate of the Nitrate Combination.⁸⁹ Even the normally orero newspaper, El Mercurio, which had opposed the 1904 paper money issue, was in mid-1906 little worried by the exact type of measure passed or the amount of paper money issued, but was only concerned that any measure be implemented quickly in order to relieve the shortage of currency.⁹⁰

The compromise was, in fact, finally provided by an orero from Valparaíso, Guillermo Rivera, a lawyer in the city and one of its representatives in the Chamber. Rivera, despite being nominally a Liberal Democrat, was one of the leading vocal supporters of conversion in the Deputies. At this time in 1906 he was in the process of leaving the Balmacedists to join the Liberals. The bill presented by Rivera, although a compromise in the sense that it was accepted by the conversionistas in the Deputies and the Senate, was a compromise that leant very much

in favour of the papeleros. It provided for an emission of Pesos 40mn. Half of this new paper currency was to be spent on various public works, including the Arica-La Paz Railway. Awaiting the final use of these funds, the Government was authorised to deposit them in Chilean-owned banks on a pro rata basis according to the size of each bank's deposits at an interest rate equal to 3% less than the bank's lending rate. The other Pesos 20mn of notes could be taken up by banks or individuals who deposited an equivalent in gold or sterling bills within six months. That part of the Pesos 20mn not taken up in this way would be invested in public works. The Pesos 40mn note issue was to be guaranteed by additions to the Conversion Fund consisting of Pesos 20mn from the proceeds of external loans already authorised for public works, any gold deposited by banks or individuals and, to make up the Pesos 40mn gold or sterling bills from customs revenue as from 1st July 1907. This bill was approved quickly and with little argument by both houses of Congress and became law on 23rd May 1906.⁹¹

The provision in the law for the issue of notes against the deposit of gold was little more than a symbolic gesture of resistance by the oreros. It served effectively only to delay the issue of Pesos 20mn of notes for six months. Once the banks received the Government deposit of Pesos 20mn of funds (ultimately to be destined to public works), they had no need to use gold to obtain notes, particularly since this operation would have involved losses given the prevailing exchange rate of under 14½d.

In August 1906 an earthquake struck Valparaiso. The death toll in the city and surrounding areas was estimated at 3,764. Some 80% of the buildings in Valparaiso were destroyed. This disaster led to demands for government aid to the stricken city. Not surprisingly, in the context of the nature of Chilean politics at that time, some politicians considered that paper money was a particularly effective means of providing such

assistance. One of the first proposals came from the Balmacedist Senator for Valdivia, Darío Sánchez Masenlli, in August 1906. He urged that the second Pesos 20mn of paper currency in the May 1906 law (not yet issued in the absence of anybody prepared to deposit gold) should immediately be deposited in the banks in order to revive the business in Valparaíso paralysed by the earthquake. This motion received widespread support in the Senate and was approved by 14 votes to 5 against.⁹² The Government's response was that although they were considering the deposit of a part of the first Pesos 20mn in the Valparaíso mortgage banks in order to help these banks to service their bonds, they did not see the need to deposit the second Pesos 20mn with the banks before the date set in the May law for the issue of these notes.⁹³ The result was that nothing came of these efforts, although of course the other Pesos 20mn was issued later in 1906 and helped to augment the Treasury's deposits in the private banks.

The May 1906 law provided temporary relief to the banks. In fact, only a few days after the promulgation of the law, the Santiago Branch of the Bank of Tarapacá and Argentina reported that, "although a very small part, if any, of the new loan can have been issued as yet, all shortage of currency seems to have disappeared, which tends to confirm the very general idea that the shortage was largely artificially created by the paper party for their own ends, and that the notes withdrawn for that purpose from circulation have been released during the past few days."⁹⁴ The view expressed over a year later by the newly established second British bank in Chile, the London and River Plate Bank, was that the Banco de Chile, the bête noir of British banking interests in Chile, persuaded the authorities to issue the Pesos 40mn in order to facilitate the increase in the bank's capital decided upon in June 1906.⁹⁵ The evidence, however, suggests that the banks were content with the Government's original scheme or with a Pesos 20mn loan or note issue. The issue of a further Pesos 20mn of paper money reflected

nothing more than the strength of the papeleros in the Deputies, who were sufficiently numerous to obstruct any measures without some concessions to their views.

The year 1906 was an election year, both for the legislature and the Presidency. The March elections left the Coalition (including the Balmacedists but not the Nationals) with clear majorities in both houses. Their dominance was strengthened particularly in the Senate where the Balmacedists held 10 of the 32 seats and the Conservatives a further 9. In the Deputies the Balmacedists lost their position as largest party to the Conservatives.⁹⁶

During the Congressional elections, the traditional Alliance-Coalition grouping temporarily broke up. In the Presidential election, the Radicals, Nationals, Doctrinaire Liberals and some other Liberals grouped together to support the candidacy of Pedro Montt. To these were added some Conservatives. The Conservative Party officially rejected support for Montt, but a number of leading party figures in Congress, led by José Tocornal, joined Montt's cause. A pact was signed between these Conservatives, Montt and the other parties. The basis of the pact, besides giving Montt a majority in the Deputies, (although not in the Senate) if the election had to be decided by Congress, was a promise of a political "truce" on doctrinaire questions during Montt's term of office. The main concession gained by the Conservatives from their support of Montt was a promise in the pact of government subsidies for private education. Montt was formally nominated by the Convention of the newly-styled 'National Union' on 27th April 1906.

The remainder of the old Coalition - the Conservatives not supporting Montt, the Liberal Democrats, the Coalition Liberals and the Democrats - oscillated between choosing Juan Luis Sanfuentes or Fernando Lazcano. Finally, they opted for the latter, the leader of the Coalition Liberals and a relative of both of the previous two Presidents.

The widespread support for Montt's candidacy represented

essentially a reaction against the ineffectual administration of Riesco. The family name of Montt signified strong government and Pedro Montt's theme in the election was "administrative regeneration." He wanted more power for the President and less power for Congress, particularly over the budget.

In line with tradition, the monetary question did not appear in either of the election programmes or manifestos. Montt, whose strong pro-gold views were in any case well enough known, promised that, despite his views, he would not obstruct the will of Congress on economic and financial affairs.⁹⁷ He took no part in the debates in the Senate in May and June 1906. In contrast, Lazcano, if not a leading papelero theorist, was usually to be found supporting them. His supporters included most of the leading papeleros. In spite of the accusations made by Lazcano's supporters that Montt was both autocratic and pro-gold, Montt's election was a foregone conclusion. He received 164 electoral votes to Lazcano's 97.⁹⁸

Montt's election raised hopes among some elements in the country of a break with the traditions of parliamentary politics, of firmer government and also of tighter and more honest financial control and an end to inconvertible paper money. The Chilian Times, when commenting on Montt's election, declared that "it may be predicted with certainty that with his advent to office the days of paper inflation will be numbered and that the doctrine of sound money will be revived and will again form part of the creed of state."⁹⁹

In the event, these hopes were largely frustrated. Montt enjoyed little more success than his predecessor in forming stable governments. He laboured under the difficulties of entering office in the aftermath of the Valparaíso earthquake and with the parties supporting him in a minority in both houses of Congress. Moreover, he did not live out his term of office. Montt was the most dynamic of the politicians to emerge from the parliamentary era before Alessandri, but he was in the final analysis as much as any of them a part of the system that elected

him.

In financial and monetary questions, Montt consistently used what influence he could muster, and sometimes his limited power, to work for the redemption of the paper currency. To help him in this task he chose Agustín Ross to be Secretary to the Treasury. But in 1907 Montt was still faced with strong pressure from Congress, particularly the Deputies, for more paper money. On the other hand, many of the oreros were now more flexible, and at least had a more positive answer to the demands and criticisms of the papeleros, in the form of their Caja de Conversión proposals. This scheme could be presented as a compromise by them. The oreros efforts to get a discussion of the Caja de Conversión scheme (in the form of Miguel Cruchaga's bill) off the ground were temporarily successful in January 1907. They were also given the formal endorsement of the President in his decision to include the bill in the list for discussion in the extraordinary sessions.¹⁰⁰ The papeleros were content to allow a discussion of the Caja de Conversión project as a means of keeping the monetary debate alive and in the hope that a new paper money issue would emerge at the end of it. In effect, the papeleros' acceptance of the Caja de Conversión concept was conditional on the oreros and the Government's support for a new and unguaranteed paper currency emission. This was unacceptable to Montt and on 16th January 1907 at a meeting of the Consejo de Estado he warned that he would veto any new paper money bill. In retaliation, on the following day, at the instigation of the papeleros, the Deputies voted to remove the Caja de Conversión bill from the 'table'.¹⁰¹ The remainder of the extraordinary sessions of early 1907 were taken up largely with the discussion of the grand Longitudinal Railway project. This was Montt's other pet scheme and involved expenditure of up to £7.5mn. This debate was obstructed by a few of the papeleros (notably Malaquias Concha and the Balmacedist, Roberto Meeks) in protest at the Government's unwillingness to support an increase in the note circulation.

By mid-1907 pressure for more paper currency had increased. Complaints of a shortage of currency were compounded by complaints about credit restrictions by the banks. Aided by the large Government loan in 1906, the banks had continued to expand credit rapidly, and at the end of 1906 the outstanding level of bank credit was a further 44% up on end-1905.¹⁰² This expansion again placed a strain on the banks' liquidity and by mid-1907 they were beginning to cut back on their credit operations. This process worked through the largest bank, the Banco de Chile, which as a result of a loss of cash reserves relative to deposits began to call in money owed to it by other local banks. This in turn had a significant effect on these other banks, since the Banco de Chile was an important creditor of most banks and served as the clearing bank of the system.¹⁰³

Against the tide, President Montt continued to conduct a rearguard action in support of conversion. In his first annual message in June 1907 he concentrated his defence of conversion on the Conversion Fund, always a point of attack from the papeleros. In particular, he defended the practice of keeping the fund abroad, then mainly in German banks, because of the favourable effect that this had on foreign confidence.¹⁰⁴

The need for a further increase in the note circulation was widely accepted in the legislature. In the absence of any initiative by the Government, the Deputies acted. In June, 22 members of the chamber presented a bill designed to relieve the shortage of currency. This bill involved in a roundabout way the emission of a further Pesos 40mn of paper money. It provided for the setting up, within the Caja Hipotecario, of a section called the Caja de Crédito Salitrera to make loans against the mortgage of nitrate and cattle land. Pesos 40mn of the Conversion Fund in Europe was to be invested in nitrate and cattle bonds, denominated in sterling, issued by the new Caja. These mortgage bonds would then in turn serve as a guarantee for the issue of an equal amount of paper currency notes by a newly proposed Caja de Emisión that was to be responsible for the

entire note issue.¹⁰⁵

The report of the Finance Committee of the Chamber represented more straightforward papelero thinking. The Caja de Emisión was to be authorised to issue up to Pesos 80mn. The issue would be made against the deposit of a guarantee in gold, external debt bonds, mortgage bonds or of the new Caja Salitrera bonds. Within this Pesos 80mn, Pesos 30mn was definitely to be issued and invested in nitrate bonds, and a further Pesos 30mn was to be earmarked for the banks which could pledge any of the above assets as a guarantee. The minority report of the Committee written by Guillermo Rivera also accepted the need for a larger note circulation, albeit a much smaller one than wanted by the papelero majority. Rivera proposed a Pesos 26mn issue to be guaranteed by part of the proceeds of an external loan.¹⁰⁶

At this stage, Pedro Montt decided that he was going to have to accept more paper money and that the best he could do was to intervene in the debate in Congress in an effort to obtain an arrangement that would at least cut his losses. This involved the attempt to gain legislative acceptance of the Caja de Conversión (or Emisión) concept of note issues against the deposit of gold. This could be the first step towards full convertibility of all notes into gold and also towards giving flexibility to the currency in order to avoid any more unguaranteed note issues. In addition, Montt hoped to ensure the smallest possible increase in the note circulation with the maximum guarantees that he could obtain.

For this task Montt had an ideal Finance Minister to present the Government's views in Congress. He was Guillermo Subercaseaux, an academic economist and conversionist and the son of the wealthy Conservative hacendado (and papelero), Antonio Subercaseaux. Guillermo Subercaseaux was nominally a Conservative, but he had supported Montt in the 1906 election. He was to become a leading proponent of monetary reform and an important writer on banking and monetary affairs.¹⁰⁷

Subercaseaux concentrated his efforts in Congress on ensuring that the proposed Caja de Emisión would only issue currency against the deposit of gold and not of mortgage bonds. This point was central to the debate and led to deadlock in the Deputies. In an effort to resolve the deadlock, a Special Commission was set up within the chamber to draw up some sort of consensus or compromise. The commission was no more capable than the Deputies as a whole in coming up with a consensus and its report and proposals did not even represent the views of a majority of its members.¹⁰⁸

The main features of the bill finally approved by the Chamber of Deputies at end-July 1907 represented an uneasy compromise between the two sides. The oreros obtained a Caja de Emisión that would exchange currency notes for gold at a rate of 18d. Given the existing exchange rate, this institution was unlikely to be used much, but in the eyes of the oreros it established the principle and was a step towards conversion. In addition, they considered that it could be used in exceptional circumstances by the banks to obtain currency and that this could ensure that the coming paper money issue would be the last of its kind. In their turn, the papeleros obtained a Pesos 30mn note issue. This was to be invested in Caja Hipotecario bonds, a provision approved by 41 votes to 26.¹⁰⁹ The chamber also agreed with little dissent to the suspension of the sending abroad of new additions to the Conversion Fund while the exchange rate was below 16d.¹¹⁰

After the Deputies' acceptance of the traditional hobby-horse of the paper party of lending additional paper currency to mortgage debtors, the new creature, the Caja de Crédito Salitrera, lost much of its point. It remained in the Deputies' bill and eventually passed into law and was provided with Pesos 5mn of mortgage bonds to finance it. The Caja in fact never functioned, reflecting the lack of demand for it except at one stage as a convenient vehicle for a new paper money emission.

In the Senate, the Finance Minister helped to persuade

the Finance Committee to recommend a guarantee for the Pesos 30mn issue in the form of the authorisation for a £4.5mn external loan, the proceeds of which would go to the Conversion Fund. The other main points of the Deputies' bill, including the currency issue itself, were accepted by the Committee and by the Senate as a whole, with almost the lone exception of Enrique MacIver.¹¹¹

In spite of the further increase in the circulation of inconvertible paper money, the final bill that left Congress looked to some oreros to be a lot less inflationary than had appeared possible in June 1907. Some even considered it to be a victory.¹¹² Montt, accepting what he hoped would be no more than a temporary defeat, already had his sights set on the date due for conversion of 1st January 1910. The new bill did not remove this fixed date for the redemption of the paper money, notwithstanding the efforts of the papeleros in the Deputies. Moreover, the external loan of £4.5mn would give the Conversion Fund sufficient resources. On this basis Montt felt able to sign the bill and it became law on 27th August 1907.¹¹³

The August 1907 paper money issue was the last such direct note emission before 1914. The Pesos 100mn expansion of the note issue in 1904/7 was ostensibly destined to three direct recipients, the banks, the Treasury and mortgage bonds. Unlike the 1898 issue, the paper money emitted in 1904/7 was not lent to the banks directly for a fixed term, so that it is difficult to distinguish between State and bank holdings of the funds. The following table, therefore, merely summarises the destination of these note issues with a breakdown of Government/banks and mortgage bonds:-

	<u>Pesos mns</u>	
	<u>Government/Banks</u>	<u>Mortgage Bonds</u>
1904	15	15
1906	40	-
1907	-	30

TABLE XIII: THE USES OF STATE PAPER MONEY ISSUES 1904-7

The Chilean Treasury might be said to have benefited not only from the direct revenue but also from interest earned on its holdings of mortgage bonds. Against this must be set the State's corresponding contributions to the Conversion Fund, which over the three years 1904-7 amounted to around Pesos 53mn at current exchange rates.¹¹⁴ It cannot be said therefore, that the paper money issued in these years was designed or used directly to finance State expenditure to any large extent.¹¹⁵

These large and once and for all additions to public revenue in 1904 and 1906 gave a temporary but substantial boost to the Treasury's holdings of surplus cash. It was this surplus that the Government deposited in the banks. The note issues were a major contributor to the build-up of Treasury deposits in the banks, from a level of no more than a few millions of Pesos in 1901/3 to as high as Pesos 50mn in 1908.¹¹⁶ This compared with total bank deposits of around Pesos 400mn in 1907. The shareholders of the banks and their borrowers clearly benefited from these large deposits of public funds at low interest. In the years 1906/8, when these deposits were maintained at a high level, the banks and their customers rather than the State can be considered as the recipients of the paper money issues.

The group that most clearly reaped the benefits of the monetary policy of 1904/7 were the debtors of the Caja Hipotecario. This benefit worked through both the amount available for borrowing and the effect of large State purchases of bonds on their price. To the Pesos 30mn of bonds bought under the 1907 law and the 15mn purchased under the 1904 law must be added

a further Pesos 7mn of bonds from the 1898 law maintained in the Treasury, the interest on which was used to meet payments on the internal debt. These holdings of mortgage bonds by the State accounted for 30% of Caja Hipotecario bonds outstanding at end-1908 and State purchases of bonds in 1904/8 accounted for over 60% of the increase in the amount outstanding between end-1904 and end-1908. In addition to these direct State holdings, other official institutions, principally the savings banks, held substantial amounts of mortgage bonds. Then there were bodies such as benefit societies and charitable trusts which were legally obliged to invest certain assets in Caja Hipotecario bonds. Agustín Ross calculated that in 1909 the total official and semi-official holdings of bonds amounted to Pesos 92mn, half of the total outstanding.¹¹⁷

In conclusion, the monetary expansion of 1904/7 was directed to the financing of mortgage debtors and to the expansion of bank credit to the private sector. The direct benefit to the State of these paper currency issues was small.

CHAPTER TEN

THE MONETARY QUESTION 1907-1914: THE EMERGENCE OF POPULAR PROTEST

The year 1907 marked the high-point of the papeleros' success in pushing through increases in the paper money issue. Thereafter, until the outbreak of war in Europe in 1914, they found themselves increasingly on the defensive against mounting pressures for a return to a gold-backed currency. One of these pressures arose from the awakening of the middle and working classes to the inflationary implications of the monetary policies pursued by the Santiago politicians. One political historian lays great emphasis on monetary influences and contends that "the persistent depreciation of the paper money ... increased the differences between the social classes and caused the political awakening of the middle class and all the Chilean worker movements."¹ Certainly, monetary inflation combined with other factors, such as the extremely harsh climatic conditions in the nitrate fields of the north, the migration of labour involved in nitrate production and low wages and poor working conditions, led to a degree of organisation and politicisation among the working class unusual at the time in Latin America.²

The debate in the Senate in August 1907 took place in the context of a new and significant interest in the question from outside the walls of Congress. There was, of course, the almost customary protest about more paper money by Valparaíso merchants. They believed that there was no general shortage of currency, but merely a lack of small change that could be easily remedied by replacing large denomination notes with smaller ones.³ There was, however, in addition and for the first time a significant popular reaction. Once details of the Deputies' proposals became known, there were a large number of protests against what was commonly seen as the manipulation of the currency by Congress. These protests were largely in the form of petitions to the Senate and the President sent by labour organisations,

charitable bodies, local municipalities and one political party in the form of the General Directorate of the Democratic Party. Almost uniformly these petitions urged the rejection of the Deputies' proposal for a new paper currency issue.⁴ Although these protests against more paper money were to no avail, the growing awareness of the monetary question outside the traditionally interested groups - the hacendados, bankers, merchants, British interests, nitrate producers and economists - added a new dimension to the whole question. This new dimension included the threat of popular social unrest as Chile's poor began to organise.

The authorities in Santiago had already caught a glimpse of an emerging popular protest over the issue of the cattle duties in 1905. On October 22nd 1905, in 'Red Week', 300 or more people were killed as the authorities reacted to popular demonstrations against the cattle duties. These import duties on Argentine cattle crossing the Cordillera had been imposed in 1897 as part of the general increase of protective tariffs of that year. These duties caused a rise in meat prices immediately and became the focus for protest against a continued rise in prices. El Mercurio calculated that meat prices in Santiago rose by 150% in the five years to 1907.⁵ In December 1907 Congress voted to suspend the cattle duty for two years.

The demand for the stabilisation of the currency, although more persistent than protests against the cattle duty (that tended to be seasonal depending on the supply of meat), did not evoke the same sort of emotion among the poorer classes as the cattle duty. In the first place, the monetary question did not provide the same stark contrast between the landowning oligarchy and popular interests. Some politicians, most notably Malaquias Concha, who supported popular protests against the cattle duty also supported vigorously large emissions of paper money. The vote in the Deputies in August 1907 (33 to 29 in favour of suspension) was largely on the basis of a north-south split, with the north in favour of suspension and the more agriculture/

livestock-based south against.⁶

Moreover, it took a little longer for the implications of a depreciating currency to be realised by working people. In any case, this depreciation only began in a sustained way from around mid-1905. From 1906, almost all groups of workers began to demand the payment of wages on a constant 18d-Peso basis. This was the chief demand of the Antofagasta strikers in February 1906. The railway workers enjoyed somewhat more success following a week-long strike in July 1907. They obtained the payment of wages on a fixed 16d basis, a victory of sorts, despite their failure to get 18d.⁷ In the much bloodier Iquique strike of December 1907 the nitrate owners refused the workers' demand for wages to be paid at a constant gold value of 18d.

The key to popular protests in favour of the stabilisation of the currency was the growing awareness of the relation between money and prices. In contrast to the periods of currency depreciation in the 1880s and 1890s, the depreciation beginning in 1905 associated with the rapid expansion of the note circulation coincided with a period of rising world prices. The effect of the two trends on domestic prices were compounded and all evidence points to a rapid increase in the cost of living in Chile in the years after 1904. Between 1903/4 and 1907/8 the Bauer index of basic food prices in Santiago rose by 75%.⁸ The shortage of goods and labour caused by the Valparaíso earthquake of August 1906 gave a strong boost to prices and wages. The Anglo-South American Bank in Santiago estimated that the cost of living in the city increased by around 75% between the earthquake and late 1907.⁹ Data on wages in this period is scanty, but there is evidence that wages were rising rapidly. Bauer's figures show a sharp increase in the wages of agricultural workers in the early years of the 20th century while Semper states that nitrate workers' wages (when paid in currency) doubled between 1903 and 1906.¹⁰ These figures do not permit any firm conclusions about trends in the standard of living of lower and middle class Chileans in these years.

There is little doubt that for upper class Chileans the years of monetary inflation in 1904/7 were times of considerable prosperity. Nevertheless, the emergence of the new dimension of popular protest in the monetary question was matched by a perceptible shift of opinion away from the papeleros within the ruling political class in the years after 1907. Many new and younger faces entered Congress in these years. Some of them came from outside traditional Santiago society and from outside the mining, commercial and banking families who had joined that society in the 19th century. A few rose to wealth and prominence in the boom years of the early part of the century. This is not to say that the balance of economic interests within the ruling class changed to any great extent. Landownership remained the ultimate destination of a large share of the fortunes made in non-agrarian pursuits, as it had in the previous century. The economic interests of the ruling class became even more entangled than before in the early years of the 20th century. However, the effect of the arrival of these new politicians in the years before 1914 was to weaken the influence of the papeleros, particularly in the Deputies. New names such as the Radical, Armando Quezada, and the Liberals, Eduardo Charme and Luis Izquierdo, were among those whom Ricardo Donoso has described as coming from the middle classes and the provinces.¹¹ Eduardo Charme, the son of a French engineer, was one who did not stay in the middle class for long. After making a fortune in nitrate he became a large landowner and rose to prominence in politics. All these three politicians opposed the continuation of the papelero-dominated policies of the years 1904/7. At the same time they and others had little time for the traditional and doctrinaire oreros.

The wealth and ostentation exhibited by the Chilean ruling class in the early years of the 20th century owed something to the speculative financial boom of this period. When the boom collapsed many traditional families lost a fortune.¹² The boom had temporary stutters in 1905 and 1906, but aided by

the paper money issues of 1904 and 1906 it just about carried through the year 1906. The collapse came towards the end of 1907 and by the end of the year the country was in a serious financial crisis. The boom in share prices came to an end in 1906. Throughout 1907 the price of all securities fell, except mortgage bonds whose price benefited from government purchases. The price of many leading shares - e.g. Banco de Chile, Refinería Viña del Mar (sugar), Tierra del Fuego (cattle and sheep) - were nearly halved between January 1907 and March 1908.¹³

The collapse of share prices and of many of the new speculative nitrate and livestock ventures left many banks that were heavily involved in these enterprises holding large amounts of non-liquid assets. The August 1907 paper money issue did little directly to help the banks. During November and December 1907 three banks suspended payments, the most important of which was the Banco Mobiliario which had large but unrealisable assets tied up in new nitrate fields. By the end of the year, some Pesos 20mn had been wiped off the banks' total paid capital.¹⁴

The banks were not the only sector in trouble. At the end of 1907 a major nitrate enterprise, the Spanish company Granja & Co., announced that it was on the verge of bankruptcy. The Casa Granja was one of the largest companies and possessed eight oficinas and had a part holding in the Coloso and Aguas Blancas Railway. The Government regarded the possibility of the company failing as so serious that it mounted a rescue operation and lent the company £500,000 through the Banco de Chile.¹⁵

On top of Chile's internal financial difficulties came the American crisis of 1907. The Bank of England was forced in that year to raise Bank rate to 7% - a level it had not reached since 1873 - and it stayed there for two months.¹⁶ For Chile the financial crisis abroad meant that many foreign commercial and banking concerns in Chile were called on by their head offices to remit funds back home. These companies in Chile in

turn pressed their Chilean clients. German houses in particular remitted large sums from Chile, according to one source some £3mn. Two German institutions were especially singled out as playing a leading part in the crisis, the Banco de Chile y Alemania and the commercial house of Vorwerk & Co.¹⁷

At the same time financial conditions were worsened by a large jump in imports in 1907 which meant that the country recorded its first crude official trade deficit for 10 years.¹⁸ The rise in imports, some 30% in sterling terms, was partly the result of the demands of the reconstruction of Valparaíso, partly due to the large expenditure on foreign equipment for the expansion of the railways and also to an increase in luxury imports such as champagne, perfumes, jewellery and silk, an indication of the prosperity of the previous few years.¹⁹ While imports were rising, exports were virtually stationary. Towards the end of 1907 the crisis abroad led to a drop in nitrate exports to the United States.

Despite the large trade imbalance, the exchange rate fell only by about $1\frac{1}{2}$ d in the first 9 months of 1907. The rate was held up by the expectation of merchants and speculators that the Government would be able to contract a loan in Europe and that nitrate sales would continue to expand. By October 1907, it was becoming clear that neither expectation was likely to be fulfilled and previous buyers of Pesos became heavy sellers. On top of this came the financial crisis in the United States and Europe and the resulting flight of capital from Chile, together with the fall in share prices, the sharp contraction of bank credit, the liquidation of the Banco Mobiliario and the problems of Granja. All this led to a rapid depreciation of the Peso that fell from over 12d at end-September 1907 to a low for the year of under $8\frac{1}{2}$ d on 9th December. The relative strength of the exchange rate in the first 9 months of 1907 in the face of an adverse trade position only served to exaggerate the fall in late 1907 and in 1908. The rate dipped to a trough of $7\frac{3}{4}$ d on 22nd June 1908 before a sustained revival set in.²⁰

The deep recession and financial crisis of 1907/8 harmed the case put forward by the papeleros that increasing the supply of paper currency was necessary in order to avoid deflation. More paper money was no longer to be seen by the majority of politicians as the automatic solution to such crises. At the same time, the collapse of the exchange rate after some years of relative stability under the paper money regime led to new consideration of means to stabilise the external value of the currency.

A further factor working against the papeleros was the growing influence of international opinion on Chile. While by orthodox international financial standards the country had a checkered monetary experience in the last quarter of the 19th century - particularly for a state with such relatively sound public finances - Chile was by no means alone in this regard. From the early years of this century, however, Chile was increasingly isolated in her adherence to paper money, both in Latin America and elsewhere. The oreros used in particular the unfavourable comparison of Chile with her three neighbours, Argentina, Bolivia and Peru. Arturo Besa, the National Party Senator and wealthy banker and industrialist (the son of José Besa), declared in 1908 that with the exception of Venezuela, Colombia and Paraguay all other countries in South America had metal-based currencies and "here we are, the victors of the War of the Pacific, the only one that maintains a spoiled currency."²¹

Such views were also increasingly heard abroad. To the economist in Europe, Chile became highlighted as an example of how not to manage the currency. Paul Leroy Beaulieu, the French economist who was himself often quoted in debates in the Chilean Congress by both sides, bemoaned the fate of sound money principles in Chile, and declared that "this country that for so long was at the head of South America has now allowed herself to be overtaken by Argentina and Brazil."²² This opinion was commonly expressed from 1906/7 by the press in Britain and by British interests in Chile. One British banker in Chile ex-

pressed the sense of bewilderment and frustration of many of his contemporaries who were associated with the country, when he wrote:

"The question is frequently asked, Why cannot the Chilians, the soidisant 'British of South America', do what Brazil, Peru and the Argentine have done? Surely, if little Uruguay has been able to maintain specie payments since 1876, Chili with firmness and at the cost of a few bank smashes, could have kept on its legs its own Wee McGregor of a dollar."²³

The financial problems faced by the country in 1907/8 increased foreign criticism of Chile and particularly of the difficulty of doing business with a country with an unstable currency. At the end of 1907, The Economist highlighted the dispute between the Government and the Antofagasta and Bolivia Railway Company over its fares paid in Pesos. Following the depreciation of the currency, the company asked the Government to allow an increase of its local currency charges in order that it could maintain its revenue in sterling. After a long wrangle the Government consented to the company's fares being calculated on a Peso valued at 14½d.²⁴

From the widespread comments made at the time both in Chile and in London it is clear that Chile's attraction to inconvertible paper money adversely affected the country's credit standing abroad. An inconvertible paper currency and an unstable exchange rate tended to be seen abroad as symptoms of an internal financial malaise. Her external debt repayment record was probably too good that this factor would have precluded loans which otherwise would have been available. Nevertheless, after the late 1890s Chilean bonds were no longer the "Consols of the South American market."²⁵ In the years 1898-1905 the country raised no long-term money in London, despite the settlement of the Argentine border dispute and the evident signs of prosperity in the latter years of that period. In these years Chile had to be content with short-term and relatively expensive borrowing from the Bank of Tarapacá and London. Between 1905 and 1910

Chile raised about £21mn in long-term loans in Europe, very largely in London through N.M. Rothschilds, although the country was not able to command such favourable terms as in the previous decade.²⁶ During this period, Chile's creditors were prepared to take comfort from the existence of the Conversion Fund in Europe. Baron Rothschild reportedly told a gentleman in Santiago in early 1908 that even the existing low exchange rate depended on the maintenance of the Conversion Fund abroad: the day that the Fund was brought back to Chile, the rate would fall to 5d.²⁷ With this type of warning from the man on whom the country's credit abroad almost entirely depended, the authorities in Santiago were left in little doubt as to the implications for their external credit of the papeleros' insistence that the Conversion Fund be returned to Chile and spent on what they saw as more productive uses. To the extent that an attempt to resume specie payments could be ill-timed, mismanaged or sabotaged by the papeleros, some foreign interests and observers were inclined to be cautious in recommending such a course on the Chileans lest its failure should lead to the dissipation of the Conversion Fund.²⁸

During the years of crisis in 1907/8 Chile could not raise funds abroad through her normal channels and the price of her bonds fell.²⁹ In the years after 1910 the government also found difficulty in raising money in Europe and a number of loans could not be placed. These included loans authorised by Congress of £3.5mn for Dreadnought warships in 1911, £1.4mn for the Santiago Waterworks in 1913 and £2.1mn for a subsidy to the financially ailing State Railways in early 1914. This was at a time when Argentina, for instance, was raising funds on more favourable terms than ever before and when Brazil was borrowing heavily in London.³⁰ This relative loss of interest in Chile by foreign bankers and investors did not escape the attention of native politicians and provided more ammunition for those who wanted to take Chile back on to the path of international monetary orthodoxy.

As the financial crisis deepened in late 1907, the Government came under fire in Congress. A new Government had taken office at the end of October, composed of three Nationals and three Liberals. Despite its weak political base, this combination proved surprisingly durable and survived for the relatively long span of ten months in the face of hostile criticism over the economic crisis and over its handling of the Granja affair in particular. The fall in the exchange rate was blamed on the foreign banks and merchants and on the Government. In response to these criticisms, the Government changed the system by which it sold sterling bills and gold received in payment of export duties. The old system of periodic auctions had been criticised from all sides for the encouragement that it gave to speculation. It also had opened the way for allegations that the Government was manipulating the exchange rate to favour particular groups (usually the hacendados at harvest time), since the amounts on offer at the auctions were publicised and could be compared with actual or likely revenue. In place of the public auctions, the Government introduced a less open system in which sterling bills and gold were sold through banks. While the Government was convinced that this was a better system, it did little to diminish criticisms of the Government.³¹

The depreciation of the Peso added more weight to the papeleros' criticisms of President Montt and his policy for conversion at a rate of 18d at the beginning of 1910. Some of the papeleros saw the sinister hand of the Edwards family at work in the background. In a way rather reminiscent of the experience of Jorge Montt in the early 1890s, Pedro Montt came under similar attacks for his close association with the Edwards family. This was in the person of Agustín Edwards MacClure in particular who carried on his father's strongly orthodox views on economic and financial matters.³²

The Deputies gave an indication of their feelings in their approval of a motion (by 31 votes to 3) requesting the Government to include in the convocatorio for the extraordinary

sessions the bills for the establishment of a State or National Bank, various of which had been introduced, but not discussed, in recent years.³³ Such proposals had been made entirely by the papeleros and their schemes had all involved the issue of more inconvertible paper money. The Government opposed such bills and refused to allow their discussion.

Although firmly set against any further paper money issues, Montt accepted that something had to be done to help the banks out of their difficulties. In November, the Government decided to add a further Pesos 16mn to its deposits in the Banco de Chile. This money would then be distributed among the other banks by allowing them to overdraw their credit at the Banco de Chile.³⁴ In the Deputies on 5th December 1907, the Minister of Finance, Enrique A. Rodriguez of the National Party, made a statement which effectively summed up the history of State-private bank relations since 1878 (with the exception perhaps of the Balmaceda era). He declared that "if the banking institutions find themselves in grave difficulties as a result of the business situation, the Government makes it its duty to lend them its co-operation."³⁵

A few days later, the Government introduced a bill into Congress to aid the banks. This provided for a £500,000 loan to the banks in the form of interest-bearing bonds with six months' maturity. These newly issued bonds were to be bearer documents and effectively legal tender currency. The banks were to pay 6% interest on the loan. They could borrow the bonds up to an amount equal to 50% of their paid capital on the deposit of a guarantee of an equivalent amount of mortgage bonds. The £500,000 was to come from a short-term external loan on offer to the Government from a European bank. In addition, the bill offered aid to the banks in the form of the deposit by the State of the portion of the August 1907 note issue not yet invested in mortgage bonds (under the time schedule for the purchase of the bonds laid down in the law). The bill also proposed the selling of mortgage bonds already held by the State and the deposit of

the proceeds in the banks.³⁶

The Government emphasised that the loan to the banks was purely of an emergency nature and hence the relatively high rate of interest of 6% on the bonds. More important, Montt and his Finance Minister were at pains to point out that the issue of bonds did not constitute a new emission of paper money because they were to carry interest. This factor made the scheme acceptable to many conversionists.

The suspension of purchases of mortgage bonds or actual sales by the Government was so clearly against the interests of the hacendados that it was out of the question and the Government withdrew these provisions from the bill. The debate in Congress, therefore, concentrated on the issue of whether the bonds should carry interest, and tended to divide on conventional orero-papelero lines. The Senate narrowly (by 11 to 9) accepted the principle of interest-bearing bonds, but cut the rate to 3%. The Deputies preferred non-interest bearing bonds with a maturity of one year and their view prevailed. The bill finally signed by the President in December 1907 provided for short-term aid to the banks in the form of one-year non-interest bearing legal tender bonds. These bonds would be issued to banks that wanted them up to a limit of 100% of the bank's paid capital with the guarantee of the equivalent amount in mortgage bonds. The banks were to pay interest on this loan equal to 3% less than their lending rate.³⁷

The banks made no use of this loan facility and no bonds were issued. The rate of interest which the banks were required to pay - about 6% since their lending rates had risen to about 9% - was too high for them. Anyway, they did not as a whole own sufficient mortgage bonds as a guarantee to be able to use the facility on a large scale. The mere existence of the new law, together with the weeding out of the weakest banks and more direct State aid in the form of deposits, was enough to restore a measure of confidence in the banks and obviate the need for the issue of more paper even in a new and temporary

form.³⁸

The conversionists could look back on the year 1907 with a certain degree of relief, even of satisfaction. They had obtained the Caja de Emisión which, even though only in theory, disarmed some of the arguments of the papeleros. Moreover, they survived the financial crisis of 1907/8 without having to accept more paper money. Guillermo Subercaseaux placed considerable emphasis on the December 1907 law which "shows that the inflationist policy was already beginning to grow weaker. It was the first time that the demands of the banks were not supplied simply by means of further issues of treasury notes."³⁹

This by no means implies that anyone but a few of the most ardent oreros seriously contemplated a return to the Gold Standard on the set date of 1st January 1910. It is not even certain that Montt himself was included in this small band, at least by the middle of 1908. In his Presidential message of June 1908 he merely stressed the need to end the curso forzoso as soon as possible without committing himself to the date set by existing legislation.⁴⁰

Some of the papeleros in Congress sensed that this was an ideal moment for a confrontation with the President, given the existence of an exchange rate that was less than half the par value of 18d. They used the opportunity to raise their old battle cry of a conditional rather than a fixed conversion date. The derogation of the fixed date and the condition for conversion of the exchange rate averaging not less than 17⁵/8d during the previous semester were proposed in a bill presented by the Conservative papelero, Domingo Fernández Concha, in June 1908. In an effort to drive the nail further into the coffin of conversion, he also proposed the derogation of the authorisation for the £4.5mn loan to augment the Conversion Fund which was contained in the August 1907 law.⁴¹ The Government had not yet been able to contract the loan and without it there was no chance that the fund would be sufficient to cover the entire Pesos 150mn of inconvertible paper currency outstanding at a

rate of 18d by 1910.

The majority of the Senate Finance Committee agreed with Fernández Concha. The Government, in the form of Rodríguez, the Finance Minister, opposed the bill and expressed strong support for conversion, although on a gradual basis through some form of Caja de Conversión.⁴² The anti-conversionists in the Senate won the day fairly easily. They voted to remove a fixed date (by 16 to 8), in favour of the principle of a conditional conversion (19 to 6), and the unrealistic $17\frac{5}{8}$ d condition in Fernández' bill (13 to 10). The bill passed by the Senate also suspended the authorisation for the £4.5mn loan and included a provision, proposed by Joaquín Walker Martínez, the Conservative industrialist, for the investment of a further Pesos 20mn of the Conversion Fund in mortgage bonds.⁴³

The Chamber of Deputies was in no hurry to discuss the Senate's bill and the lower house could not even raise a quorum for much of August 1908. In November 1908 the papeleros became concerned by reports that the Government was taking preparatory steps towards the resumption of convertibility in 1910. This involved the rumour, later confirmed by the Government, that the Treasury had made enquiries in Europe about the minting of the Conversion Fund.⁴⁴

These rumours led the papeleros to pressurise the Government to allow a debate on the Senate's bill for the indefinite postponement of conversion. A motion on these lines was passed by the Deputies at the end of November. The Government soon relented and agreed to include the bill in the list for discussion in the current extraordinary sessions.⁴⁵ By stalling and by obstruction the Government and the oreros managed to delay the debate on the bill. But this was of no avail against the clear weight of opinion in the legislature. In January 1909, Montt backed down further when he accepted a Government statement that effectively ruled out any moves in preparation for a return to a gold currency in 1910 without specific legislative approval. The Government statement declared

that "given the tendency that appears to predominate in Congress with respect to the economic question, the Government does not wish to take on itself all the responsibility for this question, and therefore declares that, if before the 1st of June no law has been dictated modifying the existing law, the Government will not contract the loan of £4.5mn."⁴⁶ This announcement relieved the papeleros of the need to press for an immediate debate. At the same time it was attacked by some oreros on the grounds that existing legislation dictated conversion on 1st January 1910 and that therefore in the absence of contrary legislation the Government should press ahead according to the letter of the law.⁴⁷

Montt received a small boost from the results of the March 1909 Congressional elections. The parties that supported him in 1906 made some gains in the Deputies, particularly his own party, the Nationals. These (Nationals, Radicals and Liberals) now outnumbered the Balmacedists and the Conservatives, although they needed the support of the Democrats to give them even the barest of overall majorities. The Coalition parties, however, maintained their majority in the Senate. When the opportunity came to select a new Government soon after the elections, Montt felt able to choose one headed by the National and orero, Enrique A. Rodríguez, and including his friend Agustín Edwards as Foreign Minister. Montt was obliged to appoint a less controversial figure as Finance Minister and he chose the neutral Liberal, Joaquín Figueroa, to fill the post. Figueroa could be relied upon to remain strictly neutral in the forthcoming debate in Congress over the monetary question. President Montt himself, in an effort to put what public pressure he could on Congress, reminded the legislature in his June annual message that "two successive Congresses ... have ordered that the conversion should be made on 1st January 1910 and for my part it is my duty to comply with these repeated manifestations of the popular will."⁴⁸

Meanwhile, the Chamber of Deputies designated a Special

Commission to study the question and draw up a set of proposals which could form the basis of the debate. The Chamber virtually ignored the Senate's bill passed nearly a year before. The Commission contained only one of the leading and outspoken papeleros, Malaquias Concha. Although failing to agree on many of the details, the majority of the Commission (four out of six) were in harmony in principle on a postponement of conversion to another fixed date. In the minority were Enrique A. Rodríguez who wanted conversion on the date already fixed in 1910 and at the other extreme, Malaquias Concha, who proposed a minimum exchange rate condition on the lines of the Senate bill.⁴⁹

There followed a lengthy and often very theoretical debate in the Deputies in June and July 1909. One of the more noteworthy features of the debate, besides a speech by Malaquias Concha spreading over seven days, was a bill presented by Alberto Edwards Vives. Edwards represented one of the departments of Valparaíso from 1909 to 1912 and like the majority of his family was a member of the National Party. He was about the first to propose in Congress that conversion should be at a rate less than 18d. Edwards suggested 12d and a Caja de Conversión, although he stressed that this would be the first step towards an 18d gold Peso.⁵⁰

Very few members of the lower house thought that conversion should be at the beginning of 1910. Equally, while there was vocal opposition to having any fixed date, the papeleros could not muster a majority in favour of a conditional conversion as the Senate had in 1908. The result - a 5-year postponement until 1915, or before in the unlikely event of the exchange rate remaining above 17d for 6 months - was a compromise between the papeleros and the majority of the Special Commission which had proposed a three-year postponement. The bill passed by the Deputies also derogated the authority for the £4.5mn loan. The conversionists in their turn managed to secure provisions for the increase of the Conversion Fund by £500,000 per month from customs receipts starting in 1910 and from sales by the State

(not yet authorised) of nitrate properties and land in Magallanes. Moreover, in a reversal of the August 1907 legislation, the Deputies voted to send additions to the fund abroad to join the rest of the Conversion Fund. Only the most extreme papeleros opposed this strengthening of the Conversion Fund; 12 voted against the increase itself and 24 against sending the funds abroad.⁵¹

The Deputies' bill was approved very quickly and easily by the Senate on 4th August 1909 and then sent to the President for his signature. Montt decided to veto the bill. This uncharacteristically defiant move by a Chilean President in the Parliamentary era required a two-thirds majority of Congress to override it. However, Montt's action was little more than a symbolic gesture of defiance. The President had few friends in August 1909. The majority of the advisory Consejo de Estado, even Enrique MacIver, opposed both conversion in 1910 and the veto. There was little indication of support for Montt from the press and little sign of public support for his stand.⁵² The commercial houses and banks that set the exchange rate by no means gave a vote of confidence in the possibility of a conversion in 1910. The exchange rate, which had revived to 13d in January 1909, fell back to 10d by August 1909. In the face of these circumstances, Montt's claim in his veto message that "all of the factors that make up the national economy are favourable to an operation of this kind" lacked credibility.⁵³

The President's decision to veto Congress' bill provoked the resignation of Figueroa, the Finance Minister. Agustín Edwards took his place together with the task of defending the veto in a hostile legislature. The appointment of Edwards as Finance Minister made the papeleros even more indignant than the Presidential veto itself. Edwards' task in propounding the virtue and necessity of the redemption of the paper money at the beginning of 1910 was made more difficult by the fact that some nine months before he himself had proposed a postponement of conversion until July 1911 in order to ensure

the success of the operation. Edwards attempted to explain away this apparent contradiction, not all that convincingly, by arguing that it was now important to accomplish the conversion within the term of office of President Montt.⁵⁴ The influence of the ideas of Edwards and Agustín Ross were clearly visible in the proposals in the veto message signed jointly by Montt and Edwards. This influence was especially noticeable in the proposal for the withdrawal from circulation of Pesos 0.5mn per month of paper currency, a strategy that had been a principal plank of the Edwards/Ross inspired orero policy of the early 1890s.

After a debate that concentrated largely on the constitutional issues involved, the Deputies easily overrode the veto by 51 votes to 12. The defeat for Montt was equally overwhelming in the Senate; only on one issue, the authorisation for the £4.5mn loan, did enough of his friends support him to make the vote (15 to 6 against him) a little more respectable.⁵⁵ The conversion postponement bill became law on 30th August 1909.

Montt and the oreros were left with little choice but to forget about a return to a gold-based currency for the time being. The former began to look at the same problem from a different angle. In apparent recognition of the influence of the lack of banking legislation and control on the continuation of inconvertible paper money, Montt commissioned Agustín Ross to draw up new banking legislation.⁵⁶ Nothing came of the idea and, in any case, by then Montt was too ill to take any more political initiatives. From early 1910, he was forced to delegate much of his role to his ministers.

In the Government formed in September 1909, Agustín Edwards reverted to his previous role of Foreign Minister and the Balmacedist, Manuel Salinas took over the Finance Ministry. President Montt's illness, which forced him to leave for Europe in July 1910 and which caused his death in Bremen the following month, led to the domination of Santiago politics by the manoeuvres for the succession. Much of the political activity,

in which J.L. Sanfuentes was prominent, was directed initially at pushing Agustín Edwards as far away as possible from the succession. Montt appointed Edwards as head of a new Government in June 1910, but the former's decision to leave the country for treatment obliged Edwards to resign to allow for a less controversial caretaker Head of State. Elías Fernández Albano, the new Minister of the Interior and a National, became Acting-President in July. Fernández himself lived for only a further two months, so the most elderly member of the Cabinet, the Liberal Democrat, Emiliano Figueroa Larraín, assumed the role until a new elected President could take over.

These unusual circumstances and the short time available before the election due on 14th October, together with the proximity of the Centenary Celebrations, induced the political parties to agree on a single candidate so as to avoid an electoral struggle. To this end all the major parties, except the Conservatives, were represented at a single Convention in October. The principal candidates going into the Convention were Agustín Edwards and Juan Luis Sanfuentes. Both were leading members of the banking oligarchy. Edwards, despite his family's great wealth and ownership of the country's leading newspaper, suffered from the disadvantage of his relative youth. The most marked difference between the two at this time was over the monetary question. Edwards had made many political enemies in 1908/9, especially among the papeleros, as a result of his strong pro-Gold Standard policy. On the other hand, Sanfuentes' reputation as a papelero made him unacceptable to the oreros. As a result neither Edwards, supported by the Nationals, most Radicals and a few Liberals, nor Sanfuentes, who counted on the votes of the Liberal Democrats and some Liberals (plus the tacit support of many absent Conservatives), could command a majority.⁵⁷

Edwards was the first to drop out of the running, but his supporters switched to Enrique MacIver who for a time looked capable of attracting a majority. The prospect of the nomination of a Radical and so staunch an orero as MacIver so alarmed

Sanfuentes and his supporters that Sanfuentes agreed to stand down in favour of a compromise Liberal candidate. The eventual choice was the Liberal, Ramón Barros Luco. He filled the requirements admirably; he was a distinguished and senior member of the Santiago political class, aged 75, and politically neutral, with no strongly-held doctrinaire views on the monetary question. Barros Luco was acceptable to the Conservatives and as the only candidate took office as President in December 1910.

The choice of Barros Luco represented a reaction against the active and abrasive style of Pedro Montt. Under a man, described by one writer as "the personification of inertia itself,"⁵⁸ the parliamentary oligarchy was assured safety from any attempts at reform. Barros Luco's assumption of the Presidency also reflected the desire for a rest from the arguments over the currency. The call for a "paz monetaria" was heard in 1910 even from such anti-papelero sources as the newspapers El Mercurio and El Ferrocarril.⁵⁹

The politicians seem to have heeded the call for a "paz monetaria". Both the oreros and the papeleros were quiet throughout 1910 and 1911. Business was recovering from the crisis of 1907/8 and the exchange rate was relatively stable at between 10d and 11d during these two years, so that the monetary question was not demanding an urgent solution. Governments in turn made every effort to minimise fluctuations in the exchange rate, particularly upward pressures on the rate at harvest time, by phasing sales of sterling receipts from foreign loans so as to avoid antagonising the agricultural interest. Such considerations also induced the Government to delay the contraction of loans already authorised, despite the problem of financing the budget deficit in 1910/11.⁶⁰

The only noteworthy move from the conversionist side in the 2½ years following the defeat of Montt in August 1909 was a bill presented by Guillermo Subercaseaux for a Caja de Conversión and a 12d exchange rate.⁶¹ This was a further indication of the growing realisation among some oreros of the futility of

demanding an 18d gold Peso.

A more pressing financial problem in the years 1910 and 1911 was the state of the budget. The year 1910 ended with a large fiscal deficit of some Pesos 43mn as a result of the heavy State expenditure on the Centenary Celebrations and on the Longitudinal Railway. This deficit was financed temporarily by borrowing from the Banco de Chile.⁶² It was not long, however, before attention focused on the Conversion Fund as a source of financing the deficit. The practice of sending funds abroad at a time of financial problems at home came under renewed attack in 1910 from leading figures in the Senate, including E.S. Sanfuentes, Fernando Lazcano and Joaquín Walker Martínez.⁶³ During a debate on the budget estimates in December 1910, the Senate approved a motion proposed by Walker Martínez for the removal of the Pesos 6mn per month addition to the Conversion Fund. The oreros in the Deputies reinstated the Pesos 6mn per month, but only at a time when the Chamber was barely a quarter full. The Senate in turn insisted on the deletion of the item and the Deputies backed down.⁶⁴

Another source of funds to finance the deficit, or strictly speaking to repay the Pesos 40mn owed by the Treasury to the Banco de Chile, was provided by the sale of some Pesos 55mn of mortgage bonds held by the State. The scheme involved the conversion of Peso-denominated bonds in the Conversion Fund into 5% gold-denominated bonds and their subsequent sale abroad to a syndicate of German banks.⁶⁵ The Treasury was to compensate the Caja de Crédito Hipotecario for any exchange losses involved in the exercise, since debts corresponding to the bonds were still due to be paid in paper currency. This sale of bonds was accepted by Congress only after a long debate. The interests of mortgage debtors were protected by the sale of bonds being abroad so that internal prices were not affected unduly. The loss to the Conversion Fund did not worry the oreros since the bonds were denominated in local currency and were thus of little value as a guarantee of the note issue. Moreover, from the view-

point of the supporters of a gold currency the scheme had the advantage that it strengthened the principle of gold-denominated mortgage bonds. This had been an aim of the oreros in the 1890s and was revived during Pedro Montt's term of office. In 1910 the Caja Hipotecario made a small issue of gold bonds and in 1911 this was followed by a much larger issue of bonds denominated in French Francs which were sold to a syndicate of French banks. According to the Anglo-South American Bank, Chilean mortgage bonds, whether denominated in gold or Pesos, were unknown in London.⁶⁶

Towards the end of 1911, the first signs appeared of another of the periodic business recessions/banking crises. As usual, the crisis was characterised by an over-extension of bank credit leading to liquidity problems for the banks. This in turn was followed by a sharp contraction of credit, complaints of a shortage of currency and the inevitable rumours of a pending new issue of paper money. As on some previous occasions, the crisis coincided with the period of the harvest as well as with the run-up to Congressional elections (of March 1912) which required the expenditure of large sums in cash which had to be withdrawn from the banks. Over the year 1912 as a whole, bank credit outstanding fell from Pesos 686mn to Pesos 624mn, while total deposits fell even faster, from Pesos 524mn to Pesos 430mn.⁶⁷

True to form, in January 1912 the banks approached the Government for help. They wanted measures to increase the "flexibility" of the currency and among which were included the possibility of a new direct issue of paper money.⁶⁸ The banks, or more specifically the Banco de Chile, had this time a more powerful case for requesting State help since they could point to greater efforts of self-help on their part. At about the same time as the banks' approach to the Government, the Banco de Chile made use of the facility in the August 1907 law by depositing £600,000 in the Chilean Treasury in London and withdrawing Pesos 8mn of notes in Chile.⁶⁹ The terms of an 18d

exchange rate for the Banco de Chile to obtain these notes (when the actual market rate was only around 10d) were very onerous. The bank's act of apparent self-sacrifice provided the Government with a stronger supporting case for official measures to aid the banks. The Manager of the Anglo-South American Bank in Valparaiso commented with considerable foresight that "we can hardly believe that the Bank (of Chile) would resort to such a costly procedure except in an emergency and probably with the idea of paving the way for a modification of the present law of emission on the basis of 12d."⁷⁰

The representations made by the banks prompted the President to recall Congress. On 28th March 1912, a bill, signed by Barros Luco and his Finance Minister, the Liberal Democrat Pedro Montenegro, was presented to the Senate with the aim of dealing with the situation of the banks. The Government resisted the demands that it should propose a direct issue of more paper money. Instead it recommended the provision for an expansion of the note issue by means of the existing facility of the Oficina de Emisión, but using the more realistic and less penal rate of 12d. This lower rate was to apply only to deposits by banks or individuals of gold; notes would be issued against the deposit of bonds of the external debt or of mortgage bonds only at the existing rate of 18d.⁷¹

The Finance Committee of the Senate thought that the Government's proposals would not increase the note circulation rapidly enough. They proposed that the State should make an immediate deposit of £1.5mn of public funds in the Oficina de Emisión and in this way effectively issue Pesos 30mn of currency notes. The bill authorised the President after two years to retire up to the entire amount of the new notes issued. In the words of the Senators on the Committee, this amounted to a "partially guaranteed" note issue.⁷²

The oreros, most notably Guillermo Rivera, expressed scepticism about the future permanence of the £1.5mn which would be lying temptingly idle in the Oficina, in view of the

fate of the Pesos 6mn per month addition to the Conversion Fund. They argued that the Senate Committee's bill amounted to a straightforward note issue and that the guarantee was not partial but illusory.⁷³

The Government seemed happy to go along with the Finance Committee's proposals, but the conversionists narrowly won the day and the Pesos 30mn note issue was rejected by 10 votes to 9.⁷⁴ This left only the provision for the issue of notes at a rate of 12d against the deposit of gold by banks. Should the exchange rate of the Chilean note rise above 12d, banks were to be obliged to top up their gold deposits proportionately. Both national and foreign banks in Chile could use this facility, but only up to the limit of a sum equal to their paid capital.

Some conversionists had still not given up the hope of a return to an 18d convertible Peso. In the Senate, such people were satisfied just to remove the more extreme solution of a direct paper money issue. When the debate reached the Deputies in April 1912, the conversionists felt in a position to attack the whole principle of the bill before them which carried the support of the Government and the Senate. The criticism was led by Alberto Edwards, Guillermo Subercaseaux and Armando Quezada, the Radical Deputy for Santiago. They attacked the Senate's bill because in their eyes it marked the abandonment of the 18d Peso, in practice if not in theory, without moving any closer to full convertibility of the currency at any rate. They proposed instead a short-term issue of legal tender bonds to the banks, guaranteed with mortgage bonds, on the lines of that provided for in the December 1907 law. These conversionists argued that a temporary issue of paper money, albeit backed only by more paper, was a lesser evil than the emission of notes backed by gold that ruled out the possibility of an eventual conversion at 18d. The complete lack of interest in such bonds shown by the banks in 1907/8 allowed the oreros to be fairly sanguine about the danger of a large issue of new

paper money. Accompanying this, Edwards, Subercaseaux and Quezada, together with Darío Urzúa, proposed a Caja de Conversión and the full convertibility of all the paper currency at a rate of 10½d from the beginning of 1913. Their proposals contained specific provision for the periodic increase of the conversion rate, with the eventual aim of reaching 18d.⁷⁵

While there was little chance of the acceptance of the Caja de Conversión scheme, the solution to the problems of the banks by means of a short-term issue of bonds found widespread support in the Chamber. This came from the conversionists who wanted to link it to their Caja de Conversión proposals and from some papeleros who opposed the new style and more effective Oficina de Emisión envisaged in the Senate bill. The two groups combined in the voting on this question to reject the Senate's bill by 25 votes to 11. The bond issue was approved by 49 votes to 3.⁷⁶ The bill rejected by the Deputies had the support of the banks, the Government and the Senate and the latter voted to insist on its own version. Against this weight of opinion, the Deputies backed down. The Senate's original bill for the issue of notes at a rate of 12d against the deposit of gold became law on 11th May 1912.⁷⁷

Banks could obtain the issue of notes up to an amount equal to their paid capital. They received a certificate from the Oficina de Emisión which they had to return to reclaim their gold. Despite the fact that the exchange rate remained below 12d in 1912-14, this facility proved popular, particularly with the foreign banks. When money was tight in Chile they could borrow funds at relatively low interest in London and deposit them in the Tesorería Fiscal de Chile in London and receive the equivalent sum of notes in Chile. The papeleros who opposed this new system had warned that it would favour the foreign banks, since they had ready access to funds from their head offices. This prediction turned out to be correct. Up until the end of 1913, some Pesos 34mn of currency notes were issued by the Oficina against the deposit of gold by banks.

Pesos 12mn of this was accounted for by the Banco de Chile and less than Pesos 1mn by other native banks. The remainder was issued through the foreign banks, principally the three German banks in Chile. Only Pesos 1.3mn of gold was deposited in Santiago and the other Pesos 33mn or so was deposited in London.⁷⁸

The May 1912 law added some flexibility to the currency. However, the smaller native banks (i.e. all but the Banco de Chile), which accounted for something of the order of a third of all bank deposits, could not or did not use the facility of the Oficina de Emisión. This additional flexibility did not therefore work in any automatic way to ease their periodic difficulties. Relief for them could still only be provided, as in the past, by direct State intervention. When the Banco de la República, one of the larger of the second rank native banks, was on the verge of closing its doors in mid-1913 as a result of some years of unsound management, the Government resorted to one of its well-tried and traditional measures. This involved an agreement between the Government and the Banco de Chile, the principal creditor of the Banco de la República, under which the Banco de Chile would organise an orderly liquidation of the troubled bank with the help of a timely deposit of £500,000 from the Treasury. This was designed to alleviate the possible consequences on the other banks of the collapse of the Banco de la República.⁷⁹ Such a move by the State was not necessarily dependent on the existence of the Oficina de Emisión. El Mercurio of Santiago went further and declared that the May 1912 law did not alleviate significantly the annual cash problems experienced by many of the national banks at the time of the harvest.⁸⁰

The role played by the banks in the lead-up to the new law and the new power given to them by the legislation once again placed the banks in the centre of the debate. This was given a limited official recognition in the decision announced later in May 1912 by Barros Luco and his Finance Minister, Pedro Montenegro, to set up a commission with the task of re-

commending ways of reforming the 1860 Banking Law. The longer-term background to this move was a growing awareness among some Chilean politicians of the inadequacies of the existing controls over the private banks.

One aspect of this was the realisation by some conversionists that the persistent bank liquidity crises were a major factor inhibiting a return to convertibility of the currency. The need for reform of the laissez-faire 1860 law had been recognised by Manuel Salustio Fernández, the Finance Minister at the time of the 1895 conversion. He made various recommendations, most notably on the need for legal minimum reserves against bank deposits as well as the banks' own note issues.⁸¹ Following the removal in 1898 of the banks' right to issue their own notes, the need for any action took on less importance and the question was effectively dropped for some years. It was revived by a few conversionists following the 1907/8 crisis when a number of banks collapsed. Pedro Montt understood the need for amendments to the existing bank legislation as shown by his decision to commission Agustín Ross to draw up proposals. The same sort of thinking was behind a bill put forward by Alberto Edwards in April 1912 dealing with the establishment, organisation, regulation and inspection of banks.⁸²

Another aspect of this question was the growing support for some kind of state, privileged or central bank. Almost up until the First World War, such proposals were invariably the creation of *papeleros*, particularly of Liberal Democrats basing themselves on the tradition of the original proposals of M.A. Zañartu made in 1887 and 1891. Their schemes usually involved large emissions of paper money and in some cases the particular institutions proposed appeared to be no more than a vehicle for this purpose. As such, these ideas were not designed to endear themselves to the *oreros*, even to those who wanted some kind of bank reform themselves. Nevertheless, the ideas of the *papeleros*, as with those of people such as Alberto Edwards and Agustín Ross, both involved an attack on interests

of the banks.

The question of the especially privileged position of the foreign banks also formed a part of the debate. Foreign banking interests first faced public criticism in the early 1890s. At that time it was a part of the more general hostility in some quarters to the activities of the North group in Chile, of which the Bank of Tarapacá and London formed a part. The Valparaíso newspaper, La Union, commented in 1893 that "in Chile foreign companies find themselves in a privileged position in relation to national companies in all senses: they are not obliged to constitute any capital, nor to accumulate reserve funds, nor to make, nor to publish balances, even nor to pay taxes."⁸³ The newspaper's particular grumble about foreign banks was that they were not subject to the 1860 Bank Law, but to the Code of Commerce which covered all companies in general. Besides this special privilege, the foreign banks also enjoyed the advantage of other foreign companies in Chile that, while native companies and banks paid tax on the value of their shares quoted on the Stock Exchange, foreign concerns were not quoted and hence paid no tax.

The foreign banks managed to expand in number and successfully defend their interests by obtaining treatment equally favourable to the native banks in the monetary legislation that followed the fall of the Gold Standard. Criticism of the foreign banks revived after 1907, concentrated particularly on the three German banks in the country and their role in the financial crisis of 1907/8. Such attacks were heard not only from the more radical and papelero voices of people like Alfredo Irarrázaval but equally from the Conservative industrialist and mine-owner Joaquín Walker Martínez and from representatives of the national banks such as Arturo Besa.⁸⁴ Objections were directed at the role of the foreign banks in causing the flight of capital from the country through their practice of bringing little capital to Chile and remitting deposits back home. The case of the critics of foreign banks was strengthened by figures showing

that the capital of these banks in Chile fell from Pesos 44.7mn in 1906 to Pesos 26.5mn in 1909, a fall largely attributable to the German banks.⁸⁵

Pedro Montt and his Finance Minister, the Liberal Democrat Manuel Salinas, presented a bill in January 1910 aimed at putting both native and foreign banks on the same footing as regards taxation. Eventually, Congress accepted the ideas of Guillermo Subercaseaux for a tax on bank deposits rather than the Government's proposals for a tax on capital. Subercaseaux also proposed the creation of a system of bank inspection and this was also approved by Congress, although in a tentative and weak form. A law of February 1912 instituted both a tax of 2 per 1,000 on bank deposits and an Inspector of Banks.⁸⁶

The Comisión Bancaria set up by Barros Luco in May 1912 was composed of legislators, bankers and academics together with the Minister of Finance. From the beginning the Commission decided that the question of the currency was more important and urgent than that of banking law reform, an indication that the connection between the two was still not generally accepted. The Commission concentrated almost exclusively on the conversion question. It was not a commission in the English sense; there were no public hearings during the 12 months in which it sat.

In the words of one member, the economist and orero Roberto Espinoza, the Commission was "lacking a unity of direction as well as of method."⁸⁷ Nobody on the Commission openly opposed the stabilisation of the currency in principle and the majority were agreed on the need for some kind of central institution. Beyond that point there was little agreement. The basic division was over the nature of the new institution; whether it should be a simple Caja de Conversión or a more complex central bank with wider powers. Those who supported the latter were equally divided over whether the central bank should be private or state-owned. Another source of dissention was the conversion rate, where the argument centred on whether it should be 10d or 12d.

In the interest of making some sort of recommendations at the end of 12 months of deliberations, the Commission did find a compromise. The main proposal made by the Commission to the President in 1913 was for the establishment of a Caja Central de Emisión y Conversión. This institution would issue and redeem notes against gold and sterling at a rate of 10d per Peso (0.30509 gms of gold). The proposed new Caja bore considerable resemblance to those functioning in Argentina and Brazil. However, in deference to those who wanted a central or state bank, the new institution was to have a rediscount facility for private banks and the right to issue notes up to an amount of Pesos 50mn above its gold holdings. There was general agreement that the country could not return to a pure Gold Standard of the 1895/8 type and that a modified Gold Exchange Standard was required.

Although the Commission came down firmly on the side of restoring the convertibility into gold of the Peso, they were not specific about the sensitive issue of the exact timing. Few expected it to be before 1st January 1915, the date set in the 1909 postponement law. The debate in the Commission in 1912/13 took place against the background of poor financial conditions in Chile. From May 1913 the exchange rate remained below 10d and in January 1914 fell below 9d. One factor in the weakness of the exchange was the general withdrawal of funds from Chile in 1912/14 by the head offices of European firms owing to the unsettled international relations in Europe.⁸⁸ This withdrawal of funds in turn led to a restriction of bank credit in Chile. Both bank deposits and bank lending were stagnant from 1911 to 1914. The failure of the Banco de la República in mid-1913 added to the general loss of confidence in the banking and commercial community.

In these conditions disaffection towards the existing monetary system grew, as did the pressure for reform. Complaints by labour organisations and various middle class societies set up to campaign on the monetary question about

the depreciation and instability of the currency and the rising cost of living were joined by the employers. The year 1913 saw mounting labour unrest, most notably a general strike in Valparaíso. The Sociedad de Fomento Fabril was prepared to accept that inflation, both monetary and in cost of living terms, was a cause of the increasing labour unrest. They pressed the Government in December 1913 for a resumption of convertibility at a rate equal to the average of the previous three years (about 10d) by means of a Caja de Conversión on Argentine and Brazilian lines.⁸⁹

Meanwhile, the due date for conversion was approaching. The necessity for some action soon was increased by the stipulation in the 1909 law that the Government should return the Conversion Fund to Chile for minting within the first half of 1914. At the end of 1913, the fund amounted to £7.9mn, sufficient to enable the inconvertible note issue of Pesos 150mn to be redeemed at a rate of just over 12d. Of this sum, £7.15mn was deposited in banks in Germany and £759,000 in London.⁹⁰

The Government accepted the main recommendations of the report of the Comisión Bancaria and in response to the mounting pressure for some action on monetary reform, presented similar proposals in a bill sent to Congress in December 1913. The bill, signed by Barros Luco and his Conservative and pro-conversion Finance Minister, Ricardo Salas Edwards, provided for the setting up of the Caja Nacional de Reservas, a slightly more elaborate version of a Caja de Conversión. This Caja was to be run by a sixteen-man board, four of whom would be chosen by the Government, four by Congress and eight by the banks which were to subscribe to the Caja a sum in gold equivalent to 15% of their capital. This contribution by the banks was to serve as a guarantee for the issue of notes in the Caja's discount operations. The Caja would be authorised to issue a further Pesos 30mn of notes above its total gold holdings for the discounting or rediscounting of paper for the banks. Until the resumption of convertibility, the Caja would continue the function of the

existing Oficina de Emisión by exchanging notes at a rate of 12d. The Board of the Caja would fix the date for conversion, although a Presidential decree would be needed to postpone the date beyond 30th June 1915. The Government left the question of exact conversion rate open and merely proposed that it should be between 10d and 12d. The bill also authorised the Caja to exchange notes for bills of exchange drawn on London, a move justified, despite the controversy, according to Salas Edwards by Chile's geographical isolation.⁹¹

A bill had to pass through Congress at least within the extra-ordinary sessions ending in May 1914 for there to be a reasonable chance of a resumption of convertibility on 1st January 1915. Some delay was caused by the holiday season and the hot weather of December 1913 and January 1914 which lowered attendance at the Special Committee of the Senate set up to examine the Government's draft legislation.⁹² The Committee's report, signed by nine Senators, finally appeared on 29th January. It preserved the general lines of the Government's bill, but with some modifications. There were to be no representatives of the banks on the ruling body of the proposed institution. The conversion date was to be fixed by the President, after the approval of the Senate. In any case, the Caja was from the beginning of 1915 to issue notes against the deposit of gold or bills of exchange in the same way as the existing Oficina. The rate of exchange chosen by the Committee was 12d. On the Caja's powers to discount paper for the banks, the Committee's bill was less complex and more vague. It merely stated in general terms that the Caja could perform this operation "with guarantees" and imposing no limit on the Caja's total note issue. The Committee's bill was approved almost unanimously on the same day as its introduction, although the fact that only 14 members were in the Senate chamber at the time did not suggest any great enthusiasm for the proposals.⁹³

The Senate's bill was presented on the floor of the Chamber of Deputies on 30th January and a Special Committee was

chosen to examine the proposals. The discussion of the question in the Chamber was more lengthy and a bill did not finally emerge from the Deputies until 18th June 1914. At this stage the real dispute was over the rate of exchange to be fixed. A few people still stuck to their faith in an 18d Peso. These included the editor of the English-language Valparaíso newspaper, The South Pacific Mail. Also to be found in this small group was the Democratic Party, which came out in favour of an 18d Peso on social grounds in its manifesto early in 1914.⁹⁴ The party's romantic attachment to an 18d gold Peso was no doubt in part a reflection of the views of Malaquias Concha who for long had argued that the paper money should be redeemed only at a much higher rate than the market rate or not at all. However, by 1914 most oreros accepted that 18d was unrealistic. Even Agustín Ross, who in the early 1890s had at one point argued for a 48d gold Peso, now favoured a rate near the existing market rate (he wanted 9.6d, equivalent to a French Franc).⁹⁵

The real issue was between 10d and 12d. The Senate chose 12d. Many who favoured the higher rate did so on the grounds of the need to appease the trade unions. The workers' organisations, in a series of meetings and petitions in 1913/14, strongly urged a quick conversion at a rate of 12d. The banks, on the other hand, opposed a rate as high as 12d. The South Pacific Mail considered that "the real issue, however at the moment, is between the Banks and the Senate. At 12d the banking situation would be exceedingly critical, and it is natural that they should use every influence to protect their interests."⁹⁶ The Government as usual was prepared to go along with whatever was decided by Congress.

The Deputies, after a lengthy and technical debate in which few voices were raised against the principle of conversion, came out in favour of an exchange rate of 10d and a resumption of convertibility at the beginning of 1915. The Caja de Conversión proposed in the Deputies' bill was to be run by a board of six, two of whom were to be chosen by the President, two by

Congress and one each by the banks and the Caja Hipotecario. The bill also included provisions on banking, aimed particularly at the foreign banks. The establishment of new banks under the Code of Commerce was no longer to be permitted and foreign banks in Chile were to be forbidden to invest their capital and deposits away from the country. Applying to all banks was a provision limiting bank deposits to a maximum of four times each bank's capital. The Deputies' bill was generally more comprehensive than those of the Government or of the Senate. It included details of the proposed new coinage and, besides, stipulated that the pound sterling would be legal tender.⁹⁷

The whole question was now thrown back into the court of the Senate. The upper house was under strong pressure to make a quick decision and one involving a 12d Peso. The monetary debate in 1914 took place under the increasing threat of labour unrest, which could erupt if the politicians in Santiago showed signs of delaying a return to convertibility or of fixing an exchange rate less than 12d. The Government regarded the possibility of civil disturbances as sufficiently serious to justify keeping on the year's military conscripts for an extra three months and to transfer a regiment from Tacna to Viña del Mar.⁹⁸

In these conditions, the Government was keen to speed up matters. It judged that a rate of 12d, which was opposed by financial and business interests, would in the end be rejected by the Senate as well as by the lower house. This factor made it even more important for a conversion bill to be put on the statute book as soon as possible, in deference to at least one of the demands of public opinion. Anticipating what he thought would be the Senate's decision, the Finance Minister, Ricardo Salas Edwards, declared in June 1914 that the Government intended to begin minting gold coins worth 10d.⁹⁹

The Deputies' proposals were put before the Senate on 22nd June 1914. A Special Committee was set up to study the Bill and its report was presented on 15th July. Meanwhile,

El Mercurio of Santiago had commented pointedly that "the question has been so much studied and debated that it would surprise us to see a long debate arise newly from a project that has been studied for two years." The newspaper went on to warn the Senate that, "because the rumour has been spread that there will be obstruction and there is alarm among working men," the law should be passed by the end of the year in deference to "the opinion of the large majority of citizens."¹⁰⁰

The report of the Senate Committee accepted some of the Deputies' proposals, including the key provision of the 10d exchange rate. This was to be the final version of the proposals to emerge from the debate of 1913/14 and as such merits a fuller description. The more elaborate version of the Argentine and Brazilian model of a Caja de Conversión was to be ruled by a six-man board. Two were to be chosen by the President and the others by Congress; the banks were to have no representation on the board. As in all the other bills, the Caja was to take responsibility for all of the note issue and the Conversion Fund and was to enjoy the exclusive right to issue paper currency. The date for the resumption of convertibility of all notes was to be announced with six months notice by Presidential decree following approval by the Senate (or the Comisión Conservadora if Congress happened to be in recess). Whether or not the conversion decree had been issued, on 1st January 1915 the Caja would begin to issue convertible notes against the deposit of gold or bills of exchange at a rate of 10d per Peso, that is to operate on similar lines to the existing Oficina de Emisión. Like the previous Senate bill, but in contrast to the proposals of the Government and of the Deputies, this bill imposed no limit on the Caja's capacity to discount paper for the banks nor set any maximum on the fiduciary note issue. The Caja was authorised, within limits, to operate in the exchange market and buy and sell bills of exchange. The Senate Committee's bill maintained more or less intact the provisions relating to foreign banks and the banks required capital/deposits ratio contained in the

Deputies' bill.¹⁰¹

It was soon apparent that this new bill was not going to have the same easy passage enjoyed by its predecessor in January, when little interest had been shown in the question. In the first place, some of those who signed the Senate Committee's bill in January refused to put their names to the latest proposals. These dissenters were Angel Guarello of the Democratic Party, a lawyer and his party's only representative in the Senate, Guillermo Rivera and, finally, Francisco Valdés Vergara, the Finance Minister in 1891, who was now making a political come-back as an Independent Liberal following his success in a by-election in one of the Santiago Senate seats in 1912. The July bill did carry the signatures of such notables as J.L. Sanfuentes, the two Liberal Democrat ex-Finance Ministers, Manuel Salinas and Pedro Montenegro, and Eliodoro Yáñez, the distinguished Liberal politician who in his time was also President of the Sociedad de Fomento Fabril and Director of the Sociedad Nacional de Agricultura. But the number of signatures in July was smaller than in January (seven compared with nine) and would have to face an opposition which was absent in the earlier month. Further progress of the Caja de Conversión project in the Senate was delayed by a series of long obstructionist speeches by Francisco Valdés Vergara, who in discourses stretching over six days attacked all aspects of the bill. Then came the outbreak of war in Europe. The First World War did not halt the monetary debate entirely, but it certainly eliminated conversion from the field of practical politics.

Would Congress have approved a law for the resumption of specie payments but for the outbreak of war in Europe? The global pressures of international comparison and example were clearly strong. All the major countries of the world bar China, together with the great majority of Chile's neighbours in South America, were on the Gold Standard by 1914.

Fetter points to the marked lack of vocal opposition to conversion in 1913/14 and the pressure of public opinion

in concluding that such a measure would probably have been passed.¹⁰² Guillermo Subercaseaux was a little less sure; he judged that the Government "may" have overcome the obstruction in the Senate.¹⁰³ Charles Gilfillan, the Manager-designate of the London and River Plate Bank in Santiago was less optimistic when he declared that "I am still inclined to think that after many weary debates the matter will be shelved indefinitely..."¹⁰⁴

Certainly there was no great number of vocal opponents of the basic principle of the Caja de Conversión bills of 1913/14. But some care must be taken in assessing the extent of feeling by mere numbers voting or speaking in debates. As seems to have occurred in the early 1890s, in a debate in which there were no party lines and in which opinion was therefore often seen to be divided on the basis of personal interest, there was a tendency for some politicians to show reluctance to speak out against the principle of sound money. In these circumstances, opposition would work through obstruction or other indirect tactics and only then when circumstances changed would it become open. Thus in the 1890s, the financial crisis of 1893/4 and the arrival of the Balmacedists in Congress in 1894 encouraged a bandwagon effect of opposition to the previously virtually unchallenged pro-gold policy of the government.

In 1914 the Balmacedists and other former papeleros appeared to be acquiescing in the move towards a gold-based currency. They, no less than any other party, could then afford to ignore completely the unanimous demand of the working and middle classes. Their tacit acquiescence was also influenced by the fact that most oreros were no longer demanding that conversion should be accompanied by a large appreciation of the exchange rate and deflationary policies. Nevertheless, a change of circumstances, such as the arrival of another of the periodic financial and banking crises, could have encouraged many former papeleros to come out in open opposition to the resumption of specie payments. An indication of the mood of some politicians in the changed circumstances of August 1914 was given by the

introduction of a bill, signed by 33 Deputies, for a Banco del Estado with the capacity to issue up to Pesos 400mn of inconvertible notes.¹⁰⁵

This reduces the argument to essentially one of timing. From the point of view of the conversionists it was important that the Caja de Conversión bill should have been passed within the ordinary sessions of Congress ending early in September. In the absence of this, there would have been very little chance of specie payments being resumed by the psychologically important date of 1st January 1915. The carrying over of the debate into the extraordinary sessions beginning in October 1914 would have left its continuance and outcome subject to such uncertain factors as the nature of any new government, the need for legislative time for the budget debate and possible renewed difficulties for a Chilean bank.

Besides the almost one-man obstruction of the debate in the Senate, there were real differences between the proposals of the Deputies and those of the Senate Committee. In several respects, the latter's bill resembled the original Senate bill of January 1914 which was subsequently rejected by the Deputies in favour of their own and substantially different bill. Not least of the differences was the stipulation in the Senate Committee's bill that the crucial question of the date of conversion should be decided by the President with the approval of the Senate alone. This provision had been rejected before by the lower house and was not likely to be acceptable to them when presented again. With the best will in the world towards the principles and aims behind the various schemes, some time would have been necessary to resolve the differences over details. Whether this will existed, particularly in the Senate, is difficult to say. The absence of more than half of the Senate members from the debate and vote in January 1914 makes it difficult to judge the real mood of the upper house.

With the benefit of the hindsight gained from the period 1918/24, it is not difficult to imagine the Senate dragging its

heels for years. The popular pressure for monetary reform on the oligarchy in the Senate was probably more intense in the 1920s than in 1914. The obstruction of the central bank bill in the Senate in the days immediately preceding the military coup of September 1924 was reminiscent of the obstruction of the Caja de Conversión scheme in July 1914. Apart from emphasising that the Chilean oligarchy adjusted very slowly to new social and economic realities, this comparison with later years does not give strong grounds for the presumption that Chile would have returned to the Gold Standard but for the outbreak of war in Europe in 1914.

CHAPTER ELEVEN

CONCLUSIONS ON THE IMPACT OF MONETARY INFLATION ON THE CHILEAN ECONOMY, 1900-1914

The real economic effects of the inflationary monetary policies of the years 1904/7 were mixed. The picture of speculative booms and slumps and of lavish spending by Santiago society should not conceal some of the real, albeit limited, economic progress made in the early years of this century. Nitrate financed not only the great "anxiety for great palaces, for jewels and for luxury in all its forms"¹ shown by Santiago society, but also financed real infrastructural improvements. With all its faults, the Chilean railway network expanded in 1900-13 by nearly as much as it had in the previous 50 years, and most of this expansion was in the State sector.²

The depreciation of the currency, together with rising prices, undoubtedly contributed to the revived prosperity of Chilean agriculture in the first third of the 20th century. Wheat exports even became profitable again in a number of years. Mortgage credit more than doubled between 1900 and 1914 helped and partly financed directly by official monetary policy. There is little evidence that much of this monetary expansion went to financing real improvements in agriculture. The expansion of agriculture in this period was extensive, towards the south, while cereal yields generally fell and the hacendados were slow to adapt to the need for more intensive methods.³ In some expanding sectors of agriculture, notably sheep rearing in the south, foreign interests played a large part.⁴

Like agriculture, mining stood to gain from a depreciating currency. The speculative boom of the early 1900s, fuelled by paper money issues and easy credit, did encourage a temporary resurgence of Chilean-owned mining enterprises. Altogether in the years 1900-7, 170 companies were formed to engage in mining (excluding nitrate and borate) with a total capital of Pesos 170mn (£12.8mn). Nearly three-quarters of these were set up in the

boom years of 1905/6. Only a minority of these companies had any material base. In 1909 only a third of them were in production, while a third had yet to begin operations and a third were already liquidated.⁵ There is evidence that Chilean capital participated in the expansion of the nitrate industry in the boom years and increased its share relative to foreign ownership.⁶ However, as we have seen in relation to the 1880s, there is little to suggest that the nitrate industry depended on a depreciating currency for its profits to any significant extent.

Manufacturing industry continued its steady but unspectacular progress. Anything approaching rapid growth did not come until Chilean industry received the benefits of protection from the First World War. It needs little elaboration here that in industry, as well as in mining, commerce and even agriculture, growth in the early years of the 20th century was accompanied by a process of denationalisation arising from the lack of development of a national capitalist class. To the extent that monetary inflation enhanced the financial attractions of landownership or banking as opposed to other sectors - and the social prestige of land was still very strong - then inconvertible paper money served to hinder the development of these other sectors of the economy and to discourage the emergence of a class of native industrial entrepreneurs. In the words of one writer, "the most grave consequences (of paper money) was the decapitalisation of the country."⁷ As we shall see later when we look in more detail at the motives and theories of the papeleros, this process of denationalisation was directly contrary to the aims of those who saw abundant paper money and cheap credit as the best means of promoting internally orientated economic development.

CHAPTER TWELVE

FROM 1914 TO THE FALL OF THE 'PARLIAMENTARY REPUBLIC'

The economic effects of the First World War on Chile have already been related elsewhere and will only be covered very briefly here.¹ The longer-term impact of the war on the pattern of Chilean development and trading relationships are of course difficult to separate from the influences of the immediate post-war years. Here we are concerned only with the series of short-term shocks experienced by the economy and the country's immediate reaction to these and their political and economic implications for the continuing monetary debate.

In August 1914 the country was faced simultaneously with a number of economic and financial crisis situations. Like most neutral countries, Chile faced the initial financial and commercial disruption resulting from the drying up of London as a source of short-term finance and the further disruption to shipping. Chile was caught without a merchant fleet and no neighbours in a position to supply one. The nitrate industry lost the important German market and its main source of financing. By February 1915, at the depth of the crisis, nitrate prices had slumped to 5s-8d per quintal compared to the 8 shillings of July 1914 and the number of oficinas in operation had fallen from 134 to 43. The implications for the Treasury of the paralyzation of the import trade and the slump of exports were clearly very serious. Not surprisingly therefore, in these conditions the outbreak of hostilities in Europe was greeted in Chile by a financial panic and a run on a number of banks. The point is made by Rowe, however, that the existence in Chile already of an inconvertible paper money system lessened the financial shock of the outbreak of war compared to many of her Latin American neighbours with their gold-based currencies.²

It was to the short-term problems of the nitrate industry

and the need to allay the financial panic that drew the immediate attention of the Government. In order to aid the banks, Congress, with the prompting of the Government, passed a measure for the issue of legal tender, one-year, non-interest bearing notes (Vales de Tesoro) to banks wanting them up to the equivalent of 50% of their paid capital against the guarantee of mortgage bonds valued at 90% of par. The banks paid interest on the notes at a rate equal to 3% less than their lending rate. This law was on the lines of the legislation passed in December 1907. This measure was regarded as a necessary evil by the oreros. As with the previous 1907 legislation, they had little to worry about, since only a small amount of notes were issued to the banks (barely Pesos 7mn were outstanding at end-1914) and by the end of 1916 virtually none was left in circulation. This loan, or rediscount facility, for the banks was extended periodically, but not before 1920 was it a significant source of monetary expansion. The banks also made temporary use in 1914 of the Oficina de Emisión to obtain currency notes against the deposit of gold with the aid of a £1.5mn loan (in the form of a time deposit) from the Government to the three leading local banks. But again the amount outstanding was not substantial except in the very short-term.³ The existence of these two sources of bank liquidity served to ease the panic and reassure depositors fairly quickly and only one bank, the Banco Italiano, failed in August 1914. This bank failure was only indirectly due to the war, since the bank concerned had been tottering on the brink for some years having never really recovered from the 1907 crisis.⁴

Government aid to nitrate producers took the form of loans/subsidies. Under the scheme approved quickly and easily in August 1914 nitrate producers constituted a mortgage in favour of the Government on nitrate stored at the sea coast or at his works in the interior. In return, he received a 180-day draft that he could discount at a bank. The banks in turn could deposit the draft as a guarantee for the issue of legal

tender notes. The advances authorised were initially up to 4 Pesos per 46 kilos (one quintal) of nitrate at the coast and 3 Pesos per 46 kilos for nitrate stored at the producers' plants. These amounts were increased in subsequent legislation. The nitrate industry initially made substantial use of these short-term advances and over Pesos 40mn of nitrate-guaranteed notes were issued in 1914 and 1915. However, as the industry's prospects improved in 1915, producers ceased to resort to such borrowing to any great extent and with redemption less than Pesos 4mn of notes were outstanding at the end of 1915. As shown in Appendix III nitrate producers accounted for about half of the increase of 21% in the total note issue (Vales plus fiscal bills) during 1914.⁵

Notwithstanding these short-term emergency measures to aid the nitrate industry and the banks, the outbreak of war in Europe gave the papeleros a pretext and a case to revive their paper money proposals. A number of bills soon followed from the papeleros side proposing the setting up of state banks and involving the issue of large amounts of paper money. One such bill, introduced in August 1914, as already mentioned, attracted the signatures of about one-third of the Chamber of Deputies.

After helping the banks and the nitrate industry, the Government itself was forced to look at the immediate problem of its own financing, in the knowledge that any tax changes to replace lost revenue from foreign commerce could at best be only a long-term measure. The Government concluded initially in August 1914 that some resort to the printing press would be necessary to avoid too sharp a cutback in public spending, particularly in view of the forthcoming Congressional and Presidential elections in 1915. This was incorporated in a bill signed by Barros Luco and Ricardo Salas Edwards and presented to Congress on 21st August 1914. This bill proposed the establishment of the Caja Central de Chile and in many respects was the same as the Senate Committee's bill of July 1914. The main point of difference was that the new Caja was to be much more

of a central bank in the sense that it would act as banker to the government. The Caja Central would be authorised to grant the government a Pesos 60mn overdraft in 1914. Like the Senate Committee's bill, the Government's proposals naturally did not specify any date for the resumption of convertibility.⁶

The majority of a joint committee of both houses of Congress supported the Government's bill in broad terms. The only opposition came from the papeleros side, from Jorge Silva Somarriva, a hacendado and Liberal Democrat, and Malaquias Concha. The latter was concerned about the loss of power of Congress over the note issue to the proposed Caja. Since in the view of Concha "the project, as approved by the majority (of the joint committee), reduces in good measure to the authorisation for the issue of paper money up to Pesos 130mn more or less," he did not see why the Treasury with the approval of Congress could not do this just as well.⁷ Concha's calculation of the note issue capacity (strictly speaking of the new fiduciary issue) of the proposed institution was derived from the addition of the Pesos 60mn loan to the Treasury to half the paid capital of the banks (the limit of the Caja's lending capacity to the banks in its discount and rediscount operations).

The Caja Central idea made little further progress. In the first place, a split soon developed within the Government over financial policy. On one side was the Conservative Minister of Finance, R. Salas Edwards, who favoured cuts in public works expenditure. On the other side was the Minister of Industry, Public Works and Railways, Enrique Zañartu Prieto, the son of Manuel Aristides Zañartu and a relatively young and radical Liberal Democrat and papelero, who urged an expansion of public works expenditure. Naturally involved in this dispute were the assessments of Chilean politicians over whether or not the war would in fact be over by Christmas. Few, if any, thought that after the entry of Britain into the war that it would continue for more than a few months.⁸

The split in the Government led to the resignation of Salas Edwards at the beginning of September 1914 and to a new ministerial crisis. The next Government survived for less than two weeks. Eventually, in mid-September a new combination was formed with Alberto Edwards as Finance Minister. The financially orthodox Edwards stayed in this post until December 1915, almost throughout the remainder of Barros Luco's term of office. During this period, Edwards, backed by the anti-paper Minister of the Interior, Guillermo Barros Jara (a hacendado and banker and a nephew of the President), successfully resisted pressures for increased paper money emissions. With Edwards in the Finance Ministry, the Caja Central scheme was soon dropped by the Government and was not included in the list of bills for discussion in the extraordinary sessions of Congress beginning in October 1914.⁹ Government expenditure was cut, particularly in the public works sphere, and the first tentative moves were made towards tax reform with the introduction in 1915 of two new taxes, an inheritance tax and a tax on property (which replaced the old municipal property tax). The Treasury deficit in 1914/15 was financed not by note issues but by the less conspicuously inflationary means of advances from the Banco de Chile (the Government's debt to the Banco de Chile stood at Pesos 42.6mn at end-1915).¹⁰ The total note issue fell in 1915 as nitrate producers repaid their loans and as the banks withdrew their Vales, and also their notes from the Oficina de Emisión. The total note issue was smaller at end-1915 than at end-1913.

The resumption of specie payments inevitably had to be further postponed and a two year postponement of the conversion date (until 1st January 1917) was agreed, although only after an unsuccessful attempt by the papeleros, led by Enrique Zañartu and Jorge Silva Somarriva, to remove a fixed date and impose an exchange rate condition.¹¹ Nevertheless, the period 1914/15 saw a considerable victory for the conversionists in the sense that the immediate crisis arising from the outbreak

of war was not accompanied by the papeleros' solution of a large expansion of the currency circulation.

1915 was an election year, both for Congress and for the Presidency. In the words of Alberto Edwards, the March 1915 Congressional elections marked the "awakening of the electorate," the first real sign of a relaxation of the hold of the oligarchy over the electorate.¹² Too much should not be read into this from an overall social viewpoint, given the still very limited franchise and the practice of indirect elections. Nevertheless, middle class representation did receive a boost from the elections and the Liberal Alliance parties did make substantial gains, especially in the Senate. Not least of these was the celebrated victory of Arturo Alessandri over the Liberal Democrat, Arturo del Rio, in the Senatorial contest in Tarapacá, a seat that the Balmacedist machine directed by del Rio had controlled since 1897.

The trend evident in the March elections was not repeated in the Presidential election later in the year. The Coalition parties (Conservative, National and Liberal Democratic) chose as their candidate Juan Luis Sanfuentes. There was little real opposition to his nomination, despite unease among some Nationals who, with Agustín Edwards representing Chile in London, effectively had no candidate of their own. The Liberal Alliance (Liberals, Radicals and Democrats) chose another representative of the oligarchy, the Doctrinaire Liberal Javier Angel Figueroa, as a compromise between the Liberals and the Radicals. Sanfuentes had both sufficient influence and a strong enough electoral machine to win against the tide of the Congressional elections. Although Figueroa obtained more popular votes, Sanfuentes received more electoral votes and in the decisive vote in Congress the latter won easily, since many of the Liberal Alliance members did not bother to vote for Figueroa.

Sanfuentes' election programme (Programa de la convención coalicionista), unlike those of almost all previous candidates, did contain a reference to the 'cuestion monetaria'.

This was in itself a significant reflection of the way the forum of the debate had broadened away from the exclusive confines of the committee rooms and floor of Congress. The programme offered solutions to the problem of an inconvertible paper currency which represented the two differing standpoints of the parties involved. In deference to the views of the Nationals and some Conservatives, the programme contained the usual vague and broad commitment to economy in public expenditure. At the same time, it contended that the strengthening of the currency also depended upon the development of national industry. Here the programme was geared to the views of the Liberal Democrats, both old-guard Balmacedists and the younger and more radical members, and to the papeleros in general. The promotion of local industry was to be achieved by the Balmacedist/papelero favoured combination of tariff protection, subsidies, the direct promotion of national enterprises at the expense of foreign-owned interests and an expansion of public works, together with the creation of a central credit institution. The programme included the policy, first tentatively expoused by President Balmaceda some 25 years before, of earmarking all revenue from the nitrate export duty as extraordinary revenue to be used exclusively for public works expenditure.¹³

Such nationalistic and radical policies appear to lack credibility when uttered by so essentially conservative a figure as Sanfuentes, who in many respects was the epitome of oligarchic politics in the Parliamentary era in Chile. However, the disruption of her traditional trading patterns caused by the war was forcing on Chile a reconsideration of the orientation of the country's economic policy and development. This was reflected in the growth, albeit slow, of internal sources of taxation and also in such protectionist measures as the 1917 law for the promotion and protection of a national merchant fleet (that was also included in Sanfuentes' programme of 1915).

Although Sanfuentes added his name to some of the

nationalistic economic policies that up to then had been linked almost exclusively with the papeleros, in office as before he was careful to avoid openly associating himself with the related monetary ideas of the papeleros. Sanfuentes continued nominally his predecessor's support for the Caja Central scheme, but during the war years it was continually being overtaken by more immediate events that took the prior attention of the governments and the legislature.

One of the first problems to face the new administration was the repayment of the Treasury debt to the Banco de Chile that had arisen from the fiscal deficits of 1914/15. In April 1916, Congress authorised the Government to issue a Pesos 35mn loan in the form of bonds with maturities up to 5 years and interest up to 8%, the proceeds of which were to be used to repay the Banco de Chile. The same law also provided for the issue of Pesos 20mn of gold-denominated bonds with interest up to 6% to finance public works and other expenditure. In order to make these latter gold bonds more attractive, they were declared eligible to serve as a guarantee for the issue of legal tender notes under the August 1914 legislation. Although this was potentially inflationary, it did not worry the oreros since gold bonds were involved; in any case, the banks were not interested and no such bonds were placed.

However, when the Government attempted to extend this eligibility to the other Pesos 35mn of Peso-denominated bonds issued in April 1916, there was much more opposition. The criticism of any further extension of the type of assets that could form the base of an increase in the currency circulation came mainly from the Liberal Alliance majority in the Senate and was led by Enrique MacIver and the Liberal, José Pedro Alessandri, the brother of Arturo who had defeated José Elías Balmaceda in Aconcagua Province in 1915. Another politician becoming prominent in the monetary debate, who also opposed the Government's policy on these bonds, was Luis Claro Solar. He had made a fortune as the head of a legal firm catering for

the nitrate industry and like others of his generation put much of his money into land and politics. Claro Solar represented Aconcagua in the Senate for the Conservatives.¹⁴ It was argued that the system was excessively favourable to the banks, whose lending rate was nominally 9% (but in practice much more allowing for other charges) while the banks paid only 6% interest for the notes. The Government's proposal was rejected in the Senate and dropped by the Government.¹⁵

Besides the repayment of debt to the Banco de Chile, the Government had to find the money to repay at end-1916 a £2mn short-term advance from the bank of Morgan Grenfell contracted in 1915. It decided that the Conversion Fund would have to provide a part of the funds. On the grounds that "it does not appear necessary to maintain for now a cash reserve in excess of 12d per Peso", the Government proposed that the excess of about £1.12mn in the fund over that needed to cover the Pesos 150mn of inconvertible notes at a rate of 12d should be used to pay off part of the loan, with the remainder to come from a loan from the Banco de Chile.¹⁶ Congress went a stage further and accepted the argument of the Senate Finance Committee that the Conversion Fund should not only be considered as a guarantee for the note issue but also as a reserve for emergencies, of which the war was clearly one. On this basis the legislature resolved that the whole of the £2mn should be paid from the fund, with provision for its eventual reimbursement.¹⁷

After 1916 the Treasury experienced a period of temporary relief from serious financial worries in which it found no further need to raise money by indirect note issues or by raiding the Conversion Fund. This favourable situation arose from the revival of Chilean trade that began in 1915 once the potential for the use of nitrate in Allied armaments factories was realised and when the naval operations of the war ceased to be a threat to shipping on the west coast of South America. As occurred elsewhere, the direction of Chile's trade shifted markedly towards the United States, a trend helped by the

opening of the Panama Canal a year or two earlier.¹⁸

The years 1916-18 saw the recovery of nitrate production, exports and sterling prices to considerably above their pre-war levels; and also soaring copper and agricultural prices and the first copper exports from the American-owned Gran Minería. The spectacular rise of nitrate prices in Europe was of course largely the result of the increase in freight and insurance rates. Nevertheless, export earnings in 1918 were more than double those of 1913 in sterling terms. On the other hand, the country was cut off from many of its traditional suppliers as a result of the demands of the war and imports did not recover to their 1913 level until 1917.¹⁹ The resulting large trade surplus of 1915/18 led to a rise in the exchange rate which began in a sustained way from mid-1916. The rate rose from the low of 7½d that it averaged in January 1915 to over 17d in June 1918. The appreciation of the exchange rate caused a complete turnabout in the nature of the 'cuestion monetaria'. From late 1916 the prime issue became whether measures should be taken to halt the rise in the exchange.

The nitrate industry was the most obviously affected. In their negotiations over prices with the Nitrate of Soda Executive (representing the Allied Governments) and the Chilean authorities the nitrate producers made much of the increased production costs arising from the high exchange rate.²⁰ Nevertheless, these were generally good years for the nitrate producer with high prices and expanding demand compensating for the adverse exchange rate.²¹

In the case of agriculture, the prices of most products rose sufficiently to more than compensate the farmer for the adverse movement of the exchange. The price of Chilean wheat in Valparaiso was on average higher in Peso terms in 1917/18 than it had been in 1913/14.²² The Chilean industrialist and artisan, isolated during the war from much of their previous competition, did not have to worry to any great extent about the exchange rate.

The Chilean consumer probably did not feel any substantial benefit from this trend in terms of lower prices. The appreciating currency was in any case the result of the distortion of trade caused by the war rather than the reflection of a fundamental shift of relative prices. Despite the appreciation of the Peso against both sterling and the US dollar, import prices of food still rose faster than domestic prices.²³ The official general cost of living index in Chile, beginning in 1913, is shown in the following table.

<u>Index 1913 = 100</u>			
<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>
1913	100	1920	168
1914	108	1921	169
1915	120	1922	173
1916	117	1923	176
1917	118	1924	186
1918	121	1925	202
1919	143		

TABLE XIV: THE OFFICIAL COST OF LIVING INDEX, 1913-1925²⁴

The exchange rate was allowed to rise to close to 18d before any measure was taken to halt it. This reflected both the balance of forces within and outside of Congress between trade unions, producers, debtors and other interested groups and also a simple lack of decision within the administration and the legislature.

As the rate approached 12d in late 1916, support built up for measures to halt the rise. This support came from some papelero sympathisers such as Fernando Lazcano and also from the Cabinet chief, Enrique Zañartu, the Interior Minister from November 1916 to July 1917.²⁵ At the same time, this view was backed by conversionists such as Guillermo Subercaseaux. They argued that it was pointless to allow the rate to rise above 12d, to a rate that would be unsustainable after the war. They wanted the rate stabilised at 12d and to use the upward pressure

on the exchange to accumulate a gold reserve. Subercaseaux introduced a bill on these lines in November 1916 which provided simply for the issue and redemption of notes by the Oficina de Emisión against the deposit of gold or first class trade bills at a rate of 0.376gm of gold per Peso (the then current equivalent of 12d).²⁶

Subercaseaux's bill was supported by the Government in the form of Zañartu. The Finance Committee of the Deputies, when reporting on these proposals, went a stage further and proposed the resurrection of the Caja Central scheme of 1914. This involved the stabilisation of the exchange at a gold rate equivalent to 12d in the same way as the Subercaseaux bill. In the Committee's proposals, the date for the conversion of the Pesos 150mn of inconvertible notes was to be fixed by Presidential decree.²⁷

The stabilisation of the exchange rate was urged by successive Finance Ministers in 1916/18. They stressed the harm caused to public finances by an appreciating exchange. This attitude prompted El Mercurio to comment that "the same circumstances, which have corrupted our fiscal system, creating an interest on its part in a low exchange, thanks to which it receives a greater amount of notes, allowing an over large administrative machine, has now come to make itself felt in an unfavourable way, since the height of the exchange has produced a corresponding fall of revenue."²⁸

Opposing any moves to limit the rise in sterling value of the currency were the labour organisations, who urged that the rate should be allowed to rise to 18d.²⁹ Supporting them in Congress were the Democratic Party, including the papelero Malaquias Concha, and also orthodox oreros such as Enrique MacIver. Their views had sufficient support in Congress to prevent getting off the ground any serious discussion of the Caja Central or other schemes designed to limit the exchange rate rise to 12d. In reply to a petition from some trade union organisations in November 1917, President Sanfuentes denied

any intention of supporting measures to stop the rise in the exchange.³⁰

By May 1918, however, the approach of the rate towards 18d and the prospect of a continued rise was causing alarm in the business and banking community. Under the law of March 1912, banks could deposit the gold equivalent of 12d in order to receive paper currency and if the exchange rate rose above 12d the banks were required to top up their gold deposits to 18d (about 0.6gm of gold). However, the war broke the traditional relation in Chile between gold and sterling. The extra shipping costs and the absence of gold imports from Britain put sterling at a discount against gold in Chile. From 1917, the Government reverted to allowing import duties to be paid in gold or in paper currency with the corresponding surcharge in order to maintain the gold value (in place of the sterling value as before) of the duties. This move further increased the demand for gold in Chile. About £6mn of gold was imported in 1917 and 1918, but not enough to meet demand and in May/June 1918 the 18d gold Peso reached the effective sterling value of 26d.

In normal circumstances, the sterling rate could not have risen above 18d, since above that rate it would have become profitable for the banks to deposit gold in exchange for notes at the Oficina. In the wartime conditions of mid-1918 it seemed conceivable that the rate could rise above the psychologically important rate of 18d and even up to 26d. The situation was made worse by the fact that the banks were reluctant to keep topping up their gold deposits in the Oficina de Emisión when gold was in such short supply. It was also feared that, because of the limit (equal to their paid capital) on the banks' eligibility to draw from the Oficina de Emisión, that their capacity to issue notes might be exhausted before the end of the war, although there was no immediate prospect of this. At end-1917 the Oficina's outstanding note issue guaranteed by gold was only Pesos 24mn, compared with the total paid capital of the banks of some Pesos 200mn.³¹

In May 1918 the Government proposed legislation designed to cover this eventuality and so to ensure that the exchange rate would not rise above 18d. This allowed anyone, banks or individuals, to withdraw notes from the Oficina de Emisión on the deposit of gold at a rate of 12d in accordance with the May 1912 law.³² In the conditions of mid-1918 the Senate was prepared to accept this proposal, with the proviso that it should operate only when the exchange rate was above 15½d. The Deputies also accepted the desirability of a measure to stop the rate rising above 18d. They wanted, however, the 18d limit incorporated more explicitly in the legislation, since the Government/Senate bill maintained the 12d rate although having an effective maximum limit in normal times of 18d because of the topping-up provision. Accordingly, the bill approved by the Deputies, with little opposition, provided simply for the exchange of currency notes for gold at the Oficina at a rate of 18d, with no limitations on the type of person or body eligible or on the amounts that could be drawn.³³ This version was accepted by the Senate and became law on 22nd May 1918. The measure served its purpose. During June 1918 some Pesos 22mn of gold-guaranteed notes were issued, bringing the total in circulation to about Pesos 44mn.

Hirschmann selects the monetary experience of Chile in 1916/18 as a plank in his criticism of the traditional orero/Fetter interpretation of Chilean monetary policy from 1878. Why he asks was the exchange allowed to rise if policy was aimed to help the debtor/agricultural interest?³⁴ On the surface, the period 1916/18 could be seen as a victory for the traditional oreros and the popular forces, in the form of trade unions and the Democratic Party, over the landed and exporting oligarchy who benefited from a low exchange. But this is an over-simplification. As we have seen, in the conditions of war-time the farming and exporting interests were not adversely affected to any significant extent by the rise of the exchange rate and the pressure from them for action to halt the rise was not strong.

The Treasury appeared, in fact, as a rather more conspicuous source of such pressure. Moreover, the debate in 1916/18 was by no means a straightforward traditional orero-papelero argument. The definition of the moral and legal obligation of the State to redeem its notes at 18d was heard from Malaquias Concha as well as from Enrique MacIver.

Equally important, even among those who wanted the stabilisation of the exchange there was little agreement on how this was to be achieved. Some saw the high exchange rate as a good opportunity to press for legislation providing for the eventual resumption of the convertibility of all the State's paper money at a rate of 12d. Others saw it as a propitious moment to introduce the Caja Central scheme, with or without convertibility provisions. Such ideas and proposals had already caused sufficiently long debates in peace time that it was not surprising that no progress was made in the extraordinary conditions of 1916/18. Therefore, as a result of the pressure from those interests that favoured allowing the exchange to rise to 18d and the lack of cohesion among those who wanted a limit of 12d, the Peso was allowed to appreciate to close to 18d.

The war in Europe lasted for only a few more months and the exchange fell before the end in anticipation. Except for the defeated powers of Europe, the pattern of exchange rates in the major countries of the world and Latin America at the end of the war diverged remarkably little from their pre-war pattern, despite the upheavals of the previous four years. This was true also for Chile. The exchange rate had returned to just over 10d by the end of 1918. Moreover, the Conversion Fund, despite some withdrawals, was back to near its pre-war level, helped by the build-up of interest. The note circulation at end-1918 was higher than at end-1913 by only the modest amount of some Pesos 42mn of gold-guaranteed notes. As in the rest of the world, this apparent return to normalcy cloaked the profound changes that the war had brought. These changes affected Chile

more than most and the period of normalcy was very short-lived.

The ending of Allied war demand for Chilean nitrate caused exports to slump to a mere 804,000 tons in 1919, compared to nearly 3 million tons in 1918.³⁵ Production and exports recovered briefly in 1920, but turned down again with the post-war depression of 1921. The war hid temporarily the secular downward trend of the world importance of nitrate of Chile. Thereafter, it was very soon apparent that the technology that had created the demand for nitrate had operated even more quickly to end it. The threat posed by artificial nitrogenous products was obvious before the war. The development of the Haber and Cyanamide processes by Germany prior to and particularly during the war was afterwards followed by other former major customers of Chile. By 1920 Chile's share of world production of nitrogen had slumped to 30%, barely more than half her pre-war share.³⁶

The highly erratic employment situation in the nitrate industry led to a large migration of workers to the south. This exacerbated shortages, particularly of food, and inflation accelerated in the immediate post-war years. Prices of locally produced food rose by 50% over the two years 1919-20 according to official cost of living figures.³⁷

This combination of inflation, economic collapse and unemployment sharply exacerbated social tensions. The upward pressure from the increasingly politicised working class, together with the entry of larger numbers of middle class politicians into the parties of the Liberal Alliance, was reflected in the polarisation of the two main political conglomerates in Congress as they prepared for the Presidential elections of 1920. The marginal decision of the Tribunal de Honor in favour of Alessandri over his opponent, the traditional oligarchic figure of Luis Barros Borgoño, was a conciliatory gesture to the rising tide of social unrest.

In retrospect it is all too clear that the radicalism expressed in Alessandri's vigorous campaign was much tempered

in office. Although the aspirations raised by his election were not fulfilled, Alessandri did at least bring the social question to the centre of Santiago politics. Politically, Alessandri had to face the thirty-year tradition of a passive executive, a hostile majority in the Senate and dissention among the ranks of his own supporters in the Liberal Alliance. Equally important, the post-war Chilean economy was incapable of sustaining the promised social reforms without the implementation of radical taxation reforms. This was a course that neither Alessandri nor most political leaders were prepared to follow. The first income tax law was not passed until 1924.

In 1918 about three quarters of the ordinary revenue of the Treasury was still provided by taxes on foreign trade. The collapse of this source of revenue in 1919 and the absence of alternative internal sources made necessary a sharp cutback in government spending, but still left a large Treasury deficit. In order to finance this and successive deficits, governments resorted to internal borrowing involving the indirect issue of more paper money. In the absence of any public market for government bonds, this borrowing had to be conducted through the banks. Sanfuentes began the process in 1920. He proposed an internal issue of Pesos 30mn 5-year 8% bonds, with the bonds having the added attraction to investors (in practice the banks) of being eligible as a guarantee for the issue of legal tender vales under the August 1914 law. This proposal was initially thrown out by the Deputies, in which the Government lacked a majority, on the grounds of the inflationary effect of the measure. But the Deputies eventually gave in to the insistence of the Senate and the Government.³⁸

Alessandri followed the same course as his predecessor. This policy of deficit financing continued until 1924 without serious opposition. The proposals of successive governments were sometimes delayed and scaled down by the Senate, in which the opposition enjoyed a majority, but at least until 1924 were let through without a serious crisis emerging. The principal

advocate of large scale fiscal deficit financing in these years was Enrique Zañartu. He was one of the main contenders for the Coalition nomination for President in 1920 and enjoyed the support of Sanfuentes, but later deserted the Coalition to support his friend and former political associate Alessandri. He occupied the post of Finance Minister on two separate occasions in 1924. Zañartu continued to expound his well-known views on the virtue of a big public works programme, an argument that carried increasing weight given the high level of unemployment (put officially at 87,108 in 1922, of which over half was in the nitrate industry).³⁹ At the other extreme was the financial orthodoxy of politicians such as the Edwards family who urged the complete suspension of public works and an end to inflationary financing of the budget deficit. The long standing debate between the Edwards and Zañartu families over monetary and financial questions remained a feature of the early 1920s.

Alessandri fell somewhere between the two extremes. Although he had supported the pre-war paper money issues and had been closely associated with the views of Enrique Zañartu and Alfredo Irarrázaval, he was not prepared to go as far as to propose the direct issue of paper currency on pre-war lines. The indirect issue of Treasury vales via the banks had the political advantage that it removed the direct control over the note issue away from Congress and effectively gave it to the banks. In this way the prolonged debates over the desirable size of the currency circulation were avoided. At the same time, it is doubtful whether in the final analysis Congress would have accepted direct State paper money issues in the new political circumstances of the post-war period.

Altogether, the Alessandri Administration managed to get through Congress bills authorising the issue of Pesos 200mn of bonds with "poder emisor". Not all of these were taken up by the banks and not all of those taken up were used to obtain vales at any one time. Although the withdrawal of

vales on the deposit of bonds was good business for the banks, who borrowed the vales at 2-3% less than their lending rate, they did not use their full issue capacity in terms of the amount of bonds held by them. In this way the banks aimed to spread the maturity profile of their bond holdings so as to avoid too sharp a fall in the note circulation when the bonds matured.⁴⁰ The circulation of bond-guaranteed legal tender vales rose by some Pesos 120mn between the end of 1920 and end-1924 (see Appendix III). Internal borrowing in this way was in fact rather less important as a source of financing the budget deficit than foreign borrowing. Between 1921 and 1925 the Government borrowed from foreign banks over £8mn (Pesos 336mn of 6d).⁴¹

The inflationary internal borrowing and external loans taken on by the Alessandri Administration did not finance a large expansion of public expenditure. In 1921/4 Treasury spending was kept down to below its 1920 level and to less than 30% above pre-war levels in sterling terms. Public works expenditure was cut to well below the pre-war level.⁴² Rather, government borrowing merely compensated for the loss of ordinary tax revenue. In fact for much of its life the Alessandri Administration lived a hand-to-mouth existence forced on it by the reluctance of Congress to approve its budgets. For instance, in 1922 the budget was not approved until August, eight months late, during which time a system operated under which each month's revenue and expenditure was calculated on the basis of the average monthly level of the previous year.⁴³

Alongside the increase in the note circulation arising from internal Treasury bond issues, the recession in the nitrate industry led to a revival of borrowing by producers under the 1914 scheme and consequently to a further expansion of the note issue. The amounts lent to producers per unit of production were successively raised in a series of legislation. As shown in Appendix III, the issue of nitrate-guaranteed notes rose to a peak in 1921/2 but fell thereafter as the industry recovered.

Altogether, the total note circulation, comprising the basic Pesos 150mn of fiscal notes, gold-guaranteed notes, nitrate-guaranteed notes and vales and bond-guaranteed vales, expanded by over 50% in the six years 1918-24. Broadly speaking, the decline of the gold-backed note issue and of borrowing by nitrate producers allowed the government to expand the note issue to finance its own borrowing. The total money stock (notes plus commercial bank deposits) probably rose by much less than the simple note issue in these years - by little over a quarter as shown in Appendix IV - as a result of the stagnation of bank deposits. This in turn was a reflection of the depth of the recession and the large number of banking and commercial failures in the years 1920/2. At the same time, the exchange rate of the Peso, after reviving in 1920 to over 15d at one point as the nitrate trade temporarily picked up, slumped dramatically to under 6d before the end of 1921. The Peso was helped in its downward course against sterling by the appreciation of sterling against the dollar. The rate stabilised at around the 6d mark for the next four years.

Throughout this period of extreme commercial and financial instability that followed the ending of the war, the debate over the question of monetary reform continued. It had not even completely died in the years of war themselves. President Sanfuentes continued to expound his support for some kind of central monetary institution. When the Conservative politician, Ricardo Salas Edwards, returned to the Finance Ministry in 1917 he tried to resurrect his Caja Central bill of August 1914. At that time any such proposals, even if regarded as at all practical in the midst of a world war, were viewed with suspicion by those who opposed the limitation of the rise in the exchange rate. Consequently, Salas Edwards' efforts came to nothing.⁴⁴

As the war drew to a close, Sanfuentes and his Finance Minister, another Conservative, Luis Claro Solar, made a further attempt. In August 1918 they presented a bill for the estab-

lishment of a Banco Privilegiado, a joint State/private-owned bank with the exclusive right to issue notes. Besides other features it had in common with previous proposals of this sort, the bank was to have the capacity to issue notes up to the Pesos 100mn of its paid capital and against gold or bills of exchange drawn on London or New York and also against mortgage bonds and bonds of the external debt. The exchange rate chosen was 18d (0.549173gm of gold per Peso) and the board of the proposed bank was authorised to fix the date for the redemption of the Pesos 150mn of inconvertible paper money.⁴⁵ Shortly afterwards, as the theoretical date for conversion again approached, the Government proposed a further postponement. But this time the postponement was to be indefinite, until new legislation (the Banco Privilegiado bill) established a new date.⁴⁶

Congress insisted on maintaining at least the appearance of a firm date and set 31st December 1919. The Government's Banco Privilegiado bill fared little better. A joint committee of both houses of Congress, in its report on the bill, produced a substantially similar scheme, but the support for it was lukewarm. The majority of the committee did not put their names to the bill and even those that did had varying degrees of objections and reservations.⁴⁷ In any case, by then (early 1919) an 18d exchange rate was clearly unrealistic, except in the eyes of a few stalwarts. Sanfuentes returned to supporting a rate nearer 12d and his governments lost interest in the bill.

When Guillermo Subercaseaux returned to the Finance Ministry in November 1919 for a stay of a few months he again tried to gain acceptance for a central monetary institution. This was in the form of a State-owned Banco Central de Chile, although this was nearer to an elaborate version of the Argentine Caja de Conversión than a fully-fledged central bank. Subercaseaux' bill aimed to put Chile on a Gold Exchange Standard at a rate of 0.3611 gm of gold per Peso, equivalent to 24 US cents. This rate was in line with the Finance Minister's

desire to break with sterling as the effective numeraire of the system. The board of the proposed central bank, after the approval of the President of the Republic, was to name, within a year, the date for the resumption of convertibility.⁴⁸

These proposals met with little opposition in the Deputies and were supported enthusiastically by a relatively small group, principally Conservatives and Nationals and including Guillermo Edwards Matte one of the members of the Liberal wing of the Edwards family. They succeeded in getting the bill through the chamber in less than three weeks. Attempts to maintain a rate of 18d were easily defeated and the bill was passed with a few amendments. The most important modification, imposed by some conversionists and accepted by Subercaseaux, was that conversion should take place within a year instead of merely the date being named within a year. The exchange rate was also changed slightly to 0.36611gm of gold per Peso, bringing it back to the equivalent of 12d (although in practice in 1919 this pre-war gold value was worth about 14d as a result of the depreciation of sterling).⁴⁹

There was, however, an air of unreality about the whole debate in the Deputies and its conclusion. In the first place, the supporters of the bill found difficulty in getting a quorum in the Chamber on a number of occasions when votes were to be taken and as a result there were frequent postponements. Never more than half of the Deputies attended the debate at any one time and often the proportion was little more than a third. Moreover, Britain was off the Gold Standard and had banned the export of gold. This consideration prompted the former Minister of Finance, Luis Claro Solar, to comment sardonically that "today, when not one other country of the world has a fixed money, in Chile, we elect precisely this moment to overcome all the international factors that affect the problem and pretend to solve them."⁵⁰

Opposition to the Central Bank bill was more deeply entrenched in the Senate. The papeleros and the oreros in the

Senate between them succeeded in halting the passage of any kind of central monetary institution proposals. Most of the papeleros supported the principle of a State-owned central bank, but they continued to oppose a fixed date for conversion. Although Subercaseaux' bill carried the support of such representatives of British commercial opinion as The South Pacific Mail,⁵¹ the most serious opposition and obstruction came from the extreme oreros. Enrique MacIver preserved his insistence on a free, unfettered banking system and considered as abhorrent any kind of central institution. In his eyes the proposed State-owned central bank was a "monstrous organism."⁵² Other oreros, such as Guillermo Rivera, stuck to their faith in an 18d gold Peso; and in 1920 they received some encouragement from the temporary recovery of the exchange rate.

In its report on the bill, the Senate Finance Committee proposed only one fundamental change. This was the removal of the fixed conversion date and its replacement by a conditional date. The condition was that the Conversion Fund would be used to redeem the inconvertible note issue only after Pesos 150mn of gold had been deposited in the central bank in exchange for notes. It was imposed in order to lessen the possibility of a sharp contraction of the overall note circulation on conversion, given the precarious position of the balance of payments and the unstable international economic situation. In reality the condition for conversion in the Senate Finance Committee's bill was a variation on the traditional papeleros theme of a minimum exchange rate condition. The Committee's bill carried some important signatures from both major political groupings: Alessandri, Luis Claro Solar, a leading Conservative, Carlos Aldunate Solar, Arturo Besa and Gonzalo Bulnes, a Liberal and the son of the former President Bulnes, as well as the papeleros Malaquias Concha and Enrique Zañartu.⁵³ But not one of these put their names to the bill without reservations and none supported it enthusiastically. As it stood, the conditional conversion provision would have been unacceptable to conversion-

ists, even those who supported the idea of a central bank in principle. The Finance Minister, Guillermo Subercaseaux, opposed this particular provision, sensing that it would destroy the credibility of the whole bill as a means of restoring monetary stability.⁵⁴

In the end, MacIver and Rivera delayed the bill for long enough that it was effectively lost in the political manoeuvrings of the run-up to the Presidential election of 1920. Subercaseaux departed from the Finance Ministry in March 1920 in one of the frequent political shuffles of that year. A further four people occupied the post before December 1920 when Alessandri assumed the office of President. In these conditions there was little chance of a monetary reform bill passing the Senate, even if the administration had not lost interest in it.

The arrival of Alessandri in the Moneda gave renewed impetus to the move towards monetary reform. He had for some time favoured a central institution, even before the war, along with many of the papeleros with whom he had generally sided in the monetary debates. Alessandri was less obviously and directly associated with banking interests than many of his political contemporaries and thus did not share their unease about offending the private banks. In fact, Alessandri became involved in 1919 in a lengthy and bitter legal dispute with the Banco de Chile over the alleged illegal sale by the bank of shares deposited by Alessandri as a guarantee for a loan. One result of Alessandri's legal action (which he won) was the transfer of the Treasury's account from the Banco de Chile to the Banco Español de Chile, the second largest native bank. The latter bank for many years had a reputation for unsound management and was often in difficulties, but the Government account temporarily gave it a new lease of life.⁵⁵ One implication of Alessandri's hostility towards the Banco de Chile was that in the final analysis he may not have been prepared to bail out the bank, as in the past, should it have found itself in trouble. In practice this eventuality did not arise.

In his speech on 25th April 1920 accepting the Presidential nomination of the Liberal Alliance Convention, Alessandri promised to support the central bank bill of the Senate Finance Committee (of which he was President).⁵⁶

Apart from the inclinations of the new President, other circumstances were pressing the case for monetary reform. These included the complex system of note issues that grew up in an ad hoc way out of the war and the Government's need for financing, both of which intensified the demand for some kind of rationalisation through a central institution. The fever of exchange market speculation in the immediate post-war years together with the difficulties faced by many banks and commercial firms led to increasing demands for more official control. The failure of the Banco Popular in 1921 was a particularly important shock because the bank was essentially a savings bank for small depositors. The event led El Mercurio to conclude that "it is evident that our banking legislation is primitive and it can almost be said that not one guarantee exists against the sort of events that are now being denounced in connection with the Banco Popular."⁵⁷

Alessandri considered the purpose of a new Chilean central bank as being principally a means of financing the fiscal deficit and at the same time eliminating what he saw as the abuses of the private banks and the past sinister relationship between the State and the banks. In his annual message of 1923 he declared that,

"on a number of occasions the Banks saved their difficult situation and the country suffered the consequences, being burdened with the sinister and harmful heritage of paper money and its accompaniment of ruin and misery ... Its (the central bank's) prompt establishment would make impossible the repetition of disastrous note issues, would stabilise credit and end definitively the deplorable marriage maintained for many years between the State and the Banks, on which was spent many times a considerable part of public revenue, which belongs to all, to the exclusive benefit of a few."⁵⁸

In particular he attacked the system of vales as a means

of financing the budget deficit, a system made necessary by the unwillingness of Congress to approve the establishment of a central bank and that resulted in large profits for the banks. In his June 1924 message Alessandri stressed,

"the disastrous financial situation into which we have been forced to fall, and that consists of lending vales de tesorería to the private Banks in order that, giving them as a guarantee in the Caja de Emisión they withdraw notes, which in turn are lent to the State, leaving as a profit to the happy operators the gross sum of one hundred millions of pesos approximately after ten years. Thus the State has contributed a large sum to the enrichment of the shareholders of the Banks, by the fact of being despoiled and giving up one of its functions, which is the issue of paper money in the event of not possessing funds in any other form...."⁵⁹

The increasingly apparent need for an institution allowing for the removal from the centre of politics of the detailed operation of the currency and banking was accentuated by the chronic ministerial instability that afflicted Alessandri's term of office. It experienced more cabinet changes than any previous administration. In a period of under four years the post of Interior Minister changed hands no less than 24 times and that of Finance Minister 18 times. As in the past the ministerial instability was itself a major obstacle to monetary reform.

The old-style politicians of the Parliamentary era, then concentrated in the Senate, were no more prepared to give up voluntarily control over the monetary question than they were to allow Alessandri to govern in general. The opposition and obstruction faced by the supporters of monetary reform had two aspects. Firstly, it was a part of the more general struggle between, on the one hand, the President, representing in a vague sort of way the demand for change and, on the other hand, the Senate, representing the forces of reaction. The opposition were unwilling to give Alessandri what they saw as potentially a powerful new weapon in the form of a central bank. Secondly, the lengthy debates in the years 1920-4 were in many

ways a continuation of the pre-war monetary question. Although economic and financial conditions in Chile had changed fundamentally since 1914, many of the older politicians still thought in terms of the traditional orero-papelero debate. This meant that the institutional issue - what kind of central bank if any - could not be separated from the older question of convertibility and the Gold Standard. In 1921 the chances of agreement over the issue of conversion seemed as remote as ever.

Alessandri paid lip service to the need for the restoration of a gold-based currency, but his priority remained a central bank with or without convertibility in order to provide a more rational way of financing the budget deficit. This led to the criticism that "a Government that declares to the country a Bank as a fiscal measure does not appear to know what it is talking about."⁶⁰ At the same time more traditional orero voices, such as El Mercurio, stressed that "the President does not understand that it is necessary to tie the existence of the central bank to measures relating to the immediate conversion of the note issue."⁶¹

The debate resumed in the Senate in June 1921. This also marked the beginning of a new legislative period following the elections of March 1921 in which the anti-Government parties maintained their majority in the Senate. The new Senate Finance Committee set to work to draw up a new central bank project. The Committee contained two of the leading papeleros, Enrique Zañartu and Malaquias Concha, and these two stamped their ideas strongly on the outcome of the Committee's deliberations. Their proposals were for a fully State-owned Caja Central. The proposed new institution was more limited in scope than many other suggested schemes, but the Caja was to be authorised to lend to banks up to a limit equal to half their capital and reserves. The Committee's bill omitted any reference to conversion and, unlike the Subercaseaux/Deputies scheme, stipulated no minimum gold reserve to back the note issue.⁶²

The Government gave guarded support to the Senate Finance Committee's proposals. They did not provide for direct financing of the budget deficit by means of loans from the proposed Caja Central, but nor did the Deputies' bill of 1919. Under both schemes the Government would have had to rely on indirect financing through the issue of bonds to banks and subsequent discount and rediscount operations. Nevertheless, these proposed central institutions would have removed some of the financing process from the direct control of the legislature.

The most vocal supporter of the new bill was Enrique Zañartu. Lined up on the other side in a very lengthy verbal contest in June-August 1921 was the usual combination of Enrique MacIver, Guillermo Rivera and Guillermo Edwards. These argued that the Senate Committee's bill was merely an instrument of the papeleros and that the Caja Central was "nothing but a machine for the manufacture of paper money."⁶³ This opposition succeeded in effectively talking out the bill.

The deadlock in the Senate was followed by a further initiative, this time by the supporters of a privately-owned central bank led by Luis Claro Solar. They succeeded in setting up a new "special" committee of the Senate that excluded Zañartu and Concha but included Guillermo Rivera. This body came out in favour of a private central bank on the lines of the Bank of England, but with some representation of the Government and Congress on the board of the bank. Conversion was specifically mentioned. The new committee's bill fixed the rate at 12d and the board of the central bank was empowered to fix the date, although only with a unanimous vote and with the approval of the President of the Republic.⁶⁴ This new scheme stood little more chance of being accepted by the Senate as a whole than its predecessor. It was supported by the Government, but continued to attract the hostile criticism of MacIver and Edwards as well as of the supporters of a State bank such as Zañartu.

The debate ended with the termination of the ordinary

sessions in September 1921. The almost continuous strife between the Government and the Senate over virtually all of the former's legislative programme meant that the monetary debate did not resume again until April 1922. It was again dominated by an extremely long fillibuster conducted by MacIver that was brought to an end only by the death of this old Radical politician in August 1922. The ending of MacIver's long contribution to the monetary debate gave little advantage to the supporters of monetary reform since there was no shortage of people in the Senate willing and able to take his place.

After leaving the Conservative Party to join Alessandri, Guillermo Subercaseaux returned to the post of Finance Minister for the period between July 1923 and January 1924. He managed to get the debate off the ground once again. Subercaseaux remained a strong advocate of a State-owned central bank and was critical of the latest proposal before the Senate for a private bank. Any slight chance that existed of a move by the Senate towards a resolution of the question by a vote was eliminated by a fillibuster led by the Senator for Colchagua, Eduardo Opazo Letelier. Opazo was a Liberal from a political and banking family with interests in the Banco de Talca. His main pre-occupation was monetary affairs. Although professing not to be a traditional *orero* and *laissez faire* supporter in the mould of MacIver, Opazo nonetheless took on the mantle of MacIver as 'obstructionist-in-chief' in the Senate. He claimed to support the establishment of a private central bank, but the bulk of his lengthy discourses were in the direction of negative opposition to the ideas of Subercaseaux.⁶⁵

The March 1924 elections gave Alessandri a theoretical majority in the Senate as well as in the Deputies and provided the opportunity for yet another initiative. This was spear-headed by Enrique Zañartu in his position as Finance Minister and in the Senate by Guillermo Subercaseaux and Hector Zañartu (the brother of Enrique), both of whom were then members of the Finance Committee. Enrique Zañartu announced that "the

Central Bank project will be given preference above all others by the Ministry."⁶⁶ The whole question was returned to the Finance Committee of the Senate for further study and Subercaseaux and Hector Zañartu were instrumental in the new proposals made by the Committee in August 1924. They bore a strong resemblance to the Subercaseaux/Deputies' bills of 1919. The new bill provided for a State-owned institution, the Banco Central de Chile. The nine-man board of the proposed new bank represented agricultural, industrial, mining, nitrate and banking interests as well as containing government representatives. The composition of the board represented some concession to the opponents of a state bank in the sense that direct government representation was reduced and the banks' representation increased as compared with the composition of the board stipulated in the bill passed by the Chamber of Deputies in 1919. Unlike the earlier Deputies' bill, the new proposals did not specify a fixed conversion date; this was to be left to the board of the new bank where a majority could fix the date with the approval of the President. The bill laid down a minimum conversion rate of 0.18308gm of gold per Peso, roughly 6d. The mere mention of a rate as low as 6d represented a significant development with its implication that 12d, let alone the par rate of 18d, was no longer feasible.⁶⁷

At about the same time as the presentation of this further bill by the Senate Finance Committee, the question of monetary and banking reform was attracting more than usual attention outside the walls of Congress. The forum was the so-called 'Semana de la Moneda', a conference organised by the Faculty of Commerce of the Catholic University of Chile under the initiative of the Professor of Economics, the Conservative orero Darío Urzúa, with the aim of publicising the issue of monetary reform. The general conclusion reached by the various opinions represented at the 'Semana' was that there was a need for a central bank of mixed ownership with representation on the governing board from the government, the banks, industry,

agriculture and commerce.⁶⁸

The trend of views shown at the 'Semana' gave added weight to the arguments of the opponents of the State-owned central bank proposed in August 1924 by the Senate Finance Committee. Eduardo Opazo continued his filibuster on the floor of the Senate into September 1924 and right up until the day before General Luis Altamirano was called to head the Government and to only five days before this same general became Head of State.

Although in August 1924 there appeared to be at least superficial agreement between the Government, the Deputies and the Finance Committee of the Senate on the nature of the new monetary institution to be created, there was little reason to suppose that, in the absence of some outside pressure, such a reform was any nearer than it had been in 1921. The view prevailing in the Government in favour of a State bank was highly susceptible to the rapid turnover of Finance Ministers. Alessandri himself did not openly express a consistent view about the type of central bank that he wanted; it would not necessarily have made much difference if he had. Since the passing of the Central Bank bill by the Chamber of Deputies in 1919 there had been no further discussion of the matter by the Deputies. But there had been two elections since then and a change of President. Alessandri could rely on the support of a majority in the Deputies on some issues, but it cannot be certain that in 1924 the Deputies would have voted again in favour of a State bank as they had in 1919. In the Senate, Alessandri's majority was probably not cohesive enough to push through such a complex project against the tradition of the 'cuestion abierta' and against the sort of obstruction being conducted.

Moreover, if the debate on monetary reform had continued in 1924/5, it would have been greatly complicated by the question of conversion that was again rising to the fore. In the years 1922/4 conversion did not figure strongly in the

monetary debate and certainly to a much lesser extent than in earlier years. Following the end of the war the conversionists managed to obtain short postponements of only a few months, but at the end of 1921 the conversion date was put back until December 1924, thus effectively ending the debate for nearly three years. During this time few advocates of conversion were prepared to suggest a rate as low as 6d, particularly as long as there seemed to be any chance that the rate might rise.

International factors - notably Britain being off the Gold Standard - also played an important role in the disappearance of conversion from the centre of the monetary debate in the years 1922/4. Although Britain had been displaced by the United States as Chile's leading trade partner, Britain still accounted for 29% of Chilean trade in 1925.⁶⁹ Moreover, Britain's stake in the nitrate industry had increased since 1914 at the expense of the Germans; in 1925 British companies accounted for about half of total output.⁷⁰ The hold of Britain over the servicing and financing of Chilean trade declined to a lesser extent than her share of visible trade. In 1919 the Inspector General de Bancos could still say that "London is the point where is centralised the monetary operations of the country."⁷¹

In these circumstances, few politicians were inclined to propose that Chile should go on to the Gold Standard ahead of Britain and make a break with sterling as the effective numeraire of the currency in favour of the dollar. Subercaseaux had urged such a course in 1919/20, but after then he ceased recommending a fixed date for conversion. However, as the date for the return of Britain to the Gold Standard became firmer and closer, the whole question of convertibility was bound to reassume its traditional place after the few years of what amounted to an effective truce. This was recognised by the Senate Finance Committee in August 1924 when they raised the potentially controversial question of the resumption of convertibility at the low - albeit realistic - rate of 6d. The absence of some of the traditional *papeleros* and *oreros* from

the political scene by 1925 may have led to a less heated and long debate over the issue than in the past; but given the lack of any real debate in the three preceding years it is difficult to say with certainty. In any case, the conversion issue would almost certainly have further confused and delayed the already apparently deadlocked debate over monetary reform.

In the event outside pressure in the form of the military intervention forced on the politicians a decision that they seemed neither able nor willing to take themselves. The background to the military intervention of 1924/5, involving the politicisation of the Chilean armed forces over a number of years, is described elsewhere.⁷² The role of the monetary question in the events of 1924/5 had a variety of aspects. Firstly, it was one of the economic and social reforms promised, but obstructed and unaccomplished, that heightened the frustration of sections of the armed forces with the politics of the 'Parliamentary Republic'. Secondly, like other sections of the population, the military blamed the depreciation of the currency for what they saw as the deterioration of their pay and conditions.

More immediately, the question of the budget deficit and its financing was a major issue in August 1924 and was a link in the chain of events that precipitated the military intervention. At the beginning of August 1924 the Government sponsored a bill in the Deputies that provided for the issue of a Pesos 100mn internal loan in the form of five year bonds with "poder emisor". The funds were to be used among other things for the urgent payment of salaries to the armed forces.⁷³ This proposal attracted fierce criticism from the press and in Congress for its inflationary potential. The Finance Minister, Enrique Zañartu, professed not to understand why this particular bill should have provoked such hostility, when other similar proposals had been passed by Congress with relatively little comment.⁷⁴ Under strong pressure Congress approved a loan bill, but only after a narrow vote and a month's delay in

the Chamber of Deputies and after the internal loan had been cut to Pesos 40mn.⁷⁵ This episode provided further evidence of the indiscipline of the parties in Congress and of the growing paralysation of government and in this case involving an issue that affected directly the welfare of the armed forces.

Following the resignation of Alessandri on 8th September 1924, General Altamirano became Acting President in his capacity as Interior Minister. He dissolved Congress and established a three-man military Junta de Gobierno of which he was President. The following month the Finance Minister appointed by the Junta, the Radical Party Deputy Fidel Muñoz Rodríguez, presented a financial programme to the Cabinet. This body was then civilian with the exception of the War Minister. The programme included the establishment of a central bank and new regulations to control the operations of the banks and the exchange market. The primary *raison d'être* of the new central bank was "to stabilise the currency and to arrive at the accomplishment of the conversion in conditions of regularity and security."⁷⁶

Muñoz presented his central bank scheme to the Cabinet on 11th November 1924. But the politicians still could not agree on the exact nature of the proposed central bank, notwithstanding the existence of their new military overlords. There was sufficient disagreement within the Cabinet that the Finance Minister's scheme was shelved and Muñoz resigned shortly afterwards.⁷⁷

Muñoz was replaced as Finance Minister by Julio Philippi, an academic lawyer and economist and a less obviously party political figure, but who had held the same post for a short time in 1919. Philippi drew up another central bank scheme. This was on the lines of earlier proposals for a bank with majority private ownership with the shares to be subscribed by the local banks. The question of the rate and timing of conversion was avoided in this draft law and was left open to be decided by possible future legislation. The Government was on

the point of issuing a decree implementing Philippi's scheme when the Junta was deposed by a further military coup.⁷⁸

The new military movement was led principally by younger and more radical army officers who were frustrated with the slow progress of the Junta on social, economic and constitutional reforms. Chile's new military rulers decided quickly to settle the monetary question by calling in a team of American financial experts, the Kemmerer Mission. The first preliminary steps in the process of obtaining the services of Kemmerer had already been taken by the previous Government towards the end of 1924. Kemmerer was a professor at Princeton University and in 1923 had advised in the setting up of the Banco de la República, the central bank in Colombia. In fact the first such initiative to obtain foreign advice on the vexed question of monetary reform appears to have been made by Alessandri in 1923. At that time Alessandri requested the assistance of another Princeton-trained economist, William Wilson Cumberland, who was then working for the Peruvian Government. This Chilean approach was regarded with some embarrassment by the State Department. The United States Ambassador to Chile opposed the idea, fearing that it would arouse bitter opposition in Chile given the controversial nature of the question. United States officials urged Cumberland to refuse the Chilean request and in fact he remained in Peru.⁷⁹

By 1925 official United States reservations had disappeared, since the chances of fierce criticism in Chile were much reduced. In fact, the U.S. Ambassador reported that the Military told the Chilean Government that every one of Kemmerer's proposals must be accepted without amendment.⁸⁰

Kemmerer arrived in Chile in July 1925 with the tacit approval of the State Department. By this time Alessandri, who had been brought back by the Military from exile, was once again the Head of State. Alessandri resigned again in October 1925, some three months before the end of his term of office, following a series of disputes with the military 'strongman',

Colonel Carlos Ibañez, the Minister of War. After a short period in which Luis Barros Borgoño acted as Head of State, Alessandri was succeeded as President by Emiliano Figueroa Larraín, who was the single candidate of all the major traditional parties. Figueroa was an influential politician in the oligarchic politics of the parliamentary era. He had been a Balmacedist and was Acting President for a short time in 1910. The return to formal positions of power of many of the politicians of the old order did not halt the progress towards monetary reform. The continued high profile of the Military served to assure that the deliberations of the Kemmerer Mission were completed and their recommendations enacted virtually unchanged by decree before the end of 1925.

Kemmerer's proposals were contained in three separate laws. The first was the Central Bank Law, drawn up in August and enacted by a decree of 29th September 1925. This law provided for the establishment of the Banco Central de Chile. The structure and powers of the new bank were broadly similar to those of other central banks set up elsewhere by Kemmerer in the 1920s, such as the earlier Banco de la República in Colombia. The new bank had a mixed State/private ownership. Its capital was set at Pesos 150mn and comprised four different types of shares. The first Pesos 20mn of 'A' Shares were to be taken up by the Government which then had three seats on the ten-man ruling board of the bank. The national banks were obliged to subscribe 10% of their capital and reserves to the 'B' Shares and they received two seats on the board. The same applied to the foreign banks who subscribed to the 'C' Shares and had one seat. The 'D' Shares were open to the general public and carried one seat. The remaining three places on the board were to be elected by the main economic interest groups; one jointly by the Sociedad Nacional de Agricultura and the Sociedad de Fomento Fabril, one jointly by the Asociación de Productores de Salitre and the Cámara Central de Comercio de Chile and one by the main national labour organisation, the Federación Obrera.

The new institution was given all the main functions normally associated with a central bank. At the same time, limits were imposed on the Central Bank's capacity to lend directly to the government (normally 20% of its capital) and on its total note issue that had to be backed up to at least 50% by gold. The existing notes issues were to be replaced entirely by Central Bank notes.

The new institution was given the immediate task of restoring the convertibility of the currency into gold. Kemmerer was a devout believer in the Gold Standard and remained so well into the 1930s. Not surprisingly therefore a second law - the Monetary Law - dictated a quick return to the Gold Standard. Kemmerer established what he termed a "Qualified Gold Exchange Standard", with currency notes convertible into gold coins and bars or into first class sight or three-day trade bills drawn on London or New York. The Conversion Fund had remained intact at a level of around Pesos 340mn for the previous seven years and was just sufficient to cover the inconvertible note issue at the rate chosen of a gold content equivalent of 6d. Conversion was to begin in January 1926. The free export of gold, suspended late in 1918, was restored and the law established a new gold, silver and nickle coinage. All foreign currency ceased to be legal tender. Perhaps rather fittingly, the Monetary Law was signed by one of the Edwards family, the then Finance Minister Guillermo Edwards Matte.

The third of the laws proposed by Kemmerer and decreed by the Government related to banking regulations. The Mission was very critical of the inadequacy of the 1912 legislation in which "the faculties of the Inspector de Bancos were so restricted by the various regulations that in reality a truly effective Inspección de Bancos did not come into being."⁸¹ The new Banking Law created a Sección de Bancos within the Ministry of Finance under a Superintendente de Bancos with powers to enforce the law. Under these new regulations the private banks became

subject *inter alia* to minimum capital requirements, minimum legal cash reserves against deposits and also to various restrictions on certain types of loans, for example on those to directors.

Kemmerer did not impose an American-style monetary and banking system on Chile.⁸² In the sphere of central bank legislation the model was closer to that of European practice. One emphasis of the reforms was greater central control, in sharp contrast to the U.S. system. Only in respect of the obligation of the banks to subscribe to the shares of the Central Bank was the influence of the Federal Reserve System really noticeable.

Alessandri has asserted that "Kemmerer did not bring one new idea; he was limited to adding his authority to the bill that corresponded to ideas that we had defended for many years. The bill drawn up by the Commission in effect is in the archives of the Senate."⁸³ Alessandri was here referring to a bill drawn up by himself and a group of Senators, including Subercaseaux, in his own chambers soon after the March 1924 elections. However, that particular bill does not appear to have seen the light of day. The bill that finally emerged in the Senate in August 1924, signed by the Finance Committee and supported by the Government, was in many respects different from the scheme drawn up by Kemmerer.

Although not strictly accurate on that particular point, Alessandri's assertion above has some validity. Many of the ideas about the structure and functions of the Central Bank in the Mission's scheme had already been included in one form or another in earlier proposals made by Chilean politicians. In fact Kemmerer cited the Senate Finance Committee Bill of August 1924 as the source of his idea for the representation of the various producers' associations on the board of the Central Bank.⁸⁴ The broad structure of the new bank was on the lines of that which emerged from the 'Semana de la Moneda'. Of course these earlier Chilean ideas no doubt owed something to the then current international thinking on banking and monetary

legislation, of which in the western hemisphere at least Kemmerer's work was an important part. At the same time, the Kemmerer Mission's proposals for a central bank were considerably more comprehensive and detailed than earlier Chilean efforts. Kemmerer's role in the establishment of the Central Bank of Chile is probably best described as that of an "umpire" choosing between a confusing variety of schemes.⁸⁵

This role of arbiter did not apply to Kemmerer's contribution on the questions of conversion and banking regulations. It is true that economic conditions prevailing in Chile in 1925/6 were favourable for a return to the Gold Standard. The exchange rate had been more or less stable at around 6d for four years. The Conversion Fund was adequate to cover the entire inconvertible note issue at the rate of 6d. Business conditions were better than they had been for some years. Moreover, Britain was returning to the Gold Standard. At the same time, public opinion outside the legislature - the working and middle classes and most of the press - had for some years favoured the stabilisation of the currency. All of these factors contributed to the easy acceptance of Kemmerer's proposals. But without the additional ingredient - the negative factor of the temporary absence of Congress - there could have been no certainty that conversion would have been accomplished in 1925/6 or indeed at any time thereafter. It is significant that even Philippi's proposals accepted by the Junta late in 1924 avoided the question of conversion.

In the field of banking supervision Kemmerer's role was probably equally decisive. Most of the principal earlier Chilean reform proposals had avoided mention of specific measures on this controversial topic. F.W. Fetter, the Secretary of the Kemmerer Mission, has emphasised the powerful opposition to banking controls that existed even as late as 1925. This emerged strongly towards the end of 1925, after Alessandri had resigned and when the direct role of the armed forces in the Government was somewhat less than it had been earlier in the year. Banking

interests then made an effort to delay the implementation of the reforms until the re-opening of Congress due in March 1926 when they would have had the chance to stop them. Any chance of the success of these tactics disappeared with the news of the failure of the Banco Español de Chile, the second largest Chilean bank, in December 1924. This was followed by revelations, emanating from the Superintendent of Banks, Julio Philippi, of fraud, mismanagement and exchange speculation on the part of the Banco Español. These events created more than usual interest not least because the bank handled the Treasury's account. In the changed circumstances of 1925/6 there was no official bailing out operation involving, as in the past, loans to the bank in trouble and the issue of more paper money. Instead, the Superintendent of Banks took charge of the Banco Español and the new banking legislation was implemented with added haste.⁸⁶ For the supporters of banking reform the failure of the Banco Español may well have proved to be fortuitous.

The speed with which Kemmerer's proposals were implemented provided a sharp contrast with the protracted debate of previous years. The Banco Central de Chile opened its doors on 11th January 1926. This marked the culmination of the large number of schemes - over thirty in all - presented to Congress since the first project of Manuel Aristides Zañartu in 1887. The first board of the new bank contained many of the familiar names associated with the monetary question over the years; Subercaseaux, Alessandri, Philippi, Maximiliano Ibañez. The first President of the Banco Central was the Liberal banker, Ismael Tocornal.

At the same time, convertibility of the Chilean currency into gold was restored, following the twelve postponements since 1898 and after what Kemmerer described as "that reign of paper money which, save for the three years from 1895 to 1898, had lasted nearly half a century, probably the most enduring reign of paper money in any important country which has resorted to this fatal device."⁸⁷

CHAPTER THIRTEEN

THE PAPELEROS

Most writers and historians who have covered the long monetary debate in Chile in the years 1878-1925 have looked at the question from the viewpoint of the oreros. The papeleros have invariably been cast as the villains of the piece; as socially conservative hacendados and bankers whose motivation was purely greedy self interest. The aim, or at least the effect of their monetary policy, was to accentuate the inequality and injustice of the traditional social order in Chile over which they ruled. One often quoted work is an article which appeared in the New York periodical Fortune in 1938. In this article the writer declared that

"the Chilean social problem is an economic problem created largely by the monetary shortsightedness, to use no stronger term, of the hacendados, the landowners who ruled Chile from the eighteenth-thirties down to the World War. During that period of world peace and prosperity the conservative rulers of Chile, unique among the conservatives of history, depressed the value of their own currency by unnecessary paper issues. Their object, however unconscious, was to enable them to repay with cheaper pesos the mortgages upon which they counted for their European journeys."

The hacendado/debtor theory of Chilean monetary experience originated from the polemics of the traditional oreros such as Enrique MacIver, Agustín Ross, the Edwards, and Roberto Espinoza. These people expressed the then current economic orthodoxy and it is not surprising that their interpretation of Chilean experience remained dominant, at least for as long as this orthodox international view prevailed.

The writings of the oreros were accompanied by attacks on the monetary policy of the ruling oligarchy from contemporary writers whose prime concern was with the deteriorating social conditions in Chile. These writers included Nicolás

Palacios in his book Raza chilena published in 1904.

Alejandro Venegas was another contemporary writer who placed emphasis on the politically inspired depreciation of the currency as a major factor in the social problems of the country in the early years of the 20th century. Venegas (who wrote under the name of Dr. Julio Valdes Cange) is quoted extensively in the works of Julio Jobet César.²

At the same time foreign commentators in Chile - official, press and commercial - were unanimous in their view of the cause of the country's predilection for paper money. Professor E.W. Kemmerer was himself an advocate of this debtor class theory.³ F.W. Fetter, who worked with the Kemmerer Mission in Chile eloquently perpetuated this interpretation in his much quoted work on Chilean monetary inflation. Thereafter, many Chilean writers and historians - Jobet, Julio Heise González, Ricardo Donoso and Eduardo Frei to mention just a few - continued the same theme.

It would be wrong to conclude that the hacendado/debtor interpretation has attracted unanimous support. Some writers have taken a broader view of the monetary debate. Francisco Encina and Enrique L. Marshall are both critical of the role of the oreros as well as of the papeleros. Moreover, Encina finds more than mere self interest behind the motivation of some of the papeleros.⁴ Marshall joins with a few other writers such as Aníbal Pinto Santa Cruz in offering an essentially structuralist interpretation of Chilean monetary history in this period. This interpretation places emphasis on the stage of Chile's economic development and the country's position of dependency in the international economy as the factors behind monetary instability. But this does not preclude Aníbal Pinto Santa Cruz from also giving a role to the traditional interpretation.⁵

Some of the even more contrasting views of Pike and Hirschmann, who both tend to discount almost entirely the traditional interpretation, have already been discussed as they

have applied to the chronological development of the monetary question. The neo Marxist interpretation of Hernán Ramírez Necochea, which relates principally to the role of Balmaceda, has also been discussed earlier.

There has therefore been some movement away from the traditional interpretation since the Second World War. But this movement has by no means been consistent or general. One recent American writer, T.E. Davis, has reverted whole-heartedly to the traditional thesis in his article with the self-explanatory title of "Eight decades of inflation in Chile 1879-1959. A political interpretation." Davis refers to the period 1879-1925 as "an amazing period of virtually undisguised use of political power by conservative governments in their own narrowly conceived, short-run, economic self-interest."⁶

The hacendado/debtor theory of monetary inflation in Chile has clear limitations. As emphasised before, the economic interests of the ruling class were so entangled between agriculture, banking, industry, mining and commerce that it is difficult in all but a few cases to identify one economic interest with one individual or group. Land ownership was common among papeleros and oreros alike. The Edwards were the largest landowners in Chile in the early part of this century. The distinction between the traditional landed families of central Chile and the more recent entrants to high Chilean society is little more helpful. A glance at the list of the largest landowners in central Chile at mid-19th century reveals the papelero names of Balmaceda, Silva and Subercaseaux, but also includes the names of Montt and Matte.⁷ If individual economic interests do not provide an easy means of characterising the papeleros, then other criteria such as geography, party affiliation and family can be tried.

An analysis of the geography of the monetary question - the areas represented in Congress by leading politicians on either side - does not allow more than tentative conclusions. The papeleros tended to be relatively more prominent in the

south (south of Santiago) and the oreros relatively more numerous in the north. Papelero representation tended to be most concentrated in the extreme south, in Valdivia, Cautín, Llanquihue and Chiloé. They were also more than proportionately represented in the richer agricultural regions of Maule, Nuble and Curicó and in Concepción. On the other hand, the oreros tended to represent the commercial and mining areas north of Santiago, particularly Valparaíso, Atacama and Coquimbo.⁸

The geographical division was most marked in the Senate. In the upper house the main exceptions to the rule on the papelero side were provided by leading personalities among the Balmacedists who entered Congress in 1894/7. Juan José Latorre, a naval hero of the War of the Pacific, held one of the two Valparaíso Senate seats for two terms between 1894 and 1906. Latorre was by no means an outspoken supporter of paper money, but he generally voted with his papelero colleagues in the Liberal Democratic Party. Elías Balmaceda, the brother of the dead President, held Tarapacá for the two terms 1897-1909; and Enrique Salvador Sanfuentes was elected in Coquimbo in 1894. The geographical split of the oreros and papeleros was less clear cut in the Deputies. In any case, these geographical divisions no doubt reflected to a considerable extent the relative strengths of the parties in the different areas. Most importantly, for much of the period concerned the Radical Party, in which many of the oreros but very few papeleros were included, remained concentrated in its traditional stronghold of the north.

In practice, as regards the Balmacedists, Radicals and Nationals party divisions on the monetary question were fairly clear cut and strong, despite the lack of formal party discipline in Congress on the question. However, this correlation is complicated by the strong family influence that ran through both party politics in general and the monetary question in particular. This in turn reflects the significant ethical flavour of the debate over money in these years. It is perhaps worth here putting the familiar names of the monetary debate on the

papeleros side into their family context. This will also serve to draw together and summarise the leading participants.

On the papelero side, not surprisingly the family influence was very much strongest among the Balmacedists. The Balmaceda family itself, comprising the dead President's four brothers (Elías, Daniel, Rafael and José María), staged an impressive political come-back after 1891. All of them found seats in Congress and all were opponents of the Gold Standard.

President Balmaceda was influenced by the economic and monetary ideas of Manuel Arístides Zañartu. The latter played an important role in the formation of the Liberal Democratic Party after the civil war and was an important influence on the economic and monetary thinking within the party. M.A. Zañartu died in 1892, but his ideas were perpetuated by his son, Enrique Zañartu Prieto, who became the principal papelero economist. Enrique Zañartu was President of the Liberal Democratic Party before he switched his allegiance to the side of Alessandri in 1923. Hector Zañartu Prieto, the brother of Enrique, was also a prominent papelero in Congress. Another member of the wealthy Zañartu family of Concepción was Aníbal Zañartu, the brother of M.A. Zañartu. He took no part in the civil war and continued to represent Concepción in the Senate for the Liberal Party after 1891 as he had done before. Aníbal Zañartu was one of the principal early opponents of the conversion laws in the 1890s. Carlos Zañartu Fierro was not directly related to the Concepción Zañartu's, but was from the Santiago branch of the Zañartu's. He was nonetheless also a wealthy hacendado and a papelero from his seat in the Chamber of Deputies for Valdivia and La Unión.⁹

In contrast to the old and rich Zañartu family of Concepción, the influence of the Sanfuentes family was more recent. Apart from the brothers Enrique Salvador and Juan Luis, another member of the family, Vicente Sanfuentes, was a supporter of Balmaceda in 1891 and also a fervent opponent of conversion. Vicente Sanfuentes, who had been in politics since the 1840s,

was in the Senate before 1891 representing Valdivia. He was re-elected to the Senate in 1894 for Chiloé, but died soon after. The Senate seat of Vicente Sanfuentes was taken by the Conservative papelerero, Domingo Fernández Concha. The two sons of Vicente Sanfuentes, Alberto and Vicente (2), were both Balmacedist Deputies in the early 20th century. Neither took much part in the monetary debate except for the occasional vote in the Chamber with the papeleros. Ignacio Silva Ureta was a member of an old landowning family from Aconcagua Province and a friend and supporter of Balmaceda. In the Deputies from 1894 he consistently sided with the papeleros. His son, Jorge Silva Somarriva, was a more vocal papelerero. He left the Liberal Democratic Party in 1923 along with Enrique Zañartu.

Other leading political figures prominent in the ranks of both the Balmacedists and the papeleros were Julio Bañados Espinosa, Raimundo Silva Cruz, Manuel Salinas, Roberto E. Meeks, and Darío Sánchez Masenlli. With the notable exception of Guillermo Rivera, who left the party in 1903, the Balmacedists at no time contained significant oreros.

The papelerero cause was not exclusively confined to those members of the Chilean ruling class who had been exiled or ostracised for a time after their defeat in 1891. The Conservative Party, the party of the hacendados and the clerics, contained its share of papeleros. Chief among these was the extended family circle of Carlos Concha Subercaseaux, Domingo Fernández Concha and Antonio Subercaseaux, all wealthy landowners and champions of the agricultural interest. The Conservatives were excluded from government for much of the 1891/5 period and as a result were not associated directly with the pro-gold policy of the Jorge Montt Administration. This made it easier for many Conservatives to join with the Balmacedists in attacking this policy after 1894. Apart from the three mentioned above, most Conservative papeleros were content to leave the exposition of the cause to the Balmacedists and merely supported the latter with their vote. The traditional hacendados of the Conservative

Party were at their most vocal in support of paper money in the years 1898/9 when they pressed for government aid for agriculture. The leaders of the party in the period 1891/1914, Manuel José Irarrázaval, José Tocornal and Carlos Walker Martínez, were not doctrinaire supporters of either paper money or the Gold Standard. From the turn of the century the oreros among the ranks of the Conservatives were equally as vocal as the papeleros of the party.

There were some partisans of paper currency within the Liberal Party. They were more often found in the conservative faction of the party, among the errazurista or Coalition Liberals. Within the leadership of this group, Federico Errázuriz was not a doctrinaire or outspoken papelero, although at times he was a sympathiser with the cause. Fernando Lazcano went further in his direct association with the papeleros. Aníbal Zañartu was also a Liberal supporter of Errázuriz. In addition this group included for a time younger paper money supporters such as Arturo Alessandri and Alfredo Irarrázaval Zañartu; the latter proudly proclaimed himself to be "the most ardent partisan in this Chamber of the issue of paper money."¹⁰

The attraction of the Democratic Party to paper money began with the economic depression that accompanied the period of the Gold Standard in 1895/8. Thereafter the party in the country and most of its representatives in Congress modified their views in line with the growing vocal popular support for the stabilisation of the currency that emerged in the years leading up to the First World War. Alfredo Irarrázaval Zañartu was associated with the Democratic Party for a short time in the late 1890s. Malaquias Concha continued his own personal campaign in favour of paper money well into the 20th century. His insistence that convertibility should be restored only when it could be accomplished at a very much appreciated rate (18d or even 48d) influenced the party for many years after it had swung away from the extreme papelero stance of Concha towards supporting popular demands for the stabilisation of the currency.

In the Radical and National parties there were few noteworthy papeleros. The exceptions were rare. Luis Aldunate, a lawyer, diplomat and economist, was a leading National Party figure in the Senate in the 1880s. He later attacked the conversionist policy of the early post civil war governments.

Aldunate's views were expressed in his influential book Indicaciones de la Balanza Comercial published in 1893.¹¹

Manuel José Vicuña was a Radical Party Deputy in the 1880s and was for a time the director of the Radical newspaper La Lei.¹²

Vicuña was also a critic of the monetary policies pursued in the early 1890s. Neither Aldunate nor Vicuña were true papeleros in the sense of expounding the positive virtues of paper money. But both of them were expressing their views before the papeleros emerged as a strong political force. Aldunate in particular was important in helping to lay the theoretical foundation behind later papelero thinking. Both Vicuña and Aldunate were involved in the nitrate industry and both were strong advocates of the Chileanisation of the industry. Vicuña was an owner of nitrate works and Aldunate was Senator for Tarapacá. This common factor helps to explain the apparently anomalous position of Vicuña and Aldunate, since as we shall see later there was a significant connection between nationalism and opposition to the Gold Standard.

The leading papeleros - defined here as those who both opposed conversion and openly pronounced the virtues of inconvertible paper money - did not all subscribe to the social and political conservatism which characterised higher Chilean landed society. It is true that they never developed into a popular cause, except arguably for a short time in the 1890s, and in this respect stood in contrast to the American greenbackers. Nevertheless some of the principal papeleros were to be found on the more progressive side of the oligarchy. Balmacedist papeleros such as Enrique Zañartu and Jorge Silva Somarriva joined Alessandri in the early 1920s. Emilio Bello Codecido, a leading Balmacedist and opponent of the Gold Standard in the 1890s, became a

favourite with the reform-minded military and was installed by them as a member of the three-man Junta and Vice-President after the coup of January 1925.

The papeleros put forward no unitary theory. A few attempted to extend their attraction to inconvertible paper money into a more comprehensive socio-economic theory and to associate their cause with that of other interest groups. A few distinct threads can be picked out of papelero thinking. These threads can perhaps best be classified as agrarianism, nationalism and economic theory.

There was a strong dose of agrarianism behind much of papelero theory. This took on an ethical flavour, involving the moral belief that the highest form of human endeavour was the working of the land. From this basic premise came the theory expressed by all papeleros that "landed property is undoubtedly the most solid guarantee of credit."¹³ In practical terms this took the form of proposals that the note issue should be backed by mortgage bonds. These proposals, backed by agrarian sentiment and articulated by the papeleros, not surprisingly gained wide acceptance among the hacendados. The legislation of 1898, 1904, 1906, 1907 and 1914 all included provision for the guarantee of paper currency by mortgage bonds.

The praise of agriculture was generally broadened by the more sophisticated papeleros to include all production. The papeleros used the populist concept of the unity of all producers, farmers, industrialists, mine-owners and labourers. The primary need of producers was seen as being cheap credit. The major obstacle to an abundant supply of cheap credit was alleged to be the usury practised by intermediaries (often termed 'capitalists') and banks. The next step was the association of the producer with the debtor and their common identity as the majority against the minority of 'capitalists'. The solution to the problem of the provision of sufficient credit was to remove the right of note issue from the private banks, thus ending the situation by which "the product of the laborious

and honourable work of industry is at the mercy of the producers of notes"¹⁴ From here was born the idea of the creation of a national or central bank, either wholly or partially state-owned, with the capacity to grant cheap credit to agriculture, mining and industry. This proposal was first articulated by Manuel Arístides Zañartu in 1887.

This crude agrarianism often appeared in the form of hostility to banks. It was propagated principally by politicians with no interests in banking. Such people were to be found mainly in the Balmacedist Party. The opposition of the Balmacedist papeleros to the private banks had of course another facet. The banks were one of the major groups in conflict with Balmaceda in 1891 and many of the banks were traditionally associated closely with opposing political parties, groups and families both before and after the civil war. The Edwards and Matte families figured strongly in the consideration of the Balmacedists in this regard. Another factor in the papeleros' hostility towards banks was their dislike of foreign banks and merchant houses.

This leads on to the second main feature of papelero thinking, that of nationalism. Hostility to intermediaries and 'capitalists' was facilitated by the fact that the important merchant houses were largely in foreign hands, principally British. The papeleros asserted that "the only ones interested in making the conversion are the speculators and the importing houses....",¹⁵ who stood to make large gains out of the adoption of a gold currency at the expense of the mass of producers. Adding to this the obviously strong connection between Britain and the Gold Standard and the papelero movement took on a marked anti-British slant. They saw themselves as resisting the attempts of the oreros to impose the alien British currency system on to Chile. Malaquias Concha, when referring to the 1895 Conversion Law, commented cynically, "I pardon the author of that law, because he was of English nationality and through a sentiment of affection for his mother country, the country of his grand-

father, he desired to extend to the countries of South America the symbol of the sovereignty of that great country."¹⁶

The papeleros were usually associated with - and more often than not led - the various other expressions of nationalistic feeling that emerged before 1925. In the monetary sphere, apart from the Gold Standard itself, there was criticism of the widespread use of the sterling trade bill as the effective external currency of Chile. These bills were accepted for instance in payment of export duties even at a time when Chilean bank notes were not. The papeleros were joined by other politicians in criticising this practice. As a means of contrasting paper money with gold money or trade bills, the papeleros used the term "moneda nacional" to describe paper money. They argued that, whatever the doubts about the merits or otherwise of paper money, at least it was Chile's own national currency.¹⁷

The papeleros were also to be found among those who criticised the activities of the foreign banks and argued for restrictions on their operations. In this they were joined by others such as the Conservative leader, Carlos Walker Martínez, the Chilean banker Arturo Besa of the National Party and Guillermo Subercaseaux.

In view of the common association of Britain, free trade and the Gold Standard, it is not surprising to find that almost all paper money supporters were protectionists. They argued that free trade, like the Gold Standard, was an alien system based on British needs and theories with no relevance to Chilean experience. In their eyes unfortunately tariff protection "has been combatted with a perseverance worthy of a better cause by importers, their agents, their lawyers and by professors who have been sent from abroad bringing theories that they have never put into practice in their own countries."¹⁸ Before 1891 a few writers, such as M.A. Zañartu, Marcial Martínez and Julio Bañados Espinosa, had expressed opposition to the free trade ideals embraced by the majority of the political class. After 1891 the clamour for tariff protection became

stronger, both from agricultural interests (principally cattle ranchers) and from industry. The papeleros were often the main spokesmen in the legislature for the protectionist views of the Sociedad Nacional de Agricultura and Sociedad de Fomento Fabril.

Some carried their economic nationalism a stage further and advocated the direct State promotion of local industry and its protection from foreign ownership and control. This was naturally applied most frequently to the nitrate industry. The most prominent advocates of the Chileanisation of the nitrate industry were to be found in the papelero camp. These included Luis Aldunate, Manuel José Vicuña, Elías Balmaceda, Malaquias Concha and the group of young politicians centred around Enrique Zañartu and Arturo Alessandri.

The nationalism embraced by most papeleros exhibited itself also in the sphere of Chile's relations with Argentina. The most pronounced example of this was the combination of fervant jingoism and anti-gold views produced by the newspaper La Tarde in the 1890s. The interests of the hacendados were a common factor behind both sentiments; they were an important element in papelero thinking and at the same time the agricultural interest resented Argentine competition and wanted barriers against it. The papeleros frequently used the comparison between Argentine growth and Chilean stagnation in the 1890s, stressing that "they are called papeleros and scorned, those who want for the Republic an abundant currency circulation, low interest rates, property in full production ... the position that has been attained by our neighbouring country that may be our adversary."¹⁹

There was a strange amalgam of economic theory behind the thinking of the papeleros, ranging from mercantilism to pre-Keynesian. Few, if any, of their ideas were original. They were mostly derived from selective quoting of the major classical economists.

The mercantilist element was present in the papeleros' obsession with the "balanza comercial". This involved initially

the empirical assertion that Chile had suffered a persistent balance of payments deficit since the 1870s. This deficit was not incurred on trade, but arose from the large outflows of funds in the form of profits, freight charges, commissions, insurance and other items resulting from the foreign domination of the nitrate and associated industries and of the servicing of Chilean external trade in general. The papeleros saw this adverse external payments position as the root cause of the depreciation of the currency and of the failure of the country to sustain a gold currency. The proponents of this theory went further than mere empirical observation; they elevated the "balanza comercial" to the status of a natural law, a law which the oreros ignored in their vain and harmful attempts to impose artificially the Gold Standard on Chile. Some papeleros carried further the mercantilist element of their theories and argued that only a surplus on the "balanza comercial" would enable a gold currency to be established.

In the eyes of the papeleros this external payments deficit was structural and permanent; there was no adjustment mechanism. It stemmed from the inherent weakness of the Chilean economy and, according to E.S. Sanfuentes, the adverse "balanza comercial" even derived from "the very nature of our social existence."²⁰ In this context, the phrase "un Fisco rico, un pais pobre" was often heard from the papelero side. They alleged that the oreros confused the two terms in their efforts to make the conversion and thus ignored this crucial structural imbalance; the oreros could not see beyond the superficial wealth of the Chilean Treasury to the poverty and under-development of the country. While the Treasury could easily redeem the paper money into gold, the country could not sustain a gold currency.²¹

Malaquias Concha, influenced by the ideas of Frederick List, developed these ideas into a sort of socio-economic Darwinism.²² He saw international trade as a struggle between the weak and the strong. Britain, Europe and the United States were strong and used the Gold Standard and free trade as tools to keep

the rest in subjection. Chile was weak, and her only escape was to take positive protective and remedial action. Concha advocated tariff protection, a large public works programme and the direct promotion of national industry and exports through rapid credit expansion financed by large issues of paper currency. In this way Chile would end up in the enviable position of producing and exporting more than she was consuming and importing. Perhaps in an attempt to alleviate the stigma of inflation, Concha and most papeleros conceded that, in such an improved economic situation, the return to a gold-based currency would be feasible and desirable. This was tempered, however, by their insistence that the paper money should be redeemed only on the basis of a gold Peso valued at the equivalent of 48d. The advocacy of a hopelessly unrealistic conversion rate naturally had advantages for the papeleros. Moreover, a 48d Peso had a certain popular and nostalgic appeal. In the 1890s and early years of the 20th century there was a common tendency to look back to the 50 years or so that followed independence and to see better times. In that era both the economy and Chile's rulers had shown more dynamism than was apparent around the turn of the century. The papeleros tried to exploit this mood by raising the banner of a 48d Peso, which had been created during this era of expansion by a coinage law of 1851. They urged that if their policies were adopted Chile would return to those days when the foreigner had a weaker hold over the economy, when there was a favourable commercial balance and when a metallic currency was maintained.

Some papelero criticism of the Gold Standard appears to have had a somewhat sounder economic basis. Although not original or in the form of a coherent theory, some of their lines of attack on the prevailing economic orthodoxy in the industrialised world did follow some more progressive economic ideas emerging around that time which were later to enjoy more respectability. It was argued that the global demonetisation of silver in the latter part of the 19th century had contributed to the increasing price of gold and resulting deflation in many countries. While

few in Chile after 1895 advocated a silver currency, some papeleros argued that the time was not ripe to adopt a gold currency when there was a world scarcity of the metal.

After the turn of the century this situation no longer existed, but the papeleros developed other more sophisticated arguments. They raised the objection to the Gold Standard that it was "nothing else than to submit our production to the will, to the capriciousness and the interests of foreign capital."²³ Expressed more dispassionately, this argument ran that the logic of the Gold Standard demanded that the level of internal activity and prices in an individual economy be subservient to the movement of gold in and out of the particular country. For a dependent economy like Chile the adoption of the Gold Standard would be tantamount to placing the economy in the hands of those foreign interests which controlled the movements of gold.

The papeleros certainly succeeded in challenging many of the orthodox monetary views of the oreros. They delighted in pointing out that the relatively tiny economy of Chile was expected by the oreros to bear the burden of the resumption of specie payments after the civil war of 1891 with a shorter transition period than that apparently needed by both Britain and the United States in similar circumstances. They could, with justification, accuse the Chilean Gold Standard supporters of being "stuck in the formulas of the Manual of Political Economy."²⁴

Once, however, the papeleros transferred their energies to extolling the positive virtues of paper money, they were on shakier theoretical ground. The rejection of the quantity theory of money was implicit in their thinking, but they did not build anything to take its place. They tended, like the mercantilists, to regard money as more than an intermediary. To them it was the "capital initial," the prime mover of economic activity.²⁵ In their theory the rate of interest was determined simply by the money supply - the goal of a low interest rate was achieved by the issue of an abundant supply of paper money. The papeleros

view of what constituted the money supply was extremely narrow. It was sufficient to compare the note circulation per inhabitant in various countries for them to come to the conclusion that Chile was suffering from a scarcity of currency.²⁶ There is little doubt that most papeleros regarded deflation as a greater evil than inflation, although at the same time they refused to concede that there was any connection between inflation and large emissions of paper money.

From this brief description of papelero thinking, it is clear that a few of its adherents were in effect offering an alternative path of economic development for the country. For this reason they deserve more than the label of reactionary and self-interested hacendados often affixed to them in the past. At the same time it is true that their practical impact outside the narrow confines of monetary affairs was limited. Apart from the issue of the Gold Standard and some limited successes on tariff policy, the papeleros offered little serious threat to the externally-based orientation of economic development which they professed to challenge. They failed to attract the support of the majority of their own class for their alternative path. They failed also to mobilise such support from outside the ruling class, since in the final analysis they were not prepared to challenge the social and political system in which they operated. As a result, they depended for their success in opposing the Gold Standard on the largely passive support of the majority of Chile's rural and banking oligarchy, a group of people whose stance was dictated more by narrow self-interest than by idealism. This oligarchy was quite content to defend and to enjoy the fruits of the country's place in the international economic system, while at the same time receiving the added bonus from the unorthodox monetary policies advocated by the papeleros.

CHAPTER FOURTEEN

THE OREROS

The oreros were in many respects a simpler phenomenon than their opponents. They represented the prevailing international financial orthodoxy of the day. This orthodox view was propagated in Chile by the weight of international (chiefly British) opinion, and more directly by the pressure of British commercial and banking interests operating in Chile. The most prominent oreros were in some cases the domestic allies and even the agents and employees of these foreign interests or in other ways, through family ties or sentiment, closely associated with Britain.

For British banks and merchants in Chile the absence of a stable currency was a constant irritant. Of course at the same time a fluctuating exchange rate had speculative possibilities, but this was not generally to the liking of the more traditional and conservative British merchant houses such as Gibbs. They were more at home with the relatively fixed currency values offered by the Gold Standard and the lower risks afforded by this system.¹ Even worse from the viewpoint of British merchants and bankers was that, although in theory the Valparaíso exchange market was free, in practice it was subject to a good deal of official influence and intervention both through the ebbs and flows of the monetary debate and through direct and indirect government operations in the market. From this derived the resentment of British banks and merchants towards the Banco de Chile with its close, and in their eyes sinister relations with the government. In these conditions the British man on the spot needed to be very close to the political and financial developments relating to the monetary debate. For this reason the records of such firms as Gibbs and B.O.L.S.A. are a good source for historians of this period in Chile.

As we have seen, British banking and commercial interests in Chile frequently put direct pressure on the authorities in an effort to persuade them to adopt 'sound money' policies. British commercial interests were important in the Valparaíso Chamber of Commerce, one of the principal participants in the monetary debate. The Bank of Tarapacá and London made both direct representations and indirect moves through its lawyers engaged in Chilean politics. The Santiago Manager of the bank was a frequent visitor to the Ministry of Finance. In 1896 the bank, backed by Rothschilds, acted directly to forestall a move by the Government which would have undermined the Gold Standard. In a less successful effort in July 1898 the Bank of Tarapacá and London used the less direct means of drawing up a draft law which was presented in Congress by one of its lawyers, the Radical Deputy Anselmo Hevia Riquelme, as a counter to the Government's paper money bill.

The frequent war scares arising over the boundary dispute with Argentina worried British commercial and banking interests not so much because of the possibility of an actual conflict but more because of the effect on the exchange market of the expenditure on armaments. As noted by The Times in 1901, such boundary disputes "necessarily excite the commercial imagination with visions of the disturbing intrusion into the exchange market of the influence of the purchases of armaments on a costly scale."² It was this consideration that prompted British commercial interests in South America to urge H.M.G. in 1898 to intervene to stop the dispute between Chile and Argentina. It was through official British intermediation suggested by Rothschilds and Barings that the two countries eased their relations in 1902.

The (renamed) Anglo-South American Bank used a different approach in 1908 to put over its views. In an effort to cut its losses on loans denominated in local currency caused by the depreciation of the Peso, the bank attempted in 1908 to place its business in Chile largely on a sterling basis, even at the

likely cost of the loss of some customers. Another object of this exercise as stated by Head Office to its Chilean branches was "to bring home to your clients (and indirectly ... to the Government) the unsatisfactory conditions of the present monetary system and the necessity for placing it on a sounder basis"³ In 1914 the second British bank in Chile, the London and River Plate Bank, decided that it could use as a lever the threat of pulling out of opening a branch in Santiago. The Manager-designate of the Santiago branch wrote to his colleague in Valparaiso that he might "mention, in influential quarters, if the need arises, that the Bank will not open here at all unless an equitable law is passed regarding Conversion."⁴

British interests more distant from Chile - debt holders and bankers in London and other European financial centres - were naturally less concerned with the local problems of trading with an unstable currency. Although surprised and affronted by the unorthodox monetary practices in Chile, their chief concern was the creditworthiness of the government. In practice this meant the maintenance of the Conversion Fund.

The British connection was readily apparent among the *oreros*, the domestic allies of British commercial interests. Chief among them were the Edwards. The members of this family played a crucial role in the monetary debate right from the beginning. The Banco de Edwards took a key part in the events of 1878. The family proceeded to have a constant influence through their position as bankers, as members of Congress and as the owners of El Mercurio. At critical points in the history of the monetary question the Edwards were found to be occupying the position of Finance Minister. These included 1887 (Agustín Edwards Ross), 1892 (Agustín Edwards Ross), 1909 (Agustín Edwards MacClure), 1914/15 (Alberto Edwards Vives) and 1925 (Guillermo Edwards Matte). The influence of the Edwards was most directly apparent during the terms of office of Jorge Montt and Pedro Montt, in both cases backed up by Agustín Ross, the close associate and relative (by marriage) of the Edwards

family. Other members of the family supported the cause of the Gold Standard from their seats in Congress; these included Eduardo Edwards and Guillermo Edwards Garriga in the early 1890s and Raúl Edwards MacClure (the brother of Agustín) who entered the Deputies after the turn of the century.

The main line of the Edwards family running from Agustín Edwards Ossandon to A. Edwards Ross to A. Edwards MacClure were members of the National Party. This goes a good way towards explaining the consistent support given to the Gold Standard by National Party members in Congress. The other main influence in the National Party was of course the Montts, principally the four sons of Manuel Montt who entered politics in the party and chief among whom was Pedro Montt. Another branch of the Edwards family, (the Coquimbo branch) which included Guillermo Edwards Garriga (a cousin of Agustín Edwards Ross) and his sons Guillermo Edwards Matte and Ismael Edwards Matte were members of the Liberal Party.

The oreros like their opponents accepted the unwritten rule of the 'cuestion abierta'; the Radical Deputy Pedro Bannen affirmed in 1895 that his party had no policy on conversion because "it considers that the economic question is not a political question but one in which each must have his own judgement."⁵ Nevertheless the Radical Party matched the National Party for its consistent support for conversion in Congress. For much of the Parliamentary era Enrique MacIver, "the most pure liberal of corte inglés,"⁶ was the dominant figure of the Radical Party in Congress, notwithstanding the growing challenge from the left-wing of the party. The strong anglo-philic and pro-gold views of MacIver were an important influence on the Radical Party; although after 1898 few other Radicals continued to offer quite such a passionate and dogmatic defence of the Gold Standard as that expounded by MacIver.

Family influences were important among the oreros in the Liberal Party. The Liberal branch of the Edwards is one example. Most of the wealthy and influential Matte family

were to be found in the Liberal Party. Although rarely as dogmatic as the Edwards, the Mattes were generally on the pro-gold side and at times played a key role in the monetary question. The Mattes, in the form of the three brothers, Eduardo, Augusto and Claudio were, along with the Edwards, particularly influential in 1891 and in the immediate post-civil war years. After the death of Eduardo Matte Pérez in 1902, the family's direct involvement in Congressional politics in Santiago lessened, although Jorge Matte (the son of Eduardo) carried on the tradition as a Liberal in the Deputies from 1906, where like his predecessors he was generally to be found supporting orthodox monetary policies. The Liberal oreros tended to be in the more radical wing of the party. Such older Liberal politicians as Vicente Reyes and Abraham Gazitúa had the same moralistic approach to the monetary question as Enrique MacIver.

The oreros in the Conservative Party were not large in number, but their influence was at times considerable. The strand of orero thinking which ran through the party had its origins in the early days of economic liberalism in Chile (and in the influence of Courcelle-Seneuil in particular). It continued helped by intellectual and family factors, through such Conservatives as Zorobabel Rodríguez and his disciple, Darío Urzúa, and through Miguel Cruchaga Tocornal, who was influenced by the ideas of his father, Miguel Cruchaga Montt.

Family influences in the monetary question sometimes even ran across party lines. Jorge Huneeus was of German descent and started the family name in Chile. He was an academic and a lawyer and for some years acted for Antony Gibbs in Chile. His three sons all went into politics, each with a different party. In the period 1906/9 the three of them, Jorge Huneeus (Radical), Antonio Huneeus (Liberal) and Alejandro Huneeus (Conservative), were in the Deputies and all consistently voted against the papeleros.⁷

Given the importance of British business interests in

Chile, together with the influence of the domestic oreros in Chilean politics, it seems surprising that between them they were not able to impose the Gold Standard on the country for more than a few years. This applies particularly to the years before 1914 when Chile's monetary system was increasingly out of step with that of the industrial countries at the core of the international economy and with most of the periphery countries as well. The success of an essentially native movement in the form of the papeleros against foreign interests and their domestic allies over the issue of the Gold Standard has a relevance to dependency theory.⁸ The example of Chile suggests that the question of the Gold Standard in Latin America should not be analysed in terms exclusively of foreign control. Another interpretation places the emphasis on the "ruling oligarchies' basic favour of monetary chaos."⁹ In this scenario countries adopted orthodox monetary policies leading to the Gold Standard only when the chorus of protests about the depreciation of the currency from foreign investors, creditors and immigrants threatened the survival of these ruling oligarchies themselves. In the case of Chile it can be argued that the authorities' relatively sound fiscal management and their good debt repayment record allowed the country the luxury of monetary unorthodoxy. Chile was never forced by her financial straits and her creditors to suffer, for example, the indignity of Brazil in 1898.¹⁰

In the absence of a crisis situation and direct intervention by foreign creditors and interests, the latter's influence on domestic monetary policy was less direct and depended to a large extent on their domestic allies, the oreros. However, in practice the interests and motives of foreign interests and the oreros were not always synonymous. Foreign commercial interests wanted a stable gold currency at a rate as high as they considered to be feasible and sustainable in the prevailing economic circumstances. Many oreros on the other hand did not view the question in this empirical way. For many years

their article of faith was the moral obligation of the State to redeem the paper money at some historical exchange rate. This difference of emphasis had important practical implications since the establishment and maintenance of the Gold Standard in Chile depended to a large extent on the confidence with which British interests viewed the policy of the oreros. The gap between the thinking of the two was most pronounced in the crucial years 1891/3 when the lack of confidence in the 1892 law shown by a few British merchants and bankers helped to undermine the first conversion scheme. During this period one British merchant expressed a sentiment which was heard on a number of later occasions when he wrote that "the return to specie payments within a relatively short time is desired by many prominent men in this country, but when we see ... Mr. Agustín Ross returns to his old cheval de bataille of a 48 pence gold dollar with an English sovereign 'Una libra' to represent five dollars, I despair of seeing for some time any good practical plan worked out."¹¹ This difference of emphasis in the motives and the objectives of foreign interests on the one hand and the oreros in Chilean politics on the other, contributed towards the success of the papeleros in limiting the survival of the Gold Standard in Chile.

The oreros and the papeleros provided the long drawn-out public debate in Congress and in the press. The question must be raised of whether monetary policy was in reality determined behind the scenes by the banks or by financial speculators. The influence of the banks became an entrenched part of Bal-macedist mythology and later assumed a prominent role in papelero thinking and in the writings and speeches of more radical politicians such as Arturo Alessandri. The banks are given a particularly sinister role by the orero economist, Roberto Espinoza, who considered that throughout the era of the monetary question "the threat to the conversion ... is presented by the banks of emission who brought the curso forzoso in 1878 and 1898 and, given the composition of our government and legislative circles,

(this threat) will rise again."¹²

It is clear that monetary policy was frequently influenced by the government's desire to help out the private banks, as a group and sometimes individually. The peculiarly close links between banking and party politics was a consistent feature of the era in Chile. A directorship of a bank was a common sideline for men in public life and for members of Santiago society in general. This gave the banking interest a very strong voice in terms of its numerical representation in Congress. However, it would be misleading to consider the banks as a consistently unitary or even very cohesive interest group. We have seen examples of where party political rivalries impinged on the practice of banking. The Edwards and Matte families were often set apart from the other banking interests over the monetary question. An important distinctive feature of the Banco de Edwards was that unlike the other major native banks it was a private family enterprise. Moreover, the Chilean banks had to face increasing competition for both deposits and political influence from the foreign banks, whose interests in the monetary policy debate were often opposed to their own. By 1913 the foreign banks held some 40% of total commercial bank deposits in Chile.¹³

Any influence exerted by the native banks depended on the Banco de Chile, "the strongest arm of the oligarchy" in the eyes of one writer.¹⁴ Because of its size and its traditionally intimate relations with the government the Banco de Chile often acted as the central bank vis-à-vis both the Treasury and many of the smaller native banks. This considerable power was not tempered by any significant official control so that the bank had little responsibility to other than its shareholders.

In looking at the role of the banks and financiers, a distinction has to be made between the few day-to-day operations of monetary policy under the direct control of the government and those aspects of policy dictated by Congress. During the parliamentary era the direct powers of the Treasury were fairly

limited. They included the operation of the periodic gold auctions and the drawing down of external loans, both of which had a large impact on the speculative Valparaiso exchange market. Within this narrow sphere there was clearly great scope for policies to be operated to the benefit of financial speculators in banking and political circles around the government. Accusations to this effect were heard frequently from British banking and commercial interests in Chile. More often than not these referred to groups of people rather than to individuals - the most common was the manipulation of the exchange rate at harvest time to help the farmer. Given the nature of Chilean society and politics at that time, the operation of policy to do anything less would have been surprising.

In practice much of the detailed operation of monetary policy as well as the broader policy issues were under the direct control of Congress - to a much greater extent than would be conceivable in most countries with a legislature today. In this sense the Chilean system, with its powerful legislature and committees, was remarkably open, albeit strictly within the narrow confines of the Santiago elite. Here the banking lobby had to compete with other interest groups and with the oreros and the papeleros. The strength of the native banks - and the Banco de Chile in particular - was in their ability to influence governments to initiate proposals on their behalf. In this way they often acted as a catalyst in the monetary question. The measures which finally emerged from Congress did not always resemble the original demands of the banks. With the well-known exceptions of the Edwards and Matte families, the Chilean banks on the whole saw the rigidity of the Gold Standard as being against their interests. The same applied to the more radical demands of the papeleros which aimed to enhance the role of the State in the provision of credit. In Congress the banking interest appeared to limit itself to trying to restrain these two extremes, and it did so with a fair deal of success.

An alternative focus on the role of the banks in the

monetary question is to concentrate on their financial weakness. The weak cash position of a number of Chilean banks was a consistent feature of the financial history of the country in the period 1878 to 1925. Spectacular failures were avoided only by the equally consistent expedient of official aid to the banks. This was in a sense the starting point of the whole monetary debate. The unsound position of the banks was a product of the lack of official regulation. This in turn was partly a reflection of the political influence of the banks, but it also represented the general ethos of the period in Chilean history.

POSTSCRIPT

Since the 1930s Chile has experienced an almost continuous high rate of monetary and price inflation; continuous and high by the standards of most countries outside the southern part of South America and high compared with earlier years in Chile. This then raises the question of the degree of continuity in Chile's inflationary experience - and in particular the relation and contribution of the unorthodox monetary policies and debate before 1914 to later developments.

The year 1925 marked the formal end of the monetary question in its 19th century guise. In some respects it had ended in 1914 when the old divisions of oreros and papeleros began to disappear following the economic and social upheavals which accompanied the world war and its aftermath. Nevertheless important elements of the debate survived until 1925. Some of the names and traditions of the old pre-1914 Gold Standard days even continued beyond the demise of the Gold Standard itself. During the 1930s one could still hear Enrique Zañartu attacking what he saw as the official policy of monetary orthodoxy and deflation, with the principal object of his criticism being directed at a member of the Ross family, Gustavo Ross, the brother of Agustín, who was the Finance Minister of the day. However, the new constitution and the new Central Bank did not permit the same sort of detailed debate over monetary policy in the legislature seen before 1925. The maintenance of the Gold Standard from 1926 to 1932 and the suspension of convertibility in 1932 should probably be viewed more in the context of Chile joining the mainstream of international monetary developments than in terms of domestic political influences.

Looking over a longer period, one writer has recently hypothesised that Chile's early experience of inflation and political debate about inflation helped to smooth the later path of continuous inflation together with the relative political

stability maintained until the 1970s.¹ In their efforts to maintain the level of real wages, the trade unions in Chile from an early stage found themselves joining in the monetary debate of the oligarchy in Santiago, rather than staying outside the traditional politics. The wealth, social prestige and political power of the large landowner in Chile remained intact for many years after 1925, as did the benefits which accrued to them from inflation. In contrast to the period before 1914, monetary expansion in Chile from the 1920s was ostensibly directed much more towards financing the expanding role of the State than to financing the needs of the hacendados. Their earlier experience had taught the members of upper rural society that they could happily and profitably acquiesce in this process.

A certain continuity of ideas about inflation is also apparent. The years 1898-1907 saw early experiments in using the note issue ostensibly as a direct tool for promoting economic development. This strategy had been advocated by the papeleros as early as the 1880s. An all-embracing belief in the efficacy of monetary and credit policy as a vehicle for promoting economic and social development has persisted in Chile and throughout Latin America up until the present day. The common factor applying in the 19th century and now is the limited role of fiscal policy, a weakness which derives from the consistent unwillingness of ruling elites to accept their share of the burden of taxation.

Other relationships can be identified. It is not difficult to discern similarities in the approach to inflation of the papeleros and the post-Second World War 'structuralist' school of economic thought in Latin America. The identification of such links has obvious attractions for the historian; but at the same time care is needed in postulating such links between ideas and events when they exist against the background of very different worlds.

APPENDIX I

THE CHILEAN BALANCE OF PAYMENTS

Much of the debate about the Gold Standard in the years 1878-1925 centred on the competing claims of the two sides about the country's external payments position. The depreciation of the exchange rate was clear to all, but there was an important difference in emphasis on the underlying causes. In broad terms, and using the terminology of today, the papeleros claimed that the exchange depreciation stemmed from a deficit on the current account. The oreros on the other hand saw the problem as being one of capital outflows induced by monetary instability at home.

The only external payments figures available from official sources are shown in the Table below. (The complete annual trade figures as presented in official sources appear in the Table at the end of the Appendix). These figures give only a very incomplete picture. They are also subject to a wide margin of error. Even the simple trade figures must be treated with considerable caution. Apart from the effects of contraband and statistical errors, the import figures were based on the customs valuation of imports and not on their actual cost.¹ Agustín Ross considered the official trade figures to be too inaccurate for use in assessing the country's external payments position.²

1. See Memoria del Superintendente de Aduanas, 1893, pp. 25-7.

2. Report on the Trade between Chile and Great Britain, pp. 74-6.

ITEMS OF THE CHILEAN BALANCE OF PAYMENTS, 1876-1925

Pesos of 6d, mns, annual average

	<u>Exports</u> ⁽¹⁾	<u>Imports</u> ⁽¹⁾	<u>Official</u> <u>Debt</u> <u>Service</u> <u>Payments</u>	<u>Receipts</u> <u>From</u> <u>Official</u> <u>Loans</u>	<u>Net</u> <u>Inflow/</u> <u>Outflow</u> <u>(-)</u> <u>of</u> <u>Bullion</u>	<u>Deprecia-</u> <u>tion of</u> <u>Exchange</u> <u>Rate over</u> <u>5 Years</u> <u>%</u> ⁽²⁾
1876/80	217	-211	-26	0	-19	-32
1881/5	365	-301	-27	6	-10	-29
1886/90	400	-409	-68	67	-3	0
1891/5	437	-422	-29	29	-5	-12
1896/1900	460	-379	-42	37	-16	-4
1901/5	599	-455	-55	22	-26	-2
1906/10	904	-804	-66	68	2	-33
1911/15	1060	-859	-88	80	3	-28
1916/20	1800	-1070	-100	0	65	+22
1921/5	1520	-1021	-134	64	10	-24

(1) Merchandise trade only; excludes bullion.

(2) Percentage increase in the number of Pesos per pound sterling.

Source: Synopsis Estadística, 1925, pp. 63, 65, 72-4; and
Resumen de la Hacienda Pública, pp. 93-4.

An even more uncertain element in the Chilean balance of payments in these years was the invisibles item. In addition to the servicing of official external borrowing (for which figures are available), this comprised freight, insurance and commission as well as the profits and dividends remitted by foreign investors in Chile. A large number of estimates have been made of the proportion of the value of export receipts not returned to the country. These invariably relate to individual years and there are no published comprehensive studies covering the whole period of the nitrate age. The estimates available are based chiefly on calculations of the level of profits of foreign nitrate companies and associated enterprises.³ There is little doubt that the profits of some nitrate companies were very large and "the profits drawn by Britishers from Chile's nitrate may have been higher than those yielded by almost any other major type of British economic activity in Latin America."⁴ Of course, not all nitrate companies were foreign-owned, though

3. Examples are:

Aldunate, Indicaciones de la Balanza Comercial, pp. 101-6; and H. Ramírez N., Historia del Imperialismo en Chile, (2nd Edition), La Habana, Cuba, Edición Revolucionaria 1966, pp. 132, 306-7, in which the author cites some contemporary estimates. For the nitrate producers' case of their economic benefit to the country see a translation of a memorandum by the Nitrate Producers of Tarapacá to the Minister of the Interior, in Lowther to Lansdowne, 28th March 1904, F.O. 16/349. See also an unpublished discussion paper by Markos Mamalakis, "The role of government in the resource transfer and resource allocation process: the Chilean nitrate sector, 1880-1930," Center Discussion Paper No. 10, Latin American Center, The University of Wisconsin-Milwaukee, 3rd July 1968.

4. J.F. Rippy, "British Investments in the Chilean Nitrate Industry," Inter-American Economic Affairs, Vol. 3, 1954, No. 2, p. 3.

Chilean-owned enterprises remained in a minority throughout most of the nitrate era and many of the most efficient and profitable were foreign. Altogether, the best 'guesstimate' of nitrate profits, based on contemporary estimates, might put the proportion of nitrate export receipts remaining abroad as profits at between 20% and 30%.

This figure excludes all sorts of other invisible outflows associated with the nitrate trade and also the profits of other foreign enterprises in Chile. For British investments figures are available for the return on quoted capital. With minor exceptions, until the 1930s Britain's investments (quoted) in Chile were her most profitable in Latin America. In 1913 the average return on British capital in nitrate was 11.9% and overall was 5.9%, "an exceedingly good rate of remuneration"⁵ This however gives little indication of the amount of funds flowing out of Chile in the form of profits and dividends.

A similar problem is encountered in estimating capital inflows into Chile in the form of direct investment. The only firm figures relate to nominal capital quoted on the Stock Exchange. This need not have borne much relation to actual flows of funds from Britain to Chile. For instance, The Financial News, in 1890 quoted one estimate that of the £4mn raised in London for nitrate companies in Tarapacá no more than £250,000 went to the province to buy plant and machinery.⁶ In addition, some nitrate investment was not quoted.

These limitations make all but the most tentative con-

5. The South American Journal, 7th February 1914.

6. The Financial News, London, 6th May 1890. The newspaper went on to report that much of the initial capital raised by Englishmen for nitrate production in Tarapacá was provided by local funds from the Banco de Valparaiso, which at the time had an English manager.

clusions about Chile's external payments position in these years extremely hazardous. It is clear that the movements of the exchange rate reflected very imperfectly the changes in the trade balance as shown in the official figures. In fact, the periods in which imports were shown to be exceeding exports - for instance 1844-57 and 1886-90 - were often times of relative exchange rate stability. The oreros frequently used this to contest the 'balanza comercial' theory.⁷

If the balances themselves cannot tell us much because of the suspicions surrounding the figures for the absolute levels of trade, then perhaps more purpose is served by looking at the long-term changes in exports and imports. Over the period 1876/80 to 1921/5 exports in sterling value terms grew 7 times while imports rose 4.8 times. The same pattern of exports growing faster than imports applies equally to the periods up to 1911/5 and 1906/10. Given this fact, together with the depreciation of the Peso, then the presumption must be that other negative items in the balance of payments were rising faster than capital inflows. This was the case with service payments on the external debt, which throughout most of the period exceeded inflows from new official borrowing. At the same time, outflows of funds in the form of the repatriation of capital, services such as freight and insurance, together with profits and dividends paid to foreign investors, were probably not matched by inflows from new direct investment. Unfortunately, this does not help us much in making a judgement on the competing claims of the oreros and the papeleros. Our more sophisticated concepts of economic analysis cannot compensate for the simple lack of data.

7. See for example Enrique MacIver as Finance Minister in M.M.H., 1893, pp. 111-2.

THE TRADE OF CHILE, 1870-1925

(including bullion)

Pesos of 18d, mns.

	<u>Exports</u>	<u>Imports</u>
1870	68.4	71.5
1871	81.6	68.0
1872	95.6	89.3
1873	95.3	94.4
1874	92.6	97.4
1875	87.4	95.3
1876	85.3	88.2
1877	69.4	73.0
1878	69.8	63.0
1879	78.2	57.0
1880	88.0	63.7
1881	104.0	83.5
1882	139.9	107.7
1883	149.3	114.9
1884	122.0	111.7
1885	108.2	84.6
1886	108.2	93.2
1887	125.7	178.6
1888	154.3	128.2
1889	139.3	137.4
1890	144.4	143.3
1891	138.7	134.4
1892	135.5	164.7
1893	152.5	144.1
1894	152.1	115.0
1895	153.9	146.1
1896	157.0	156.4
1897	136.7	138.3
1898	168.1	102.3

	<u>Exports</u>	<u>Imports</u>
1899	163.1	106.3
1900	167.7	128.5
1901	171.8	139.3
1902	185.8	132.4
1903	196.1	142.5
1904	217.6	157.1
1905	266.8	188.6
1906	275.1	225.3
1907	280.1	293.7
1908	319.1	267.3
1909	306.4	262.1
1910	328.6	297.5
1911	339.4	349.0
1912	383.2	334.5
1913	396.3	329.5
1914	299.7	269.8
1915	327.5	153.2
1916	506.0	222.5
1917	712.3	355.1
1918	763.6	436.1
1919	301.5	401.3
1920	778.9	455.1
1921	433.8	381.3
1922	331.6	237.2
1923	537.2	329.3
1924	601.5	363.3
1925	623.0	407.8

Source: Anuario Estadístico, Vol. VI, Hacienda, 1918, p. 64;
and Sinopsis Estadística, 1925, pp. 150-1.

APPENDIX II

AVERAGE MONTHLY EXCHANGE RATE OF THE CHILEAN PESO ON LONDON

	<u>Pence</u>								
	<u>1875</u>	<u>1876</u>	<u>1877</u>	<u>1878</u>	<u>1879</u>	<u>1880</u>	<u>1881</u>	<u>1882</u>	<u>1883</u>
Jan.	44.3	43.5	44.6	41.8	38.7	36.4	29.5	35.8	36.5
Feb.	44.3	43.0	43.4	41.5	38.3	36.1	30.0	35.0	35.7
Mar.	44.0	41.8	41.6	41.2	38.5	34.1	29.7	35.2	35.4
Apr.	44.1	41.5	42.2	41.0	34.7	32.0	27.6	35.1	35.1
May	44.3	41.4	41.8	40.3	32.8	32.3	27.5	34.4	34.3
June	44.1	39.3	41.1	40.3	31.6	31.6	28.8	34.7	34.2
July	43.5	36.5	41.4	40.1	31.0	29.5	29.9	35.2	34.9
Aug.	43.8	37.8	41.6	38.1	27.0	25.7	32.1	35.1	35.4
Sept.	43.5	38.4	41.5	37.1	25.5	25.8	33.1	35.4	35.4
Oct.	43.5	39.8	41.6	37.2	27.1	29.0	33.4	35.9	35.6
Nov.	43.5	41.0	41.4	37.9	34.5	28.6	34.1	36.4	35.6
Dec.	43.5	43.3	41.8	39.2	36.5	29.5	35.4	36.2	34.9
Average	43.8	40.6	42.1	39.6	33.0	30.9	30.9	35.4	35.3

	<u>1884</u>	<u>1885</u>	<u>1886</u>	<u>1887</u>	<u>1888</u>	<u>1889</u>	<u>1890</u>	<u>1891</u>	<u>1892</u>
Jan.	33.4	28.1	27.2	24.3	26.0	25.5	25.3	22.2	21.5
Feb.	34.0	26.5	25.7	23.3	25.8	29.3	25.0	20.3	20.4
Mar.	33.3	25.2	25.1	23.2	25.8	29.4	24.9	17.5	20.4
Apr.	32.0	25.8	24.6	23.6	26.0	28.3	24.6	16.8	19.3
May	30.4	26.8	23.3	25.0	26.0	26.4	24.3	15.7	17.9
June	31.9	25.9	22.2	25.0	25.8	26.0	24.0	15.9	17.9
July	31.6	25.6	22.7	25.0	25.1	25.5	23.8	-	17.6
Aug.	31.5	24.5	22.7	25.0	26.0	24.6	22.9	16.4	17.1
Sept.	31.3	23.3	21.9	25.3	26.3	25.2	23.6	-	17.9
Oct.	31.5	23.4	22.7	24.8	26.6	25.4	23.9	19.5	17.3
Nov.	30.5	25.1	24.9	24.9	27.2	25.3	23.8	21.5	19.3
Dec.	29.7	25.3	23.9	24.9	28.5	25.2	22.9	22.1	19.1
Average	31.7	25.4	23.9	24.5	26.3	26.6	24.1	18.8	18.8

AVERAGE MONTHLY EXCHANGE RATE OF THE CHILEAN PESO ON LONDON

	<u>Pence</u>								
	<u>1893</u>	<u>1894</u>	<u>1895</u>	<u>1896</u>	<u>1897</u>	<u>1898</u>	<u>1899</u>	<u>1900</u>	<u>1901</u>
Jan.	17.4	13.4	14.2	17.4	17.6	17.6	11.9	16.3	17.2
Feb.	16.6	12.8	15.9	17.6	17.6	17.6	12.9	16.3	16.6
Mar.	16.0	13.0	16.8	17.6	17.6	17.6	13.5	16.4	16.9
Apr.	15.3	12.5	16.6	17.3	17.6	17.4	14.0	16.4	16.4
May	14.0	11.3	16.9	17.4	17.6	17.5	14.6	16.5	15.9
June	14.9	11.6	17.7	17.4	17.5	17.3	14.6	17.0	15.6
July	14.4	11.9	17.1	17.4	17.6	-	15.3	17.1	15.4
Aug.	15.3	11.8	17.3	17.4	17.6	-	15.5	17.1	16.4
Sep.	15.1	11.7	17.3	17.4	17.6	13.1	15.4	17.3	16.0
Oct.	14.6	12.8	17.3	17.4	17.6	13.3	15.0	17.3	15.6
Nov.	13.8	14.0	17.4	17.4	17.6	13.0	15.1	17.1	15.4
Dec.	12.7	13.9	17.4	17.5	17.6	12.8	16.0	17.1	14.4
Average	15.0	12.6	16.8	17.4	17.6	15.7	14.5	16.8	15.9

	<u>1902</u>	<u>1903</u>	<u>1904</u>	<u>1905</u>	<u>1906</u>	<u>1907</u>	<u>1908</u>	<u>1909</u>	<u>1910</u>
Jan.	14.1	16.4	16.6	16.1	14.1	13.4	10.4	12.9	10.7
Feb.	13.9	16.4	16.4	16.6	14.9	13.4	9.9	11.5	10.7
Mar.	13.6	16.6	16.6	16.1	15.8	12.9	8.9	11.4	10.7
Apr.	13.6	16.9	16.6	16.3	14.9	12.1	8.6	10.8	10.8
May	14.6	16.6	16.6	15.9	14.4	12.9	8.9	10.1	10.9
June	15.4	16.4	16.9	15.9	14.1	12.6	8.8	10.4	11.4
July	15.6	16.7	16.6	15.8	14.4	12.4	8.6	10.6	11.0
Aug.	16.1	16.4	16.6	15.3	14.4	12.1	10.1	10.1	10.4
Sep.	16.1	16.6	16.6	15.1	14.1	12.4	10.1	10.3	10.6
Oct.	16.1	16.6	16.6	15.3	13.6	11.4	9.9	10.3	10.8
Nov.	16.1	16.6	16.4	14.9	13.6	9.9	10.4	10.2	10.3
Dec.	16.6	16.9	16.1	14.6	14.1	9.8	11.9	11.0	10.8
Average	15.2	16.6	16.4	15.6	14.4	12.8	9.6	10.8	10.8

AVERAGE MONTHLY EXCHANGE RATE OF THE CHILEAN PESO ON LONDON

	<u>Pence</u>								
	<u>1911</u>	<u>1912</u>	<u>1913</u>	<u>1914</u>	<u>1915</u>	<u>1916</u>	<u>1917</u>	<u>1918</u>	<u>1919</u>
Jan.	10.9	10.3	10.1	9.0	7.5	8.5	11.7	14.0	10.5
Feb.	10.8	10.2	10.1	9.5	7.6	8.4	11.2	13.9	9.7
Mar.	10.7	10.2	10.2	9.6	7.8	8.5	10.7	15.1	9.4
Apr.	10.3	10.3	10.0	9.7	8.3	8.6	10.8	15.7	10.4
May	10.8	10.4	10.0	9.6	7.9	8.7	11.7	16.7	10.8
June	10.8	10.3	9.8	9.7	7.9	9.0	12.4	17.2	10.9
July	10.6	10.1	9.6	9.5	8.0	9.3	12.6	16.9	10.4
Aug.	10.6	9.8	9.7	9.1	8.2	9.4	13.2	16.6	9.9
Sep.	10.6	9.9	9.6	9.7	9.0	10.2	15.1	16.5	11.1
Oct.	10.3	9.8	9.4	7.8	9.1	10.5	14.4	13.8	11.2
Nov.	10.2	9.9	9.3	7.6	9.0	10.8	14.5	11.9	11.1
Dec.	10.3	10.2	9.4	7.6	8.7	11.6	14.5	10.9	11.7
Average	10.6	10.1	9.8	9.0	8.3	9.5	12.7	14.6	10.6

	<u>1920</u>	<u>1921</u>	<u>1922</u>	<u>1923</u>	<u>1924</u>	<u>1925</u>
Jan.	13.6	9.1	5.5	6.7	5.9	5.7
Feb.	15.2	8.9	5.6	6.2	5.7	5.5
Mar.	14.1	9.0	6.1	6.5	5.5	5.7
Apr.	13.8	7.7	6.0	6.4	5.9	5.7
May	12.0	7.1	6.3	6.9	6.1	5.8
June	11.7	6.8	6.7	7.0	5.9	5.7
July	11.8	6.7	7.0	6.7	5.6	5.9
Aug.	12.0	6.5	7.5	6.5	5.4	5.9
Sep.	11.3	6.7	7.5	6.6	5.7	6.0
Oct.	10.7	7.1	7.4	6.3	6.0	6.1
Nov.	9.8	6.4	6.6	6.1	6.0	6.1
Dec.	9.7	6.0	6.6	5.9	5.9	6.1
Average	12.1	7.3	6.6	6.5	5.8	5.9

Source: Synopsis Estadística, 1925, p. 62.

APPENDIX III

PAPER MONEY ISSUED: TABLE (a) 1879-1911

<u>Outstanding at 31st December</u>	<u>Pesos mns</u>			
	<u>Fiscal Bills</u>	<u>Treasury Notes</u>	<u>Total Government</u>	<u>Bank Notes (registered issue)</u>
1879		12.0	12.0	14.5
1880 ¹	6.5	20.6	27.1	14.5
1881	9.9	16.2	26.1	12.8
1882	26.2	-	26.2	11.9
1883	26.9	-	26.9	12.3
1884	26.9	-	26.9	12.5
1885	26.7	-	26.7	13.5
1886	26.1	-	26.1	16.7
1887	24.9	-	24.9	15.2
1888	23.7	-	23.7	17.7
1889 ¹	22.5	-	22.5	17.9
1890	20.9	-	20.9	18.5
1891	41.7	-	41.7	20.3
1892	30.8	-	30.8	14.3
1893	29.5	8.9	38.4	17.3
1894	29.5	8.9	38.4	21.4
1895	21.2	0.2	21.4	21.9
1896	12.9	-	12.9	19.4
1897	10.8	-	10.8	17.3
1898 ²	28.1	-	47.2	19.1
1899	31.9	-	50.8	18.9
1900	32.1	-	50.7	18.7
1901	35.3	-	50.8	15.5
1902	38.6	-	50.4	11.8
1903	41.8	-	50.5	8.7

<u>Outstanding at 31st December</u>	<u>Fiscal Bills</u>	<u>Treasury Notes</u>	<u>Total Government</u>	<u>Bank Notes</u> (registered issue)
1904	47.5	-	55.0	7.4
1905	74.0	-	80.6	6.6
1906	114.5	-	120.4	5.9
1907	145.1	-	150.5	5.4
1908	145.3	-	150.2	4.9
1909	147.1	-	150.3	3.1
1910	148.3	-	150.3	2.1
1911	149.1	-	150.8	1.8

1. The figures for the outstanding issue of fiscal and Treasury notes include the notes deposited in government offices under the law of 19th August 1880. Because these deposits were at that time considered to be money withdrawn from circulation, they are shown in the official figures as a separate item. These deposits rose to over Pesos 10 bn in 1884 and 1885, but fell thereafter and were totally withdrawn by the end of 1890.
2. From 1898, when the bank note issue was taken over by the government, the figures for the total government issue include bank notes.

Source: Synopsis Estadística, 1925, p. 64.

PAPER MONEY ISSUED: TABLE (b) 1912-1925

Pesos mns

Outstanding at 31st Dec'ber	Fiscal Bills			Treasury Notes		Total ²
	<u>Fixed Issue</u>	<u>G'teed by gold</u>	<u>Nitrate advances</u>	<u>To banks</u>	<u>Nitrate advances</u>	
1912	150	18.5				170.9
1913	150	33.8				186.0
1914	150	45.0		6.9	21.3	225.0
1915	150	12.1		10.0	3.9	177.7
1916	150	18.1		0.3	8.7	178.9
1917	150	24.9		7.8	1.7	186.2
1918	150	70.6		0.7	4.6	227.7
1919	150	57.1		1.6	41.2	250.8
1920	150	44.8		31.2	75.9	302.8
1921	150	5.1	38.5	76.1	54.1	324.6
1922	150	3.1	52.8	68.6	26.6	302.0
1923	150	14.4	7.7	106.7	12.9	292.5
1924	150	13.7	8.4	155.9	7.4	336.3
1925 ¹	150	8.7	0.6	145.1	5.7	310.1

1. Figures for 1925 are end-May.
2. The total includes a small (and diminishing) quantity of old fiscal bills and bank notes issued before 1895 but not yet withdrawn and destroyed.

Source: Synopsis Estadística, 1925, p. 64; and Fetter, op.cit., p. 130.

APPENDIX IV

THE MONEY SUPPLY IN CHILE, 1876-1925

Pesos mns

<u>31st Dec.</u> <u>(except</u> <u>where</u> <u>indicated)</u>	<u>Notes and</u> <u>coins in</u> <u>the hands</u> <u>of the public</u> ¹	<u>Bank</u> <u>deposits</u> ²	<u>Total</u>
1876	15	39	54
1877	15	41	56
1878 ³	16	37	53
1879	17	37	54
1880	22	66	88
1881	30	61	91
1882	22	51	73
1883	21	56	77
1884	21	62	83
1885	21	59	80
1886	22	62	84
1887	21	73	94
1888	28	89	117
1889 ³	30	89	119
1890 ³	33	90	123
1891	41	129	170
1892 ³	32	131	163
1893	36	117	154
1894	50	121	171
1895 ³	37	132	169
1896	34	100	134
1897	35	96	131
1898 ³	39	91	130
1899 ⁴			
1900 ⁴			
1901	41	95	136

	Notes and coins in the hands ¹ <u>of the public</u>	Bank <u>deposits</u> ²	<u>Total</u>
1902	38	141	179
1903	36	136	172
1904	38	171	209
1905	47	314	361
1906	74	289	363
1907	101	415	516
1908	85	415	500
1909	88	396	484
1910	89	457	546
1911	88	524	612
1912	108	521	629
1913	122	528	650
1914	121	555	676
1915	104	569	673
1916	111	600	711
1917	112	650	762
1918	128	1069	1197
1919	134	1130	1264
1920	151	1267	1418
1921	143	1404	1547
1922	157	1318	1475
1923	222	1394	1616
1924	201	1315	1516
1925	285	1322	1607

1. For the years 1876, 1877 and 1878 this equals bank notes in circulation plus twice the average gold and silver holdings of the banks in these years. For the years 1879-1894 notes and coins in the hands of the public equals bank notes in circulation plus the government note issue less government notes in the vaults of the banks. In the

years 1879-1888 the item deducted for the banks' cash reserves includes metal as well as notes, but it is reasonable to assume that the bullion holdings of the banks in this period were small. It is also assumed that the circulation of metallic coinage was negligible during the years of inconvertible paper money. The figure for 1893 includes a good deal of estimation; the bank note circulation is assumed to be Pesos 14mn (about the average in 1890/5) and the banks' note holdings are assumed to rise by Pesos 4mn above their 1892 level (i.e. by roughly half of the increase in the government note issue during 1893). Figures for 1895-8 are derived from an estimate of the effective circulation of notes plus gold coins minted in these years less recorded exports of gold coins and less the banks' cash reserves. For the years after 1898 the figures correspond to the total note issue less the banks' cash reserves. The years 1901, 1911 and 1912 are partially estimated.

2. Bank deposits refer to commercial banks and exclude savings banks.
3. Figures for bank deposits are as at 30th June. Figures for notes and coins in the hands of the public are estimates based on the government note issue on 31st December and the bank note circulation and the banks' cash reserves on 30th June (except for 1895, when the bank note circulation is as at 31st December).
4. Figures not available.

Sources: Fetter, op.cit., p. 38; Santelices, op.cit., pp. 176, 183-4, 194, 214, 248-53, 263-75, 324-5, 329-30; Subercaseaux, Monetary and Banking Policy of Chile, pp. 98, 119, 142-3; Synopsis Estadística, 1923, pp. 122-3; Anuario Estadístico, Vol.X, Comercio Interior, 1925, pp.119-

121; Synopsis Estadística i Geografía, 1895,
p. 152; M.M.H., 1895 p. 115, 1897 p. 55,
1898 p. 82.

APPENDIX V

THE CONVERSION FUND, 1899-1925

Pesos of 18d,¹ mns.

<u>31st Dec.</u>	<u>In Government Treasury</u>	<u>In British Banks</u>	<u>In U.S. and German Banks</u>	<u>Total</u>
1899	10.0	-	-	10.0
1900	25.0	-	-	25.0
1901	41.5	-	-	41.5
1902	21.5	-	-	21.5
1903	21.5	-	-	21.5
1904	37.8	-	-	37.8
1905	-	-	44.8	44.8
1906	-	-	74.8	74.8
1907	-	-	79.9	79.9
1908	-	-	82.7	82.7
1909	-	-	85.2	85.2
1910	-	9.1	83.4	94.5
1911	-	9.4	88.6	98.0
1912	-	9.8	91.9	101.7
1913	-	10.1	95.4	105.5
1914	3.6	74.3	30.3	108.2
1915	3.6	80.3	27.1	111.0
1916	3.6	58.8	25.4	87.8
1917	24.8	54.7	14.6	94.1
1918	64.1	47.1	-	111.3
1919	66.8	47.3	-	114.1
1920	90.1	24.0	-	114.1
1921	93.2	21.5	-	114.7
1922	93.2	21.5	-	114.7
1923	93.2	21.5	-	114.7
1924	93.2	21.5	-	114.7
1925	93.2	21.5	-	114.7

1. The figures for 1905-11 exclude the portion of the

Conversion Fund in the form of Chilean paper currency bonds, chiefly mortgage bonds. In current Peso terms this amounted to the following in those years (end-December) in which such bonds were included as part of the Conversion Fund.

	<u>Pesos mns.</u>
1905	1.9
1906	-
1907	15.0
1908	31.8
1909	34.0
1910	36.2
1911	38.3

Source: Anuario Estadístico, Vol. VI, Hacienda, 1925, p. 11.

APPENDIX VI

MORTGAGE CREDIT, 1876-1925

Pesos mns. outstanding on 31st December

	<u>Caja Hipotecario bonds¹</u>	<u>Bonds of other mortgage banks²</u>	<u>Average yield on Caja Hipotecario bonds, %</u>
1876	11.3		8.0
1877	12.8		8.1
1878	15.4		9.0
1879	16.8		8.0
1880	18.8		6.9
1881	20.1		6.5
1882	20.5		6.6
1883	21.6		6.7
1884	22.5		6.6
1885	23.8		6.7
1886	24.4		6.7
1887	25.7		6.6
1888	28.5		6.5
1889	30.7		6.6
1890	22.2		6.7
1891	34.3		
1892	36.9		6.6
1893	47.9		6.9
1894	57.3		7.2
1895	68.0		7.8
1896	75.2		8.8
1897	82.8		7.8
1898	85.0	65.4	7.8
1899	89.2	58.3	7.7
1900	94.5	56.6	7.3
1901	95.5	56.9	6.9

Pesos mns. outstanding on 31st December

	<u>Caja Hipotecario bonds¹</u>	<u>Bonds of other mortgage banks²</u>	<u>Average yield on Caja Hipotecario bonds, %</u>
1902	94.3	58.4	6.8
1903	96.6	63.0	7.3
1904	102.3	64.1	6.6
1905	115.3	66.2	6.5
1906	120.5	75.8	6.7
1907	143.2	89.9	6.9
1908	175.0	91.5	7.1
1909	182.2	101.2	7.3
1910	205.1	119.0	7.0
1911	218.3	136.3	7.0
1912	210.8	156.8	7.4
1913	253.1	166.9	7.9
1914	290.0	174.8	8.1
1915	313.0	184.2	8.2
1916	331.1	192.7	7.7
1917	357.7	206.5	7.6
1918	391.4	207.5	7.4
1919	401.4	218.1	7.0
1920	428.6	247.4	7.5
1921	481.5	258.2	7.7
1922	534.1	271.3	7.4
1923	602.7	290.7	7.4
1924	673.2	304.0	7.8
1925	589.9	307.8	8.0

1. Excludes bonds denominated in sterling and French francs sold abroad after 1910.
2. Figures not available for years before 1898.

Source: Synopsis Estadística, 1923 pp. 124-5, 1925 pp. 124-5.

APPENDIX VII

TREASURY FINANCES,¹ 1877-1924

	<u>Pesos of 6d, mns.</u>		
	<u>Ordinary Revenue</u>	<u>Extraordinary Revenue</u>	<u>Expenditure</u>
1877	76.3	1.1	129.8
1878	73.0	0.6	96.7
1879	67.1	67.9	130.6
1880	124.6	72.0	131.8
1881	146.6	17.6	164.6
1882	182.3	4.3	228.2
1883	197.7	20.9	252.6
1884	170.9	-	218.7
1885	127.8	0.2	151.3
1886	123.7	-	201.8
1887	161.8	0.5	222.3
1888	190.0	12.0	178.7
1889	207.7	-	232.3
1890	202.0	23.5	273.1
1891	147.9	126.7	294.6
1892	170.2	33.7	202.7
1893	160.8	26.1	149.5
1894	164.9	22.7	146.2
1895	199.7	52.3	222.3
1896	203.1	95.0	308.3
1897	198.5	18.5	215.2
1898	196.9	130.9	264.9
1899	248.6	46.7	247.1
1900	267.2	62.1	277.1
1901	236.6	38.8	310.0
1902	230.9	28.2	309.4
1903	284.1	20.0	271.9

	<u>Ordinary Revenue</u>	<u>Extraordinary Revenue</u>	<u>Expenditure</u>
1904	270.7	79.1	330.8
1905	303.5	41.7	311.9
1906	348.7	91.0	357.4
1907	379.2	54.0	362.6
1908	362.5	52.4	322.4
1909	377.2	27.8	377.3
1910	437.3	27.3	489.7
1911	465.3	32.2	459.5
1912	490.2	142.7	558.0
1913	515.3	33.3	495.8
1914	405.0	13.2	518.5
1915	373.6	-	461.8
1916	508.3	47.3	485.7
1917	639.2	1.6	576.9
1918	738.3	11.1	664.8
1919	374.1	2.6	549.0
1920	638.2	22.7	792.5
1921	374.4	231.8	629.2
1922	375.8	225.6	596.0
1923	561.8	295.9	642.2
1924	602.6	320.9	647.1

1. Excludes revenue and expenditure of the State Railways.
In contrast to most contemporary presentations of the public finances, the figures above show no balance of total revenue over total expenditure. This is because a large part of extraordinary revenue consisted of borrowing by the government which should be considered more as a financing item than revenue. Thus the simple deficit/surplus can give a misleading picture of the underlying position of the government finances. For instance, the figures presented in contemporary official publications (e.g. Anuario Estadístico, Vol. VI, 1918,

p. 59) show Balmaceda's administration running a 'deficit' in contrast to the 'surpluses' achieved by his four successors. However, a glance at the balance between expenditure and ordinary revenue alone gives a rather different picture. The increase in the public debt during Balmaceda's term of office was comparatively moderate.

Source: Synopsis Estadística, 1925, pp. 65, 67.

APPENDIX VIII

THE PUBLIC DEBT, 1877-1925

Pesos of 6d, mns.

	<u>External Debt</u>			<u>Internal debt outstanding₁ at end-year</u>
	<u>Issued</u>	<u>Service payments</u>	<u>Outstanding at end-year</u>	
1877	-	29.6	297.7	23.6
1878	-	29.4	285.2	27.7
1879	-	24.3	279.0	27.7
1880	-	16.0	279.0	31.4
1881	-	17.8	279.0	31.2
1882	-	16.5	279.0	27.5
1883	-	17.2	279.0	26.6
1884	-	21.3	270.7	26.6
1885	32.3	60.5	266.1	23.2
1886	240.4	256.0	276.9	23.1
1887	46.4	22.8	320.8	23.4
1888	-	22.3	318.0	23.8
1889	61.9	18.2	376.9	24.0
1890	-	21.1	374.3	21.1
1891	-	37.7	371.4	21.1
1892	78.0	29.3	446.8	21.8
1893	25.2	25.0	468.4	30.8
1894	8.0	25.3	473.1	36.7
1895	80.0	26.5	549.5	26.6
1896	170.6	34.3	715.5	26.1
1897	-	39.0	709.6	25.1
1898	20.0	40.4	722.8	25.0
1899	-	52.0	702.9	24.8
1900	-	46.1	689.2	24.8
1901	-	39.6	681.7	25.4
1902	-	40.8	674.0	25.5

	External Debt			Internal debt outstanding ₁ at end-year
	Issued	Service payments	Outstanding at end-year	
1903	60.0	42.6	726.0	25.3
1904	-	106.6	658.0	25.3
1905	73.5	47.2	723.4	27.2
1906	148.9	59.5	861.1	27.5
1907	-	60.9	848.5	29.5
1908	-	63.7	834.5	29.6
1909	120.0	65.4	940.1	29.3
1910	104.0	74.6	1028.6	29.5
1911	396.2	82.4	1407.2	30.6
1912	11.0	89.9	1397.7	31.2
1913	-	89.9	1374.0	34.2
1914	-	89.9	1348.2	34.3
1915	-	89.9	1319.1	38.7
1916	-	89.9	1288.9	69.9
1917	-	88.7	1241.8	72.1
1918	-	88.1	1210.7	65.8
1919	-	117.3	1187.0	69.8
1920	-	115.0	1134.0	95.1
1921	128.4	87.9	1216.7	210.0
1922	149.7	104.1	1389.6	250.8
1923	-	148.1	1313.9	231.6
1924	41.0	166.1	1323.4	248.8
1925	22.0	164.7	1252.7	263.8

1. Excludes the paper money, except for Pesos 8.9mn of legal tender Treasury notes issued in 1893, and also a small gold debt.

Source: Synopsis Estadística, 1925 pp. 72-4.

FOOTNOTES

General comments and abbreviations

Place of publication: in order to avoid repetition all works can be assumed to have been published in Santiago de Chile unless stated otherwise.

- M.M.H. Memoria del Ministro de Hacienda presentada al
 Congreso Nacional en....
- D.O. Cámara de Diputados, Boletines de Sesiones
 Ordinarios.
- D.E. Cámara de Diputados, Boletines de Sesiones
 Extraordinarios.
- S.O. Cámara de Senadores, Boletín de Sesiones
 Ordinarios.
- S.E. Cámara de Senadores, Boletín de Sesiones
 Extraordinarios.
- S.O.D.P. Cámara de Senadores, Boletín de Sesiones
 Extraordinarios, Documentos Parlamentarios.
- S.E.D.P. Cámara de Senadores, Boletín de Sesiones
 Extraordinarios, Documentos Parlamentarios.
- S.O.De. Cámara de Senadores, Boletín de Sesiones
 Ordinarios, Debatos.
- S.E.De. Cámara de Senadores, Boletín de Sesiones
 Extraordinarios, Debatos.
- F.O. Foreign Office Papers (Public Record Office).
- H.A.H.R. Hispanic American Historical Review.

Notes to pages 1-3

CHAPTER ONE

1. The Pacific Mail, London, 1st December 1873.
2. The 1875 Census showed 70% of the population to be rural (defined as centres with a population of less than 1,000). See Dirección General de Estadística, Censo de Población de la República de Chile, 1920, p. 104.
3. Arnold J. Bauer, Chilean Rural Society from the Spanish Conquest to 1930, Cambridge, Cambridge University Press, 1975, pp. 62-70.
4. M. Mamalakis and C.W. Reynolds, Essays on The Chilean Economy, Homewood, Illinois, Richard D. Irwin, Inc., 1965, p. 212.
5. F.A. Encina, Historia de Chile desde la prehistoria hasta 1891, 20 vols., Editorial Nascimento, 1940-51, Vol. XV, pp. 400-406.
6. C.W. Centner, "Great Britain and Chilean Mining 1830-1914", Economic History Review, Vol. XII, 1942, pp. 76-82.
7. Santiago Macchiavello V., El Problema de la Industria del Cobre en Chile y sus Proyecciones Económicas y Sociales, Imprenta Fiscal de la Penitenciaria, 1923, p. 106.
8. Agustín Ross, Report on the Trade between Chile and Great Britain: presented to the Government of Chile, London, 1892, pp. 124-125. Of the 147 nitrate properties bought by the Peruvian Government with certificates in 1875 Chileans controlled a fifth of the productive capacity, a larger proportion than the British.
9. Bauer, op.cit., pp. 159-161. Spanish words will be underlined only on their first appearance.
10. G.M. McBride, Chile: Land and Society, New York, American Geographical Society, 1936, p. 125.
11. The word is used by F.B. Pike in Chile and the United States 1880-1962, Indiana, University of Notre Dame Press, 1963, p. 121.

Notes to pages 3-5

12. Guillermo Feliú Cruz, "La evolución social en el siglo diecinueve" in Francisco Mendéz, Chile: tierra y destino, Editorial Exit, 1947, p. 322.
13. McBride, op.cit., p. 125.
14. For a short description in English of the political and constitutional history of Chile see Luis Galdames, A History of Chile, (Translated and Edited by I.J. Cox) New York, Russel and Russel Inc., 1964.
15. The classic statement of this interpretation is found in Alberto Edwards Vives, La Fronda Aristocrática en Chile, Editorial del Pacifico S.A. (4th Edition), 1952.
A more recent version on the same lines is Julio Heise González, "Del autoritarismo al regimen parlamentario", Revista Chilena de Historia y Geografía, No. 138, 1970, pp. 140-174.
16. See Carlos Keller R. writing on Chile in Luis Rogue Gondra et al., El pensamiento económico latinoamericano, Mexico Fondo de Cultura Económico, 1945, pp. 174-180.
17. See R.M. Will, "The introduction of classical economics into Chile", H.A.H.R., 44:1, February 1964, pp. 1-21.
18. D.C.M. Platt, Latin America and British Trade 1806-1914, London, A & C. Black, 1972, pp. 98-99, 316-318.
19. An official British commercial mission to Chile estimated that in 1896 only one ninth of Chile's imports were sold direct, while the rest were sold via merchant houses.
See Commercial Mission to South America. Report received from Mr. T. Worthington. First and Second Reports. Chile, p. 15, Accounts and Papers, H.M.S.O., 1898.
20. For the history of the establishment of these three companies in Chile see Wilfred Maude, Antony Gibbs & Sons Limited Merchants and Bankers 1808-1958, London, Antony Gibbs & Sons Limited, 1958; E.E. Davies, History of Duncan Fox & Co. Limited, Manuscript, 1956; and Wallis Hunt,

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- Heirs of Great Adventure. The History of Balfour, Williamson and Company Limited, 2 vols, London, Balfour Williamson and Company Limited, 1960.
21. Maude, op.cit., p. 31.
 22. Davies, op.cit., pp. 56-57.
 23. For the history of British banking in Chile see D. Joslin, A Century of Banking in Latin America, London, O.U.P., 1963.
 24. The loan was contracted on very onerous terms, for instance being placed at 67.5%. See Evaristo Molina, Bosquejo de la hacienda pública de Chile desde la independencia hasta la fecha, Imprenta Nacional, 1898, pp. 106-110.
 25. Dated 14th February 1874.

CHAPTER TWO

1. For the early history of Chilean coinage see Guillermo Subercaseaux, Monetary and Banking Policy of Chile, Oxford, Clarendon Press, 1922; and Julio Pérez Canto, La Casa de Moneda de Santiago de Chile 1743-1943 y la Influencia de las Leyes Monetarias en la economía nacional, La Casa de Moneda, 1943.
2. In an article Pierre Vayssière discusses the problems arising from the fluctuating relationship between the value of gold and silver and the slow growth of a money economy in Chile in the early part of the century. See "Au Chile: de l'économie coloniale à l'inflation (les problèmes monétaires chiliens depuis l'Indépendance jusqu'à la Guerre du Pacifique, 1817-1880)", Cahiers des Ameriques Latines, Paris, No. 5, Jan.-June 1970, pp. 3-31.
3. Agustín Ross, Chile 1851-1910. Sixty Years of Monetary and Financial Questions and Banking Problems, Valparaiso,

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- Imp. Inglesa Westcott & Co., 1910, p. 32.
4. Ramón E. Santelices, Los Bancos Chilenos, Imprenta y Encuadernación Barcelona, 1893, pp. 57-81.
 5. Guillermo Subercaseaux, Historia de las doctrinas económicas en América y en especial en Chile, Soc. Imp. y Lit. Universo, 1924, p. 54.
 6. Enrique L. Marshall, "Régimen monetario actual y sus antecedentes históricos", p. 221, in Humberto Fuenzalida and others, Chile: Geografía, Educación, Literatura, Legislación, Economía, Minería, Buenos Aires, Editorial Losada, 1946. For the text of the 1860 law see Volume 2, pp. 87-89, of Ricardo Anguita, Leyes promulgadas en Chile desde 1810 hasta el 1 de Junio de 1912, 5 volumes, Imprenta, Litografía i Encuadernación Barcelona, 1912-13.
 7. For the texts of the laws of 24th September and 20th December 1865 and 20th July 1866, see Volume 2 of Anguita, op.cit., pp. 205-6, 208-9 and 218 respectively.
 8. The exact distribution of the loan between the five banks was: Banco Nacional, Pesos 2,805,000; de Valparaíso, A. Edwards y Cía., and MacClure y Cía., Pesos 510,000 each; and Ossa y Cía., Pesos 204,000. See Santelices, op.cit., pp. 166-167.
 9. Subercaseaux, Monetary and Banking Policy, p. 84.
 10. Roberto Espinoza, La reforma bancaria i monetaria de Chile, Imprenta Barcelona, 1913, p. 172.
 11. These new banks were: Banco Agrícola (1868), Mobiliario (1869), de Montenegro y Cía., de Pobre, del Sur (1870), Nacional de Bolivia, del Sudamericano, de la Alianza (1872). See Santelices, op.cit., pp. 174-175.
 12. Encina, vol. V, op.cit., pp. 423-424.
 13. John V. Deaver, "The Chilean Inflation and the Demand for Money" in David Meiselman, Varieties of Monetary Experience, Chicago, University of Chicago Press, 1970, pp. 17-18. The work is concerned chiefly with the post-1931 inflation.

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14. Bauer, op.cit., pp. 145-170.
15. ibid.
16. Guillermo Feliú Cruz, 1891-1924 Chile visto a través de Agustín Ross, Imp. Encuadernación "Pino", 1950, p. 57.
17. For details of the workings and structure of the institution see Luis Barros Borgoño, La Caja de Crédito Hipotecario, 2 vols (in one), Imprenta Cervantes, 1912. Barros Borgoño was the Director of the Caja for a number of years.
18. Bauer, op.cit., pp. 87-89.
19. Barros Borgoño, op.cit., Vol. I, pp. 241-242 and Vol. II, pp. 185-290. Savings banks were set up in other cities early in the 20th century and in 1910 all of them were merged into the Caja Nacional de Ahorros, which remained under the authority of the Caja Hipotecario.
20. Barros Borgoño, op.cit., vol. I, p. 281.
21. Figures derived from the Memoria del Director de la Caja Hipotecario, 7th May 1878, in M.M.H., 1878, pp. 60-61.
22. See Appendix VI.
23. Cusack-Smith to Lansdowne, 7th March 1901, No. 3 Commercial, FO16/332.

CHAPTER THREE

1. The Sauerbeck Index of wholesale prices in England fell sharply in 1874 and did not begin to show any sustained revival until 1897. See G.F. Warren and F.A. Pearson, Prices, New York, John Wiley & Sons Inc., 1933, p. 75.
2. Oficina Central de Estadística, Synopsis Estadística de la República de Chile, 1925, p. 149.
3. ibid., pp. 148-149.
4. ibid., p. 149 and Encina, op.cit., vol. XVIII, pp. 343-344.
5. Synopsis Estadística, 1925, pp. 148-149.
6. Encina, op.cit., vol. XVI, p. 92.

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7. Chilean Legation London, Resumen de la Hacienda Pública de Chile desde 1833 hasta 1914, London, Spottiswoode & Co. Ltd. (undated), p. 94.
8. Molina, op.cit., pp. 115-122.
9. Synopsis Estadística, 1925, p. 72.
10. Encina, op.cit., Vol. XV, p. 409, estimates that profit remittances from Caracoles began in 1872 and ran at about Pesos 2.5mn per annum.
11. Resumen de la Hacienda Pública, p. 94. See also Report by Consul Drummond Hay on the Trade and Commerce of Valparaiso for the years 1876 and 1877, Valparaiso, 4th March 1878, Accounts and Papers, Commercial Reports, Report from H.M. Consuls 1878 Part V. Drummond Hay gives slightly different figures for the export of specie.
12. Marcello de Cecco, Money and Empire, The International Gold Standard, 1890-1914, Oxford, Basil Blackwell, 1974, pp. 39-49.
13. For details see Encina, op.cit., Vol. XV, pp. 399-424.
14. J.F. Rippy and J. Pfeiffer, "Notes on the Dawn of Manufacturing in Chile," H.A.H.R., Vol. 28, 1948, pp. 292-303.
15. Figures derived from Estadística Comercial de la República de Chile correspondiente al año de 1875, Valparaiso, Imprenta de universo de G. Helfmann, 1876, p. 590; and Santelices, op.cit., pp. 176-214.
16. Pérez Canto, op.cit., p. 69.
17. Over the years 1872-8 the Banco Nacional distributed dividends amounting to 122% in total and most other banks had even better dividend records. See E.H. Strobel, "Cheap Money in Chile," Sound Currency, New York, Sound Currency Committee of the Reform Club, 1896, Vol. III, No. 16, p. 5. Strobel was the United States Minister in Chile between 1894 and 1897.

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18. F.W. Fetter, Monetary Inflation in Chile, Princeton, Princeton University Press, 1931, pp. 20-21.
19. Synopsis Estadística, 1925, p. 67. Ordinary revenue refers to regular customs and tax receipts. Extraordinary revenue included such items as the proceeds of borrowing and the sale of public land.
20. M.M.H., 1877 pp. 15-16, 1878 pp. 7, 20-21.
21. M.M.H., 1877 pp. 5-19, 1878 pp. 7-25.
22. V. Figueroa, Diccionario histórico y biográfica de Chile, 5 vols., Imprenta y Litografía "La Ilustacion," 1925-1931, Vol. 4, pp. 221-222.
23. M.M.H., 1878, pp. 52-56.
24. The Archives of Antony Gibbs & Sons (cited hereafter as Gibbs), M.S.11,470, Vol. 2, Hayne to Gibbs, Valparaiso, 12th August 1878. A tax on gifts and inheritances was approved later in the year.
25. ibid.
26. Anguita, op.cit., Vol. 2, pp. 428-429.
27. ibid., pp. 441-442; and M.M.H., 1878, pp. 52-56.
28. As a result of mergers, by 1878 these privileged banks consisted only of the Banco Nacional and the Banco de Edwards. In return for the loss of their exclusive privileges the government granted these two banks an indemnity in the form of a small cash subsidy related to the amount of their notes in circulation (with a maximum of 10,000 Pesos) and also exemption from stamp and import duty on their notes. See Santelices, op.cit., pp. 173 and 187.
29. The Star and Herald, 6th May 1878. The Banco Nacional's monopoly of the Treasury's account was granted in 1873 in exchange for a loan. See M.M.H., 1888, pp. 38-40.
30. Ambrosio Montt, D.O., 10th June 1878, p. 6.
31. D.O., 21st June 1878, p. 138.

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32. Santelices, op.cit., p. 197.
33. For a brief description of the background to the dispute see Jaime Eyzaguirre, Breve historia de las fronteras de Chile, Editorial Universitaria, (2nd Edition), 1968, pp. 79-84.
34. F.A. Encina, "La economía chilena en los años que precedieron a la Guerra del Pacífico," Economía, Revista de la Facultad de Economía de la Universidad de Chile, Nos. 32-33, 1949, p. 87.
35. Drummond Hay to Salsibury, Valparaíso, 26th July 1878, No. 9 Commercial, F.O.16/198. See also Gibbs, M.S.11,470, Vol. 2, Valparaíso to London, 15th July 1878. The Chileans also refuted the suggestion in a letter published in The Times of 29th August 1878.
36. El Mercurio, Valparaíso, 22nd January 1878.
37. Ross, Chile 1851-1910, pp. 37-39.
38. Figures derived from El Mercurio, Valparaíso, 19th July 1878; Encina, Historia de Chile, Vol. XVI, p. 89; Subercaseaux, Monetary and Banking Policy, p. 88; and Santelices, op.cit., p. 197.
39. Gibbs, M.S. 11,470, Vol. 2, Valparaíso to London, 29th June 1878.
40. See El Mercurio, Valparaíso, 25th July 1878; and Encina, Historia de Chile, Vol. XVI, pp. 79-80. A work which covers the politics of the period 1876-81, but adds little on the economic and financial side is the book by Cristian Zegers Ariztia, Aníbal Pinto: Historia política de su gobierno, Editorial Universitaria, 1969.
41. Figueroa, op.cit., Vol. 2, p. 421.
42. ibid., Vol. 3, pp. 16-19.
43. Anguita, op.cit., Vol. 2, p. 449.
44. The following was the distribution of the inconvertible notes among the 11 banks of issue:-

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<u>Bank</u>	<u>Pesos</u> <u>Paid-in capital</u>	<u>Notes</u>
Nacional de Chile	4,000,000	4,400,000
Valparaiso	6,150,000	4,000,000
Consolidado	1,500,000	1,000,000
A. Edwards y Cía.	1,500,000	2,160,000
D. Matte y Cía.	1,000,000	800,000
Alianza	1,000,000	600,000
Agrícola	1,800,000	600,000
Concepción	400,000	500,000
Mobiliario	1,125,000	400,000
de la Unión	182,588	300,000
Ossa y Cía.	500,000	250,000
<u>Total</u>	19,157,588	15,010,000

See Anguita, op.cit., Vol. 2, pp. 452-453; and Subercaseaux, Monetary and Banking Policy, p. 91.

45. El Mercurio, Valparaiso, 23rd July 1878.
46. See Gibbs, M.S.11,470, Vol. 2, Valparaiso to London, 15th November 1878.
47. See Appendix II. Almost all references to monthly exchange rates are from this source and therefore the references will not be repeated.
48. Encina, "La economía chilena" (1949), p. 94.
49. Espinoza, op.cit., pp. 193-211.
50. Perez Canto, op.cit., p. 72.
51. Guillermo Subercaseaux, Estudios Económicos. El Papel Moneda en Chile y Ensayo sobre la Teoría del Valor, Imprenta y Encuadernación Barcelona, 1898, p. 18. See also Fetter, op.cit., pp. 29-31.

CHAPTER FOUR

1. For comparatively recent works in English which cover the story see Harold Blakemore, British Nitrates and Chilean Politics 1886-1896: Balmaceda and North, London, The Athlone Press, 1974, pp. 14-22; and J.R. Brown, "The Frustration of Chile's Nitrate Imperialism," Pacific Historical Review, 1963, pp. 383-396.
2. For details see W.F. Sater, "Chile During the First Months

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- of the War of the Pacific," Journal of Latin American Studies, Vol. 5, Part 1, May 1973, pp. 133-158.
3. Daniel Martner, Historia de Chile: historia económica, Vol. 1 (though no other volumes have appeared), Balcells & Co., 1929, pp. 332-345.
 4. M.M.H., 1879, pp. 15-18.
 5. ibid, pp. 48-49; and Anguita, op.cit., Vol. 2, pp. 471-472. See Sater, op.cit., p. 141, for details of other internal sources of war finance. These included large loans from Agustín Edwards and from Federico Varela, a rich Chilean nitrate capitalist.
 6. By the early part of 1881 the military phase of the war had ended with the Chilean occupation of Lima.
 7. M.M.H., 1880, p. 41.
 8. M.M.H., 1879, p. 51.
 9. For details of these two laws see Anguita, op.cit., Vol. 2, pp. 477-487.
 10. For example see a speech by Julio Zegers, a former Finance Minister, in the Chamber of Deputies in 1885, D.O., 4th August 1885, p. 368.
 11. M.M.H., 1881, pp. 88-93.
 12. Resumen de la Hacienda Pública, p. 94.
 13. Synopsis Estadística, 1925, p. 149.
 14. Subercaseaux, Monetary and Banking Policy, p. 97.
 15. The proportion of payments in arrears to the Caja Hipotecario fell to 7% in 1882; see Fetter, op.cit., p. 44. In 1880 over 70% of the debt outstanding to the Caja at 8% interest was converted by debtors to 5% or 6%. More than Pesos 9mn was involved in this operation; see Barros Borgoño, op.cit., Appendix to Vol. 2, X.
 16. See Appendix III. This figure is not comparable with earlier ones relating to the bank note issue which referred to the amount of bank notes in circulation. The difference between the registered bank note issue

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and the circulation of bank notes was the notes held in the banks' vaults. No figures are available before 1879 for the registered bank note issue.

17. Santelices, op.cit., pp. 222-223.
18. Appendix VII.
19. See Encina, Historia de Chile, Vol. XVII, pp. 331-333, for a general discussion of the overall cost and financing of the war.
20. M.M.H., 1886, p. 150.
21. M.M.H., 1889, p. 49.
22. For details of these aspects of the Santa María Administration see Encina, Historia de Chile, Vols. XVI-XVIII.
23. Memoria de la Oficina de Emisión de Billetes Fiscales, 1881, pp. 4-22; and M.M.H., 1881, pp. 88-93.
24. Memoria de la Superintendente de la Casa de Moneda, 1883, pp. 8-9 and 40, 1885, p. 20. In the administrative reforms of 1884 the Oficina de Emisión de Billetes Fiscales was incorporated into the Dirección de Contabilidad. Discrepancies between the figures in Table III and those in Appendix III were caused by delays in replacing Treasury notes by Fiscal Bills.
25. Synopsis Estadística, 1923 p. 68, 1925 p. 67.
26. M.M.H., 1888, pp. 24-31. See also Molina, op.cit., pp. 124-126; and Synopsis Estadística, 1925, p. 74.
27. The Chilean Times, Valparaiso, 29th December 1888.
28. The exchange rate of the paper Peso is from Appendix II. The sterling price of the silver Peso is an estimate based on the price of silver as given in Fetter, op.cit., pp. 14-15 and Synopsis Estadística, 1925 p. 116.
29. A.G. Ford, The Gold Standard 1880-1914: Britain and Argentina, Oxford, Clarendon Press, 1962, pp. 133-136.
30. M.M.H., 1885, p. 78.
31. See Appendix I.
32. J.R. Brown, "Nitrate crisis, combinations, and the Chilean

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- government in the nitrate age," H.A.H.R., No. 2, May 1963, pp. 230-246.
33. Synopsis Estadística, 1925, p. 149.
 34. For early examples of these arguments about whether the balance of payments or inconvertible paper money was the cause of the depreciation of the exchange see D.O., June-Sept. 1885, and particularly the contributions of Deputies M.A. Zañartu and Z. Rodríguez.
 35. Gold and Silver Commission. First Report of the Royal Commission appointed to inquire into the recent changes in the relative values of the Precious Metals, with Minutes of Evidence and Appendices, 1887; Appendix X, Papers presented by Mr. H.H. Gibbs, written by Mr. John Manly Lowe, 23rd February 1887, p. 350.
 36. Bauer, op.cit., p. 69.
 37. Synopsis Estadística, 1925, p. 149.
 38. Calculated from the sterling price as given in Synopsis Estadística, 1925, p. 116.
 39. ibid., p. 149.
 40. Gold and Silver Commission, Minutes of Evidence, Mr. H.H. Gibbs, 25th February 1887, p. 155.
 41. Gold and Silver Commission, Appendix X, p. 350.
 42. For details of the cost of nitrate production see Alejandro Bertrand, The Chilean Nitrate Industry: Technology and Economics, Paris, Imprimerie de Vaugirard, 1920, pp. 20-83; and Dr. Semper and Dr. Michels, La Industria del Salitre en Chile, translated and augmented by J. Gandarillas and O. Ghigliotto Salas, Imprenta, Litografía i Encuadernación Barcelona, 1908, pp. 95-97.
 43. J.F. Rippy, "British Investments in the Chilean Nitrate Industry," Inter-American Economic Affairs, VIII, No. 2, 1954, p. 4.
 44. Fraser to Rosebury, 17th June 1886, Commercial, F.O.16/244.
 45. Bauer, op.cit., pp. 156 and 233-234.

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46. ibid., pp. 156-157.
47. Strobel, op.cit., pp. 12-13.
48. Julio Heise González, "La Constitucion de 1925 y las nuevas tendencias político-sociales," Anales de las Universidad de Chile, No. 80, 1950, pp. 100-101.
49. See D.O., 8th August 1885, p. 395.
50. D.O., 13th June 1885, pp. 77-78.
51. D.O., 1st August 1885, p. 345.
52. D.O., 14th August 1885, p. 423.
53. See for example, D.O., 18th August 1885, p. 450.
54. D.O., 20th August 1885, p. 472.
55. For details of political developments in 1885-6 see Encina, Historia de Chile, Vol. XVIII.
56. Fraser to Rosebury, 17th June 1886, Commercial, F.O.16/244.
57. Encina, Historia de Chile, Vol. XVIII, p. 200.
58. Figueroa, op.cit., Vol. 4, p. 486.
59. Discurso de S.E. El Presidente de la República en la apertura del Congreso Nacional de 1886, p. 33.
60. D.O., 8th June 1886, pp. 27-29.
61. M.M.H., 1885, p. 66.
62. M.M.H., 1886, p. 3.
63. D.O., 8th June 1886, p. 27.
64. Abdón Cifuentes, Memorias, 1836-1928, 2 vols, Nascimento, 1936, Vol. 2, pp. 212-215.
65. Raúl Silva Castro, Prensa y periodismo en Chile (1812-1956), Ediciones de la Universidad de Chile, 1958, pp. 341-365. Edwards bought at the same time La Epoca of Santiago.
66. D.O., 1st July 1886, pp. 145-146.
67. Figueroa, op.cit., Vol. 4, pp. 145-151.
68. D.E., 3rd February 1887, p. 699.
69. The incineration of notes was approved by the Deputies without a vote (D.E., 4th February 1887, pp. 711-712). The new restrictions on banks were approved by 28 votes

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to 7 after a longer debate. The Senate made only minor modifications to the bill. For the full text of the law see Anguita, op.cit., Vol. 3, pp. 9-10.

70. Fraser to Rosebury, 23rd June 1886, F016/244.

71. D.O., 15th July 1886, p. 265.

72. M.M.H., 1889, p. 53; see also pp. 54-57.

Sotomayor advocated a different strategy to achieve convertibility. He wanted the funds needed to redeem the paper currency to come from sales of state-owned nitrate lands to foreigners. In 1888 the Government had obtained authorisation to auction nitrate lands in its possession (acquired by the payment of the certificates issued by Peru). One other point of interest in his 1889 report was Sotomayor's reference to a conversion into gold. Sotomayor was then out of line with the views of Balmaceda and a majority of Congress, but his was probably the first serious official suggestion of the possibility of establishing the Gold Standard. H.C. Evans in his work, Chile and its Relations with the United States, Durham, North Carolina, Duke University Press, 1927, p. 158, asserts that at the time of the first Pan American Conference (1889) "Balmaceda and other Chilean leaders were interested then in a bimetallic union for American countries to fight the British gold standard."

73. Figueroa, op.cit., Vol. 5, pp. 766-767.

74. S.O., 3rd August 1888, pp. 251-255.

75. See J.M. Yrarrázaval, La política económica del Presidente Balmaceda, Academia Chilena de la Historia, 1963, pp. 66-67.

76. M.M.H., 1888, pp. 38-40; and E.S. Sanfuentes in D.E., 1st December 1888, pp. 394-398.

77. Finance Minister Sotomayor in D.E., 28th November 1888, p. 347.

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78. Figueroa, op.cit., Vol. 4, pp. 36-39.
79. D.E., 19th December 1888, pp. 619-621.
80. D.E., 1st December 1888, p. 396.
81. See Yrarrázaval, op.cit., pp. 80-81.
82. See a speech by the then Finance Minister, Pedro Montt, in D.E., 28th November 1889, p. 263.
83. D.E., 15th October 1889, pp. 5-6; and M.M.H., 1890, pp. 33-35.
84. M.M.H., 1889, pp. 46-49.
85. D.E., 15th October 1889, pp. 44-45.
86. D.E., 9th November 1889, pp. 114-115.
87. D.E., 9th January 1890, pp. 725-726.
88. Discurso 1890, p. 7.
89. See Martner, op.cit., pp. 445-448.
90. The State Railway network expanded by only 156 km between 1886 and 1890, while the private lines grew by 387 km. See Synopsis Estadística, 1923 p. 155.
91. Chile and the United States, pp. 44-45.
92. For a discussion of the myths which have surrounded the name of Balmaceda and which still have a political relevance in Chile, see Blakemore, op.cit., pp. 240-250.
93. Synopsis Estadística, 1923, pp. 68 and 70.
94. According to the reports of the Finance Minister for this period. Other official presentations show the public finances under Balmaceda in a worse light - misleadingly so, as discussed in Appendix VII.
95. Molina, op.cit., pp. 128-130.
96. See Appendix VIII.
97. Dirección de Instituto de Economía, "El sistema de las finanzas chilenas," Economía, Año X, Nos. 32-33, 1949, p. 39.
98. Anuario Estadístico, Vol. VI, Hacienda, 1925, p. 15
99. ibid; and Memoria de la Superintendente de Aduanas, 1895, p. 9.

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100. T.C. Wright, "Agriculture and Protection in Chile 1880-1930," Journal of Latin American Studies, Vol. 7, 1975, pp. 51-53.
101. Edouard Ovalle Correa, Les Finances du Chili dans leurs rapports avec celles des autres pays civilisés, Paris, Imprimerie Lucotte et Cadoux, 1889, p. 165.
102. For details of the politics of the last years of Balmaceda's rule see Harold Blakemore's unpublished doctoral thesis, The Chilean Revolution of 1891: A Study in the Domestic and International History of Chile, University of London, 1955, pp. 127-213.
For a contrasting view of the motives of the opponents of Balmaceda see the work of the Marxist historian, Hernán Ramírez Necochea, Balmaceda y la contrarevolución de 1891, Editorial Universitaria (2nd Edition), 1969, pp. 179-196.
103. The composition of Congress and governments are given in L. Valencia Avaria (compiler), Anales de la República: textos constitucionales de Chile y registros de los ciudadanos que han integrado los poderes ejecutivos y legislativos desde 1810, 2 vols., Imprenta Universitaria, 1951.
104. Yrarrázaval, op.cit., p. 90.
105. Santelices, op.cit., pp. 274-275.
106. Discurso, 1890, p. 7.
107. See D.O., 17th June-2nd July 1890; and Yrarrázaval, op.cit., pp. 90-95.
108. Memoria del Director del Tesoro, 1890, p. 423 of M.M.H., 1890.
109. These deposits stood at Pesos 2.6mn at end-1889; by end-1890 they had been completely withdrawn. See Synopsis Estadística, 1925, p. 64.
110. Although there was no legal obligation on government offices to accept bank notes, they were in practice

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often accepted. The 1887 law had ordered the withdrawal from circulation of the 10 Peso bank note.

111. S.O., 7th July 1890, pp. 205-220.
112. S.O., 21st July 1890, pp. 263-266.
113. D.O., 17th July 1890, p. 490.
114. See Ricardo Letelier in D.O., 18th July 1890, pp. 522-523.
115. D.O., 24th July 1890, p. 556.
116. In his article on Balmaceda, L.W. Bealer sees pro-conversion opposition to Balmaceda coming from the Conservatives in particular. There is, however, little evidence to show that in this period the Conservatives were any more hostile (or friendly) to inconvertible paper money than the other opposition parties and groups. See A.C. Wilgus (Ed), South American Dictators During the First Century of Independence, New York, Russell & Russell, 1963, p. 204.
117. Ramírez Necochea (op.cit., pp. 126-133) places considerable stress on the conflict between Balmaceda and the banks and sees the banks' support for conversion as a factor in this conflict. Julio César Jobet goes through even greater contortions to show that Balmaceda supported a metallic currency against the interests of the banks; see Ensayo crítico del desarrollo económico-social de Chile, Editorial Universitaria, 1955, pp. 80-83.
118. The relations between Balmaceda and the banks is discussed in greater detail in Yrarrázaval, op.cit.
119. ibid., p. 73.
120. Santelices, op.cit., pp. 277-281.
121. ibid., p. 276.
122. Anguita, op.cit., Vol. 3, p. 152.
123. ibid., p. 154.
124. A part of this direct note issue was formally authorised

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by the Congress set up in Santiago by Balmaceda. One law concerned (dated 15th June 1891) provided for the issue of Pesos 6mn of paper money. In deference to financial orthodoxy this note issue was declared to be convertible into silver (at a rate to be announced at the beginning of each month on the basis of the actual gold price of the silver Peso during the previous month). See Anguita, op.cit., Vol. 3, p. 155. According to Fetter (op.cit., p. 63) some 400,000 Pesos of these notes were actually exchanged for silver in this way. A law enacted on 18th August, only two days before Balmaceda was overthrown, authorised the issue of a further Pesos 15mn of fiscal notes; but none was issued.

125. Large sections of this book are reproduced in the work of his son, Enrique Zañartu Prieto, Manuel Arístides Zañartu, o historia y causas del pauperismo en Chile, Empresa Editorial Zig Zag, 1940.
126. D.O., 30th August 1887, pp. 619-642.
127. D.O., 9th July 1891, pp. 344-351.

CHAPTER FIVE

1. See H. Blakemore's article "The Chilean Revolution of 1891 and its historiography", H.A.H.R., No. 3, August 1965, pp. 393-421.
2. La Fronda Aristocrática, p. 198. This view is endorsed by Pike (op. cit., p. 87) who noted that "the complexity of politics in the parliamentary era is exceeded only by its unimportance." The only major work that attempts a detailed study of politics in this period is that of Manuel Rivas Vicuña, Historia Política y Parlamentaria de Chile, 3 vols., Ediciones de la Biblioteca Nacional, 1964. Rivas Vicuña was a prominent Liberal politician

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of the period and one of the arch exponents of the manoeuvring and intrigue that characterised parliamentary politics.

3. P.S. Reinsch, "Parliamentary Government in Chile," American Political Science Review, No. 4, November 1909, p. 507.
4. The pre-1891 constitutional reforms are outlined in more detail in Heise González, "Del autoritarismo," pp. 169-173; and the post-91 reforms in Fernando Campos Harriet, Historia constitucional de Chile, Editorial Juridica, 1965, pp. 378-485.
5. Reglamento de la Cámara de Diputados in Ismael Valdés Valdés, Prácticas Parlamentarias, Imprenta Litografía y Encuadernación Barcelona, 1906. Article 84, pp. 126-127, established unlimited debate, and Art. 118, p. 171, refers to interpolaciones.
6. Feliú Cruz, 1891-1924 Chile visto a través de Agustín Ross, pp. 96-97.
7. Vaughan to Grey, 1st May 1912, F.O. 371/1309.
8. See the works of Alberto Edwards Vives and Eduardo Frei M., Historia de los partidos políticos chilenos, Editorial del Pacifico, 1949; and René León Echaiz, Evolución Histórica de los Partidos Políticos Chilenos, Editorial Ercilla, 1939.
9. Luis Palma Zuñiga, Historia del Partido Radical, Editorial Andres Bello, 1967, pp. 57-95; and Feliú Cruz, 1891-1924 Chile visto a través de Agustín Ross, pp. 118-123.
10. Reinsch, op.cit., p. 519.
11. Hector de Petris Giesen, Historia del partido democrático, Dirección General de Prisinones-Imp., 1942; and Jobet, op.cit., p. 128.
12. Bauer, op.cit., p. 216. This was a higher proportion than had prevailed 50 years earlier, an indication of the continuing importance of landownership in upper

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Chilean society.

13. See the biographical dictionary of Figueroa, op.cit.
14. For instance by Feliú Cruz in 1891-1924 Chile visto a través de Agustín Ross, pp. 106-107.
15. Bauer, op.cit., p. 31.
16. Pike, op.cit., p. 87.
17. Hernán Ramírez Necochea (op.cit., p. 181) lists a number of Chilean politicians from all parties who were associated with foreign companies.
18. El Heraldo, Valparaíso, 20th October 1893.
19. This conclusion is reached in relation to the key area of foreign policy by M.G. Varley in his unpublished doctoral dissertation, Aftermath of the War of the Pacific. A Study in the foreign policy of Chile, 1891-96. University of Cambridge, 1969.

CHAPTER SIX

1. Edwards and Frei, op.cit., p. 164.
2. See for example, the Finance Minister addressing the Chamber of Deputies, D.O., 26th January 1892, p. 787.
3. Feliú Cruz, 1891-1924 Chile visto a través de Agustín Ross, pp. 50-52, 181-193.
4. See Harold Blakemore's article, "Chilean Revolutionary Agents in Europe, 1891," Pacific Historical Review, 1964, pp. 425-446.
5. See Fetter, op.cit., p. 57.
6. Consul General Joel to the Earl of Rosebury, Valparaíso, 10th September 1893, Report for the Year 1892 on the Trade of the Consular District of Valparaíso, F.O. Annual Series, 1893, No. 1311.
7. The South American Journal, 14th January 1893.
8. See the article by Roberto Huneeus, "Don Jorge Montt," Revista Chilena de Historia y Geografía, Vol. 44, 1922,

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- pp. 5-25 and Vol. 45, 1923, pp. 277-316.
9. The word is used by Rivas Vicuña, op.cit., Vol. 1, p. 22.
 10. Figueroa, op.cit., Vol. 4, pp. 680-681.
 11. See for example the Memoria de la Superintendente de Aduanas for 1893.
 12. Boletín Oficial de la Junta de Gobierno, 10th September 1891.
 13. M.M.H., 1890-91, p. 211; 1893, p. 19. For details of the Balmaceda Government's shipment of silver bullion in H.M.S. "Espiegle", see Kennedy to Salisbury, 21st October 1891, No. 113, F.O.16/266.
 14. Synopsis Estadística, 1923, p. 68.
 15. ibid., p. 155.
 16. Anguita, op.cit., Vol. 3, p. 214.
 17. ibid.
 18. D.E., 7th January 1892, p. 473.
 19. A good presentation of the silver producers' case is given in El Ferrocarril of Santiago of 16th October 1892 in an article written originally for the Boletín de la Sociedad de Minería by Enrique Concha y Toro, a member of a leading Chilean family with mining, banking and agricultural interests.
 20. See Fetter, op.cit., p. 71; and Gibbs, M.S. 11,470, Vol. 13, Valparaíso to London, 26th January 1892 and 15th February 1892.
 21. Raúl Silva Castro, "Don Alberto Edwards", Revista Chilena de Historia y Geografía, Vol. 74, 1933, pp. 5-64.
 22. Gibbs, M.S. 11,470, Vol. 15, Valparaíso to London, 14th August 1894, contains notes (dated 9th August 1894) by Messrs. Senail and H.G. Daubeny reporting a conversation with a Mr. Sandiford who expressed these views.
 23. Discurso, 1892, p. 23.
 24. pp. 62-70.
 25. D.O., 5th July 1892, pp. 119-121.

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26. D.O., 16th July 1892, pp. 198-200.
27. D.O., 11th August 1892, p. 363; and S.O., 26th August 1892, p. 237.
28. D.O., 16th July 1892, pp. 199-200 (Zegers), S.O., 24th August 1892, pp. 228-229 (Varela) and D.O., 28th July 1892, pp. 286-291 (Juan Enrique Tocornal who referred to the alignment of newspapers on the question).
29. Fetter, op.cit., pp. 72-73.
30. D.O., 20th August 1892, pp. 416-421.
31. In his memoirs, Recuerdos de cincuenta años, Editorial Nascimento, 1947, p. 136, Armando Donoso describes how the committee's conversion bill was initiated. According to him, MacIver's bill of July met with strong opposition from the Conservatives, on the committee, probably for no other reason than that it was presented by a Radical. As a result, MacIver drew up another and similar bill and gave it to Eduardo Matte who presented it to the committee as his own. Thereafter opposition ceased. While this story sounds quite feasible in the context of Chilean party politics at that time, there were in fact substantial differences between the two projects. This suggests that economic and financial factors also played a part in the events.
32. D.O., 27th January 1892, pp. 802-8 and 2nd July 1892, pp. 109-110.
33. This appeared in an 1894 publication of Ross, cited in Ross, Chile 1851-1910..., p. 50.
34. D.O., 31st August 1892, p. 543.
35. S.O., 3rd September 1892, p. 372.
36. D.O., 23rd August 1892, p. 452 and 5th September 1892, p. 616. The gold price of the silver Peso, which stood at around 30d in 1892, did in fact fall below 24d in 1894 (see Table IV).
37. D.O., 7th September 1892, pp. 630-631.

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38. ibid., pp. 643-644.
39. See Santelices in D.O., 14th September 1892, pp. 696-698.
For biographical details on Santelices see Figueroa, op.cit., Vol. 5, p. 785.
40. See Table VI.
41. D.O., 16th September 1892, p. 735.
42. For an example of the latter case, see an article by Lu s Aldunate under the title "Finanzas Revueltas" in El Ferrocarril, 16th October 1892.
43. Anguita, op.cit., Vol. 3, pp. 216 and 232.
44. S.O., 30th September 1892, p. 374.
45. For details of the Senate committee's proposals see El Ferrocarril, 3rd November 1892.
46. Anguita, op.cit., Vol. 3, pp. 232-234.
47. See Fetter, op.cit., p. 77; and Ross, Chile 1851-1910, pp. 41-42. Ross claimed that the gold export point was $23^3/8d$.
48. See Semper and Michels, op.cit., p. 142 and Brown, op.cit.
49. Synopsis Estad stica, 1925, p. 148.
50. See such a criticism by the President in Discurso, 1893, p. 21.
51. For example La Uni n, Valpara so, 6th August 1893.
52. See Appendix I.
53. El Mercurio, Valpara so, 22nd November 1892.
54. Synopsis Estad stica, 1925, p. 148.
55. Appendix I.
56. Kennedy to Rosebury, Report for the Year 1893 on the Trade of Chile, 16th February 1894, Foreign Office 1894, Annual Series No. 1351, Diplomatic and Consular Reports on Trade and Finance; and Resumen de la Hacienda P blica, p. 93.
57. The Times, 6th December 1894, together with many other complaints expressed by British representatives, merchants and the press to the effect that the depreciation of the exchange was harming British exports.

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58. See Ford, op.cit., particularly pp. 91-131. This work includes a more comprehensive study of the 'income effect' of exchange rate depreciation on Argentine trade and also refers to the associated redistributational effect of mortgage bonds in Argentina during the 1880s. A similar analysis for Brazil of the adjustment mechanism through the redistribution of income from importers/consumers to exporters in the late 19th century is contained in Celso Furtado's work, The Economic Growth of Brazil. A survey from colonial to modern times, Berkeley, University of California Press, 1971, pp. 170-192. The absence in Chile and in other Latin American countries of any instrument or mechanism for short-term capital movements meant that in the event of balance of payments disequilibrium the adjustment process had to work through income. This applied whether the country was on the Gold Standard or not.
59. British investments in economic enterprises (excluding bonds), expressed in terms of nominal capital quoted on the Stock Exchange, grew by about £14mn in the 1880s but by only £7mn in the 1890s. See the articles by J.F. Rippy, "A Brisk Decade of British Investment in Latin America," Inter-American Economic Affairs, Vol. 5, No. 4, 1952, pp. 38-40; "Early British Investments in the Latin American Republics," Inter-American Economic Affairs, Vol. 6, No. 1, 1952, pp. 41-43; "British Investments in Latin America, End of Year 1900," Inter-American Economic Affairs, Vol. 4, No. 3, 1950, pp. 18-20. See also Rippy's article "A Century of British Investments in Chile," Pacific Historical Review, Vol. 21, 1952, pp. 341-348. Much of the information in these and other articles by Rippy can be found in his book, British Investments in Latin America 1822-1949, University of Minnesota Press, 1959. Though quoted investments give by no means a complete picture of the total (see Appendix I), the figures do give an indication of the slowdown in the

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- 1890s. At this stage the investments of Germany, France and the United States in Chile were small in relation to those of Britain.
60. Memorandum by Mr. W.R. Henderson, representative and senior partner in Chile of Williamson, Balfour & Co., and President of the Valparaíso Chamber of Commerce (date unspecified), enclosed with Kennedy to Rosebury, 12th June 1893, No. 37, F.O. 16/282.
 61. For details see D. Amunátegui Solar, La Democracia en Chile. Teatro Político, 1810-1910, Universidad de Chile, 1946, p. 294.
 62. Kennedy to Rosebury, 21st April 1893, No. 23, F.O.16/282.
 63. This refers to 4½% bonds of 1885; see Synopsis Estadística, 1925, p. 74.
 64. Statement on the finances of Chile by the Minister of Finance, published in The South American Journal, 21st January 1894.
 65. The Times, 6th December 1894.
 66. Letter from W.W.W., Valparaíso 23rd February 1894, to The Financial News, published in The South American Journal, 19th May 1894.
 67. See the correspondence between Kennedy and various British merchant houses and the Bank of Tarapacá in the period July-September 1893. British merchants and bankers in Chile, as well as the Chilean Government, complained of the action of the Bank of Tarapacá in causing disruption to monetary and commercial conditions in Valparaíso. Specifically, the complaints were that the bank refused to accept cheques drawn on local banks or bank notes or Treasury notes, but would accept only fiscal notes. This, and the generally hostile attitude of the Bank of Tarapacá to the local banks and the Government, threatened the already weak position of the Chilean banks. After the intervention of the British Minister, the matter was smoothed over, following certain

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assurances from the Bank of Tarapacá. See F.O. 132/42 and F.O. 16/282 and also the Gibbs papers for this period. Gibbs reported further disruption to the commercial and exchange market arising from the payment of 25% of export duties in 90-day sterling bills on London. The Government would only accept bills drawn on first class houses and of houses which had deposited a guarantee with the Government. At that stage, few of the first class London and Liverpool houses had deposited such a guarantee so that payment of duty had to be made in bills of some banks and some nitrate companies. This led to a shortage of bills to pay duties and put further pressure on the exchange rate. See Gibbs M.S. 11,470, Vol. 19, Valparaíso to London, 12th December 1893.

68. M.M.H., 1893, pp. 56-57.
69. Guillermo Subercaseaux, Estudios Económicos. El Papel Moneda en Chile, (1898), p. 109.
70. Santelices, op.cit., pp. 324-325, 329-330.
71. ibid., and Appendix III. Figures may not add exactly due to rounding.
72. Figures derived from Espinoza, op.cit., pp. 290-292; Subercaseaux, Monetary and Banking Policy, p. 98; and Santelices, op.cit., pp. 274-275, 324-325, 329-330.
73. See Gibbs, M.S. 11,470, Vol. 19, Valparaíso to London, 5th May 1893. Gibbs cited the case of a Peruvian client of Messrs. Graham Rowe & Co., who, after reading the November 1892 Conversion Law, instructed Graham Rowe to obtain and hoard for him Pesos 70,000 of fiscal notes.
74. ibid., 21st April 1893.
75. El Ferrocarril, 29th August 1893 and El Herald, 20th October 1893.
76. See Santelices, op.cit., pp. 329-330.
77. El Herald, 16th March 1893.
78. Joaquín Walker Martínez in D.E., 30th January 1893, p.983.

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79. S.E., 1st February 1893, pp. 1158-1160.
80. S.E., 3rd February 1893, pp. 1199-1200.
81. Anguita, op.cit., Vol. 3, p. 253.
82. Gibbs, M.S. 11,470, Vol. 19, Valparaiso to London, 24th February 1893.
83. El Mercurio, Valparaiso, 20th March 1893; and Fetter, op.cit., pp. 79-80.
84. MacIver in M.M.H., 1893, p. 70; and Ross in Chile 1851-1910, pp. 42-43.
85. Anguita, op.cit., Vol. 3, pp. 259-260.
86. See S.E., 26th January 1893, pp. 1090-1095, for details of a vote on the question.
87. La Unión, 24th March 1893.
88. El Mercurio, Valparaiso, 10th March 1893.
89. D.E., 29th April 1893, pp. 1049-1050.
90. D.E., 4th May 1893, pp. 1072-1073.
91. D.E., 4th and 6th May 1893, pp. 1075 and 1085.
92. D.E., 22nd May 1893, p. 1148.
93. See ibid., pp. 1147-1148 and Anguita, op.cit., Vol. 3, p. 260.
94. El Ferrocarril, 18th May 1893.
95. Kennedy to Rosebury, Report for the Year 1893 on the Trade of Chile, 16th February 1894, F.O., 1894, Annual Series, No. 1351.
96. Abraham Gazitúa, a Doctrinaire Liberal Deputy, and himself a landowner, in D.E., 23rd May 1893, p. 1172. See also Fetter, op.cit., p. 76.
97. Subercaseaux, Estudios Económicos. El Papel Moneda (1898), pp. 87-88.
98. See H.S. Ferns, Britain and Argentina in the Nineteenth Century, Oxford, Clarendon Press, 1960, pp. 330-331.
99. Chile and the United States, p. 26.
100. Memoria del Director de la Caja de Crédito Hipotecario, 17th January 1895, in M.M.H., 1895, pp. 287-315.

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101. Santelices, op.cit., pp. 329-330.
102. Anuario Estadístico, 1925, Vol. X, pp. 117-118.
103. For a discussion of the role of the Sociedad Nacional de Agricultura see G. Izquierdo F., Un estudio de las Ideologías Chilenas: La Sociedad de Agricultura en el siglo XIX., Imprenta Tecnica L.T.D.A., 1968, which deals with the period up to 1880. T.C. Wright in his article, "Origins of the Politics of Inflation in Chile, 1888-1918", H.A.H.R., Vol. 53, No. 2, 1973, pp. 239-259, covers the role of the society in the debate over the cattle duty.
104. See Bauer, op.cit., p. 40 and Figueroa, op.cit., Vol. 5, pp. 867-870.
105. T. Schneider, La agricultura en Chile en los últimos cincuenta años, Imprenta, Litografía i Encuadernación Barcelona, 1904, p. 185.
106. Dated 6th December 1894.
107. Barros Borgoño, op.cit., Vol. 1, p. 293.
108. ibid., Vol. 1, pp. 292-293 and Vol. 2, p. 88.
109. Discurso, 1893, pp. 19-20.
110. D.E., 30th December 1893, pp. 784-785.
111. D.E., 4th January 1894, p. 825. The defeat was on a procedural motion.
112. D.E., 10th January 1894, p. 856.
113. Eduardo Frei writing in Edwards and Frei, op.cit., p. 137. Shortly before his suicide, Balmaceda had written in his celebrated "Testament";

"While there subsists in Chile Parliamentary Government in the mode and form in which it has been wished to practice it and such as sustained by the triumphant revolution there would not be electoral liberty nor serious and constant organisation in the Parties, nor peace within the circles of Congress. The triumph and the submission of the defeated will produce a momentary peace; but before long the old divisions and bitterness will be re-born The parliamentary regime has triumphed in the field of battle; but this victory will not prevail."

This prophetic statement was contained in the "Carta del

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- Ex-Presidente Balmaceda a los Señores Claudio Vicuna y Julio Bañados E.," Santiago, 18 de setiembre de 1891, quoted in Victor Eastman, Balmaceda, Don José Manuel, Presidente de Chile 1886-1891 y el conflicto con el congreso nacional, Latacunga, Ecuador, 1935, p. 40.
114. J. Bañados Espinsa, Balmaceda, 2 vols., Paris, Libreria de Garnier Hermanos, 1894, pp. 762-764. Bañados was a relatively early writer on economic matters and in 1888 was putting on paper some ideas that were later to become a part of Balmacedist and papelero thinking. See "Nuestra situación económica y el papel moneda" in Letras y política 1888, Valparaiso, Imprenta de "La Patria", 1888, pp. 53-90.
115. For instance see a speech by Raimundo Silva Cruz in D.E., 5th February 1895, pp. 1271-1272.
116. See Eliás Balmaceda (the brother of José Manuel) in S.E. 4th January 1899, p. 784.
117. "Abstract of Report on Elections of 4th March 1894" by the Reverend H. Wetherall of Valparaiso, enclosed with Kennedy to Kimberley, 6th June 1894, No. 32, F.O. 16/289.
118. ibid.
119. Discurso, 1894.
120. D.O., 17th July 1894, p. 580.
121. D.E., 23rd October 1894, pp. 53-56.
122. Figueroa, op.cit., Vol. 5, p. 754.
123. D.E., 30th October 1894, p. 94.
124. D.E., 23rd and 25th October 1894, pp. 43-47 and 61.
125. See Marcial Martínez, "La Cuestion Económica: Cartas Relativas a la materia," Imprenta de la Unión, 1886, in Obras Completas, Imprenta, Litografía y Encuadernación "La Ilustración," 1919, Vol. 4, pp. 14-76 and 104-107. Volumes 4 and 5 of this 10 volume work cover economic questions.
126. The Chilean Times, Valparaiso, 20th October 1894.
127. S.E., 15th-26th October 1894.

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128. S.E., 2nd November 1894, p. 140.
129. S.E., 5th November 1894, p. 172.
130. S.E., 15th January 1895, p. 833. The preamble to the bill gives details of the discussions in the committee as does a speech by J. Walker Martínez in D.E., 30th April 1895, pp. 1385-1388.
131. See S.E., 21st January 1895, pp. 933-934; and D.E., 4th February 1895, p. 1253, when Fernández explained the Government's policy towards the conversion bill.
132. El Mercurio, Valparaíso, 31st January 1895.
133. For details of the main votes in the Senate see S.E., 29th January 1895, pp. 1092-1093.
134. For the votes in the Deputies see D.E., 6th February 1895, pp. 1295-1312.
135. The text can be found in Anguita, op.cit., Vol. 3, pp. 331-332.
136. Ross, Chile 1851-1910, p. 41.
137. Gibbs M.S., 11,470, Vols 15 and 16, Valparaíso to London, 1st May 1895. The Valparaíso House's judgement of the mood of Congress on the currency question was, however, by no means infallible. In early February, they had 'speculated' against the conversion bill being approved, by remitting home £17,000 at a rate of 15d on the assumption that the Peso would fall once the bill was defeated. The bill was passed, the Peso rose and Gibbs made an exchange loss.
138. Charles A. McQueen, Chilean Public Finance, Special Agents Series No. 224, Department of Commerce, Washington, Government Printing Office, 1924, p. 73.
139. Kennedy to Salisbury, 21st April 1896, F.O. 16/295.
140. Gibbs, M.S. 11,470, Vol. 19, Valparaíso to London, 29th December 1893.
141. Bank of Tarapacá and London Ltd. Letter Books 1895-6, Santiago to London. One particular instance of the

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influence of the Banco de Chile arose in May-July 1896, following a decision by the Director of the State Railways to transfer their account from the Banco de Chile to the Bank of Tarapacá and London. After pressure from the Banco de Chile, the Finance Minister refused to allow the transfer of the State Railway's account. The Acting Manager of the Santiago branch of the Bank of Tarapacá and London reported to Head Office on 5th July 1896 that the Minister was not able to "defy the large influence of the native bank." See also a similar letter dated 24th May 1896.

142. Warburton to Kimberley, Valparaíso, 26th March 1895, No. 11 Commercial, F.O.16/292.
143. See Gibbs M.S. 11,470, Vols. 15 and 16, Valparaíso to London, 1st May 1895.
144. See Agustín Ross in S.E., 17th May 1895, p. 1358.
145. See D.E., 25th April 1895, pp. 1341-1342; and the Finance Minister, Fernández speaking in D.E., 27th April, p. 1356 and 2nd May 1895, pp. 1414-1416.
146. M.M.H., 1897, p. 30.
147. See particularly Ross, S.E., 17th May 1895, pp. 1358-1361 and Fernández, D.E., 11th May 1895, p. 1490.
148. D.E., 2nd May 1895, pp. 1416-1417.
149. S.E., 21st May 1895, pp. 1388-1389.
150. Fetter, op.cit., pp. 96-98.
151. Ross, Chile 1851-1910, pp. 59-61.
152. S.O., 1st and 3rd July 1895, pp. 132-146.
153. See M.M.H., 1895, pp. 33-34, for details of the note circulation and conversion fund as at June 1895.
154. M.M.H., 1897, p. 29. The breakdown of the conversion fund and its uses as shown in Table X is presented in pages 29-34 of the report.

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CHAPTER SEVEN

1. See the Sauerbeck Index of wholesale prices in England in Warren and Pearson, Prices, p. 75.
2. The source for this price data is Synopsis Estadística, 1925, p. 116.
3. ibid., p. 148.
4. Appendix I.
5. Appendix VIII.
6. Resumen de la Hacienda Pública, pp. 52-53.
7. Gibbs, M.S. 11,470, Vol. 16, Valparaíso to London, 20th April 1896.
8. Reports of Vice-Consul Anstead, Coquimbo, and Vice-Consul Beazly, Caldera, in pages 27 and 34 respectively of Report for the Year 1895 on the Trade of Valparaíso, Consul-General Sadler to the Marquis of Salisbury, Valparaíso, 6th June 1896, Annual Series No. 1795, F.O. 1896. But in this report and the one for the following year, the British Consul in Coquimbo expressed the view that the Gold Standard was helping the import (i.e. British) trade through providing a stable exchange rate and by raising the purchasing power of the money income of wage earners.
9. The figures were derived from the sources referred to in Appendix IV.
10. Synopsis Estadística, 1923, p. 125.
11. Bank of Tarapacá and London, Santiago to Head Office, 17th August 1896; and Fetter, op.cit., p. 102.
12. Kennedy to Salisbury, 21st April 1896, F.O. 16/295.
13. Warburton to Salisbury, Valparaíso, 13th August 1895, No. 47, F.O. 16/292.
14. D.O., 21st August 1895, pp. 301-304.
15. Molina, op.cit., pp. 141-145.
16. Bank of Tarapacá and London, Santiago to Head Office, 19th July 1897.
17. D.O., 6th June 1896, pp. 301-304.

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18. pp. 130-135.
19. Letter to Head Office dated 11th May 1896. Reference to the Finance Minister's scheme is also to be found in the preamble to a bill presented by two deputies, in D.E., 28th May 1896, pp. 822-823.
20. Bauer, op.cit., p. 184.
21. For details of the election campaign and particularly of the widespread allegations of bribery and corruption against Errázuriz, see D. Amunátegui S., op.cit., pp.302-303; and Ricardo Donoso, Alessandri, agitador y demoledor: cincuenta años de historia política de Chile, 2 vols., Mexico-Buenos Aires, Fondo de Cultura Economica 19?, pp. 44-45. For a more sympathetic view of Errázuriz see the work of Jaime Eyzaguirre, Chile durante el gobierno de Errázuriz Echaurren, 1896-1901, Empresa Editora Zig-Zag, (2nd Edition), 1957.
22. Letter to Head Office, 3rd August 1896.
23. ibid., 28th September 1896.
24. This allegation was made by Agustín Ross in the Senate, S.E., 4th November 1896, p. 55.
25. ibid., 3rd November 1896, p. 45.
26. Cited in The Economist of 5th December 1896.
27. Amunátegui, op.cit., pp. 305-306.
28. Ross, Chile 1851-1910, p. 68.
29. M.M.H., 1897, pp. 57-59.
30. S.O., 2nd June 1897, pp. 19-23.
31. S.E., 10th November, 1897, pp. 464-466.
32. Bank of Tarapacá and London, Santiago to Head Office, 7th June 1897.
33. Figueroa, op.cit., Vol. 3, pp. 542-544.
34. D.O., 23rd July 1897, p. 567.
35. D.O., 24th July 1897, pp. 589.
36. D.O., 24th July 1897, p. 590.
37. ibid.

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38. S.O., 26th July 1897, pp. 413-414.
39. ibid., pp. 412-413.
40. Espinoza, op.cit., pp. 290-293.
41. The South American Journal, 20th June 1896.
42. The Financial News, 29th July 1897.
43. See this allegation in Eyzaguirre, Errázuriz Echaurren, p. 85.
44. S.E., 18th October 1897, pp. 133-135; and Gibbs, M.S. 11,470, Vol. 17, Valparaiso to London, 5th July 1897.
45. Bank of Tarapacá and London, Santiago to Head Office, 20th June and 5th July 1897.
46. S.E., 20th October 1897, pp. 174-175, 180.
47. Bank of Tarapacá and London, Santiago to Head Office, 20th June 1897.
48. Resumen de la Hacienda Pública, pp. 32 and 52.
49. Mensaje leído por S.E. El Presidente de la República en la apertura de las Sesiones Ordinarias del Congreso Nacional en 1 de junio de 1896, Imprenta Nacional, 1896, pp. 17-18.
50. Synopsis Estadística, 1925, p. 72.
51. Bank of Tarapacá and London, Santiago to Head Office, 12th April 1897.
52. Resumen de la Hacienda Pública, pp. 69-70.
53. Wright, "Agriculture and Protection," pp. 52-53.
54. M.G. Varley (op.cit., p. 303) tentatively suggests the possibility of the generalisation that the Conservatives took a hard line on relations with Argentina and at the same time were prepared to come to at least a commercial accommodation with Peru; while the Liberals on the other hand were more hawkish in dealings with Peru. The author doubts however whether such defined policies existed in the political parties.
55. Eyzaguirre, Errázuriz Echaurren, pp. 146-148.
56. Bank of Tarapacá and London, Santiago to Head Office,

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- 11th April 1898. The same conversation is reported in Gosling to Salisbury, 2nd April 1898, No. 18, F.O.16/316.
57. ibid.
 58. Eyzaguirre, Errázuriz Echaurren, pp. 205-214.
 59. The Santiago branch of the bank wired Head Office on 29th March 1898 with news of the approach from the Chilean Government. The negative reply from London is contained in the Letter Books, Head Office to Santiago, in a letter dated 7th April 1898.
 60. The Acting Manager of the Bank of Tarapacá and London in Santiago wrote confidently to the Managing Director in London on 25th April 1898 that there is "not the slightest danger of hostilities." A memorandum sent to the British Minister in Chile by a group of leading merchants in Valparaíso, dated 3rd June 1898, which urged H.M.G. to intervene with Chile and Argentina to reduce tension and settle the boundary dispute, placed emphasis on the fear that "the military expenditure now in progress is a burden that will long cripple the country's resources unless it is promptly brought to an end." See Gosling to Salisbury, 15th June 1898, No. 38, F.O.16/316.
 61. See Eyzaguirre Errázuriz Echaurren, pp. 214-215; and Bank of Tarapacá and London, Santiago to Head Office, 6th June, 20th June and 4th July 1898. The warship was, in fact, never purchased.
 62. The South American Journal, 17th September 1898.
 63. Bank of Tarapacá and London, Santiago to Head Office, 18th July 1898.
 64. See D.O., 14th July, pp. 303-304 and 16th July 1898, pp. 334-335.
 65. See Fetter, op.cit., pp. 107-108.
 66. El Mercurio, Valparaíso, 6th July 1898.
 67. ibid., 7th July 1898.
 68. ibid.

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69. See a speech by Sotomayor in S.O., 7th July 1898, p. 233.
70. Molina, op.cit., pp. 333-334.
71. Gosling to Salisbury, 11th July 1898, No. 45, F.O.16/317.
72. D.O., 9th July 1898, pp. 262-279 and S.O., 10th July 1898, pp. 247-254.
73. S.O., 7th July 1898, p. 226.
74. D.O., 18th July 1898, p. 409. For the text of the bill see D.O., 14th July 1898, pp. 290-291.
75. One such scheme, suggested by the Bank of Tarapacá and London, was presented to the Deputies on 14th July 1898 by the Radical deputy, Anselmo Hevia Riquelme. See D.O., 14th July 1898, pp. 291-294; and Bank of Tarapacá and London, Santiago to Head Office, 18th July 1898.
76. See for example a speech by the Conservative, Enrique Richard Fontecilla, D.O., 19th July 1898, pp. 442-443.
77. D.O., 20th July 1898, p. 456.
78. ibid.
79. D.O., 22nd July 1898, pp. 522-523.
80. For the final text of the law, promulgated on 31st July 1898, see Anguita, op.cit., Vol. 3, pp. 425-426. In fact, Pesos 27.8mn of the note issue was deposited in the banks, compared with the Pesos 20 mn originally proposed by the Government; see a statement by the Minister of Finance, D.O., 22nd July 1899, pp. 360-361.
81. S.O., 26th July 1898, p. 361.
82. S.O., 29th July 1898, pp. 473-474.
83. D.O., 30th July 1898, pp. 577-596; S.O., 31st July 1898, p. 492.
84. Subercaseaux, Monetary and Banking Policy, p. 117.
85. Ross, Chile 1851-1910, pp. 73-78.
86. Gibbs, M.S. 11,470, Vol. 17, Valparaiso to London, 18th July 1898.
87. Resumen de la Hacienda Pública, p. 94.
88. Gibbs, M.S. 11,470, Vol. 17, Valparaiso to London, 18th

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July 1898.

89. See S.O., 6th June 1898, pp. 18-19. Pesos 10mn (in gold Pesos of 18d) was transferred to general revenue in 1899.
90. However, the appreciation of the Argentine exchange rate was leading in that direction. One Argentine economist, Silvio Gesell, believed that the prevailing economic depression in Chile and Argentina was in both cases the result of deflationary currency policies and was in turn a major factor in the poor relations between the two countries. See La razón económica del desacuerdo Chileno-Argentino, Buenos Aires, Imprenta y Encuadernación "La Buenos Aires," 1898.
91. Letter from Santiago to Head Office dated 18th July 1898.
92. Sotomayor, D.O., 16th August 1898, p. 336.
93. See Espinoza, op.cit., pp. 326-327 and Fetter, op.cit., p. 110.
94. de Cecco, op.cit., pp. 55-59.
95. D.E., 16th May 1896, pp. 780-784.
96. Ross, Chile 1851-1910, pp. 63-64.
97. Albert O. Hirschmann, Journeys towards progress; studies of economic policy in Latin America, New York, Twentieth Century Fund, 1963, p. 172.
98. D.O., 16th July 1898, p. 348.
99. See the copy dated 14th January 1899.
100. D.O., 20th July 1898, p. 445.
101. The resolution was presented to the Senate, S.O., 23rd July 1898, pp. 324-325.
102. Bauer, op.cit., pp. 233-234.
103. The Sauerbeck index of wholesale prices in England converted into Peso terms rose by 15% between 1890/92 and 1897/99.

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CHAPTER EIGHT

1. Published in La Revista de Chile, Vol. V, No. 4, 15th August 1900, pp. 98-104.
2. Carlos Vicuña, La tiranía en Chile, Vol. 1, Imprenta y Encuadernación O'Higgins, 1945, p. 23. The work contains two volumes in one, both written in 1928, with volume one covering the period up to 1925.
3. F.A. Encina, Nuestra inferioridad económica: sus causas, sus consecuencias, Editorial Universitaria (2nd Edition), 1955, pp. 109, 120-133. The work was first published in 1911. Another famous work, written a little before by another nationalist writer, Nicolás Palacios, makes similar points; see Raza Chilena, Valparaíso, Imprenta i Litografía Alemania, 1904.
4. R.N. Burr, By Reason or Force: Chile and the Balancing of Power in South America 1830-1905, Berkeley and Los Angeles, University of California Press, 1967, p. 198.
5. Memorandum by J.G. Kennedy, Balcarres, 24th September 1892, in F.O. 16/280.
6. Burr, op.cit., pp. 177-178.
7. C.E. Solberg, "Immigration and Urban Social Problems in Argentina and Chile 1890-1914", H.A.H.R., Vol. 49, No. 2, May 1969, p. 216. See also the same author's work Immigration and Nationalism: Argentina and Chile, 1890-1914, Austin, Texas, University of Texas Press, 1970.
8. See Censo de Población, 1920, Introduction. These figures relate to censuses. There is a large discrepancy, even in the 20th century, between the figures from registers and the census figures. The chief reason for the slower growth rate of population in the late 19th and early 20th century appears to have been a higher death rate rather than a fall in the birth rate. See Encina, Nuestra inferioridad económica, pp. 8-65.
9. The figure for Chile is derived from the article by

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- M.A. Ballesteros and T.E. Davis, "The Growth of Output and Employment in Basic Sectors of the Chilean Economy, 1908-1957", Economic Development and Cultural Change, Vol. 11, No. 2, January 1963, Part I. The Argentine growth rate is from C.F. Díaz Alejandro, Essays on the Economic History of the Argentine Republic, Yale University Press, 1970, pp. 2-3. The disparity between the growth rates of per capita GNP in the two countries was probably less.
10. See Appendix I and Synopsis Estadística, 1925, p. 149.
 11. Resumen de la Hacienda Pública, pp. 93-94.
 12. Oficina Central de Estadística, Importación, exportación y consumo de Trigo en Chile en los últimos 20 años, Sociedad Imprenta y Litografía Universo, 1915.
 13. Synopsis Estadística y Jeográfica, 1900, pp. 385-392.
 14. Macchiavello Varas, op.cit., pp. 46-47.
 15. Synopsis Estadística, 1925, p. 148.
 16. Sociedad Nacional de Minería, Memoria, 1895, pp. 13-17.
 17. Synopsis Estadística, 1925, p. 67.
 18. Semper and Michels, op.cit., p. 149.
 19. Gibbs, M.S. 11,116, Vol. I (Out-letters to South American branches) contains a long article on Gibbs and its history which contains this piece of information.
 20. Semper and Michels, op.cit., p. 109.
 21. Wilgus (Ed.), op.cit., p. 396.
 22. W.H. Young, A Merry Banker in the Far East and South America, London, John Lane, The Bodley Head, 1916, pp. 274-275.

CHAPTER NINE

1. Synopsis Estadística, 1925, pp. 116, 148-149.
2. Appendix I.
3. See the market reports of the Santiago branch of the Bank of Tarapacá and London in the Letter Books for this period.

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4. Subercaseaux, Monetary and Banking Policy, p. 119.
5. S.E., 16th January 1899, p. 848.
6. Roberto Meeks, Deputy for Limanche and Quillota in Santiago Province, D.E., 24th December 1898, pp. 455-458.
7. Sotomayor in S.E., 5th December 1898, p. 627.
8. Donoso, Allessandri, Vol. I, pp. 54-55.
9. S.E., 20th December 1898, pp. 688-692.
10. ibid., p. 691.
11. Eyzaguirre, Errázuriz Echaurren, pp. 149-150.
12. S.E., 4th January 1899, pp. 786-787.
13. The view of Eyzaguirre in Errázuriz Echaurren, pp. 149-150.
14. S.E., 11th January 1899, p. 813.
15. S.E., 9th January 1899, pp. 798-799.
16. D.E., 11th January 1899, p. 774.
17. Cited in The Chilian Times of 21st January 1899. The letter was dated 12th January 1899.
18. The Chilian Times, 18th January 1899.
19. S.O., 1st June 1899, pp. 5-6.
20. See La Revista de Chile, 15th August 1899, Vol. 3, No. 4, p. 97; D.E., 21st November 1899, p. 422; and S.E., 16th October 1899, pp. 67-68.
21. S.O., 28th August 1899, pp. 589-591.
22. S.O., 30th August 1899, pp. 639-649.
23. D.E., 17th November 1899, pp. 343-346, and 20th November 1899, pp. 401-402.
24. For details of the election see Donoso, Alessandri, p. 60.
25. Henry L. Wilson to John Hay, Secretary of State, 24th March 1900. Despatches of United States Ministers to Chile 1823-1906, National Archives of the United States.
26. Bank of Tarapacá and London, Santiago to Head Office, 12th March 1900.
27. See pages 39-42 of the very sympathetic biography of Riesco, by Germán Riesco, Presidencia de Riesco 1901-6,

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- Imprenta Nascimento, 1950. For a less flattering view of Riesco's qualifications for the job see Rivas Vicuña, op.cit., Vol. I, p. 72.
28. The Times, 20th August 1901.
 29. Mensaje, 1901, p. 19.
 30. ibid.
 31. D.O., 29th August 1901, pp. 699-701.
 32. Riesco, op.cit., pp. 93-94.
 33. Following a meeting with Barros Borgoño on 5th October, the Manager of the Santiago branch of the bank reported to Head Office that the Finance Minister "volunteered the statement that he personally is unable to see anything in the actual state of affairs which warrants a postponement. At the same time he pointed out that the Bank of Chile is opposed to Conversion and that the influence of that institution is very great" See a letter dated 7th October.
 34. S.E., 14th October 1901, pp. 14-15.
 35. D.E., 7th November 1901, pp. 220-1. In fact, only Pesos 41.5mn of gold (18d) existed in the fund, technically not sufficient, although this was an academic point at the time.
 36. For details see the work by Octavio Errázuriz Guilisasti, Las relaciones chileno-argentinos durante la Presidencia de Riesco 1901-6, pp. 62-64, which has been published jointly with a work by Germán Carrasco Domínguez, El Arbitraje Británico 1899-1903. Sus aspectos procesales, Editorial Andres Bello, 1968.
 37. Synopsis Estadística, 1923, p. 68.
 38. See the work of A.M. Quintero Ramos, A History of Money and Banking in Argentina, Puerto Rico, University of Puerto Rico, 1965.
 39. El Mercurio, Valparaiso, 25th October 1901.
 40. ibid.

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41. Palma Zuñiga, op.cit., pp. 80-83.
42. See D.E., 2nd-11th December 1901 for examples.
43. For instance, The Times of 5th November 1901 considered that a postponement of conversion was probably at that time the best thing since otherwise the papeleros could use the pretext of the Argentine dispute to cause an export of gold and the collapse of the Gold Standard. At least with a postponement the Conversion Fund would be safe.
44. S.E., 26th December 1901, p. 821.
45. ibid., p. 820.
46. See D.E., 27th December 1901, p. 1357; and Anguita, op.cit., Vol. 3, pp. 538-539.
47. Ministerio de Hacienda, Recopilación de las Disposiciones Vigentes Relativos a la Conversión y Emisión de Billetes, a la Acuñaación de Moneda y a los Bancos, por Gustavo Ibáñez, Imprenta Universitaria, 1912, pp. 68-69.
48. S.E., 9th April 1902, pp. 10-11.
49. See S.E., 9th April 1902, pp. 16-19 for the speech by Tocornal; S.E., 22nd April 1902, pp. 72-73, and 19th May 1902, pp. 161-162; and Riesco, op.cit., pp. 200-204.
50. Bank of Tarapacá and Argentina (re-named from the Bank of Tarapacá and London), Santiago to Head Office, 6th April 1903; and Lowther to Lansdowne, 25th March 1903, No. 28, F.O.16/342.
51. Burr, op.cit., p. 252.
52. Both Argentina and Chile put the sale of their two battle-ships in the hands of Antony Gibbs. One from each was sold to Japan and the other two ships were sold to Britain. See Maude, op.cit., p. 35. See also Riesco, op.cit., pp. 241-242.
53. Ministerio de Hacienda, Recopilación de las Disposiciones, pp. 68-69.
54. Synopsis Estadística, 1923, p. 125. This refers to the

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- average of both private and Caja Hipotecario bonds.
55. M.M.H., 1904, p. 146; and Martner, op.cit., pp. 546-548.
 56. Harford to Lansdowne, 20th February 1905, Commercial No. 2, F.O. 16/353.
 57. Subercaseaux, Monetary and Banking Policy, pp. 119 and 142; and Anuario Estadístico, 1909, Vol. 3, pp. 544-545.
 58. D.O., 3rd July 1903, pp. 500-505 and 31st August 1903, pp. 1037-1038.
 59. See El Mercurio, Valparaiso, 7th April 1904.
 60. Rivas Vicuña, op.cit., Vol. 1, pp. 87-88.
 61. D.O., 11th June 1904, p. 93.
 62. D.O., 22nd June 1904, pp. 202-203. The question of these rumours was raised by the Conservative, Darío Urzúa (D.O., 16th June 1904, p. 124), who had also begun the interrogation of Ibáñez a few days before.
 63. D.O., 11th July 1904, pp. 541-543.
 64. A bill to set up a Caja de Conversión, for the exchange of notes against gold or foreign currency at a rate of 18d, was proposed by the Conservative Deputy, Miguel Cruchaga (D.O., 5th August 1904, p. 991). This proposal was supported by one of Cruchaga's orero colleagues on the Deputies' Finance Committee, Enrique A. Rodríguez, of the National Party, and also by another National Party representative, Agustín Edwards Maclure, the son of Agustín Edwards Ross. (D.O., 12th August 1904, pp. 206-212).
 65. S.E., 5th December 1904, p. 862, gives the text of the Deputies' bill as introduced into the Senate on that day.
 66. S.E., 12th December 1904, pp. 899-900.
 67. S.E., 19th December 1904, p. 998.
 68. See evidence presented by employers in the north, dated 1st August 1904, to the Comisión Consultativa del Norte, Trabajos y Antecedentes presentados al Supremo Gobierno de Chile por la Comisión Consultativa del Norte. Recopilados por Manuel Salas Lavaqui, Imprenta Cervantes, 1908,

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- pp. 633-647.
69. S.E., 13th December 1904, pp. 937-938.
 70. S.E., 19th December 1904, p. 972.
 71. El Mercurio, 4th December 1904.
 72. For the voting details see S.E., 21st, 22nd, 23rd and 28th December and D.E., 26th-28th December 1904.
 73. Bank of Tarapacá and Argentina, Santiago to Head Office, 20th March 1904.
 74. Synopsis Estadística, 1923, p. 125.
 75. Appendix IV.
 76. Pages 329-31.
 77. M.M.H., 1904, p. 146 and Martner, op.cit., pp. 546-548.
 78. Fetter, op.cit., p. 108.
 79. D.E., 23rd November 1905, pp. 389-391. The four were Malaquias Concha, Alfredo Irarrázaval, Darío Sanchez and Antonio Verdugo.
 80. See the prologue to the work of Miguel Cruchaga (Montt), Estudio sobre la organización económica y la hacienda pública de Chile, 3 vols., Madrid, Editorial Reus, 1929.
 81. Speech by Fernández in D.E., 29th November 1905, p. 510.
 82. See a speech by Renato Sánchez García de la Huerta, D.E., 11th May 1906, p. 22; and also Bank of Tarapacá and Argentina, Santiago to Head Office, 14th May 1906.
 83. El Mercurio, Valparaiso, 2nd May 1906.
 84. S.E., 9th May 1906, pp. 11-12.
 85. For the text of the banks' presentation see D.E., 14th May 1906, p. 63.
 86. S.E., 10th May 1906, pp. 21-22.
 87. D.E., 12th May 1906, pp. 36-38.
 88. See Figueroa, op.cit., Vol. 5, pp. 954-955.
 89. See statements by the Interior Minister, Manuel Salinas, and by the Finance Minister, Joaquín Prieto Hurtado, in respectively, D.E., 11th May 1906, p. 21 and S.E., 22nd May 1906, p. 73.

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90. El Mercurio, Valparaíso, 15th and 18th June 1906.
91. Anguita, op.cit., Vol. 4, pp. 132-133.
92. S.O., 28th August 1906, pp. 720-721; and 31st August 1906, p. 780.
93. D.O., 31st August 1906, pp. 1038-1041.
94. Bank of Tarapacá and Argentina, Santiago to Head Office, 28th May 1906.
95. The London and River Plate Bank, Letter Books, Valparaíso to Head Office, the Manager Valparaíso to the Chairman of the Board of Directors, 27th October 1907.
96. For details of the new composition of the legislature, see El Mercurio, Valparaíso, 9th March 1906.
97. El Mercurio, Valparaíso, 10th May 1906.
98. For details of the 1906 Presidential Election, see Riesco, op.cit., pp. 133-143; Ricardo Donoso, Francisco A. Encina simulador, 2 vols., Editorial Ricardo Neupert, 1969 and 1970, Vol. 1 of which deals partly with political life in Chile around the time of Encina's election to the Deputies in 1906, pp. 85-86; Echaíz, op.cit., pp. 140-141; and Juan Eduardo Vargas Cariola, "Notas sobre el pensamiento político de Pedro Montt," Estudios de Historia de las Instituciones Políticas y Sociales, No. 2, 1967, pp. 284-293.
99. The Chilian Times, Valparaíso, 30th June 1906.
100. See D.E., 12th January 1907, pp. 1176 and 1820; and S.E., 7th January 1907, p. 1064.
101. D.E., 17th January 1907, p. 2018; and Bank of Tarapacá and Argentina, Santiago to Head Office, 21st January 1907.
102. Subercaseaux, Monetary and Banking Policy, p. 142.
103. The London and River Plate Bank, Valparaíso to Head Office, 27th May 1907.
104. S.O., 1st June 1907, p. 14.
105. D.O., 6th June 1907, pp. 25-31.
106. D.O., 18th June 1907, pp. 178-185. The majority report

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- of the Finance Committee was signed by Malaquias Concha, Alfredo Irarrázaval and Belfor Fernández.
107. Figueroa, op.cit., Vol. 5, pp. 867-869.
 108. See D.O., 28th June 1907, p. 397.
 109. D.O., 13th July 1907, pp. 700-701.
 110. D.O., 24th July 1907, p. 975.
 111. S.O., 8th August 1907, pp. 661-667; and S.O., 12th, 14th and 19th August 1907.
 112. For example El Mercurio of Valparaíso, 25th August 1907.
 113. This retrospective justification for his action in 1907 was given by Montt in a message to Congress in 1909; S.O., 19th August 1909, pp. 841-844.
 114. Figure derived from Appendix V.
 115. It could be argued, however, that the State received an indirect benefit from the Conversion Fund in the sense that the existence of the Fund probably made foreign bankers look more favourably on lending to Chile; the Government borrowed £5mn in Europe between 1904 and 1907.
 116. Resumen de la Hacienda Pública, pp. 71-74.
 117. Chile 1851-1910, pp. 124-131.

CHAPTER TEN

1. Heise González, "La Constitución de 1925" (1950), p. 103.
2. For accounts of the early development of labour organisation and socialism in Chile see the works of Alan Angell, Politics and the Labour Movement in Chile, The Royal Institute of International Affairs, Oxford University Press, 1972, pp. 11-41; and J.C. Jobet, "Movimiento social obrero," in Desarrollo de Chile en la primera mitad del siglo XX, (Edited by Amando Labarca H.), 2 vols., Ediciones de la Universidad de Chile, 1952, Vol. I, pp. 51-83. The attitudes of the traditional political parties to the social question are discussed in Pike, op.cit., pp. 115-118;

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- and F. Silva Vargas, "Notas sobre el pensamiento social católico a fines del siglo XIX," Historia, No. 4, 1965, pp. 237-262. The latter work looks at the attitude of the Church and the Conservative Party.
3. See a petition presented to the Senate, S.O., 23rd July 1907, p. 452; and El Mercurio, Valparaíso, 12th June 1907.
 4. For examples, see S.O., 3rd August 1907, p. 594; and El Mercurio, Valparaíso, 1st, 2nd, 4th and 8th of August 1907.
 5. El Mercurio, Valparaíso, 20th August 1907.
 6. For a discussion of the cattle duty question see Wright, "Origins of the Politics of Inflation in Chile," pp. 249-256.
 7. Armando Sepulveda, Historia Social de los Ferroviarios, Imprenta Siglo XX, 1959, p. 17.
 8. Bauer, op.cit., p. 234.
 9. The Anglo-South American Bank, Santiago to Head Office, 11th November 1907. The name of the Bank of Tarapacá and Argentina was changed to The Anglo-South American Bank in October 1907.
 10. Bauer, op.cit., p. 156; and Semper and Michels, op.cit., p. 101.
 11. Donoso, Alessandri, Vol. I, pp. 172, 206-207.
 12. Pike, op.cit., p. 121.
 13. For details of the collapse of the boom see Dr. Rudolfo Dunker, Wirtschaftsstudien aus Südamerika speziell über Chile, Leipzig, Verlag von Duncker & Humblot, 1910, pp. 98-99.
 14. Subercaseaux, Monetary and Banking Policy, p. 142.
 15. See a statement by the Finance Minister, Rodríguez, in D.O., 13th June 1908, pp. 105-110.
 16. de Cecco, op.cit., p. 125.
 17. Gibbs, M.S. 11,471, Vol. 18, London to Valparaíso and Iquique, 31st January 1908; and Rennie to Grey, 11th

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- January 1908, F.O.16/407.
18. See Appendix I.
 19. Martner, op.cit., pp. 577-578.
 20. For an analysis of exchange rate movements in 1907/8 see the work of Guillermo Subercaseaux, El Papel Moneda, Imprenta Cervantes, 1912, pp. 183-185; and El Mercurio, Valparaíso, 22nd August 1908.
 21. S.O., 13th July 1908, p. 537. For details of the monetary history of other Latin American countries see the work by various authors, Sistemas Monetarias Latino-Americanos, Córdoba, Imprenta de la Universidad, 1943.
 22. Paul Leroy Beaulieu, Traité de la Science des Finances, 2 vols., 7th Edition, Paris, Guillaumin et Cie., 1906, p. 780.
 23. Walter H. Young, op.cit., p. 273. Young, who worked for a time in Chile in this period with the Anglo-South American Bank, was in no doubt as to the answer to his question; "the answer is, that the 'hacendados' will not let her." Young advised British investors not to put their money into Chile until specie payments were restored (advice given in 1913, see p. 276).
 24. The Economist, 21st December 1907.
 25. The South American Journal, 19th January 1895.
 26. Synopsis Estadística, 1925, p. 74.
 27. This incident is mentioned by Marcial Martínez in his Obras Completas, Vol. 4, p. 321.
 28. This view was taken by The Times at the time of the postponement of conversion in 1901 (see the edition for 5th November 1901).
 29. Synopsis Estadística, 1925, p. 74.
 30. See H.E. Peters, The Foreign Debt of the Argentine Republic, Baltimore, The Johns Hopkins Press, 1934, pp. 48-49; and R. Graham, Britain and the onset of modernisation in Brazil, Cambridge, University Press, 1968, p. 100.

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31. See a speech by the Finance Minister in S.E., 20th November 1907, p. 426.
32. See D.E., 6th December 1907, speeches by the Conservative anti-conversionist, Barros Errázuriz, pp. 246-247, and by A. Irarrázaval, pp. 275-276.
33. D.E., 16th November 1907, p. 139.
34. The London and River Plate Bank, Valparaíso to Head Office, 20th November 1907.
35. D.E., 5th December 1907, p. 222.
36. S.E., 9th December 1907, pp. 764-765.
37. S.E., 9th December 1907, p. 794 and 13th December 1907, p. 935; D.E., 12th December 1907, p. 428; and Anguita, op.cit., Vol. 4, p. 221.
38. See Anglo-South American Bank, Santiago to Head Office, 21st December 1907; and Subercaseaux, Monetary and Banking Policy; pp. 136-137.
39. ibid., p. 137.
40. S.O., 1st June 1908, p. 12.
41. ibid., p. 61.
42. S.O., 24th June 1908, pp. 221-222 and 1st July 1908, pp. 283-289.
43. S.O., 21st July 1908, pp. 658-677.
44. D.E., 16th November 1908, pp. 420-423, and 9th December 1908, pp. 811-812.
45. D.E., 26th November 1908, p. 600, and 9th December 1908, p. 795.
46. Eduardo Charme, the Minister of the Interior, speaking in D.E., 30th January 1909, p. 1484.
47. See speeches by the Liberal Deputy, Luis Izquierdo, a lawyer and representative of a number of British companies in Chile, including the Anglo-South American Bank, in D.E., 30th January 1909, p. 1485; and by the Conservative orero, Darío Urzúa, in D.E., 1st February 1909, pp. 1531-1533.
48. S.O., 1st June 1909, p. 12.

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49. D.O., 8th June 1909, pp. 139-143.
50. D.O., 22nd July 1909, pp. 1299-1300.
51. D.O., 2nd August 1909, pp. 1633-1640.
52. See El Mercurio, Valparaíso, 20th and 21st August 1909.
53. S.O., 19th August 1909, pp. 841-844.
54. D.O., 26th August 1909, pp. 2060-1.
55. See S.O., 20th August 1909, pp. 866-870; and D.O., 23rd August 1909, pp. 2001-2002.
56. See Fetter, op.cit., p. 168.
57. This was in spite of the agreement alleged to exist between the two by Rivas Vicuña, (op.cit., Vol. I, p. 184) that one or the other should receive the nomination at the expense of any third contender.
58. Ricardo Donoso in his work, Desarrollo político y social de Chile desde la Constitución de 1833, 2nd Edition, Imprenta Universitaria, 1942, p. 122.
59. Dated Santiago 25th January 1910 and 10th June 1910 respectively; see Ross, Chile 1851-1910, pp. 168-170.
60. See a statement by the Finance Minister, Roberto Sánchez García de la Huerta, in reply to a question from the young Balmacedist papelero, Enrique Zañartu Prieto, in D.E., 14th January 1911, pp. 1413-1416. Sánchez, descended from an extremely wealthy agricultural and commercial family, was himself a Liberal Democrat.
61. D.E., 5th January 1910, pp. 1211-1214.
62. See the preamble of a bill presented by the Government in D.O., 8th June 1911, pp. 63-64.
63. See S.O., 2nd August 1910, pp. 577-580; 3rd August 1910, pp. 600-602; and 11th August 1910, pp. 726-727.
64. S.E., 5th December 1910, p. 573; and D.E., 17th January 1911, p. 1522 and 30th January 1911, p. 1908.
65. See Anguita, op.cit., Vol.4, p.4B, for details of the law of 13th February 1912 and Ministerio de Hacienda, Recopilación de las Disposiciones, pp. 84-85, for the text of Decree

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- No. 653 relating to the contract with the German banks.
66. Anglo-South American Bank, Head Office Private Letters, London to Santiago, 29th February 1912.
 67. Subercaseaux, Monetary and Banking Policy, p. 142.
 68. See statements by the Finance Minister in D.E., 1st February 1912, pp. 2447-2448; and by the Interior Minister in S.E., 8th April 1912, p. 1754.
 69. See the message accompanying the Government's bill in S.E., 28th March 1912, pp. 1667-1668.
 70. Anglo-South American Bank, Letter Books A8, Valparaiso to London, 2nd March 1912.
 71. S.E., 28th March 1912, pp. 1667-1668.
 72. S.E., 1st April 1912, p. 1624.
 73. See a speech by Rivera in S.E., 1st April 1912, pp. 1686-1693.
 74. S.E., 10th April 1912, pp. 1749-51.
 75. The issue of Vales de Tesoro and the Caja de Conversión were proposed in a single bill presented by the 'minority' of the Finance Committee of the Deputies (D.E., 15th April 1912, pp. 108-110) composed of Edwards, Subercaseaux, Quezada and Urzúa (with some reservations). The 'majority' of the committee, although comprising only four members, supported the Senate bill.
 76. D.E., 2nd May 1912, pp. 665-666; and 3rd May, p. 697.
 77. Anguita, op.cit., Vol. 4, p. 429.
 78. Subercaseaux, Monetary and Banking Policy, pp. 138-141; and the same writer speaking in D.O., 2nd July 1913, p. 440 and 3rd July 1913, pp. 454-455; and Fetter, op.cit., pp. 128-129.
 79. See Rivas Vicuña, op.cit., Vol. I, pp. 391-398.
 80. El Mercurio, Santiago, 3rd June 1914.
 81. M.M.H., 1895, pp. 116-136.
 82. D.E., 27th April, pp. 521-529.
 83. La Union, Valparaiso, 27th July 1893.

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84. See speeches by the three in D.E., 15th November 1907, p. 117; S.E., 14th November 1907, pp. 326-328; and S.E., 20th November 1907, pp. 425-427, respectively.
85. Ross, Chile 1851-1910, p. 234.
86. See D.E., 2nd January 1910, pp. 1585-1586; D.O., 5th August 1910, pp. 1142-1143; Anguita, op.cit., Vol. 4, p. 407; and Subercaseaux, Monetary and Banking Policy, pp. 187-188.
87. Espinoza, op.cit., p. 634. This work contains details of the Commission and its membership that comprised; Emilio Alemparte, Malaquías Concha, Alberto Edwards, Roberto Espinoza, Maximiliano Ibáñez, the lawyer, economist and orero Francisco Nogueroa, Armando Quezada, J.L. Sanfuentes, Guillermo Subercaseaux, and Enrique Zañartu, together with the Minister of Finance. See also Fetter, op.cit., pp.129-133; and Subercaseaux, Monetary and Banking Policy, pp. 145-152.
88. Kerr to Grey, 8th August 1913, F.O.371/1588.
89. See a Memorandum sent by the Sociedad de Fomento Fabril to the Senate; S.E., 4th December 1913, pp. 260-265.
90. Anuario Estadístico 1925, Vol. VI, p. 11.
91. S.E.D.P., 18th December 1913, pp. 315-319; and S.E.De., 29th January 1914, p. 1000.
92. The South Pacific Mail, Valparaiso, 21st January 1914.
93. S.E.D.P., 29th January 1914, pp. 757-759; and S.E.De., 29th January 1914, pp. 1005-1008. José Elías Balmaceda, the Senator for Nuble and brother of the ex-President, abstained in the vote which was otherwise unanimous.
94. The South Pacific Mail, Valparaiso, 21st January and 26th March 1914.
95. ibid., 11th March 1914.
96. ibid., 1st April 1914. The Anglo-South American Bank in Santiago agreed with the Chilean banks that 12d was unrealistic; see Letter Books A8, Santiago to Head Office,

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- 30th January 1914.
97. See the bill as presented to the Senate, in S.O.D.P., 22nd June 1914, pp. 56-61.
 98. Kerr to Grey, 8th April 1914, F.O.371/1922.
 99. See El Mercurio, Santiago, 17th June 1914.
 100. El Mercurio, Santiago, 13th July 1914.
 101. S.O.D.P., 15th July 1914, pp. 217-221.
 102. Fetter, op.cit., pp. 134-136.
 103. Subercaseaux, Monetary and Banking Policy, p. 155.
 104. The London and River Plate Bank, Letter Books B22, Santiago to Valparaiso, 17th May 1914.
 105. D.O., 20th August 1914, pp. 1514-1515. Although not debated, this bill (signed by Arturo Alessandri among others) did create some alarm among conversionists and was attacked by El Mercurio of Santiago (20th August 1914) as being an outright papelero move.

CHAPTER ELEVEN

1. Encina, Nuestra inferioridad economía, pp. 109-110.
2. Synopsis Estadística, 1923, p. 155.
3. Pepelasis, Mears and Adelman, Economic Development: Analysis and Case Studies, (D. Felix on Chile), New York, Harper & Row & John Weatherhill, 1961, pp. 294-295.
4. For details of British participation in the livestock industry in Magallanes see A. Escobar V, Gran Bretaña en Chile 1923, Imp. y Lit. "La Ilustración," 1923, pp. 14-55.
5. Sociedad Nacional de Minería, Estadística Minera de Chile, 1906/1907, Vol. 3, pp. 90-94 and 1908/1909, Vol. 4, pp. 111-128.
6. Encina, Nuestra inferioridad economía, p. 163. The author considers that the rise in the Chilean share was due to the exhaustion of some foreign salitreras rather than to any significant growth of interest in nitrate on the part of native capitalists.

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7. Carlos Keller in Roque Gondra, op.cit., p. 192.

CHAPTER TWELVE

1. L.S. Rowe, Early Effects of the European War upon the Finance, Commerce and Industry of Chile, New York, Oxford University Press, 1918, deals with the subject.
2. ibid., pp. 58-61.
3. See the annual Presidential Message, S.O.D.P., 1st June 1915, p. 9.
4. The South Pacific Mail, Valparaíso, 13th August 1914.
5. For details of the emergency note issues of 1914 see Fetter, op.cit., pp. 137-139; and Charles A. McQueen, Chilean Public Finance, Special Agents Series No. 224, Department of Commerce, Washington, G.P.O., 1924, pp. 56-60.
6. S.O.D.P., 21st August 1914, pp. 326-331.
7. S.O.D.P., 4th September 1914, p. 409.
8. See Rivas Vicuña, op.cit., Vol. 1, pp. 469-470.
9. D.E., 15th October 1914, pp. 7-8.
10. See a report of the Finance Committee of the Deputies, D.E., 20th March 1916, p. 2978.
11. S.E.De., 26th October 1914, pp. 89-93; and D.E., 28th December 1914, p. 1454.
12. Edwards, La Fronda Aristocrática, p. 221.
13. For details of Sanfuentes' programme and the elections of 1915 see H. Aránguiz Donoso and others, "La vida política chilena, 1915-1916," Historia, No. 7, 1968, pp. 15-37; and also Donoso, Alessandri, Vol. I, pp. 141-142.
14. Figueroa, op.cit., Vol. 2, pp. 412-413.
15. See D.O., 10th June 1916, pp. 43-44; S.O.D.P., 31st July 1916, pp. 118-119; S.O.De., 1st August 1916, p. 210, 7th August 1916, pp. 217-218, and 10th August, pp. 249-252.
16. S.O.D.P., 7th August 1916, pp. 126-128.
17. S.O.D.P., 24th August 1916, pp. 178-181.

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18. In 1918 the USA took 64% of Chile's exports and supplied 47% of her imports (compared with shares of 22% and 17% respectively in 1913). The comparable proportions for Great Britain dropped from 39% and 30% in 1913 to 24% and 19% in 1918. The US gain was, of course, principally at the expense of Germany who took 22% of Chile's exports in 1913 and supplied 25% of her imports. See Resumen de la Hacienda Pública, p. 95; and Synopsis Estadística, 1925, pp. 151-152.
19. See Appendix I.
20. See for example the Minutes of Meeting of the Nitrate of Soda Executive held on 18th June 1918 in London, F.O.371/3171.
21. Between 1914 and 1918 the sterling price of nitrate at the coast rose 68% while the average exchange rate appreciated by 62% over the same period. These figures are derived from Synopsis Estadística, pp. 62 and 118.
22. ibid., p. 117.
23. ibid., p. 118.
24. ibid.
25. S.E.De., 15th December 1916, p. 430; and D.E., 11th November 1916, pp. 805-807.
26. D.E., 11th November 1916, pp. 805-806.
27. D.E., 20th November 1916, pp. 1044-1048.
28. El Mercurio, Santiago, 26th July 1917. For the Treasury's viewpoint see Armando Quezada, the Finance Minister, in S.O., 8th September 1916, pp. 1024-1025.
29. See reports of meetings of some labour organisations in El Mercurio, Santiago, 11th November 1917; and a petition in S.E., 29th November 1917, p. 410.
30. El Mercurio, Santiago, 25th December 1917.
31. See Guillermo Subercaseaux, "La situación monetaria en Chile durante la primera guerra mundial," Economía; Revista de la Facultad de Economía de la Universidad de

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- Chile, 1950, No. 3, pp. 114-120.
32. S.E., 14th May 1918, pp. 146-147.
 33. See D.E., 16th May 1918, p. 1851, for the text of the Senate bill as introduced into the Deputies; also D.E., 18th May 1918, pp. 1964-1992.
 34. Hirschmann, op.cit., p. 174.
 35. Synopsis Estadística, 1925, p. 148.
 36. See J.R. Partington and L.H. Parker, The Nitrogen Industry, London, Constable & Company Ltd., 1922, pp. 20-25.
 37. Synopsis Estadística, 1925, p. 118.
 38. S.O., 27th September 1920, p. 1076; D.E., 5th November 1920, pp. 348 and 382; S.E., 11th November 1920, p. 488.
 39. The unemployment figures were quoted in the 1922 annual Presidential Message (S.O., 1st June 1922, p. 13). Except perhaps in the case of the figures for unemployment in the nitrate industry, where the situation was more closely monitored by the authorities than elsewhere, no great store should be placed on the actual figures themselves. They do, however, at least serve to show official recognition of the problem of unemployment.
 40. See Deputy Deves in D.O., 14th August 1924, pp. 1805-1807.
 41. Appendix VIII. £1.5mn was borrowed from British banks and the rest from American banks.
 42. Appendix VII and Synopsis Estadística, 1923, p. 68.
 43. Grant-Duff to Curzon, 12th April 1923, F.O.371/8443.
 44. D.E., 26th October 1917, p. 100, and 20th November 1917, p. 822. Salas Edwards' attempt to get the Caja Central Bill declared a proposición de urgencia was rejected and the discussion ended.
 45. D.O., 28th August 1918, pp. 2409-2417.
 46. S.E., 16th December 1918, p. 809. According to Mr. C.W. Gilfillan, the Manager of the Santiago branch of The London and River Plate Bank, the frequent postponements of the date for conversion led to some confusion. In a letter to

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Head Office of 10th December 1918, he declared that "in a recent interview with the Director del Tesoro I mentioned the matter and he insisted that the date fixed for conversion was the 1st January 1920. To prove it he looked up the law and found that he was wrong. He then said that he must advise the Finance Minister, who shared his idea that 1920 was the year. It did not seem to strike him as curious that the two officials most nearly concerned should be so misinformed." See Letter Books B22.

47. D.E., 7th January 1919, pp. 1817-1819.
48. D.E., 18th November 1919, p. 337; and also the book written by Subercaseaux, El Sistema Monetario i la Organización Bancaria de Chile, Soc. Imprenta i Litografía Universo, 1921, pp. 385-397. This work is slightly longer than the English translation.
49. See D.E., 25th November 1919, pp. 594-603, 27th November 1919, pp. 657-661.
50. S.E., 10th December 1919, p. 573.
51. Dated Valparaiso, 4th December 1919.
52. S.E., 19th January 1920, p. 1129.
53. S.E., 12th January 1920, pp. 966-971
54. S.E., 19th January 1920, pp. 1084-1085.
55. See Donoso, Alessandri, Vol. 1, pp. 266-276; and the Letter Books of the Anglo-South American Bank and of the London and River Plate Bank for the years 1920-1921. The Banco Español failed in December 1925.
56. See Alessandri's Recuerdos de Gobierno, Editorial Universitaria, Vol. I, Appendix, p. 436.
57. El Mercurio, Santiago, 3rd July 1921.
58. S.O., 1st June 1923, p. 31.
59. S.O., 1st June 1924, p. 44.
60. Eduardo Opazo, S.O., 3rd September 1924, p. 1865.
61. El Mercurio, Santiago, 9th July 1921.
62. S.O., 27th June 1921, pp. 357-360.

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63. Guillermo Rivera, S.O., 5th July 1921, p. 466.
64. S.O., 23rd August 1921, pp. 1006-1013.
65. By coincidence Opazo entered the Senate in the same month in which MacIver died. But he replaced another deceased Senator, Jorge Errázuriz Tagle.
66. See the text of a letter from Zañartu to the Minister of the Interior, Pedro Aguirre Cerda, printed in La Nacion, Santiago, 21st July 1924.
67. S.O., 11th August 1924, pp. 1387-1391.
68. Felipe L. Herrera, Elementos de economía monetaria, Editorial Universitaria, 1955, pp. 117-118.
69. Synopsis Estadística, 1925, pp. 150-151.
70. Anuario Estadístico, 1925, Vol. VIII, p. 34.
71. Informe del Inspector de Bancos, 1918, in the Diario Oficial, 7th February 1919.
72. See particularly, Frederick M. Nunn, Chilean Politics 1920-1931: The Honorable Mission of the Armed Forces, Albuquerque, University of New Mexico Press, 1970.
73. D.O., 1st August 1924, pp. 1593-1594.
74. D.O., 14th August 1924, p. 1807.
75. D.O., 29th August 1924, pp. 2206-2262; and S.O., 8th September 1924, p. 1924.
76. An extract from the programme of Muñoz cited in the work of General Juan Bennett A., La revolución del 5 de Setiembre de 1924, Balcells & Co., 1926, p. 278. Bennett was a member of the Junta de Gobierno.
77. ibid.
78. Herrera, op.cit., p. 116.
79. Robert N. Seidel, "American Reformers Abroad: The Kemmerer Missions in South America, 1923-1931," The Journal of Economic History, Vol. XXXII, June 1972, No.2, p. 533. There is some confusion in the literature about Alessandri's exact course of action in 1923. Alessandri himself claims that, as a result of the resistance to

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Subercaseaux's proposals, he and Subercaseaux made a preliminary approach to Kemmerer via the Chilean Minister in Washington. However, at that stage Kemmerer came up with no new ideas. See Alessandri, Recuerdos, Vol. 1, pp. 260-261. On the other hand, Subercaseaux makes no reference to himself or Alessandri making an approach to Kemmerer or anybody else. He states merely that the military called in Kemmerer. See his article, "La reforma monetaria de Chile: El Banco Central," Revista de estudios económicos, Año 1, Noviembre de 1925, No. 2, pp. 79-85.

80. Seidel, op.cit., p. 534.
81. Misión de Consejeros Financieros, Legislación bancaria y monetaria, Imprenta Universitaria, p. 173. Besides the three monetary and banking laws Kemmerer also advised on legislation relating to the reform of the budget and tariff systems. The Ley Organica de Presupuestos enacted by decree on 13th November 1925, together with the new Constitution of 1925, served to curtail the power of Congress over fiscal matters.
82. Seidel, op.cit., p. 535.
83. Alessandri, Recuerdos, Vol. 1, p. 297.
84. Misión de Consejeros Financieros, p. 17.
85. The term "umpire" is used by Hirschmann (see op.cit., pp. 175-177), but he applies it to the whole range of Kemmerer's work and not just the Central Bank.
86. See Fetter, op.cit., pp. 179-180.
87. A quotation from a speech by Kemmerer in 1927 at a dinner at the Club de la Unión in Santiago in The Chilean Review, No. 23, 1927, p. 66.

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CHAPTER THIRTEEN

1. The writer was A. MacLeish, Fortune, New York, May 1938, p. 148.
2. See Jobet César's works: Ensayo crítico del desarrollo económico-social de Chile, and Precursores del pensamiento social de Chile, 2 vols., Editorial Universitaria, 1955. This latter work includes a section on Roberto Espinoza as well as Alejandro Venegas and Nicolás Palacios.
3. E.W. Kemmerer, "Chile returns to the Gold Standard," The Journal of Political Economy, XXXIV, June 1926, No. 3, pp. 265-273.
4. See "Estudio Preliminar de Francisco Antonio Encina," 27th December 1949, in Guillermo Feliú Cruz, 1891-1924 Chile visto a través de Agustín Ross; and Enrique L. Marshall, "Régimen monetario actual y sus antecedentes históricos" in Humberto Fuenzalida and others, Chile Geografía, Educación, Literatura, Legislación, Economía, Minería, Buenos Aires, Editorial Losada, pp. 219-271.
5. See Chile. Un caso de desarrollo frustrado, Editorial Universitaria, 1962, pp. 93-100.
6. See the Journal of Political Economy, August 1963, p. 389.
7. Bauer, op.cit., pp. 31-34.
8. These conclusions were reached after a survey of the areas represented by 36 Senators prominent in the monetary debate between 1891 and 1914. Of the papeleros, 16 represented provinces to the south of Santiago and 5 areas to the north. Of the oreros, 8 represented areas in the north and 7 in the south. In the Deputies, the less conclusive result covering 52 cases shows: papeleros, 19 south, 9 north; oreros, 13 south, 11 north.
9. Figueroa, op.cit., Vol. 5, pp. 1111-1118.
10. D.O., 6th August 1908, p. 1084.
11. See also the article of Carlos Ugarte, "La situación económica de Chile entre los años 1892 y 1894 juzgada

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- por Don Luis Aldunate Carrera," Estudios de Historia de las Instituciones Políticas y Sociales, No. 2, 1967, pp. 299-330.
12. For biographical details of Vicuña, Aldunate and other politicians involved in the nitrate industry see Enrique Kaempffer, La industria de salitre i del yodo 1907-1914, Imprenta i Encuadernación "Victoria", 1914.
 13. Luis Aldunate, Indicaciones de la Balanza Comercial, Imprenta Cervantes, 1893, p. 175.
 14. Manuel Arístides Zañartu, D.O., 4th August 1885, p. 366.
 15. Dario Sánchez Masenlli, S.O., 10th August 1907, p. 706.
 16. D.O., 28th June 1909, p. 673.
 17. For the critical opposition (orero) view of the concept of "moneda nacional", see La Revista de Chile, Vol. IV, No. 3, 1st February 1900, pp. 64-66.
 18. Roberto E. Meeks, D.O., 18th July 1898, p. 395.
 19. Aníbal Zañartu, S.O., 7th July 1898, p. 230.
 20. S.E., 19th October 1894, p. 41.
 21. See for example the views of Manuel José Vicuña in Conferencia sobre la industria salitrera dada en el Congreso Minero de 1894, Impr. i Encuad. Barcelona, 1894, pp. 29-32.
 22. See Malaquias Concha, La lucha económica, Imprenta Cervantes, 1910.
 23. Dario Sánchez Masenlli, S.O., 10th August 1907, p. 708.
 24. Francisco Antonio Encina in the Estudio Preliminar to the work of Guillermo Feliú Cruz, 1891-1924 Chile visto a través de Agustín Ross. Encina was in fact strongly opposed to the papeleros during his spell in the Deputies in the early years of this century. His criticism of dogmatism against the oreros is directed principally at Agustín Ross.
 25. Enrique Zañartu Prieto, Tratado de economía política, 2nd Edition, Empresa Editorial Zig-Zag, 1946, p. 69.

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26. See for example another work of Enrique Zañartu Prieto, Hambre, miseria e ignorancia, Ediciones Ercilla, 1938, pp. 66-68.

CHAPTER FOURTEEN

1. Other writers have commented on the generally ethical and acceptable face of capitalism represented by Gibbs and other British merchants in Chile and elsewhere in Latin America. See for instance the paper by R.G.Greenhill, "British Merchants and the Latin American Trade," pp. 27-28, presented to the 1973 Conference of the Society for Latin American Studies. Gibbs may have been exceptional in both their commercial conduct and in their relations with governments; however the records of the Bank of Tarapacá and London show the same dislike of exchange speculation on the part of Head Office in London.
2. The Times, 20th August 1901.
3. Anglo-South American Bank, Letter Books (General), Head Office Circular (to all branches in Chile), 14th February 1908. In the event the branches found it impossible to comply with the policy and it was abandoned.
4. The London and River Plate Bank, Letter Books B22, C.W. Gilfillan to T. Murray Lees (Manager of the Valparaiso Branch), Santiago, 17th May 1914.
5. D.E., 5th February 1895, p. 1276.
6. Edwards and Frei, op.cit., p. 119.
7. For biographical details of the Huneeus family see Figueroa, op.cit., Vol. 3, pp. 487-490; and also Blakemore, British Nitrates and Chilean Politics, p. 126.
8. For one of the principal statements of dependency theory see the work of A.J. Frank, Capitalism and Underdevelopment in Latin America. Historical studies of Chile and Brazil, New York and London, Monthly Review Press, 1967. For a case study (the Peruvian bondholders) of the question of foreign control and dependency in Chile in this era see

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Harold Blakemore's article, "Limitations of dependency: an historian's view and case study," Boletín de Estudios Latinoamericanos y del Caribe, C.E.D.L.A., No. 18, June 1975, pp. 74-87.

9. de Cecco, op.cit., p. 59.
10. In that year Brazil received the 'Funding loan' which involved a scheme for the postponement of repayments on her foreign debt. This concession was granted in exchange for an austerity programme which included the inspection by the London and River Plate Bank, the main British bank in the country, of schemes for cutting the currency in circulation in Brazil. See Graham, op.cit., p. 104.
11. Woodsend (the Duncan Fox representative in Chile) to Kennedy, Valparaiso, 1st December 1891, enclosed with Kennedy to Salisbury, 31st December 1891, No. 144, F.O.16/266.
12. Espinoza, op.cit., p. 17.
13. Oficina Central de Estadística, Chile Económico 1914, Soc. "Imprenta y Litografía Universo," 1914, p. 23.
14. Carlos Vicuña, op.cit., Vol. 1, p. 102.

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1. T.C. Wright in his article, "Origins of the Politics of Inflation."

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