

The power of peripheral governments: coping with the 1891 financial crisis in Portugal*

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Abstract

In 1891 a financial crisis led Portugal to abandon the gold standard and partially to default by cutting interest payments on domestic and foreign debt. As a consequence, the country was banned from borrowing in international financial markets until an agreement with foreign bondholders was reached in 1902. The financial crisis was the result of large current account and government deficits. Yet, the abandonment of the gold standard and default were not imposed only by financial difficulties. This article shows that such options were taken because of the growing domestic consensus regarding the need for a change in monetary policies. This concern about the domestic economy was more important to successive Portuguese governments than the fear of a negative reaction from foreign bondholders. Insufficient information about the sustainability of government debt and lack of co-operation between borrowers left Portuguese governments with space to manoeuvre according to their domestic political interests.

After half a century marked by turmoil, military coups and a civil war, in 1851 political life in Portugal had reached equilibrium and the country entered the four-decade period that became known as the *Regeneração*. Monetary stabilization was achieved immediately afterwards, and in 1854 the country joined the gold standard. Two years later, Portugal was once more able to borrow in the international capital markets. The ability to borrow abroad was a major contributing factor in the failure of Portuguese governments to prioritize the need for balanced budgets, despite innumerable political declarations to the contrary.¹ Lurking behind the option to maintain budget deficits was the generally accepted idea that the country needed a more robust infrastructure and the option to raise capital both at home and abroad by issuing bonds. The financial disequilibrium that marked the period of the *Regeneração* was also a consequence of the difficulties that

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¹ The *Regeneração* period was marked by other political crises, particularly in 1868, 1870 and 1876, but none of these events compared in intensity with what happened before 1851.

the state experienced in increasing tax revenues, along with the need to expand administrative functions and to invest in improving the country's infrastructure (as a result, Portugal's public debt increased from thirty-eight per cent of G.D.P. in 1854–9 to close to eighty-one per cent in 1880–9). In 1891, this period of easy borrowing came to an end with a financial crisis.²

Despite all the ensuing financial problems, the years from 1851 to 1891 were marked by a few positive features. First, Portugal complied rather satisfactorily with the measures that were imposed by the gold standard, and between 1854 and 1891 the convertibility of the currency was only suspended for a few days during a banking crisis in 1876.³ The high level of public debt, after all, did not represent an excessive burden for Portuguese capital markets, in the sense that interest rates were not particularly affected by public borrowing. In other words, the financing of the public deficit did not crowd out Portugal's private capital markets.⁴ Moreover, public investment in infrastructure, such as railways, roads and other social overhead capital, stimulated the economy.⁵ After 1891, the economy maintained its rate of growth because of increased tariff protection, combined with the effect of currency depreciation and the enforcement of the system of imperial trade preference.⁶

The 1891 financial crisis arose from the difficulties encountered by the Bank of Portugal in supplying gold in the manner set down in the monetary regulations governing the gold standard, and from the government's inability fully to honour the interest returns on the national and foreign public debt. There were also a number of short-term causes for the crisis: in the years after 1885, the trade deficit increased as a result of declining exports and a persistent growth in imports; there was a sharp fall in emigrant remittances from Brazil because of the political instability and high rate of inflation there; and there was a contraction of foreign capital markets in the wake of the Baring crisis.⁷ As a means of resolving its

² See R. P. Esteves, 'Looking ahead from the past: the inter-temporal sustainability of Portuguese finances, 1854–1910', *European Rev. of Econ. Hist.*, vii (2003), 239–66; and R. P. Esteves, 'Finanças públicas', in *História Económica de Portugal, 1700–2000*, ed. P. Lains and A. F. Silva (3 vols., Lisbon, 2005), ii, 305–35. See also *Currency Convertibility: the Gold Standard and Beyond*, ed. J. Reis (1996); and J. Reis, 'The gold standard in Portugal, 1854–91', in *Monetary Standards in the Periphery: Paper, Silver and Gold, 1854–1933*, ed. P. Martin Aceña and J. Reis (2000), pp. 69–111.

³ Reis, 'The gold standard'.

⁴ See R. P. Esteves, 'O crowding-out em Portugal, 1879–1910', *Análise Social*, xxxiv (2000), 573–618. The author concludes that Portugal's capital market was segmented and thus that there was little competition between private and public borrowing. See also P. Lains, *História da Caixa Geral de Depósitos, 1876–1910: Política e Finanças no Liberalismo Português* (Lisbon, 2002).

⁵ See E. Mata, 'As três fases do fontismo: projectos e realizações', in *Estudos e Ensaios em Homenagem a Vitorino Magalhães Godinho* (Lisbon, 1988), pp. 413–30.

⁶ See P. Lains, *L'économie Portugaise au XIXème siècle* (Paris, 1999). See also M. Villaverde Cabral, *O Desenvolvimento do Capitalismo em Portugal no século XIX* (1976; Lisbon, 1981); and A. Castro, *A Revolução Industrial em Portugal no século XIX* (1947; Oporto, 1978).

⁷ On the Baring crisis, see, among others, H. S. Ferns, 'The Baring crisis revisited', *Jour. Latin American Stud.*, xxiv (1992), 241–73.

payments difficulties, the government decided to abandon the gold standard in 1891, and forcibly to reduce the interest on both national and foreign debts in 1892. As a consequence, between 1892 and 1902, Portugal was effectively banned from financing its public debts with loans raised on the international financial markets.

In order to understand why Portugal partially defaulted in 1892, we need to take into account two crucial factors. First, the governments in Lisbon were not particularly concerned about the negative impact of default on the state's capacity to borrow in the international capital markets. Second, foreign lenders did not scrutinize closely enough government accounts internationally, because their ability to do so was relatively undeveloped in this period and because foreign investors were competing among themselves.⁸

Bulow and Rogoff posit three reasons why countries repay their foreign debt: the appropriation of collateral by lenders; sanctions imposed by lenders; and concern over the ability to keep borrowing in the future.⁹ Portugal's foreign debt did not involve collateral and sanctions by debtors were rare, as most foreign governments did not back private lenders. Moreover, most of the debt was placed in Paris and Berlin, and Portugal's largest trading partner was Great Britain. The only negative consequence of default was the inability to keep borrowing in the future. This article will demonstrate that this was clearly of much less concern to Portuguese governments than domestic reactions to restrictive monetary policies – the ability to borrow in the international markets was, in any case, re-established after a decade, following an agreement with foreign bondholders in 1902. The article will start by reconstructing the historical circumstances that preceded the crisis, showing how changes in the government led to a sharp increase in the public deficit and a concomitant increase in the credibility of the Portuguese state debt in foreign markets. It will then provide a description of the emergence of the crisis and identify the different policies that were adopted in order to cope with it. Next it will discuss the emergence of a consensus to solve the crisis, with the two

⁸ Portugal was no exception. Argentina also went on borrowing abroad, even after a short-term crisis in 1885 and the deterioration of the macroeconomic situation in the years that followed until the Baring crisis. See J.-H. Flores, 'Information structure and financial crisis: why didn't Lombard Street sound the alarm?' (unpublished paper, Madrid, Universidad Carlos III, 2005); and G. della Paolera, 'The true measure of country risk: a primer on the interrelations between solvency and the polity structure of emerging markets: Argentina 1886–92', in *Growth, Institutions and Crises: Latin America from a Historic Perspective*, ed. S. Edwards (Chicago, forthcoming). See also *The International Debt Crisis in Historical Perspective*, ed. B. Eichengreen and P. H. Lindert (Cambridge, Mass., 1989); T. Kelly, 'Ability and willingness to pay in the age of Pax Britannica, 1890–1914', *Explorations in Econ. Hist.*, xxxv (1998), 31–58; and M. Flandreau, 'Caveat Emptor: coping with sovereign risk under the international gold standard, 1871–1913', in *International Financial History in the 20th Century: System and Anarchy*, ed. M. Flandreau, C.-L. Holtfrerich and H. James (Cambridge, 2003), pp. 17–50.

⁹ See J. Bulow and K. Rogoff, 'A constant recontracting model of sovereign debt', *Jour. Political Economy*, xcvi (1989), 155–78.

main ruling parties and their political offshoots showing more concern over the domestic economy than with foreign creditors. It will conclude by setting the Portuguese case in the appropriate international context in order to draw lessons for the functioning of international financial markets.

The 1851 *Regeneração* military coup led to political pacification and inaugurated a period of development for Portuguese institutions in many domains, specifically the political and legal systems, property and civil rights, and organizations related to trade and industry. Pacification also paved the way to developments in the construction of infrastructure, such as roads and railways, and higher levels of investment in education. The extent of these developments was limited in comparative terms, as Portugal was by then the most backward country in western Europe, and remained so for a long period of time.

The coup also led to the emergence of a bipartisan regime, which was to be dominated by the Partido Regenerador, on the right, and the Partido Histórico, on the left, both founded in 1852. In 1876 the left regrouped in the new Partido Progressista.¹⁰ The *regeneradores* were in power for most of the period, particularly after 1870; on the left, the *progressistas* were able to form a government only during a brief period from 1879 to 1881 and in 1886.¹¹ The electoral system was not fully competitive, as polls were called and organized by the government, and only twice in the years 1852–1910 did the ruling party lose a contest.

In the nineteenth century, the decisions of the Portuguese government were increasingly marked by the need to cope with the demands of different political groups within the country. This development certainly affected the way in which financial policy was conducted. In 1851 it was crucial for the incoming government to regain the confidence of international markets in order to finance its activity through foreign lending. Such confidence was restored in 1856.

In 1886, the left came to power and remained there for the next four years, its longest period in office to that point. After thirty years of dominance by the *regeneradores*, new priorities were set; government was more concerned about dealing with the increasing domestic political problems, and foreign lenders were perceived as less of a threat to stability. The government formed by the Partido Progressista had as finance minister Mariano de Carvalho, who showed from the outset that he wanted to change the financial system instituted by the right. Presenting his first state budget in parliament, at the beginning of 1887, the new minister outlined

¹⁰ See P. Tavares de Almeida, *Eleições e Caciquismo no Portugal Oitocentista, 1868–90* (Lisbon, 1991).

¹¹ The *progressista* party was then under the new leadership of Luciano de Castro, after the death of its historical leader, Anselmo Brancaamp, in late 1885. ‘Fontismo’ was far from a homogeneous period (see M. F. Mónica, *Fontes Pereira de Melo* (Lisbon, 1999)). See also F. Bonifácio, *O Século XIX Português* (Lisbon, 2002).

an ambitious plan that implied profound reforms of the three institutions controlling the main sources of state revenue. First, he wanted to change the legislation concerning the taxation of tobacco imports and manufacture, the single largest item of state revenue. Second, government control over the Bank of Portugal, the largest joint-stock bank in the country which had the monopoly of issuing notes in Lisbon, was to be increased. Third, the Junta do Crédito Público, the committee that issued state bonds and made the payments to the public, was to be stripped of its supervisory functions – perceived as making it too independent from the government – and the supervision of the public debt made directly the responsibility of the ministry of finance. Carvalho had his sights set on changing three of the more important pillars of the financial system built by the *regeneradores* across several decades.¹²

The change in the tobacco regime led to an extraordinary increase in government expenditure. The import and manufacture of tobacco was a private monopoly until 1865, when the government liberalized the trade and instead charged an excise duty on tobacco imports. From 1879 onwards, a tax on domestic tobacco production was also imposed. However, the tobacco industry gradually developed into a *de facto* monopoly controlled by the Companhia Nacional de Tabacos, which owned the larger factories in Lisbon and Oporto.¹³ In December 1886, the board of the tobacco company petitioned the government for the concession of a *de jure* monopoly. The implications of the granting of such a monopoly for the administration of public finances were significant, something of which the leading financiers in Portugal were, of course, aware. The most pre-eminent Portuguese banker of the time was a man of Belgian descent, the count of Burnay, whose fortune had been made during the decades of rule of the Partido Regenerador. He expressed his interest in buying the tobacco monopoly, and demanded that the matter be put out to tender. But Mariano de Carvalho did not want Burnay to control the monopoly and decided to establish a state monopoly or *régie*, instead. This was a costly move, but he enjoyed the full support of his party colleagues.¹⁴

The two other important changes that Carvalho imposed, namely the establishment of a new statute for the Bank of Portugal and the ending of the supervisory role of the Junta de Crédito Público, did not entail an increase in public expenditure. The new statute for the Bank aimed at increasing government revenue by instituting profit sharing, providing cheaper credit through a special treasury current account and generally giving greater solidity to the banking system. But the reform of the Bank of Portugal and the Junta de Crédito Público also paved the way for a

¹² See 'Relatório . . .' in *Diário da Câmara dos Deputados* (16 Jan. 1888), pp. 121–3. See also M. Pina, *Os Planos Financeiros do Sr. Mariano de Carvalho* (Lisbon, 1893).

¹³ See R. Esteves dos Santos, *Os Tabacos: sua Influência na Vida da Nação* (2 vols., Lisbon, 1974); and M. F. Mónica, *O Tabaco e o Poder: cem anos da Companhia dos Tabacos de Portugal* (Lisbon, 1992).

¹⁴ See Lains, *História da Caixa Geral de Depósitos*.

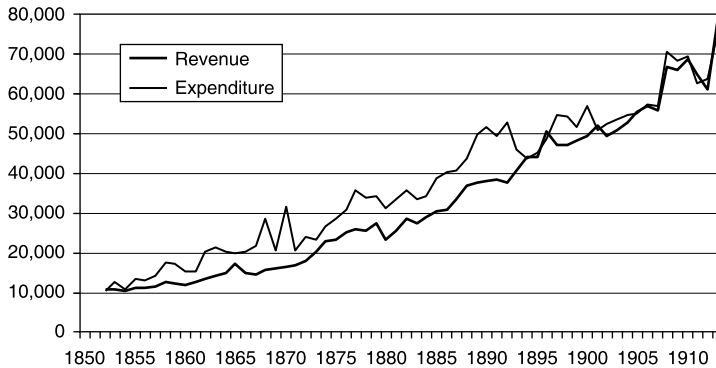


Figure 1. Government revenue and expenditure, 1852–1913 (*contos*).

Source: Mata, *As Finanças Públicas*, p. 175.

higher level of government independence when dealing with private capital owners, whether large, like the Bank, or small, like those members of the public who purchased government bonds from the Junta. That greater degree of independence would soon prove to be crucial.

In order to fund the creation of the tobacco state monopoly, the finance minister had to seek parliamentary authorization for a public loan of up to 7,200 *contos*.¹⁵ The lower chamber of parliament, in which the government had a majority vote, approved this operation in May 1888. The total cost of indemnities paid by the government for the expropriation of the tobacco companies was slightly below the limit for the loan conceded by parliament but they nevertheless reached the astonishing sum of 6,333 *contos*.¹⁶ This suggested the doubling of the government deficit in just two years, to 11,526 *contos* in the fiscal year 1888–9 (see Figures 1 and 2). This one budgetary heading increased to account for twenty-three per cent of total state expenditure; and because the loan was not offset by any growth in state revenue, the public deficit increased from 6,887 to 11,998 *contos*.¹⁷ This was the true cost of the change of direction initiated by the new *progressista* government. Carvalho was able to go ahead with his plan because his ultimate purpose was to use the revenue from the state monopoly to fund the public debt.¹⁸ At no point was any concern shown about the reaction of foreign creditors.

¹⁵ One *conto* = 1 million *réis* = £222. Portugal's currency unit was the *real* or *réis* (plural).

¹⁶ See Esteves dos Santos, i, 114–23; Mónica, p. 23; and R. Ramos, *A Segunda Fundação, 1890–1926* (Lisbon, 1994), p. 129. See also M. de Carvalho, *A Questão dos Tabacos: Discursos proferidos na Câmara dos Senhores Deputados nas Sessões de 12, 13 e 15 de Abril de 1889* (Lisbon, 1889); and E. Mata, *As Finanças Públicas Portuguesas da Regeneração à Primeira Guerra Mundial* (História Económica, iv, Lisbon, 1993), pp. 157–9, 218.

¹⁷ See Mata, *As Finanças Públicas*, pp. 53–4, 157–9, 189, 218.

¹⁸ See M. e Sousa, *Tratado de Ciência das Finanças* (Coimbra, 1916), pp. 359–63.

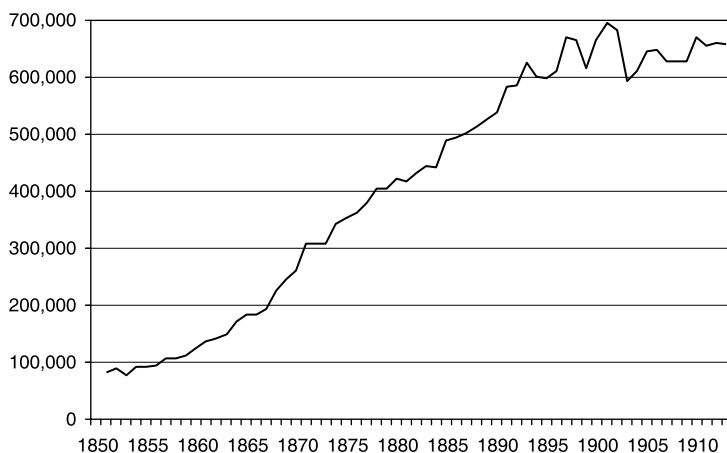


Figure 2. Public debt, 1851–1913 (contos).

Source: Mata, *As Finanças Públicas*, p. 255.

Mariano de Carvalho's revolutionary plans were ambitious but were met with little opposition from the *regeneradores*. The party had been weakened by the death of its historic leader, Fontes Pereira de Melo, in January 1887, and by the ensuing internal struggles for succession. However, it seems likely that the plans met with little opposition because there was some consensus about the need to increase state control of the financial institutions dealing with public debt and monopolies – at least that is what we can infer from the fact that Carvalho's reforms were not reversed when the *regeneradores* regained full control of the government ten years later. The proposed reforms brought with them a heavy financial burden, but Carvalho could afford to be relatively sanguine about this as he came to power in a climate that favoured the state finances. In early 1887, the three per cent bonds were quoted at a historic high of 82.6 per cent (implying a real interest rate of 3.63 per cent); in September of the previous year, the issue price was 69.6 per cent (a real interest rate of 4.31 per cent).¹⁹ The spread between the Portuguese and the British consoles declined from its 1885 peak of 3.78 percentage points

¹⁹ The average interest for public debt in the secondary market, in 1880–9, was 5% (domestic) and 5.6% (foreign), as compared to 3% for British consoles. The difference between these rates is a measure of the premium on Portuguese public debt, which had been declining since 1854–9 from a maximum of 3.7 percentage points in the eighteen-fifties (for both domestic and foreign debt). According to an estimate, in the primary market the interest rate deviated substantially from that of the secondary market in 1890–9, reaching 11.9% (domestic) and 9.3% (foreign). The two markets converged thereafter. The domestic premium reached a minimum in 1900–10 at 2.5 percentage points, whereas the foreign premium, given by the exchange risk after Portugal left the gold standard in 1891, was estimated at 3 percentage points (see Esteves, 'Finanças públicas', table 10.3).

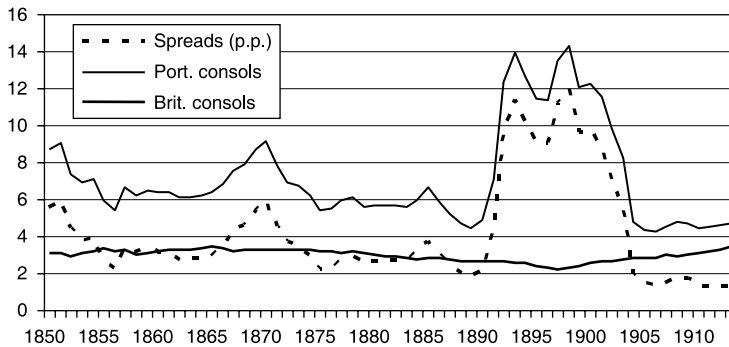


Figure 3. Yields of British and Portuguese consols, 1850–1913 (per cent).

Sources: Global Financial Data Database <<http://www.globalfinancialdata.com/index.php3>> [accessed 2 Feb. 2007]; and M. Flandreau and F. Zumer, *The Making of Global Finance 1880–1913* (Paris, 2004).

to 2.28 percentage points in 1887 (see Figure 3). Moreover, between the fiscal years of 1885–6 and 1886–7, the state's effective receipts increased by ten per cent, while the deficit decreased by twenty-five per cent, from around 9,400 to 7,100 *contos* (see Figure 1). The markets reacted positively to the reforms and there was an improvement in the state's credit rating and in the quotation of its funds. Between 1886 and 1889, the average price of Portuguese bonds in the secondary market in London increased by thirty-three per cent and in Lisbon by twenty-nine per cent.²⁰ The spread of Portuguese consols reached a historical low of 1.83 percentage points in 1889.

Creditors abroad were only just becoming worried about the solvency of the Portuguese state. In 1885, *The Economist* warned that 'in the interest of Portugal herself it would be well if her facilities for borrowing were now curtailed'.²¹ However, the state managed to keep borrowing abroad because of a shift from London to Paris, and then to Berlin, as the main source of its capital.²² The Portuguese government was taking advantage of the high level of competition in the international financial markets, which was arguably one of the main reasons why investors failed to exert a greater degree of control over the way in which their funds were spent. The government also benefited from the fact that the mechanisms for assessing the solvency of governments were still in their infancy. For example, it was only during the eighteen-eighties that *Crédit Lyonnais*, one of the largest European banks, inaugurated its *Service des études*

²⁰ Esteves, 'Looking ahead from the past'. See also Mata, *As Finanças Públicas*, p. 189; and Sousa, p. 420.

²¹ *The Economist*, 3 Nov. 1885, p. 5 (quoted in Esteves, 'Finanças públicas'). Note, all quotations in this article are the author's own translations.

²² See Esteves, 'Finanças públicas'.

financières, and thus began collecting information on foreign governments and rating their solvency levels.²³

The Portuguese finance minister did not have the time fully to carry out his plan on the tobacco monopoly because he was ousted from government in November 1889, following a financial scandal, and the whole government fell shortly afterwards.²⁴ The government collapsed because of the ambition of the minister of foreign affairs, Barros Gomes. He had provoked the British government by publishing a map – which became known as the ‘rose-coloured map’ – with the Portuguese southern African colonies carved out from coast to coast, including the area that would become Rhodesia, and moving troops accordingly. This brought an ultimatum from the British government in January 1890, which provoked outrage in Portugal, led to the fall from power of the Partido Progressista and, ultimately, to a decade-long interruption of the bi-partisan system that had governed the country since 1870.

The fall of the *progressista* cabinet was followed by a period of increasing political instability, marked by high levels of unrest in the streets against not only the two main parties, but also against the monarchy, led by the emerging republican forces. But unrest was also a consequence of the fact that the right-wing Partido Regenerador was itself going through a period of conflict and uncertainty. The death of its leader, Fontes, a few years before had given rise to fierce internal struggles. The new leader, Serpa Pimentel, was an ageing man who was unable to control the party. Ultimately, he was compelled to form a cabinet which included the three men who had fought him for the leadership and, with infighting soon surfacing in parliament, his government only lasted two months.²⁵ In October 1890, Serpa was replaced as prime minister by the non-partisan General João Crisóstomo, an eighty-year-old army officer who had, however, been

²³ See Flandreau. The author also points to the fact that government financial reports could be ‘filled with intended errors’, as was reported to the *Crédit* by a Portuguese official in 1898 (see pp. 31, 47). See also M. D. Bordo and H. Rokoff, ‘The gold standard as a “good housekeeping seal of approval”’, *Jour. Econ. Hist.*, lvi (1996), 389–428; and M. Flandreau and F. Zumer, *The Making of Global Finance, 1880–1913* (Paris, 2004). Argentina’s economic and financial situation also deteriorated after about 1885 and foreign lenders kept supplying funds to the government, until the 1891 Baring crisis (see Flores).

²⁴ See M. Pinheiro, ‘Portugal e Espanha: integração e ruptura. Os caminhos-de-ferro, 1850–90’, *Ler História*, i (1987), 47–75, at pp. 56–7, 68–71. Carvalho exceeded his powers as finance minister and promised to provide financial assistance to a bankers’ syndicate, without consulting the prime minister and head of his party, Luciano de Castro. The syndicate had been formed in 1881 with the aim of providing the city of Oporto with a direct link to the Spanish rail network, through Salamanca.

²⁵ The three contenders were Lopo Vaz, João Franco (minister of finance) and Hintze Ribeiro (foreign minister). Hintze Ribeiro was to be confronted, in the chamber of deputies, with a motion of support for the Partido Progressista and the publication of Barros Gomes’s ‘rose-coloured map’. This motion gained the support of some deputies of the Partido Regenerador who backed Vaz’s candidacy for party leadership (see Ramos, *A Segunda Fundação*, pp. 185–6).

linked in the past to the left, that is to the Partido Progressista.²⁶ He led a supposedly independent cabinet, but at this point the *progressistas* were clearly ahead in the race for power. Crisóstomo appointed as finance minister Augusto José da Cunha, a man who was very close to the former *progressista* minister, Carvalho. According to one observer, this was an attempt to ‘give a more Progressive colour to the situation’, and he criticized the new minister for accepting the position.²⁷

Thus, it was a vulnerable new finance minister who had to face the emerging financial crisis which, as he later described in parliament, appeared to him as follows:

When on 24 November last year [1890] I took control of the Finances, I saw the urgent and pressing need to obtain gold for the Portuguese market . . . and by the race that had been provoked against *Montepio Geral* [Portugal’s largest savings bank], that has obliged my honourable predecessors to use up all the Treasury’s credits in London and Paris. Thus, not only were there no resources ready with which to proceed to the payment of bills with the next earnings on account of the floating debt, which then was standing at 33,800 *contos*, but it was pressing and urgent, in any operation that was made, to secure the means necessary to pay the external coupon that was due on 1 January.²⁸

In fact, the Bank of Portugal ceased, in 1890, to have the ability ‘to provide the market with all the exchange that was requested’, which ‘came from the export of produce, from Brazilian remittances and from funds that the Treasury had obtained abroad through the realisation of credit operations’. According to one account, ‘By the end of April [1890], the Bank had only managed to purchase £1,564,384 [7,040 *contos*] while it had sold £2,664,114 [11,989 *contos*]. Additionally, the foreign loans obtained by the Bank had declined by 2,000 *contos*’.²⁹ Consequently, there was an excess demand for gold amounting to 6,949 *contos*, consisting of the 2,000 *contos* reduction in the Bank of Portugal’s credit ceiling abroad and the deficit of 4,949 *contos* between the value of the gold that the Bank had provided to the market and the value that it had managed to purchase.³⁰

²⁶ He had been minister for public works in 1864–5 and of war in 1877–81, under governments led by the Partido Progressista.

²⁷ See A. Fuschini, *O Presente e o Futuro de Portugal* (Lisbon, 1899), p. 108.

²⁸ *Diário da Câmara dos Deputados* (6 March 1891), p. 6.

²⁹ Rui Ennes Ulrich, *História do Banco de Portugal, 1846–1890* (unpublished paper, Lisbon, [1946]), p. 227. Imports of English sovereigns were one of the main devices with which the Bank of Portugal kept its commitments to the gold standard (see J. Reis, ‘An “art”, not a “science”? Central bank management in Portugal under the gold standard, 1854–91’ (Banco de Portugal Working Paper, vi, 2002)).

³⁰ Under the gold standard, the Bank of Portugal could expand its gold reserves by importing English sovereigns from London on credit or with assets that the bank held in other private banks. According to Reis, ‘An “art”, not a “science”?’ that was the most common procedure. After the Baring crisis, there was a retraction in overall lending to the banks of countries such as Portugal.

In order to balance the external accounts, and in the absence of any other means of foreign payment, it became necessary to export gold. A country that, thanks to exports, to emigrant remittances and to foreign credit, had traditionally been a receiver of gold coins was now forced to export 21,535 *contos* worth of gold. This was a considerable proportion of the country's monetary circulation.³¹ Suspension occurred because the state suffered a liquidity crunch in the spring of 1891 and had to ask the Bank of Portugal to issue notes in order to be able to lend it fresh funds. Since the Bank was unable to acquire additional gold with which to back these notes, it had to suspend payments in gold until the state paid back its debts – which never happened.

In November 1890, in a move to obviate the state's difficulties, the finance minister attempted, unsuccessfully, to arrange a foreign loan that could help to pay the coupon that was due. In the meantime, the London stock market had been shaken by the problems facing the Baring Brothers' Bank, whose business was mainly with Latin American countries – it was also the Portuguese state's main banker in the City.

It was at this point that the count of Burnay, the financier who had been excluded from the tobacco industry negotiation by Mariano de Carvalho, appeared with an offer of a 'temporary loan' of 13,500 *contos*, negotiated with the Comptoir d'Escompte and based on the mortgage of the revenue from the state's tobacco monopoly. The tobacco monopoly was both a central problem in and a way of solving Portugal's financial problems. Burnay was now seeking to secure indirect control of the tobacco contract.³² Ironically or not, he proposed something that the 1888 tobacco law, which was made against his wishes, had envisaged – one of the main purposes of the tobacco monopoly had been to underwrite state borrowing. As the finance minister, Cunha, was later to declare in parliament, Burnay's proposal was sufficient to service foreign short-term debt until 1 April 1891. This was not fresh money, though, as it involved transferring Burnay's credits with the Portuguese state to the Comptoir d'Escompte and adding to them the guarantee of the proceeds from the tobacco monopoly, which were state revenues. This sort of financial operation was typical of the time.

The new tobacco contract was to remain in force until 1926, during which time the contractors agreed to pay an annual fee of 4,250 *contos* (to be increased to 4,500 *contos* soon afterwards) and to make up to 36,000 *contos* available in loans to the state (these amounts would be reduced by commission fees). This provided crucial breathing space for the minister

³¹ See J. Reis, 'A evolução da oferta monetária portuguesa, 1854–1912', *História Económica*, iii (1991), 1–37; and Lains, *L'économie Portugaise*, p. 236.

³² See Mónica, pp. 24, 27. The negotiations were held during the brief occupation of the ministry of finance by João Franco, who had dispatched the count of Burnay to Paris to negotiate the contract, and who would again have a crucial role later on. This was another episode where political alliances were made across parties and with one-time enemies.

of finance, who pointed out that this was a provisional contract from which the government could 'liberate' itself at any moment.³³

The tobacco contract was signed in February 1891. However, to avoid opposition both in the chamber of deputies and in the press, the finance minister failed to seek parliamentary approval, and the prime minister to get any guarantee of support from the two main political parties. The main reason for the political discontent surrounding the contract was the fact that the majority of the members of the monopoly's administrative body were foreigners.³⁴ Moreover, parliament, at the request of the contracting company, was obliged to prolong its session in order to pass the contract into law. In March 1891, the chamber of deputies' finance commission formally proposed the law and warned deputies that amendments to it were solely a 'ministerial matter'. In effect, the government was indicating that it would resign before accepting any substantial alterations. The contract was approved by law on 23 March 1891.

Two members of parliament who were later to become finance ministers reacted against the new law. Augusto Fuschini, from the standpoint of the *regeneradores*, introduced gentle opposition to the project.³⁵ He criticized Cunha for placing the negotiations for foreign loans to the Portuguese state into the hands of one banker, attributing this to his lack of understanding of financial affairs. Fuschini went on to praise Mariano de Carvalho who, he argued, had correctly managed public finances against the 'bankers' interests'.³⁶ Some years later, Fuschini was to classify Cunha's operation as 'one of the greatest errors committed during the constitutional administration'.³⁷

José Dias Ferreira, the second deputy to announce his opposition to the tobacco contract, accused Cunha of seeking to reward the count of Burnay even though there were alternatives to the contract available. According to him, Portuguese three per cent public debt bonds were being issued at fifty-eight per cent, which implied a real interest rate of 5.17 per cent; 'in no way did this suggest that there was a serious credit problem, making it difficult to understand the need to obtain a loan at 8 per cent'.³⁸ In his reply, the finance minister reminded Dias Ferreira that the government had to deal with a floating debt on a scale unprecedented since 1846. He also pointed out that he had inherited the negotiations with the count of Burnay from his ministerial predecessors. He concluded:

³³ See *Diário da Câmara dos Deputados* (6 March 1891), p. 6.

³⁴ See Rui Ennes Ulrich, *Crises Económicas Portuguesas* (Coimbra, 1902), pp. 217–18. See also R. Ramos, 'A crise', in *Portugal Contemporâneo*, ed. A. Reis (2 vols., Lisbon, 1989), ii. 170–1.

³⁵ Fuschini was then close to Oliveira Martins.

³⁶ *Diário da Câmara dos Deputados* (12 March 1891), p. 6.

³⁷ Fuschini, *O Presente e o Futuro*, pp. 99, 101.

³⁸ *Diário da Câmara dos Deputados* (12 March 1891), pp. 20–2, 25, 32.

I know only the following methods of contracting loans: a national subscription, the competitive tender between bankers or direct negotiations between the government and a syndicate . . . It could perhaps be that the honourable deputy would like to see the Minister reduced to the condition of a beggar who knocks from door to door.

Absolving himself of all responsibility for the affair, and preserving his stance of non-allegiance with the governments of either party, Dias Ferreira responded: ‘The two largest parties thus reserve for themselves the glory of responsibility for the approval of this measure, and leave those without parties the right to criticize and the freedom to vote.’³⁹

With some difficulty, Crisóstomo’s government managed to pay the interest on the external debt in 1891.⁴⁰ However, there was no change in the total level of public debt, and consequently in its charges. The Portuguese state’s receipts from the new tobacco contract rose to 5,011 *contos* in 1891–2, which represented a substantial increase relative to the final year of the free trade regime, during which the tobacco duty collected by customs amounted to 2,829 *contos*. But the state’s total revenues remained unchanged because other income declined by roughly the same amount.⁴¹ As a consequence of this, in May 1891 the government accepted the need to suspend the currency’s convertibility – which meant a *de facto* abandonment of the gold standard – for a period of sixty days. This was to be Augusto José da Cunha’s final act before Carvalho’s comeback as ‘saviour’, just as Fuschini had predicted.⁴²

Mariano de Carvalho returned to the ministry of finance, in a government still led by João Crisóstomo, at the end of May 1891. The political situation was still far from clear: the Partido Progressista was represented by a man who was not in total agreement with the party’s leader, while the Partido Regenerador had representation for all of its principal factions. Apparently, one of them (Lopo Vaz) got on well with Mariano de Carvalho, and expected him to solve the treasury’s situation without having to resort to defaulting or to swingeing budget cuts.⁴³ This alliance kept the cabinet in power for almost eight months, thus delaying the drastic measures that would subsequently be taken by more radical members on the left.⁴⁴

Mariano de Carvalho’s first act as reinstated finance minister was to present a series of wide-ranging reforms to the chamber of deputies in June 1891. To his many supporters, these measures were a further demonstration of

³⁹ *Diário da Câmara dos Deputados* (12 March 1891), pp. 20–2, 25, 32.

⁴⁰ A. Oliveira Salazar, *O Ágio do Ouro e outros Textos Económicos, 1916–18* (1916; Lisbon, 1997), pp. 68–71.

⁴¹ See Mata, *As Finanças Públicas*, p. 136.

⁴² See Fuschini, *O Presente e o Futuro*, p. 108.

⁴³ They were Júlio de Vilhena, João Franco and Lopo Vaz.

⁴⁴ See Ramos, *A Segunda Fundação*, p. 203. See also F. Moreira, *José Luciano de Castro: Itinerário, Pensamento e Ação Política* (unpublished Universidade Nova de Lisboa M.A. thesis, 1992), p. 268.

the minister's ability to manage public finances. But he was also severely criticized in parliament. One experienced deputy, José Frederico Laranjo, attacked the proposals for being over-ambitious, as the minister wanted 'to reform at will almost every aspect of the public economy: the currency, the banks, taxes, payment for public works, the fishing industry, emigration, etc., etc.'. In fact, Carvalho wanted to revise the contract with the Bank of Portugal again, to introduce silver coins, and thus a bimetallic standard, and to restore a monopoly in the alcohol industry.⁴⁵ The plan was defeated in parliament by an odd, cross-party alliance – the leader of the chamber, who belonged to the same party as Carvalho, voted against it, together with the *regeneradores* and the three republican deputies.

But the proposed reforms served to mask more serious measures which, since they did not need parliamentary approval, Carvalho carried out anyway. The minister also continued to enjoy the support of a faction of the *regeneradores*. On 9 July 1891, he signed a decree that prorogued the suspension of the currency's convertibility, introduced as a temporary measure two months earlier. This same decree confirmed the Bank of Portugal as the country's only issuing bank, and granted it the right to replace the Oporto banks' notes with its own. Portugal's abandonment of the gold standard opened the way for the state to finance itself through the issuing of banknotes by the Bank of Portugal. Of all the measures to resolve the crisis that Carvalho had at his disposal, this was probably the one that had the fewest domestic and external implications. His overriding objective was to halt the steady decline in the Bank of Portugal's gold reserves (see Figure 4). In December 1891, a new statute increased the fiduciary circulation limit to 38,000 *contos*, which could be raised further by reinforcing the Bank's capital reserves. The statute also increased the government's Bank of Portugal current account credit limit from 2,000 to 6,000 *contos* for the financial year 1891–2.⁴⁶ The change made to the regulation of the Bank in 1887 was now having an effect.

Mariano de Carvalho's time in office was running out, however. Lopo Vaz, who had previously been an ally, was involved in discussions with Oliveira Martins (who would be the next minister of finance) and King D. Carlos to bring about more direct political intervention and thereby end the vicious circle into which Portugal's public finances had fallen. The next step was to remove Carvalho's and General Crisóstomo's government from power. The pretext was the finance minister's failure to seek the necessary government permissions to grant loans to the Banco Lusitano and the Companhia Real dos Caminhos de Ferro – both headed by two financiers, the marquis of Foz and the count of Moser, who were politically sympathetic towards Carvalho, and who had, on several occasions, been

⁴⁵ See, respectively, *Diário da Câmara dos Deputados* (25 June 1891), pp. 2–3; (23 June 1891), p. 7; and (25 June 1891), p. 6.

⁴⁶ See *Legislação do Banco de Portugal* (Lisbon, 1946).

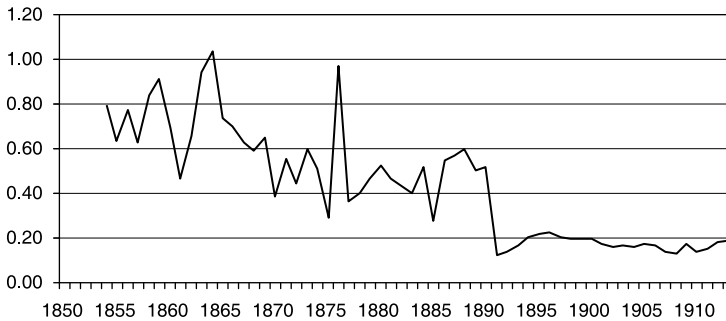


Figure 4. Bank of Portugal gold reserves/circulation, 1854–1913.

Sources: R. P. Esteves and others, 'Market integration in the golden periphery – the Lisbon/London exchange, 1854–91', *Banco de Portugal Working Paper*, no. 15-05 (2005); J. Reis, 'An art, not a science? Central bank management in Portugal under the gold standard, 1854–91', *Banco de Portugal, Working Paper*, no. 6-02 (2002); and M. Flandreau and F. Zumer, *The Making of Global Finance 1880–1913* (Paris, 2004).

in competition with the count of Burnay. Just as in 1889, Carvalho was forced to leave the cabinet.

José Dias Ferreira was chosen to lead the next government, which included Oliveira Martins as minister of finance, as well as several other leading notables, almost all of whom were serving in government for the first time. The fact that the government depended on newcomers who had long criticized the financial policy of the two main parties paved the way to a radical solution. Ferreira and Martins did not wish to be identified with past policies, and Martins had long advocated radical changes in the conduct of Portugal's economic and financial policies. The events of 1892 were the consequence of the new finance minister's considered policies. Once again, the main challenge that he faced was how to service the state's domestic and foreign debts, but the path that he chose was not the only one available to him, nor was it necessarily the best.⁴⁷

Oliveira Martins had spent several years contesting what he described as the *regenerador* or *fontista* policy, which involved maintaining unbalanced state budgets that were financed through the public debt. According to him, this policy had failed to create the necessary internal wealth, but it did serve to enrich bankers and government officials.⁴⁸ Now that he was finance minister, Martins saw the opportunity to initiate change. His remedy was to increase taxes to balance the state's accounts, rather than resorting to further debt issues. At the beginning of 1892, he put this plan

⁴⁷ See Ramos, *A Segunda Fundação*, pp. 203–8.

⁴⁸ See, e.g., Oliveira Martins, 'Aperçu sur la situation du Portugal' [1892], in Oliveira Martins, *Política e História* (2 vols., Lisbon, 1957), ii. 305–19.

into action by addressing the only immediately accessible and secure source of taxation: the earnings of public debt bonds. It was a highly unpopular move that no-one had previously dared to venture, and it delivered a profound shock to the Portuguese financial system, changing rules that had been considered sacrosanct for almost forty years. With this measure, the state's credit rating suffered, both inside the country and abroad, as did the monetary circulation, the banking system and thousands of individuals whose savings were held in debt bonds, purchased in the Junta do Crédito Público and in public treasury bonds acquired in the Lisbon stock exchange.⁴⁹

Martins's state budget was presented to parliament in January 1892. Announcing the reforms, the minister offered a diagnosis of the situation that called for drastic measures. He pointed out that the state accounts for 1890–1 showed a deficit of 11,550 *contos*, a figure representing twenty-nine per cent of all government receipts. He further estimated that, during the ten months to June 1892, the deficit would increase to a minimum of 10,000 *contos*.⁵⁰ With respect to the treasury, Martins estimated that the floating debt had risen to 23,000 *contos*, three-quarters of which was held in the country, with the remainder held abroad. He stated that the government did not have the funds with which to service this debt.⁵¹

The government's margin for manoeuvre was not large, but there was still some flexibility. Although the tobacco monopoly's earnings had already been allocated, the state still had some secure sources of income that could be used to guarantee loans. Still available, too, were the revenues from import duties (which were used by Hintze Ribeiro's *regenerador* government in 1902 as a means to restore financial stability).⁵² Despite all the difficulties, the Portuguese state was still able to oppose more direct control of government accounts by representatives of foreign bondholders, unlike Greece some years later. This was the fate that Fuschini, during the December 1890 debate on the loan secured on tobacco revenues, had stated he feared might befall the country. In Portugal's favour was not that it had a high degree of solvency, but that the international political scene was advantageous.⁵³

⁴⁹ See Lains, *História da Caixa Geral de Depósitos*.

⁵⁰ The 1890–1 deficit, according to Mata, *As Finanças Públicas*, p. 175, amounted to 10,968 *contos*, which was close to the value presented by the minister; yet, in the following fiscal year, the deficit would be higher than he expected, namely, 15,190 *contos*, which was a historical peak.

⁵¹ At the time, public finances were supervised by the treasury, which took care of the floating debt, the special debt and the 4% external loan of 1886; the Companhia dos Tabacos de Portugal, which took charge of the foreign loans of 4.5% from 1891 (and later the 4.5% loan of 1896); and the *Direcção Geral da Dívida Pública*, which in 1887 had taken the role of the Junta do Crédito Público in the administration of the remaining long-term debt (see Mata, *As Finanças Públicas*, p. 36).

⁵² See Esteves, 'Inter-temporal sustainability'.

⁵³ On Greece, see Kelly, pp. 35–6. For Fuschini, see *Diário da Câmara dos Deputados* (13 March 1891), p. 13.

Oliveira Martins reported to parliament that the state had large amounts of credit at its disposal, from banks and other companies – credit that had been granted to assist these institutions in previous periods of crisis. The marquis of Foz and Count Moser's Salamanca syndicate owed the state 5,350 *contos*; the Banco Lusitano owed 500 *contos*; the Companhia Real de Caminhos de Ferro, the largest railway company in Portugal, was indebted to the state to the tune of 4,390 *contos*; the Bank of Portugal received 1,044 *contos* worth of state guarantees, to fund loans to other banks; and finally, the Companhia da Mala Real Portuguesa, the postal monopoly, owed the state 910 *contos*. In total, the treasury was owed 13,006 *contos*, including 1,796 *contos* in guarantees. The finance minister concluded: 'The large sum of Treasury credits is sufficient, in itself, to reduce the floating debt by half; however, this is not possible within any certain timescale.'⁵⁴ According to one contemporary observer, in choosing not to exert pressure on the companies to repay their debt to the state, Oliveira Martins was repeating the policy adopted during the first phase of the 1876 crisis, when the government sought 'to save the two or three large companies in the country that had been compromised by the currency's devaluation, and which were prevented from complying with urgent foreign agreements'. Unlike in 1876, however, in 1891 the state was forced to seek assistance from the Bank of Portugal, which increased the fiduciary circulation.⁵⁵

To aggravate an already difficult situation, the 36,000 *contos* loan, which had been anticipated during the tobacco contract negotiated with Henry Burnay in February 1891, had failed fully to materialize, as the markets no longer wished to lend to the Portuguese state on the terms that it was able to offer.⁵⁶ Unwilling to recoup its credits and guarantees, and unable to seek recourse to domestic or foreign credits, the only alternative left to the minister of finance was to increase the state's revenues. In order to do so, Martins proposed to revive a law of 1880, which would increase the tax on the earnings of civil servants, including those employed by corporations and charitable establishments, whether or not they were subsidized by the state, from three to ten per cent.⁵⁷ He also proposed to increase the tax on earnings from internal debt bonds, and all the other various types of bonds, from three to thirty per cent. Finally, he suggested

⁵⁴ *Diário da Câmara dos Deputados* (30 Jan. 1892), pp. 18–19. See also J. A. da Silva Cordeiro, *A Crise em Seus Aspectos Morais* (Lisbon, 1896), p. 63. Fuschini, *O Presente e o Futuro*, pp. 32–44, reported detailed information on the subsidies given to the chartered banks and companies, provided to him by the treasury when he was minister of finance. According to the list he published, in 24 Feb. 1893, the total debt on this account amounted to 12,275 *contos*.

⁵⁵ See Silva Cordeiro, pp. 34–5. See also Castro, pp. 128–34.

⁵⁶ *Diário da Câmara dos Deputados* (30 Jan. 1892), p. 20; (13 Feb. 1892), pp. 18, 20.

⁵⁷ That law had been drafted by Barros Gomes in the brief government of the Partido Progressista in 1880, but it failed to pass in parliament.

a pact with the foreign creditors.⁵⁸ He concluded his exposition by listing the measures that he intended to take:

The government calculates that the sacrifices demanded of the creditors, public employees and the tax-payers will raise a sum in excess of 8,500 *contos*; and that the administrative economies – the value of which cannot yet be determined, for fear of creating anarchy within the services – when added to the tax earnings from the production of alcohol, matches and oils, will reach 1,500 *contos*.⁵⁹

The 10,000 *contos* deficit was thus resolved in this single set of measures. Apparently, Martins preferred to default, albeit only partially, on the domestic debt and to negotiate with creditors afterwards.⁶⁰

In parliament, Augusto Fuschini proposed that there should be no interference in the interest rates payable on the external debt, and that interest on the internal debt should not be taxed at more than ten per cent. He believed that it was possible to balance the budget by ‘fixing the debt at a convenient level and seeking other, more just, taxes with greater coverage’.⁶¹ For Fuschini, reducing the public debt was not an absolute priority. He felt that it was more important to ensure that the sacrifices that were being imposed on the population in order to combat the financial crisis affecting the country were fair. Fuschini also believed that Martins’s proposal to tax the interest earned on foreign debt bonds would undermine the state’s ability to obtain new foreign loans. This was an opinion that was shared by other deputies, and was eventually supported by the parliament’s finance committee.

Fuschini highlighted another problem with Oliveira Martins’s proposed law. He stated that ‘the laws regulating disentanglement forced a large number of religious and charitable institutions and establishments to transform their fixed capital into bonds’, concluding that ‘the proposals under discussion, with their 30 per cent tax on earnings from domestic debt bonds, will, therefore, unfairly affect the lower classes’.⁶² Fuschini ended his intervention in parliament by pointing out that France had successfully brought order to its finances despite having to pay a large indemnity to Prussia following defeat in the war of 1870–1. The French, he said, had decided to increase other taxes, such as stamp duty, and he

⁵⁸ It is not possible to detect the modifications by Oliveira Martins, and we can only trace those introduced by the financial committee. According to A. Vieira, *A Questão Fiscal e as Finanças Portuguesas* (Lisbon, 1905), pp. 10, 115–16, taxes increased by 30% for domestic debt (and later on for foreign debt as well); and by 12.5% for the wages of public servants. At the same time, additional taxes of between 12.6 and 15% were introduced to different direct taxes on property. These taxes were suspended at the end of 1892. See also Mata, *As Finanças Públicas*, p. 31.

⁵⁹ *Diário da Câmara dos Deputados* (30 Jan. 1892), p. 20; (13 Feb. 1892), pp. 18, 20.

⁶⁰ See R. P. Esteves, ‘Pulsões financeiras: finanças públicas, moeda e bancos’, in A. H. Oliveira Marques, *Nova História de Portugal* (Lisbon, 2004), pp. 108–48.

⁶¹ *Diário da Câmara dos Deputados* (11 Feb. 1892), p. 24.

⁶² *Diário da Câmara dos Deputados* (11, 15 Feb. 1892). See also Ramos, *A Segunda Fundação*, p. 171; and Lains, *História da Caixa Geral de Depósitos*.

argued that similar measures could be adopted in Portugal. Oliveira Martins was not convinced by this comparison to events in a different country two decades earlier. There was some justification for these doubts, for as well as being a much richer country than Portugal, France was also an important exporter of capital, a significant proportion of which was repatriated through increases in French interest rates: this effectively compensated France for the export of capital that had been imposed by the war indemnities. Martins preferred to compare Portugal with other countries, especially Spain which, in 1876, reduced the interest payable on its internal public debt by two-thirds; Italy which, in 1863, reduced the interest on its internal debt by 8.8 per cent; and Austria which had reduced the same interest rate by sixteen per cent.⁶³ However, with the exception of the Spanish example, all of these countries were making less drastic cuts than those that Oliveira Martins was proposing for Portugal.⁶⁴

Martins's budget was approved by the chamber on 13 February 1892, and passed to the finance committee, headed by João Franco, from the Partido Regenerador. Two days later, it was returned to the chamber in the form of a parliamentary bill. The finance committee had limited the thirty per cent tax to earnings from interest on the internal public debt, exempting earnings from the foreign debt from taxation and leaving all other national bonds subject to a ten per cent tax on interest earnings. With this important change, the minister's bill was accepted by the members of both major parties and passed into law on 26 February 1892. Only the three republican deputies voted against it.⁶⁵ According to an observer: 'The politicians of all parties, being in complete agreement with public opinion throughout the country, recognized that the system of administrating large deficits – which implied the need to seek credits – was the major cause of the [recent] financial and economic disasters.'⁶⁶ Such consensus was not new among Portuguese political parties, but it was not made explicit by the parties involved and consequently many historians have failed to notice its existence.⁶⁷

The prime minister, however, wanted to go even further; Oliveira Martins left the government in disagreement, at the end of May 1892, and Dias Ferreira himself assumed responsibility for the ministry of finance. Ferreira managed to gain the complete agreement of parliament's finance committee, controlled by the *regeneradores*, that had been denied to Oliveira Martins.

⁶³ *Diário da Câmara dos Deputados* (15 Feb. 1892).

⁶⁴ According to Martins, however, the distribution of bonds was less widespread than Fuschini contended. His data shows that the amount of debt owned by the lower classes and the welfare corporations was 66% of the total, and not 80%, as Fuschini suggested.

⁶⁵ See Fuschini, *O Presente e o Futuro*, app., p. 56.

⁶⁶ Vieira, p. 11.

⁶⁷ For an interpretation of the episodes of consensus among political parties in Portugal, see J. M. Sardica, *A Regeneração sob o Signo do Consenso. A Política e os Partidos entre 1851 e 1861* (Lisbon, 2001).

On 13 June 1892, he decreed that interest payments on foreign debt paid in gold should be reduced to one-third, with the remainder being paid in Bank of Portugal notes after the deduction of the thirty per cent tax that had been applicable to all interest earnings paid in Portugal since February 1892. These combined measures reduced the nominal interest paid to foreign bondholders from three to one per cent.⁶⁸ Unlike Martins, Ferreira made no reference to the rights of foreign creditors – Martins had attempted to reach agreement over the part of their interest payments that was now to be paid in Portuguese currency. The reaction in Paris was negative, particularly as Dias Ferreira had prejudiced foreign creditors (who saw their interest rates reduced by sixty-six per cent) more than he had domestic creditors (who suffered only a thirty per cent reduction), even though they were to be paid in gold.⁶⁹ The impact of Dias Ferreira's measures was huge and the price of Portuguese bonds sold abroad fell to between twenty and thirty per cent of the par value throughout 1892–1902.⁷⁰

The Partido Regenerador finally returned to power in February 1893. Its leader, Serpa, was unable to head the government and the younger Hintze Ribeiro was appointed as prime minister. In the meantime, Hintze had 'made-up' with João Franco, who ensured that Fuschini, one of his important allies, was awarded the finance portfolio (although he was replaced by Hintze in December of the same year).⁷¹ While in office, Fuschini attempted, at least partially, to satisfy foreign creditors.⁷² However, because of the extreme public sensitivity about the colonies, he could not offer to consign to them the excise revenues from colonial customs duties, as requested, without risking bringing down the government in the process. Instead, he confirmed Dias Ferreira's decree of 13 June that one-third of the interest payments would be made in gold, he consigned half of all customs revenue (in excess of 11,400 *contos*, without the tax revenue from tobacco and cereals), and he agreed to share any gains from the decrease in the gold premium once it had fallen to less than twenty-two per cent. This kind of procedure was a common request from the London-based

⁶⁸ These bonds could be exchanged for domestic debt bonds of 3%, the income of which was taxed at 30%, according to the decree of 26 Feb. 1892.

⁶⁹ See Comte de Burnay, *Quelques Considérations sur la Situation Financière du Portugal* (Paris, 1897), p. 6. This was to remain unresolved until the future *regenerador* government led by Hintze Ribeiro (see Silva Cordeiro, pp. 156–7).

⁷⁰ See Esteves, 'Finanças públicas'.

⁷¹ Serpa refused to form a government allegedly because he was ill, but he only left the party leadership, to Hintze, in 1900.

⁷² See Hintze Ribeiro, *Dois Discursos 1906: Publicação feita por um Grupo de Amigos e Admiradores do Conselheiro de Estado* (Lisbon, 1907); and A. Fuschini, *Liquidações Políticas: Vermelhos e Azuis* (Lisbon, 1896), pp. 135–8. The efforts to redeem public finances are fully acknowledged in the report of the British consul in Lisbon (see H. G. MacDonell, 'Report on the finances of Portugal for the year 1894–5', in *Diplomatic and Consular Reports on Trade and Finance: Portugal*, no. 1645 (1895)).

Corporation of Foreign Bondholders to other peripheral governments.⁷³ As customs revenue rose, foreign creditors received payments to the value of 2,446 *contos*.⁷⁴ Hintze Ribeiro's government remained in office until 1897, making it the longest-serving government of the *regeneradores* since the death of Fontes ten years before.

The most striking conclusion from this analysis of the 1891 financial crisis in Portugal is that at no time did the national government express serious concern about the reaction of foreign markets to any of the measures brought in to deal with it. The decision to default on the payment of government debt to foreign bondholders in 1892 required a radicalization of political life. It began with the accession to power of the Partido Progressista, in 1886, and the appointment of a succession of finance ministers from the left. These ministers wanted to revise the policy that had been followed for decades by the right-wing Partido Regenerador, and to change the way in which public finances were handled in Portugal. The radicalization of political life was further enhanced by the accession to power of Martins and Dias Ferreira, who had never been engaged directly in party politics and who followed policies that would dramatically change the conduct of state business. When Dias Ferreira, following Oliveira Martins's initial move, decided to default on foreign bondholders, he showed no concern about the effects of such a measure on the country's capacity to raise further loans in the international capital markets.

Although the options available to the Portuguese government in 1891 were limited, default was not the only possible course of action. In order to avoid defaulting, however, the government would have had to call in the payment of many private debts to the Bank of Portugal, to increase taxation or drastically to reduce the money supply. These alternative means of resolving the crisis would have had even more serious consequences for the economy and thus for the political stability of the country as a whole – the public was not prepared to accept a severe contraction in economic activity in order to satisfy foreign lenders. The decision to default was not uncommon among governments at the periphery of the international financial system, and the Portuguese decision was not an exceptional one. As this article highlights, domestic factors were of paramount importance.

Events in Portugal during the crucial years from 1891 to 1892 demonstrate the power of a peripheral government to avoid complying with the rules of the game. The most important tool at the disposal of lenders was their ability to suspend their loans to defaulting governments. The fact that a large share of the country's trade was carried with Britain, Brazil and

⁷³ See Kelly, p. 42. Only in 1897, however, were the conditions met for payments based on that source.

⁷⁴ See Comte de Burnay, pp. 6–8.

Portugal's African colonies, whereas most foreign loans were raised in Paris and Berlin, diminished the ability of lenders to retaliate by limiting access to international trade. Portugal's experience during the 1891–2 crisis points to the weaknesses of the international financial markets when it came to the enforcement of sovereign debt repayment. The government of a peripheral country could simply choose to default, if the consequences were less harmful to domestic economic and political interests than the alternative fiscal measures.