

Mexico's Foreign Debt and the War with the United States¹

Gabriel Martínez Carmona
El Colegio de México

On April 25, 1846, a gunfight took place between the U.S. Army, under General Zachary Taylor's command, and the Mexican army that guarded the area of the Rio Grande. There were some deaths as a result of the confrontation, which ended in the perfect excuse sought by the U.S. President Polk to start hostilities. To begin with, it should be recognized that the area of the Rio Grande was Mexican territory, or at least disputed territory. Since Texas acquired its independence, the newly formed government claimed that the southern territory between the Nueces River and the Rio Grande belonged to them. Once Texas was annexed to the United States, and Polk ordered Taylor to move from Corpus Christi, he sent troops to Rio Grande. The order given to Taylor exemplifies this:

It is not designed, in our present relations with Mexico, that you should treat her as an enemy; but should she assume that character by a declaration of war, or any open act of hostility towards us, you will not act merely on the defensive, if your relative means enable you to act otherwise [...] Texas is now fully incorporated into our union of States and you are hereby authorized to make a requisition upon the Executive

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of that State for such of its militia force as may be needed to repel invasion or to secure the country against force apprehended invasion.²

After the confrontation, a short message from Taylor to Polk, which arrived in Washington on May 9, 1846, said: "hostilities may now be considered as commenced." With this, Polk drew up a declaration of war that was sent to Congress on May 11, where he justified the war as an act of defense:

[...] But now, after reiterated menaces, Mexico has passed the boundary of the United States, has invaded our territory, and shed American blood upon American soil. She has proclaimed that hostilities have commenced, and that the two nations are now at war.³

The Mexican Congress, despite what Polk said, met only in June 1846 to declare that there was "a state of war with the United States." Military hostilities started officially and culminated with the defeat of the Mexican army and the capture of Mexico City by the U.S. Army in September 1847.

The objective of this paper is not to develop the field of military history but to explore the relationship of the Mexican debt, particularly the external debt, in connection with the war and its outcome. In the first place, the obvious must be stated: In order to support a war a considerable amount of resources must be spent. Therefore, the relationship of sustaining an army to an international war is linked necessarily to the country's healthy finances and / or the ability to borrow money to fund it. The prewar Mexico had neither one nor the other. So the phrase "empty stomach, lost war" could well serve to illustrate what it is argued here.⁴

The Mexican Crises

The problem of the lack of resources of the Mexican government was not new in 1845. Mexico had experienced financial problems since the beginning of its independent

² John S.D. Eisenhower, *So Far from God: The U.S. War with Mexico* (New York: University of Oklahoma Press, 1989), pp. 49-50.

³ *A Compilation of the Messages and Papers of the Presidents 1789-1902*, ed. James D. Richardson, 10 vols. (Washington D.C.: Bureau of International Literature and Arts, 1904), 4, pp. 437-443.

⁴ For the cost of the U.S.-Mexican War see also: Richard J. Salvucci, "Everyday Costs of Warmaking: Juntas, States and the Costs and Consequences of the Mexican War (A mostly Northern View)." I would like to thank profesor Salvucci for letting me cite his paper.

life due to the decapitalization it suffered in the late eighteenth century, as a result of the Spanish Crown's need for resources to fight the series of international wars it faced, and a long independence war that eventually fractured the economic dynamism of previous centuries. Mexico suffered in the 1840s three crises that condemned the country to economic stagnation and constant deficit: a severe fiscal crisis, a financial crisis, and a crisis of its public debt.⁵ A crisis of political order could be added to that list.

On one hand, Mexico had trouble raising money as a result of a federal pact, which gave states the tax collection power over citizens, but left all the weight of maintaining the army and the bureaucracy to the national government, with only supplies from the customs foreign trade duties and some "estancos" such as tobacco and salt.⁶ Successively, Mexico sought to establish fiscal modernization that would burden the income of individuals rather than consumption, however there were a number of factors that prevented this project from succeeding: 1) the political problem of the lack of legitimacy and trust in the central government, coupled with their inability to exercise tax coercion and resistance to paying of regional oligarchies; 2) administrative matters from technical imperfections of the laws due to ignorance of the tax bases, the lack of establishment of a modern cadastre, and the absence of efficient administration; and 3) the threat of foreign powers and the constant state of military conflict in the regions.⁷

On the other hand, the financial crisis reflected the lack of a banking system in Mexico, leaving the credit market under the control of a series of 20-24 individuals and families of merchant-lenders, who became credit providers to the Mexican government,

⁵ Luis Jáuregui and Carlos Marichal, "Paradojas fiscales y financieras de la temprana república mexicana, 1825-1855," in *Latinoamérica y España 1800-1850: un crecimiento económico nada excepcional*, eds. Enrique Llopis and Carlos Marichal (Madrid: Marcial Pons and Instituto Mora, 2009), pp. 111.

⁶ See *El Establecimiento del federalismo en México, 1821-1827*, ed. Josefina Zoraida Vázquez (México: El Colegio de México, 2003). *Práctica y fracaso del primer federalismo mexicano, 1824-1835*, eds. Josefina Zoraida Vázquez and José Antonio Serrano Ortega (México: El Colegio de México, 2012).

⁷ Ernest Sánchez Santiró, *Las alcabalas mexicanas, 1821-1857: los dilemas en la construcción de la hacienda nacional* (México: Instituto Mora, 2009), pp. 187-189. See also: Francisco Comín and Daniel Díaz Fuentes, "De una hacienda imperial a dos haciendas nacionales. Las reformas tributarias en México y España durante el siglo XIX," in *México y España: ¿historias económicas paralelas?*, eds. Rafael Dobado, Aurora Gómez Galvarriato and Graciela Márquez (México: Fondo de Cultura Económica, 2007), pp. 210-211.

often with very high interest rates, a product of the risk involved in assisting a government that was characterized by limited resources and continuing instability. Although, legally the interest rate was 6% annually, in effect, the Mexican government sometimes borrowed money at rates of up to 200% annual interest. To repay loans, the government decided to mortgage future earnings from maritime customs and gave lenders the right to exploit the tobacco and salt “estancos”, which produced high revenues at the time. This temporary solution became a vicious circle for the government. This feature of the Mexican case would give rise to a crisis of public debt, including the debt previous to independence and recognized as national, the domestic debt with lenders residing in the country, and the foreign debt, the consequence of a couple of loans taken by the government in 1824 and 1825 in the London credit market.⁸

Table 1. Loans in the London credit market⁹

Date of loan	Amount £	Interest rate	Issue Price	Date of default	Dates of re-scheduling agreements	Debt service £
1824	3,200,000	5	58	1827	1831,	352,200
1825	3,200,000	6	89	1827	1837, 1846, 1851	

Source: Richard Sicotte and Catalina Vizcarra, “War and Foreign Debt Settlement in Early Republican Spanish America,” *Revista de Historia Económica*, 27: 2 (January 2009): p. 251. Table 1 (fragment).

⁸ Carlos Marichal, “Obstacles to the Development of Capital Markets in Nineteenth-Century Mexico,” in *How Latin America Fell Behind. Essays on the Economic Histories of Brazil and Mexico, 1800-1914*, ed. Stephen Haber (Stanford: Stanford University Press, 1997), pp. 118-145.

⁹ The exchange rate at that time was 5 pesos per sterling pound. The American dollar and the Mexican peso had the same value.

Mexico, like other Latin American countries, benefited from the wave of investment from London in productive terms but also in credit. However, all Latin American countries failed in their commitment to pay the debt service and defaulted only two years after receiving the loans. This resulted in the closure of the international credit market for nearly half a century to Mexico. However, renegotiations were undertaken to reach new arrangements with creditors in London, with the aim of restoring its credit reputation.

Finally, Mexico experienced a series of political crises due to its political organization. First, it faced one ephemeral monarchy in 1822, which gave way to a federal republic between 1824 and 1835. The fiscal crisis and the rivalries between political and regional groups ended up condemning federalism; because it was believed that the issue was constitutional. Between 1836 and 1841 centralism was implemented, with a new constitution that gave more power to the central government, particularly to the Congress, but failed to fiscally modernize the country. Moreover, the centralist system had to face regional elites in the departments (considered states during the federalist system) and the powerful merchants who were affected by the increase in customs duties and the consumption of foreign products, which led to the bankruptcy of many trading houses. A group of these powerful merchants began a conspiracy and financed the coup that brought Santa Anna to power again in 1841. Santa Anna ruled dictatorially between 1841 and 1844. Although, the president issued a new constitution in 1843 that aimed to resolve governmental issues, he ended up not respecting it because it did not favor him. In order to ensure his power, Santa Anna tried to dissolve the Congress. As a consequence, the Congress revolted against him, and with the support of the Mexico City's "Ayuntamiento", the Headquarters of Mexico and the Judiciary power, Santa Anna was captured, removed from the Executive and exiled to Cuba. However, his stay did not last long as Santa Anna returned to Mexico in mid-1846 to take over the defense against the United States Army.¹⁰

¹⁰ Josefina Zoraida Vázquez, *Dos décadas de desilusiones. En busca de una fórmula adecuada de gobierno, 1832-1854* (México: El Colegio de México and Instituto Mora, 2009).

External debt, re-scheduling and war

As Table 2 shows, there were two external debt renegotiations prior to the 1840s, which were unsuccessful at solving the restoration of debt service, because Mexico failed to make the payments. In 1845 the issue of the annexation of Texas to the United States caught the hot spots of the national government, given that the independence of the province in 1836 was a constant issue for the government, which tried to undertake expeditions of reconquest, but never managed to gather enough resources to do so. With the annexation, the United States made clear its intention to continue its expansion to the West, particularly to California because of its interest in the San Francisco Bay.¹¹

Table 2. Re-scheduling agreements

Date	Defaulted principal £	Interest arrears £	Old Bonds retired?	Amount of new bonds £	Interest rate	New debt service £	Default date
1831	5,281,400	1,108,486	No	639,255	5% starting in 1836;	290,447 until 1836;	1833
				945,270	6% starting in 1836	379,156 thereafter	
1837	6,865,820	1,869,537	Yes	4,623,289	5%	231,198 until 1847;	1837

¹¹ *México al tiempo de su Guerra con los Estados Unidos, 1846-1848*, ed. Josefina Zoraida Vázquez (México: Fondo de Cultura Económica and El Colegio de México, 1998) is the most complete vision from the national and regional point of view. See also: David M. Pletcher, *La diplomacia de la anexión: Texas, Oregon y la Guerra de 1847*, 2 vols. (Jalapa: Universidad Veracruzana, 2000).

				4,623,289	5% starting in 1847	462,396 thereafter	1843
1846	10,714,750	489,286	Yes	10,241,650	5%	512,082	1847
1851	10,241,650	2,608,111	Yes	10,241,650	3%	307,249; 250,000 for amortization after 6 years	1852 1854

Source: Sicotte and Vizcarra, "War and Foreign Debt Settlement," p. 253. Table 2 (fragment).

In response to these events, the government established after the exile of Santa Anna decided to look for resources in the international credit market. President Jose Joaquin de Herrera and his finance minister Luis de la Rosa brought the affair to the plenipotentiary minister of Mexico in London, Thomas Murphy, who replied that the Mexican government's reputation was in tatters: first because of the default of 1837 and secondly by the actions of the financial agent of Mexico, the trading house Lizardi and Co., which had issued more bonds than those officially recognized, in order to recover the money for its financial services, which the Mexican government had failed to pay. Then, the Mexican government's strategy was to remove the financial agent and appoint a new one, with whom negotiations could take place in Mexico and London for the payment of "deferred" debt, namely those bonds which would not bear interest until 1847. Once the matter was settled, Mexico could look for a loan in the international credit market with which to deal with the threat of the United States.¹²

¹² Richard J. Salvucci, *Politics, Markets, and Mexico's 'London Debt', 1823-1887* (New York: Cambridge University Press, 2009), is the most recent study on the so-called "London debt". Also see: Alfonso Carballo, "La conversión de 1846 de la Deuda Inglesa y la Guerra de intervención estadounidense," *Estudios*, no. 50-51 (1997-1998): pp. 27-57, on the 1846-1847 settlement.

Between April 1845 and July 1846, intense negotiations took place in Mexico and London. The new financial agent of the government, the trading house Schneider and Co., had as its representative in Mexico the British trading house Manning and Mackintosh, whose partner, Ewen Mackintosh, was the British consul in Mexico City, as well as the representative of the Committee of Hispanic American bondholders in the country. This suggested that a new arrangement could be achieved without major upheavals.¹³ However, the rivalry between political groups was a burden. In December 1845, General Mariano Paredes y Arrillaga decided to take up arms with the support of some groups that were dissatisfied with President Herrera, and ruled as a dictator between January and August 1846. Paredes received financial support from a sector of the Church and the Spanish representative in Mexico, who had persuaded the General to establish a monarchy in Mexico.¹⁴ Despite the fact that the dictatorial-monarchist project was ongoing, the decision to proceed with the renegotiation of the debt service in London continued. Meanwhile, the most radical political association, later known as “los puros” had long been trying to return to power and to implement the federal system again. To achieve this, they decided to ally with Santa Anna, convincing him to return from exile and take over the army at the outbreak of war.

In financial negotiations, timing is everything. Therefore, the sooner a settlement was achieved, the more quickly Mexico could have access to the international credit market. However, the brokers had their own plans. Mackintosh was allied to the notorious Mexican lender Manuel Escandon. The general strategy of these people was simple: in the draft settlement of the debt service, intermediaries would remain with about 20% of total bonds issued as payment for their assistance. Once they succeeded in the arrangement, and the first dividend payment was sent, the bond prices would rise

¹³ Rosa María Meyer Cosío, “Los ingleses en México. La casa Manning y Mackintosh, 1824-1852,” *Historias*, no. 16 (January-March 1987). Rosa María Meyer, “La quiebra de la firma Manning y Mackintosh,” in *Prestigio, riqueza y poder. Las élites en México, 1821-1940*, ed. Graziella Altamirano (México: Instituto Mora, 2000). Rosa María Meyer, “El difícil equilibrio. Tropiezos de una empresa británica con el gobierno mexicano,” in *Empresas y modernización en México desde las reformas borbónicas hasta el Porfiriato*, ed. Reinhard Liehr (Madrid: Vervuert Verlag, 2006). Barbara A. Tenenbaum, “Merchants, money, and mischief. The British in Mexico, 1821-1862,” *The Americas*, 35: 3 (January 1979). Gabriel Martínez Carmona, “Negocios, política y diplomacia en México. El caso del cónsul Ewen Clark Mackintosh, 1827-1852,” in *Negocios, empresarios y entornos políticos en México, 1827-1958*, ed. Marco Palacios (México: El Colegio de México, 2015).

¹⁴ Josefina Zoraida Vázquez, “En búsqueda del poder: los pronunciamientos del general Mariano Paredes y Arrillaga,” in *Décadas de inestabilidad y amenazas. México, 1821-1848. Antología de ensayos de Josefina Zoraida Vázquez*, selection and foreword by J.Z. Vázquez (México: El Colegio de México, 2010), pp. 275-302. Miguel Soto, *La conspiración monárquica en México, 1845-1846* (México: EOSA, 1988).

and they could sell their bonds, making a handsome profit. The business was basically to speculate with Mexican debt bonds.¹⁵ For the restructuring of the debt service, the Mexican government offered: to cover payments with 20% of revenues of the maritime customs of Veracruz and Tampico (the main ports of the Gulf of Mexico through which most of the goods from abroad entered), the total of all tobacco incomes, and the customs earnings of the export of silver by the Pacific ports.¹⁶

The delay of the financial negotiation was precisely what threw off the aspirations of the Mexican government. The inexperience of the brokers meant that the project had to be amended three times, which signified months of communications between London and Mexico, given that correspondence took about a month to cross the Atlantic. Finally, after a meeting between representatives of the Mexican government and the bondholders, on June 4th, 1846, an agreement was reached. Mexico's debt was then consolidated at £10,241,650 with a 5% annual interest, which would be covered by the resources of the maritime customs, the tobacco and the export of silver in the Pacific.

However, by June 1846 two events changed the course of the restructuring of the debt service. On the one hand, on May 11 Polk published the declaration of war. On the other, the newly restored Mexican Congress took the decision to suspend the payment of any debt to national and international creditors in order to have resources to deal with the war.¹⁷ Moreover, in August 1846, when Paredes left the capital to join the military campaign, after the defeats in Palo Alto and Resaca de la Palma on 8 and 9 May, "los puros", commanded by their leader Valentin Gomez Farias and General Mariano Salas, declared themselves against the government and supported the restoration of the federal system.¹⁸

¹⁵ From Manuel Escandon to E.C. Mackintosh, London, June 28, 1846, in Benson Latin American Collection, Manning y Mackintosh Papers, University of Texas at Austin (BLAC, MyM Papers).

¹⁶ Tomás Murphy, *Memoria sobre la deuda exterior de la República Mexicana desde su creación hasta fines de 1847* (París: Imprenta de Ad. Blondeau, 1848), pp. 100-102.

¹⁷ Manuel Dublán and José María Lozano, *Legislación Mexicana, o colección completa de las disposiciones legislativas desde la independencia de la República* (México: Imprenta a cargo de Dublán y Lozano hijos, 1876) V, p. 123, May 2nd, 1846.

¹⁸ Vázquez, *Dos décadas de desilusiones*.

The change to the federal system could not have come at a worse time. That is to say, Mexico was facing an international war with a cash reserve of only \$43,000, as reported by the Treasury.¹⁹ In addition, the international credit market was closed and the internal lenders were not willing to lend any longer because the country had suspended payments. Moreover, a new problem was added to the misfortunes of the country: the radicals considered that the arrangement made in London was not practical because the interest rate was very high and Mexico could not cover its dividends. As a result, Gomez Farias, who was in charge of the Ministry of Finance in the transitional government, decided to reject the settlement and to remove the representatives of the Mexican government, leaving Lizardi in command once again.²⁰

It will not be discussed here whether the final settlement could have been covered or not, as it was previously stated that the government had suspended the payment of all debts. The importance of the settlement lays in the fact that Mexico would have been able to raise its reputation in the international market and obtain another loan to deal with the war. Rejecting the settlement was the worst decision that the government could have taken. However, Gomez Farias insisted that the arrangement had been negotiated by a desperate government and would only have benefited the brokers. Behind the reprobation were, first, the radicals' ignorance in financial and diplomatic affairs, and second, the political rivalry they had with the moderates and those they considered "monarchists". Ultimately, the direct beneficiaries of these actions were not only the United States, but also domestic lenders, who once again were the only ones with available capital to lend at exorbitant rates.

Santa Anna's return to Mexico did not bring any benefit to the country. Shortly after his arrival in the capital, he departed for San Luis Potosi, where he established his headquarters and petitioned Gomez Farias for resources because after six weeks he had not received a single penny. As a result, Santa Anna decided to take \$10,000 from the Real de Catorce mines.²¹ In December 1846, he was elected President, with Gomez Farias as Vice President, who was to be in charge of the Executive. Meanwhile, the government sought to obtain money through voluntary or forced loans obtained from

¹⁹ *El Monitor Republicano*, August 12, 1846.

²⁰ *El Republicano*, August 29, 1846. From Gómez Farías to Tomas Murphy, August 28, 1846, in Murphy, *Documentos oficiales relativos a la conversión de la deuda mexicana exterior verificada en 1846* (Londres: 1846), p. 24.

²¹ Archivo Histórico de la Secretaría de Relaciones Exteriores (AHSRE), legajo 1087, expediente 22.

the country's upper class. This measure did not bring positive results because no one wanted to lend resources to a country that was at war and did not pay its debts. As a result, the Mexican government decided to send a commissioner to London to negotiate a loan of \$20,000,000, with the promise of removing all bans on the importation of foreign goods, issued on behalf of the domestic industry, and a commitment to mortgage the property of the clergy.²² Yet, the commissioner, Ignacio Loperena, did not find a friendly environment in London. With similar results, Mackintosh, who was the representative of the British merchant-bankers Baring Brothers, inquired about the possibility of obtaining a loan in London. His request ended in the bank's refusal.²³

The Mexican government ended 1846 with a new President, a constituent congress that would amend the restored federal constitution of 1824, but without resources or future earnings to offer as collateral to obtain credit in the domestic market, because the main ports were blocked by the US Army, and tobacco had entered the market from the US South, ruining that source of revenue for the Mexican government. Farias's decision was to take up a project that had been suggested in 1833-1834, which focus was to sell "bienes de manos muertas" from the Church, as part of the liberal reforms project. This time, the Congress agreed to provide the "bienes de manos muertas" in mortgage for a loan of \$15,000,000. Some lenders were interested, because the Mexican government finally offered something material in exchange. However, the Church and a group of "moderates" revolted in Mexico City on February 27. This rebellion was known as the revolt of "los Polkos" who demanded that the mortgaged property law of the Church be repealed.²⁴

While this was happening, in Coahuila the battle of La Angostura or Buena Vista took place. This combat ended with the withdrawal of the Mexican army, which was about to defeat the forces of Zachary Taylor. The factor that determined the withdrawal was basically a lack of resources. The artillery officer Manuel Balbontín reported it at

²² *El Monitor Republicano*, November 28, 1846.

²³ From Barings to Manning and Mackintosh, February 1, 1847, in Baring Private Letter Books, 1847, quoted by D.C.M. Platt, "Finanzas británicas en México, 1821-1867," *Historia Mexicana*, 32: 2 (October-December 1982): pp. 232-233.

²⁴ Michael P. Costeloe, "The Mexican Church and the Rebellion of the Polkos," *The Hispanic American Historical Review*, 46:2 (May 1966): pp. 170-178. See also by the same author: "Church-State Financial Negotiations during the American War 1846-847," *Revista de Historia de América*, no. 60 (July-December 1865): pp. 91-123.

the time: "The enemy had food, but we lacked even a full ration per man. Not even our officers had anything to eat. So we couldn't wait for Taylor to be defeated by hunger. He had to be defeated by arms."²⁵ It can be said that the Mexican army was defeated in La Angostura by hunger and not at the hands of the enemy. The battle was lost due to the penury of the general Treasury.²⁶ Meanwhile, political instability continued in the capital, which led to Santa Anna's return to the presidency after the defeat of La Angostura. Instead of focusing on the war, the general decided to return to the capital to quell the riot.

Once in Mexico City, Santa Anna negotiated with the clergy the suspension of their mortgaged assets in exchange for the "donation" of \$1,500,000. Consequently, he allied with a group of "moderates" in order to eliminate Vice President Gomez Farias from the Executive. Soon after this occurred, the US military opened another battlefield and took the port of Veracruz in late March 1847, after a bombardment that found no response from the Mexican army.²⁷

Once Santa Anna's army had experienced a defeat because of a lack of resources, his government focused on getting as many resources as possible before heading to Veracruz to face the enemy. In a decree issued on March 28, the Congress authorized the executive power to obtain \$20,000,000 in any way possible, but nobody wanted to lend money under such conditions.²⁸ The states' support to the national government, for example, was extremely varied, but it was characterized by little solidarity. The states of Jalisco, Guanajuato, Michoacan, Queretaro, Aguascalientes, San Luis Potosi and Mexico City provided arms and men, but there is no accurate accounting of their contributions. On the other hand, Zacatecas and Durango, two particularly important states for their resources, refused to cooperate because of previous grudges against Santa Anna and the radicals.²⁹

Santa Anna's stay in Mexico City served to raise some funds, but not enough to sustain an army. According to information from that time, the Mexican forces consisted

²⁵ Manuel Balbontín, *La invasion Americana, 1846-1848. Apuntes del subteniente de artillería Manuel Balbontín*, (México: Tip. Gonzalo A. Esteva, 1884), p. 84.

²⁶ Salvucci, "Everyday Costs of Warmaking," p. 2

²⁷ Pletcher, *La diplomacia de la anexión*, vol. 2, pp. 31-312.

²⁸ Dublán y Lozano, *Legislación V*, pp. 262-263, March 28 and 29, 1847.

²⁹ *México al tiempo de su guerra*, contains papers on each state's attitude towards the war.

of 30,000 troops, of which only 17,000 were armed, but with outdated weapons, that were used during the Napoleonic Wars. Meanwhile, the U.S. army had 20,000 troops, composed by many volunteers who were previously trained. Also, the Americans enjoyed the resources to finance the war. That is to say, its armaments were modern and its artillery could shoot further and recharged at least five times faster than that of the Mexicans.

Then, the American campaign in central Mexico moved from Veracruz to Cerro Gordo, near Jalapa, where Santa Anna stood up to the army under Winfield Scott on March 18, 1847. The battle was one defeat more for the Mexican army, which fled to Mexico City, while Scott's forces mobilized to the city of Puebla, 120 km from the capital, which was taken without resistance on May 15th. The elite of Puebla did not support the Mexican government and warmly received the enemy army.

It is important to note at this point that the Mexican Congress members gradually absented themselves from Mexico City, under the threat of the entry of the U.S. military, leaving the entire weight of responsibility to the executive. Back in Mexico City, Santa Anna placed great emphasis on reaching agreements with individual creditors, domestic and international, in order to get some economic support. As a result, the government signed a diplomatic convention with Spain, acknowledging indebtedness to Spanish subjects in Mexico, which converted internal debts in diplomatic agreements between two nations.³⁰ In the case of the "English debt", the arrangement that was canceled almost a year before, was put back in place on July 19, 1847, after accepting the offer of the British consul Mackintosh to pay \$600,000 to the Mexican government.³¹ In the period of ceasefire, between July and August, the British consul and the British *charge d'affaires* in Mexico participated as mediators in a series of talks for a settlement between the US and Mexican governments to end the war. Their intervention had a double intention: Mackintosh knew that the U.S. government had previously offered money to the Mexican for its northern territories, but at this point,

³⁰ Antonia Pi-Suñer, *La deuda española en México. Diplomacia y política en torno a un problema financiero, 1821-1890* (México: El Colegio de México and UNAM, 2006).

³¹ *Leyes, decretos y convenio relativos a la deuda extranjera, que se reúnen para la fácil inteligencia del Dictamen de la comisión de crédito público de la Cámara de Diputados* (México: 1850), p. LI. Public Record Office. Foreign Office, 97 (FO97), v. 273, ff. 6-11. From José Ramón Pacheco to Charles Bankhead, July 21, 1847.

with a possible indemnity payment, a considerable amount of money could have been sent directly to the London bondholders, as dividends payment. The external debt arrangement was again on its feet and in order to make this work, Mackintosh offered his house in Tacubaya, on the outskirts of the City, where the peace negotiation took place. The talks did not succeed and the U.S. army took the capital in mid-September of that year.

One may conclude the crises Mexico had faced since independence had their climax with the entry of the U.S. Army to Mexico's main square in September 1847. From the impact of the defeat and the continuity of public debate emerged real political parties, with principles and precise rules, of which the conservative party founded by Lucas Alaman was the first. In spite of the radicalism that characterized the debate, for some members of the moderate group, such as the newly appointed finance minister Mariano Riva Palacio, the responsibility for the failure of the Mexican government was shared:

This state of affairs is not the result of war, nor the special work of any party; all have contributed to it, because everyone, over a number of years, has had in their hands the authority; and evil was accomplished before we suffered the adverse fortunes of war.³²

The inability to raise money from the Mexican government, the opposition of regional elites to collaborate with the national government, the constant internal debt and the closure of the international credit market were the formula for the country's disaster, and the war against the United States highlighted that the country needed to change course.

The relationship between the war and the external debt in the case of Mexico in the 1840s evidences one of the arguments proposed by Sicotte and Vizcarra in their analysis of war and the renegotiation of the foreign debt of Latin American countries.³³ According to these authors, the decision to renegotiate or default is basically a political decision, which depends on structural incentives and beliefs of the political actors of the moment. Consistent with this, the importance of maintaining or establishing debt

³² *Exposición que al Congreso general dirige el ministro de Hacienda sobre el estado de la hacienda pública de la federación en fin de julio de 1848* (México: Imprenta de Ignacio Cumplido, 1848), p. 6.

³³ Sicotte and Vizcarra, "War and Foreign Debt Settlement."

service in wartime is extremely important for two reasons: 1) because foreign capital has the ability to provide enormous resources to the state, which are needed to successfully carry out military operations, and 2) because the war itself may provide incentives for debt settlement, rather than impair it. Mexico sought to resolve its default to find resources in the international credit market to face the war but instability and the lack of experience of the actors in financial negotiations prevented a settlement from being reached prior to the start of hostilities. Mexico finally lost the war and consequently more than half of its territory, but the problem of Mexico's external debt would continue and just over a decade later the country would face the dilemma of a foreign military intervention as a result, among other many things, of the failure to pay its creditors once again.