MONETARY REFORM FOR NICARAGUA

REPORT

Presenting a

Plan of Monetary Reform for Nicaragua

Submitted to

Messrs. BROWN BROTHERS & COMPANY
and
Messrs. J. & W. SELIGMAN & COMPANY

by

Messrs. F. C. HARRISON
and CHARLES A. CONANT

APRIL 23, 1912

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Plan of Monetary Reform for Nicaragua

New York, April 23, 1912.

I.—Introductory Statement.

Dear Sirs:

We beg to submit herewith our report under Article 8 of the Treasury Bills Agreement of September 1, 1911, between your banking houses and the Republic of Nicaragua, relating to the introduction and maintenance of a stable currency system in that country and dealing incidentally with its finances.

In compliance with your instructions, we sailed from New York on Thursday, November 23, 1911, reached Panama on November 30th following, where we were detained until Saturday, December 9th, and arrived at Managua, the capital of Nicaragua, on the 14th. Through Mr. Gunther, the United States Chargé d'Affaires, an arrangement was made for a conference, on the next day, December 15th, at 11 a. m., with the President of the Republic Don Adolfo Diaz, the Minister of Finance Don Pedro Rafael Cuadra, the Minister of War General Luis Mena, and the President of the National Assembly Don Ignacio Suarez, at which several sub-secretaries assisted.

An address in Spanish,* expressing our desire to be of service to Nicaragua, was read to the President, to which a cordial response was made by the Minister of Finance, every indication being given of friendly cooperation. This was one of several conferences held

*Printed as Appendix B to this report.

with the President, the Minister of Finance, and the Minister of War, many more being held with the Minister of Finance alone, in regard to monetary reform and the improvement of general financial conditions.

II.—The Problem to Be Dealt with.

The main problem before us awaiting solution was to replace a depreciated, inconvertible paper currency by a sound monetary system. During the five years ending with 1906, the amount of paper currency in circulation in Nicaragua had remained comparatively stationary, being on December 31, 1906, 7,896,905 pesos. This amount was increased by comparatively moderate sums down to the outbreak of revolution in 1909, when large issues were made, first by the government of President Zelaya, then by his successor of his own party, President Madriz, and later by the new government under Presidents Estrada and Diaz. By these new issues, the net circulation outstanding was made to stand at the close of 1909 at 12,149,000 pesos, at the close of 1910 at 30,952,000 pesos; and at the close of 1911 at 48,557,000 pesos; and the rate of exchange rose from 520 in 1906 to above 2,000 in 1911.

How to convert this excessive mass of paper into a quantity adequate, and no more than adequate, to the needs of the country, and to keep the currency in the future at a fixed value in gold, was the essence of the problem to be considered; and closely linked with it was the problem of the amount of gold needed for the purpose.

III.—The Plan of Reform put in Operation.

To meet these requirements an act was prepared which was approved by the National Assembly on March 20, 1912, with the object of bringing about stability of exchange, and we are herein recommending additional measures designed to give to Nicaragua the benefits of an independent currency system secured by adequate reserves of gold.

The monetary plan put in operation by the Act of the National Assembly of March 20, 1912, provides for the following steps in the adoption of a definitive monetary system:

1.—The standard unit of value is fixed by Art. 1 of the Act at 1.672 grams of gold, nine-tenths fine, to be called the córdoba. This unit is of the same weight and fineness as the gold dollar of the United States.

2.—Provision is made (Art. 3) for a silver córdoba, containing 25 grams of silver, nine-tenths fine, and subsidiary coins of silver, eight-tenths fine. Provision is also made for minor coins of nickel and copper.

3.—The amount of the coinage (Art. 4) is determinable by the National Bank, under regulations approved by the Executive. Provision is also made for the unlimited coinage of gold when it becomes practicable and desirable.

4.—The paper currency will be issued by the National Bank, which has the exclusive right of note issue. The capital is only $100,000, but an early increase is contemplated.

5.—The existing paper currency of the Republic, representing a nominal value of about 48,000,000 pesos, will be received by the National Bank in exchange for its notes, expressed in the new monetary unit—the córdoba.

6.—The rate of exchange of the present currency notes is not finally fixed in the law, but it is provided by

Article 8 that an agreement on the subject may be made between the National Bank and the Minister of Finance, by which the ultimate rate of exchange shall be not more than 1,500 pesos of the old currency for 100 córdobas of the bank-note issue.

7.—The final rate of exchange will be fixed on July 1, 1912—or later, if the earlier date is found impracticable—but (Art. 14) during a period of six months thereafter both the old currency and the new are to be legal tender at the rate of exchange finally established.

8.—The notes of the National Bank are to be kept (Art. 9) at their face value in gold córdobas by the sale of gold drafts on New York and on other financial centres where credits may be established by the National Bank for the purpose. Conversely, drafts will also be sold in New York and other centres upon the National Bank of Nicaragua.

9.—The gold coin of the Republic, the silver córdoba, and the notes of the National Bank are (Art. 11) receivable for customs and other public dues and are legal tender in the payment of debts within the Republic. The subsidiary and minor coins will be legal tender for an amount not exceeding 10 córdobas.

IV.—The New Unit of Value.

The unit of value adopted under the new system (Articles 1 and 2) has been given the name of the córdoba, from Francisco Hernandez de Córdoba, the Spanish founder of both Grenada and Leon. The new unit is the same in weight and fineness as the gold dollar of the United States and was adopted with the approval of the President of the Republic and the Minister of Finance.

This adoption of a unit having the same gold value as the gold dollar has the merit of facilitating financial and trade relations between Nicaragua and the United States. It reduces the problem of exchange with America to a statement of the rate charged for remittances, without the confusing element of differences in currency units, and permits contracts and price-lists to be stated in either currency without the necessity of converting one into the other.

The alternative to the dollar unit which was considered most seriously was the adoption of a unit worth 50 cents. This is substantially the unit of Mexico, the Philippine Islands, and the Republic of Panama. In Panama, while the local currency has served as a useful medium for paying laborers accustomed to the use of silver, the approximate uniformity in size and bullion value of the Panama coins with those of the United States, having twice their exchange value, has introduced a certain element of confusion in the circulation of the two currencies side by side. It seemed advisable, therefore, in view of the declared wishes of the government, to fix a unit identical in gold value with that of the United States and to provide for silver coins having approximately the silver contents of coins of the same exchange value in the United States. The latter point is more fully discussed later on in the section of this report dealing with the silver currency.

V.—History of the Paper Issues.

Up to 1894 the paper circulation of the country was furnished for several years by the Bank of Nicaragua, which held a special concession* from the government giving it the exclusive right of note issue. At the above date, the outstanding circulation of the Bank was about

*The concession ran for 25 years from 23rd March, 1887, and has therefore just expired.

700,000 pesos, of which the larger part was issued in 1889 and 1890. When the government determined to issue paper money, its decision was taken exception to by the bank as being in violation of its charter. The notes of the government, not being convertible into coin at the will of the holder, went to a discount as compared with the notes of the Bank, which were so convertible. The inevitable result followed: the inferior currency began to oust the better.

For a time a conflict continued between the government and the bank, as to its legal rights under the laws of Nicaragua. On September 11, 1897, the government published in the official gazette a decree that no receiver of public moneys should receive any values except gold or silver coin or Treasury notes except with a rebate of 10 per cent., and imposed a penalty upon any official who disobeyed the rule. These provisions were contended by the bank to be in direct contravention of its privileges. They naturally impaired the value of the bank's notes and led to their gradual elimination. The Bank, after considerable correspondence, closed its sub-agencies at Granada and Leon, and began calling in its notes. Its circulation, which a week before the decree had been 615,000 pesos, fell by the close of the year 1897 to 320,000 pesos, by the close of 1898 to 82,000 pesos, and has since gradually been reduced to a merely nominal amount.

The standard of the country prior to these issues had been silver, but foreign exchange was quoted in gold, so that with the silver dollar at 50 cents, foreign exchange would be quoted at 200 and at a later date, with the silver dollar at about 40 cents gold, would be at 250. This rate of 250 may, therefore, be treated in a sense as the legitimate exchange, due to the difference in value between gold and silver at the coinage ratio, and so long as it was maintained did not connote depreciation of the notes in silver.

While the notes of the government showed a tendency from the first to depreciate below their nominal value in silver, this did not become marked for several years. The following table shows the amount of notes issued and retired during each year from the first issues to the close of 1909, with the amount outstanding at the end of each year and the average rate of exchange during the year, so far as the data were available:

ISSUES OF PAPER MONEY

(in pesos)

Year.	New Issues	Incinerations	Net Outstanding Dec. 31	Average rate of Exchange
1894-5*	$271,650	$ 25	$271,625	....
1895-6*	221,875	....	493,500	....
1897	500,268	....	993,768	....
1898	1,521,000	135,126	2,379,642	....
1899	376,355	64,693	2,691,304	....
1900	658,882	50,251	3,299,935	....
1901	2,200,624	144,737	5,355,822	372.0
1902	3,000,000	49,587	8,306,235	528.0
1903	....	224,170	8,082,065	720.0
1904	....	150,000	7,931,905	684.0
1905	....	130,000	7,801,905	616.0
1906	235,000	140,000	7,896,905	540.0
1907	1,015,000	46,751	8,865.154	630.0
1908	1,850,000	44,000	10,671,153	797.0
1909	1,499,950	22,000	12,149,103	913.0
1910	19,625,000	822,000	30,952,103	...............†
1911	24,470,000	6,865,000	48,557,103	...............†

These figures show that very moderate use was made of the power of note issue during the first few years of

*To October 12.
†No annual average is given for these years, as the continuous large issues would necessarily vitiate any conclusions drawn from it.

its exercise. Down to the close of the year 1897 the emissions exceeded by only a small amount the suppressed issues of the Bank of Nicaragua, and even when they were advanced to several million pesos, they probably only replaced the silver currency which flitted across the frontier after it reached a premium in paper. The easy road of irredeemable paper issues having been once taken, it proved a more and more attractive means of overcoming the deficits arising from inadequate taxation, defective administration, and the cost of putting down repeated uprisings against the government of President Zelaya. During the three years ending in 1902 the circulation increased three-fold and the gold exchange rose to 595, showing a depreciation in the paper money of nearly 50 per cent. in the last year.

The period from 1903 to 1906 seems to have been one in which the government realized that the power to issue paper had been abused, and that if the public credit was not to be gravely impaired, other means must be found for raising revenue. For four years only 235,000 pesos were issued in new notes, the amount cancelled was much larger, and the rate of exchange fell from 700 at the close of 1903 to 520 at the close of 1906.

During the next two years, owing probably to the necessity of finding funds to meet the expenditure caused by a series of uprisings against the tyranny of President Zelaya, there was a net emission of two and three-quarters millions of notes which, with the instability of political conditions and the arrest to trade caused by war, drove the premium on gold rapidly upwards. From this time, as the revolutionary movement gathered strength, ending ultimately in the retirement of Zelaya and the accession to power of the present administration, a regular carnival of inflation set in. Large orders were placed with the American Bank Note Company for notes, but the supplies not coming in fast enough to fill a depleted treasury, contracts were given to two private firms in Managua to supply seven millions more. Of these latter notes 1,450,000 pesos were emitted before Zelaya's fall in December, 1909, and the remainder during the administration of Madriz.

A portion of these notes, aggregating about 450,000 pesos, were stolen after their delivery by the contractors and before they reached the office of record. They are, therefore, not registered amongst the acknowledged emissions, and have been added by us to the circulation as officially declared.

In March or April, 1911, a decree was issued acknowledging the issue of fifteen millions of paper money, which were supplied by the American Bank Note Company of New York, and in the autumn a supply of a further ten millions was clandestinely ordered and put into circulation (with the exception of about 800,000 pesos, which, not having been issued when Don Pedro Cuadra became Minister of Finance, have been retained under his orders).

The government quite properly used part of the notes supplied by the American Bank Note Company to recall and incinerate the provisional notes printed locally, and those of the older notes which came into the public treasury in such a dirty and dilapidated condition as to preclude their being put back into circulation. As the faculty of legal tender was withdrawn, after suitable notice, from the provisional notes, it is practically certain that they no longer survive in any quantity, and the figures of the incinerations show this clearly.

On the following page a table appears, summing up the details heretofore given:

Summary of the Circulation of National Currency, December 18, 1911.

		Pesos.
Circulation on December 31, 1909, according to the accounts of the Treasurer General, and the differences between the issues and the incinerations under the Government of Zelaya		12,171,103.95
Issues ordered by President Madriz:		
In provisional notes	4,450,000	
In notes printed abroad	9,415,000	
Ordered by Dr. Madriz, but issued later	5,585,000	
Total		19,550,000.00
Issues ordered by the present Government	25,000,000	
Unissued and in hand	830,000	
		24,170,000.00
		55,891,103.95
Incinerations:		
During the Government of Dr. Madriz	433,500	
During the present Government to the close of October, 1911	5,500,000	
From November 1st to date	1,650,000	
Total		7,583,500.00
Net circulation	48,307,603.95	
Amount of provisional notes stolen	450,000.00	
		48,757,603.95

The total shown by this table does not correspond exactly with other figures furnished us by the Government of Nicaragua (as can be seen, for example, by referring to the closing figures on page 7). The differences, however, are small, and are apparently due to slight errors or omissions of transcription in extracting from the official records the entries of new issues and cancellations. There were various rumors afloat at the time of our visit to Nicaragua, to the effect that there had been issues of Treasury notes which had been made surreptitiously, both under President Zelaya and one of his successors, and that issues declared to have been withdrawn had in fact been reissued or stolen in some of the processes of withdrawal and cancellation. In order to resolve doubts upon this subject we obtained from the Treasury books the authorizations for new issues from the close of 1905 to the last issue on October 24th, 1911, and a similar list of cancellations and incinerations. We personally examined and verified some of these entries. While these records were mingled with other records of the Treasury, they appeared to be made in good faith at the times shown by the dates, and each incineration was shown to have been witnessed and attested by two reputable merchants, several of whom appeared before us and gave evidence. The rumors above referred to probably relate to the provisional notes, printed by local printers, and to the surreptitious issue of 10,000,000 pesos, made in the autumn of 1911, for which there was no official decree, but which was duly recorded on the books.

The books of the Comptroller of Accounts are in much better condition than was indicated by popular rumor; and upon a review of all the evidence, including an examination of the printers who prepared the provisional notes, we are satisfied that the official figures of the Government are correct in substance, if not absolutely exact.

These figures make no allowance for loss and destruction—two causes which count largely in tropical countries and in a community where currency is largely hoarded in private repositories, instead of being deposited in banks. Especially must this be the case in regard to notes for 50 centavos, which have depreciated to a value of about three cents in United States gold; the defaced and foul condition of many of these naturally leads to carelessness in guarding them, or even maybe to their destruction, when their condition is particularly bad.

VI.—Fluctuations in the Paper Exchange.

It will be noticed that for the last two years (1910 and 1911) no figures have been given in the table for the average rate of exchange. During these years of inflated and irregular issues and revolutionary disturbances, no instructive average can be struck, and the facts require separate treatment. With this exception the fluctuation in the exchanges verifies in an interesting manner several of the principles of money—primarily demonstrating that a country will absorb only so much currency as it has need for at a given gold valuation. This is shown by the fact that the increase in the issue of paper was accompanied in Nicaragua by an almost corresponding fall in the gold value of the unit, leaving the gold value of the total circulation substantially unaltered. The following table, illustrating this, gives the selling rate for American gold in Nicaraguan paper for the nine years ending with 1909:

MONTHLY RATES FOR EXCHANGE ON NEW YORK.

	1901	1902	1903	1904	1905
January	295	395	730	710	640
February	300	400	800	720	640
March	305	410	720	730	646
April	320	395	725	660	655
May	400	415	700	690	625
June	400	440	685	650	605
July	400	615	720	660	570
August	405	610	720	720	574
September	410	615	720	690	610
October	425	615	720	670	590
November	405	830	705	670	610
December	400	595	700	645	628
Average	372	528	720	684	616

Month	1906	1907	1908	1909	1910
January	600	510	710	850	960
February	580	535	750	900	960
March	565	540	770	960	1,000
April	550	545	765	1,050	1,020
May	520	600	775	800	1,075
June	510	550	830	830	1,080
July	525	650	810	870	1,200
August	540	700	790	900	1,400
September	520	680	780	945	1,300
October	520	680	810	900	1,350
November	530	690	900	975	1,250
December	520	700	875	975	1,200
Average*	540	630	797	913	....

The effect of the infusion of new paper upon the gold value of the total circulation appears in the following table:

*The average is omitted for 1910, because the great variations in the quantities of paper in circulation would make an average of no value.

GOLD VALUE OF PAPER CURRENCY AT END OF EACH YEAR.

Dec. 31:	Circulation: (in pesos)	Rate of Exchange:	Gold Values: (U. S. Dollars)
1901	5,355,822	400	1,338,900.
1902	8,306,235	595	1,396,000.
1903	8,082,065	700	1,154,500.
1904	7,931,905	645	1,229,700.
1905	7,801,905	628	1,242,300.
1906	7,896,905	520	1,518,600.
1907	8,865,154	700	1,266,400.
1908	10,671,153	875	1,219,500.
1909	12,149,103	975	1,256,300.

The figures just given are restricted to a narrow market and represent exchange at the end of each month, rather than an average of all sales or even of daily quotations. They are not, therefore, an absolutely exact reflection of the movement of exchange, but are sufficiently accurate for purposes of discussion. It appears that at the close of the year 1901, when the paper circulation was only 5,355,822 pesos, exchange was only 400 and had been during the year considerably lower. The injection of nearly 3,000,000 pesos into the circulation during 1902 carried exchange to an average during the next year of 720. Moderation in further issues of notes during the four years ending with 1906 kept the net circulation comparatively unaltered in amount and brought down exchange at the close of 1906 to 520. From 1907 onward, occurred large additions to the paper circulation and a sharp rise of exchange, which at the close of 1909 went to 975, the average for the year having been 913.

Ordinarily speaking, an increase of a note issue is made in response to a legitimate expansion of business, and when this takes place, the gold value of the total circulation moves naturally upward with the increase of the issue. Where, however, the note issue is used as a source of revenue, the increase occurs not when the need of business requires it, but when the treasury is empty. It is clear, therefore, that the gold value, far from rising equivalently, may even fall. The years 1903, 1907, 1908 and 1909 were years of revolutionary disturbance.

Turning now to the years left hitherto out of consideration—the years 1910 and 1911—the increase in the volume of the note circulation from 12,149,103 pesos, to nearly 31 millions in 1910, and 48¾ millions in 1911, was immediately accompanied by a great rise in the premium on gold, which ranged, with violent fluctuations, between 900 and 2,100. *A priori,* one would have expected that the emission of 1910, which had raised the circulation to two and a half times what it was in 1909, would have had a greater effect upon the premium on gold than a rise from 975 to 1,200. There is little doubt but that this rise would have been greater had it not been that the market expected great things from the effects of peace upon trade, and from the support given by America to the restoration of stable conditions. In 1911, the addition to the note circulation was of about the same amount as in 1910, but the effect upon the premium on gold was far greater. The causes for this are also not far to seek. Hope deferred had made the heart sick, and—what has been perhaps even a more effective factor—the truth that when once the money of a country is redundant to a point of extreme saturation, any addition to an overload of money has an effect somewhat disproportionate to its actual amount. It is impossible to-day, in the presence of so many disturbing elements, to know what would be the true exchange to-day if all the notes issued were in circulation. Expressing it in terms of the premium upon gold, a conservative estimate would perhaps be 2,000.

VII.—Existing Methods of Dealing in Exchange.

The rate of exchange for Nicaraguan currency is determined by the rates obtainable for drafts on New York. These are also sold upon London, Paris, Hamburg and other points, but the American gold dollar is the basis of the quotations. An exchange of 1,700 means that the cost of $1 in gold is 17 pesos in Nicaraguan currency. So wide have been the fluctuations in the exchanges that the small commission which would be chargeable for drafts has been practically engulfed in the difference between buying and selling rates. Fifty points has been the usual difference, which means about 2½% when exchange is 2,000. So rapid are the fluctuations, however, that the bankers are not always able to balance their transactions, and it was stated by one of them that their average profits upon exchange operations were not substantially in excess of one per cent.

The sales of gold drafts are made partly by two banking institutions—the Commercial Bank of Spanish America, Limited (which is a successor, in a sense, of the old Bank of Nicaragua, the London Bank of Central America, and the Cortes Commercial and Banking Company) and the Banco Comercial de Nicaragua, Limited—a comparatively new institution, but which, being partly owned and wholly managed by the former agent of the Cortes, does the major part of the banking business of the country. While, however, these two institutions do a considerable business in the purchase and sale of foreign drafts, they do not by any means do all of the business of this character which is done in Nicaragua.

Several importers and exporters, whose names are well known and whose credit is established at American and European commercial centres, do their own banking and meet a considerable part of the demand for gold drafts. Banking is done to a considerable extent on the East Coast by the United Fruit Company, the Atlantic Fruit Company, Belanger's Limited, and a few other firms engaged in importing goods for Nicaraguan consumption and exporting the products of the country on that coast.

The foreign drafts which are available to meet obligations abroad are derived largely from the exportation of coffee. Some drafts arise also from exports of gold mined in Nicaragua, sugar, rubber, hard woods, and bananas; but in the case of bananas the banking operations required are performed chiefly by the two large fruit companies on the Atlantic Coast. The exportation of the coffee crop takes place chiefly from December to March, but actual shipment is anticipated to a considerable extent by drafts drawn by the growers upon their European correspondents as early as September. Coffee exporters are permitted at that time to draw to a certain percentage of the value of the coffee which is in sight for exportation, and to draw additional percentages at later dates, until the shipments are completed and paid for in February or March. It is at this time that importers are enabled most easily to obtain exchange to pay for the manufactured goods, food supplies and other articles which they bring in from time to time during the year. In the case of the banks, the coffee bills which are purchased are used to cover the bills sold to importers, which can thus be obtained in such amounts as are desired. In the case of private firms, having well-established credits in London, Hamburg, New York, and elsewhere, as shippers of coffee and other articles, it is the custom to split up the amounts which might be drawn against outward shipments into amounts suitable to the needs of importers in making their remittances. In many cases, however, the claim against the importer takes the form of a draft upon him by the European exporter, which he may meet either by the purchase of a coffee bill or by payment in currency to his banker, who promptly turns the currency into a gold draft for remittance to his European client.

The credit relations of Nicaraguan houses with foreign exporters are such that prompt payment of such drafts is not always insisted upon. Payments are usually made upon account and not for the whole of the balance against the Nicaraguan importer, and are made promptly or delayed, according to the resources derived by the importer from his sales to retailers and collections from them. The wide fluctuations in recent years in the quotations for exchange have led to great caution on the part of importers in Nicaragua in extending credit to retailers in the interior. Indeed, it was stated by several witnesses that such credits had been practically cut off and that goods sold were required to be paid for at once, in cash. By thus obtaining paper currency at the time of sale, it could be employed for disbursements or converted into gold at the rate of the day, while if credit were extended for any considerable term it would often result in the payment of an agreed amount in paper, which would have greatly fallen in gold value by the date of payment.

The violent fluctuations in exchange have led the more conservative dealers in it to endeavor to balance their operations in buying and selling, instead of assuming the risk of selling more exchange than is bought, or buying more than they see their way clear to sell. The result of this policy of caution has been to leave the market without a supply of bills for sale when the volume of exports and the corresponding supply of drafts on American and European centres has been small. During the period of our stay in Nicaragua it was declared by several bankers that there were very few drafts for sale, and that they were, therefore, unable to meet the demand for exchange at the price in paper currency which buyers were disposed to pay. The effect of this was a hardening of the rates of exchange in paper currency, with the result that persons having obligations to meet refrained as long as possible from entering the market as buyers of exchange, in the hope that the monetary reform or other influences would cause a decline in rates. Obviously this policy of keeping out of the market could not be continued indefinitely, as obligations matured or became pressing, and ultimately such clients of the banks might be compelled to pay even higher rates than if they had not delayed their purchases. This danger was especially feared at the time of our visit, in view of the uncertainty which prevailed as to the rate of exchange which might ultimately be fixed and the doubt whether the resources of the government would enable it to be fixed within a reasonable time. The fear was expressed that, if no action was taken before our departure for New York, something resembling a panic in exchange would result from the scramble to meet necessary obligations abroad and the renewed depreciation which would ensue in the gold value of the local currency.

The market for exchange in Nicaragua is a restricted one, and is easily influenced by offerings of small amounts. The credits of Nicaraguan bankers abroad are apparently not large, and they have refrained recently, as above pointed out, from speculative sales of bills which could not be promptly covered by remittances. Importers in Nicaragua usually do business on six and nine months' credits. Twice during 1911 they speculated for a fall in the premium on gold; on the first occasion, when the loan negotiations were progressing favorably, and again when our advent was expected in October.

That is to say, they postponed their gold liabilities and deposited paper currency in the banks. The public, to some extent, followed them, particularly those who had received large payments in paper as compensation for war damages or in liquidation of military exactions. It was, of course, well known that the government was at the time putting in circulation large additional amounts of paper currency, but the influence of this fact upon the value of the currency was either not generally understood or was considered to be offset by the probability of its early conversion. These speculations were, of course, disastrous, and the banks exacted additional margins of national currency or required the speculator to close his account by buying exchange to cover. Nearly all such accounts were closed at considerable loss, with such crippling and discouraging results that when exchange touched its maximum points between 1800 and 2150, speculative sales of foreign drafts for the decline were small. In these circumstances the paper currency now held by the bankers and the public in Managua, in anticipation of a rise, has been estimated by a leading banker to be not more than 2½ millions of pesos, representing, at 1600, about $150,000 in gold. So narrow is the local market ordinarily that it was stated by another banker that he could produce a fall of exchange of several hundred points if he had the means of selling foreign drafts to the amount of $50,000, and that he could produce a very sensible effect if he was able to offer drafts to the amount of $5,000 gold.

VIII.—The Amount of Currency a Country Needs.

At the outset, when conversion of a currency is determined upon, one of the first questions for ascertainment is the quantity of new currency which will be required to replace the old.

The amount of currency which a country has to sustain at any given parity depends upon a consideration of the quantity of commodities on sale and the number of times they change hands, as against the amount of currency in circulation and the number of times it changes hands. As in modern times countries are not isolated and trading between them is practically continuous, it follows that the same factors interact, and each country materially affects and is affected by the conditions existing in the other.

Between two gold countries there cannot be wide variations in the prices of staple commodities, except so far as prices are influenced by artificial barriers or differences of local conditions, such as tariff rates or the cost of transportation. Other things being equal, there will be a constant tendency towards the restoration of equilibrium of gold prices in different countries. If elements of friction are excluded from consideration, goods will move from the market where they are cheaper to the market where they are dearer, and gold will move in the opposite direction—that is, it will flow into the country where goods are low in price, and away from the country where goods are high in price. Hence, exists a tendency towards equilibrium in the distribution of gold, which practically fixes the amount of gold or its equivalent in other forms of currency which is required in each country. If, therefore, there is an issue of paper currency, which is not called into existence and sustained by a genuine demand, it follows that it will depreciate by the amount by which it has exceeded the requirements of the country when valued in gold.

Thus, in Brazil, which issued irredeemable paper in a very guarded manner prior to the abolition of the empire in 1889, but which entered upon issues enormously in excess of previous requirements soon after the proclamation of the republic, it was found that the average decline of the gold value of the paper, expressed in rates of exchange on London, more than kept pace with the increase in the quantity of paper. The paper circulation, which stood at 297,800,000 milreis in 1890, was worth more in gold than the amount of 788,364,000 milreis which was in circulation in 1898.

From these considerations, it is clear that the new currency should at commencement be limited to the amount which, at the rate of exchange selected, will equal the gold value of the currency withdrawn.*

IX.—Determination of the Rate of Exchange.

In selecting a rate of exchange for adoption, the proverbial three courses are open:

1.—Suspension of further issues so as to appreciate the existing currency by scarcity;

2.—Conversion at the rate of the day;

3.—Retirement of a portion of the currency so as to admit of the remainder being converted at a higher par.

Of these methods, British India adopted the first; and it took her five years to raise the rate of the rupee from 13¼ to 16 pence.

In Austria-Hungary, the monetary reform of 1892 adopted, in substance, the rate of exchange of the day, which reduced the old nominal value of the paper in gold about 16 per cent. In Russia, the reform of 1895 adopted a rate of exchange which was one-third below the face value of the old circulation in paper, but represented substantially the average rate of exchange of several pre-

*Figures bearing on this matter will be found on page 31.

ceding years. In the Philippine Islands the adoption of a silver unit having a fixed value of 50 cents in United States gold, represented an enhancement of the gold value of the standard coin by about 20 per cent.; but this departure from the exchange of the day was less serious than might appear upon its face, since the value of silver had been fluctuating widely and had within two years been substantially at the parity adopted by the law of 1903. In Mexico the adoption of a similar unit, representing approximately 50 cents United States currency, was based upon the average exchange of the preceding decade.

Broadly speaking, it is now recognized that in the absence of special causes, the course of adopting the rate of the day should be normally taken. It leaves things as they are and so does not affect contracts, prices or wages. Sometimes, however, as in India, the decision is influenced by the Government's gold liabilities. In some other cases it has been thought fit to take a rate based on an average of preceding years. It is, in fact, only now becoming gradually understood that the adoption of any rate which is materially higher than that prevailing is unpopular in business and banking circles; for enhanced exchange is reached by restriction, and restriction means falling prices and a tight money market until the new equilibrium is attained.

X.—Reasons for Recommending the Rate of 1250.

There are special reasons, both political and economic, which justify the rate we suggest.

1.—*The recent date of the great decline in the gold value of the existing paper money.*

In the last ten years, as has already been pointed out, the emissions have quadrupled; and the effect has been to congest the vaults of banks and the holdings of private individuals. Business has not, and cannot have, had the time to adjust itself to the altered conditions.

2.—*Wages and prices are not yet adjusted to the present high exchange.* This is a natural consequence of the extremely recent date of the fall in the gold value of paper. It is a well-established economic principle, that while prices and wages will tend to rise as the currency depreciates, the rise of both lags behind the depreciation. It is easier, in most cases, for the merchant to adjust his prices to the new conditions than for the laborer to secure an advance in his wages; but even the merchant does not find the process of advancing prices one without friction and delays. This is especially true in regard to prices of articles and services having a conventional value, such as charges for newspapers, beverages at retail, hotel charges, and prices for popular articles of consumption long established at a fixed price. It is an inevitable conclusion of common sense, as well as of observation, that where the gold value of paper is falling from day to day or week to week, the retailer, even in the absence of strong popular resistance, finds it difficult to advance prices rapidly enough to meet the new conditions, and either lags behind the unfavorable exchange in making such advances or makes them in wider jerks.

In the case of the paper currency of Nicaragua, there had been, up to the close of the year 1909, a gradual rise of paper prices which had in a rough way corresponded to the rise in exchange. To some degree, also—and to a rather remarkable degree, according to some of the testimony submitted to us—wages had also been advancing to meet the declining value of the paper; but such advances, even where they were adequate, were usually made several months later. By the beginning of the year

1911, it might perhaps be said that prices and wages had again been adjusted approximately to the rise in exchange, which stood at about 1,200. The subsequent infusion of about 16,000,000 pesos in paper notes into the circulation and the rise of exchange as high as 2,000, was not reflected generally by a corresponding rise in prices and wages. To return, therefore, to an exchange approximating that of the close of the year 1910 would not involve serious readjustments.

3.—*Restoring the purchasing power of wages.* As wages usually fail to advance as rapidly as bad paper money depreciates, so they usually fail to fall promptly upon the restoration of such paper to a higher gold value. How far and how soon wages are subject to reduction to meet an enhancement of the gold value of the medium of exchange, depends upon such factors as the demand for labor, the adequacy of the supply, and the ability of the wage-earners to resist reductions. In the case of Nicaragua, the evidence submitted to us seemed to indicate that in the mines and other industries where partially skilled labor is in continuous demand, a slight increase in the gold value of the wage would not lead to its reduction in terms of the new currency. It was frankly acknowledged by several employers that labor had suffered by the rise in exchange and that a small advantage derived from an enhancement of the value of the unit would only restore to the laborer that to which he was entitled. We are doubtful whether the wages of the agricultural laborer have been raised to correspond with an exchange of 1,800 or 2,000, or indeed beyond the point of 1,250. But if they have been so raised, it is best so, for these wages were very low, probably too low, for efficiency.

4.—*The increased gold value of the public revenue and the consequent lightening of the burden of foreign debt.* It is peculiarly difficult, where everything is a matter of politics, to impose taxation in Latin America. The revenue is derived mainly from the Custom House with substantial assistance from excise and a little income from the railway and minor monopolies, the postal and telegraph systems being run at a loss. In the matter of duties, the prices of liquor, fares for passengers and goods, and telegraphic and postal charges, it is not easy and, in some cases, is almost impossible to make radical changes in rates to which the public have become accustomed. In these circumstances the advantage of a high gold value is not one to be lightly foregone.

Nicaragua, moreover, has now a gold debt which is very considerable in the light of its present resources, and it has considerable liabilities in salaries and fixed charges calculable on this basis; it is, therefore, a matter of great importance to it and to its foreign creditors, that the gold value of the medium in which its revenue is collected should be as high as possible.

5.—*Existing pledges by the Government.*

The Government recognized, when making the emissions of paper in 1911, that the inevitable result would be to accelerate its depreciation. To reassure the people, and possibly with a vague idea that the natural result of monetary wrongdoing would be averted by the millennium expected from American assistance, a decree was issued of which the text is reproduced:

THIS DAY HAS BEEN ISSUED THE FOLLOWING DEGREE:

The President of the Republic,—

Considering, that the constant fluctuations of exchange profoundly affect the economic situation of the country, occasioning noticeable perturbations in the market price of articles of consumption; and that it is the duty of the government to prevent, as far as possible, the injury to which the wealth of the country is exposed; that the national bills, as the standard money of the Republic, should have, according to law, a fixed value in order to establish a permanent ratio which should measure the liability of the government issuing the bills.

That this relation for our bills in circulation should be fixed with reference to American gold, and in view of the fact that serious negotiations are pending for a loan which will soon enable the government to maintain effectively the value legally assigned to the present circulating medium.

That, taking into account the amounts issued up to date, which circulate freely in the market, the different rates of exchange at the time of the several emissions, and also the present state of production in the country, it appears that 1,200 per cent. is the ratio of bills to gold in drafts at three days' sight and is an acceptable rate, which harmonizes satisfactorily with the general economic interests of the country. Therefore, in the exercise of legal authority,—

Be it Decreed:

Sole article.

The Government of Nicaragua will recognize and accept one thousand two hundred per cent. of exchange as the fixed ratio between the national bills and the American dollar—that is, twelve pesos in bills for each dollar in American gold in drafts at three days' sight.

Given in Managua on the eighth day of June, 1911.—Diaz.—The Minister of Finance,—Sandino.

Yours faithfully,

(signed) Sandino.

The Government of Nicaragua which issued this decree, and the people to whom it was addressed should have known pretty well that the rate of exchange is determined by economic law, and that this announcement was only a futile statement that, in this case, effect would not follow cause. Some weight, however, should be attached to this pronouncement. In the first place, the public must to some extent have regulated their future business on this basis, considering not that the theorem was true but that the government had pledged its word to make good the consequences of its action. In the second place, this matter has a political aspect not to be ignored. The party which came into power became much discredited owing to these emissions. If, therefore, it was feasible for it to retrace its steps and restore the *status quo,* it was well that this should be done.

6.—*Practicability.*

Much of the success of an operation designed to call in notes naturally depends upon how and where they are held. In the present case conditions are somewhat favorable. Large emissions of notes made at short intervals and without any consideration of the monetary situation tend inevitably to accumulate in the reserves of banks and other strong hands. In Nicaragua these tendencies toward congestion have been accentuated by the causes which prompted the emissions. These were made in large sums, some of which being intended for the troops were ultimately distributed in due course amongst lowly recipients, but the greater part were made over to firms and private individuals who furnished supplies or money to the revolution, or who had suffered from forced loans or exactions since so far back as the year 1893. Many of the recipients, seeing the grave fluctuations in exchange occurring daily, and expecting much from the loan obtained by the aid of the American Government, held the sums made over to them, and portions are still so held by them and by the banks on their account, or by the banks for themselves.

Some force, though perhaps not much, also attaches to the argument which has in fact been emphatically employed by the Finance Minister when conferring with his political friends in Granada (to whom the greater part of these payments have been made) that those who have benefited at the expense of their country by the depreciation of the currency for their advantage, are now peculiarily bound to bring forward their holdings for redemption at such a rate as will admit of a conversion favorable to the public interests.

We have now enumerated the various considerations bearing upon the method of conversion and the rate to be adopted, which have influenced us in making our recommendations.

XI.—Suspension of Further Currency Issues.

One of the first steps taken to prevent the further depreciation of the paper circulation was to request an assurance that no further issues of paper currency should be made and that this assurance should be embodied in law. Already, before our arrival in Nicaragua, such a promise had been given by the government to the American Chargé d'Affaires. The fact, however, that issues of new notes had continued up to October 24, 1911,—some two weeks after the ratification by the National Assembly of Nicaragua of the Treasury Bills Agreement,—and that the Government was under the most pressing need for money after the segregation of customs receipts for the service of the loan, led us to feel that it was desirable to emphasize our position by asking for a definite written assurance from the President of the Republic that no more government paper should be issued. This assurance was obtained in correspondence, which is appended to this report.*

XII.—METHOD OF OBTAINING STABILITY OF EXCHANGE.

Enough of the ground has now been cleared to proceed to discuss in some detail the monetary plan we have prepared, part of which is already embodied in contracts and in the statute law of Nicaragua. The main idea is to reduce by purchase the volume of the existing paper money until an exchange of 1,250 is attained, and then to substitute for the remainder notes of the National Bank of an equivalent value and convenient denominations based on the same gold unit as the United States now uses, viz., the gold dollar, officially designated the córdoba. Below these notes provision is made for suitable silver, nickel and bronze coins which will all be token coins of limited legal tender with the exception of the silver dollar, which will be unlimited legal tender, although, like paper money, it is really a token currency redeemable, under certain conditions, in gold. The matter of the metallic currency is dealt with in detail at greater length hereafter, and is merely referred to now to give a bird's-eye view of the proposals.

So far only mention has been made of

(a) The recall of the note issue in excess of the quantity which would be required at an exchange of 1,250;

(b) The substitution of National Bank Notes for the residue; and

(c) The coinage of suitable silver, nickel and copper coins.

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*See Appendix D, pp. 81-84.

But the crucial matter is to maintain the paper and metallic currency on a gold basis at the exchange determined upon. Obviously this is primarily a question of the amount of currency to be maintained and the resources available to maintain it. On page 15 it is stated that a conservative estimate of the true exchange on a basis of a circulation of 48¾ millions of pesos is 2,000. By this it is merely meant that if 48¾ millions were in circulation, the rate of exchange would probably be about 2,000 or even higher, instead of the rate recently ruling, 1,800. As a matter of fact, when account is taken of loss by fire, water, climate, insects or other causes, it is certain that the amount of paper in existence is much less —perhaps a fair estimate would be 47 millions. We would put it much lower, were it not for the fact that the greater part of the issues are comparatively recent. Further, a considerable quantity of the recent issues have never entered the general circulation, or have been withheld in Managua and Granada for the rise. About a million and a half is also locked up in customs collections and not yet remitted to New York. Perhaps the real circulation which is to be taken into account as producing the current rate of exchange is, therefore, nearer 42 millions than 47.

Very crudely stated, the problem is this: If exchange was, in round figures, 975 when the amount circulating was (in 1910) about 12 millions, and is 1,800 when the amount circulating is 42 millions, what is the amount of currency that can be sustained at an exchange of 1,250? The answer to this is a figure about 30 millions. It would appear, therefore, that the difference between 47 and 30 milions, namely, 17 millions, has to be recalled and cancelled before an exchange of 1,250 is attained. Personally, we are of opinion that it will not be necessary to recall so much. So soon as peace and security are insured, the monetary needs of the country will expand very rapidly, and it is to be expected that the Atlantic Coast of Nicaragua will come into line and use, to a considerable extent, the National Bank's paper. Hitherto the merchants and people on that side of the country have resolutely refused to have anything whatsoever to do with the existing depreciated paper.

As already set forth, we were of the opinion, when studying the facts on the spot, that the premium on gold could be brought down to 1250. Nothing has occurred, since that opinion was formed and operations have commenced, to shake our belief. It may be, however, that the amount it is necessary to retire will prove to be more than the lower estimate, and it is conceivable that the higher figures will be exceeded. In this unlikely event the question of fixing exchange higher than 1250 will have to be faced, and power has been taken to adopt a rate as high as 1500. There is no occasion for haste. We are informed that the dies for the new coinage are not likely to be ready for several months. It is therefore certain that the date of introduction of the new currency will have to be postponed. Probably a delay of three months will be inevitable. This breathing space will afford ample opportunity for ascertaining whether the quantity of paper money to be absorbed is in accordance with our estimate. For the reasons developed at length in this report, we are very reluctant to fix the premium on gold higher than 1250. Should, therefore, circumstances subsequently show that this exchange cannot be attained by September or thereabouts, we would recommend a further extension until the end of the year, rather than the abandonment of the effort to attain it.

XIII.—Cost of the Operation.

Upon a consideration of these data, let it be assumed that it will be necessary to buy in about 12 millions of paper. We now pause to calculate the cost of the purchase. In the currency act intimation has been given that the rate of exchange would eventually be fixed at 1,500 or such lower rate as might be found feasible, the intention being to endeavor to attain and establish the rate of 1,250. It therefore follows that the rate anticipated largely governs the rate at which purchases can be made in the interval. The considerations heretofore mentioned* are also elements in the situation. In the circumstances, we hope to secure immediately a large block of bills (6,400,000 pesos) from the public, and about 1,600,000 pesos from the Collector-General of Customs at the rate of 1,600, that is to say, 8 millions of pesos at a cost of $500,000. To carry through this operation it has been necessary to agree on the part of the Government not to sell exchange to the public except in the neighborhood of this rate for the next few weeks. For the remaining four millions it may be necessary to pay an average exchange of about 1,400 or say 7 cents to the dollar, which works out at $280,000.

The total cost of reducing the currency to a par of 1,250, upon the estimates above set forth, would be $780,000.

Under the treasury bills agreement the amount provided for the reform of the currency and the foundation of a bank is $1,500,000. For the latter purpose a specific sum of $100,000 only is set apart; a further sum of perhaps $70,000 must be deducted for preliminary expenses, lawyers' and experts' fees and telegrams; and about $180,000 should be allotted for the coining of about $300,000 of silver and fractional currency and for agency commissions, including the cost of recalling the old notes and issuing the new. In other words, the net amount available

*On pages 28 and 29.

for protecting the note issue and the metallic currency is $1,500,000, subject to the deduction of the sums of $100,000, $70,000, and $180,000, leaving $1,150,000. Of this sum it has been shown that about $780,000 will be required to absorb the excess of old notes, leaving a clear balance of only $370,000. Whatever system be introduced for the new currency, we felt that this residue was in any event insufficient.

XIV.—Recommendation to Introduce the Exchange Standard.

As the whole cost of the reform has to be borrowed and Nicaragua's resources are slender, we determined to recommend that the exchange standard system of currency, as being the most economical, be adopted for the first few critical years. This system was first tried by Holland in Java, then on a gigantic scale in India, thereafter in the Phillipines and in one form or another elsewhere, in every case with success. Briefly stated, the idea underlying this system is that it is possible to keep the currency of a country, whether a paper or metallic currency, at a parity with the currency of another country or countries by providing a reserve fund, by means of which its paper or metallic currency can, when its value tends to rise or fall in terms of the other currency, be decreased or increased until its value is restored to the former parity.

Experience with the gold exchange standard has shown, however, that it is possible to build up such a reserve to a considerable amount without imposing any burden upon the finances of the country where the system is in operation. The chief sources for building up such a reserve, without borrowing or taxation, are three:

The seigniorage profits on the coinage of silver; the premiums charged for the sale of drafts and bills of exchange; and interest upon the exchange funds when invested in securities or deposited with banking institutions in financial centres. The seigniorage upon new coinage is usually the most important of these items, and amounts to a large proportion of the face value of the currency issued if the rate of coinage adopted departs considerably from the market value of the bullion contained in the coin.

The profits upon the sale of drafts upon a gold exchange fund, while they do not look so impressive as the profits upon coinage, are repeated over and over in the course of transfers of capital and credit in both directions; while the profit from the seigniorage occurs only once—at the time of the coinage.

The third source of profit to the exchange fund—interest on investments or on deposits where any such use of the fund is justifiable—is also of some importance when rates for money are high in the financial centre where the reserve is kept.

In the Philippine Islands, according to a recent statement made public by the War Department, the gold standard fund stood, on June 30, 1911, at $10,308,877, the entire amount being the proceeds of the seigniorage on silver coinage, the sale of drafts, and interest on the deposit of the reserve funds in the United States, after the deduction of considerable amounts for interest on temporary loans incurred for the purchase of silver and certain other charges.* As the circulation of Nicaragua at commencement will probably not exceed about one-eighth of the Philippine currency, the amount of profit will necessarily be smaller, but it is also likely to be considerable.

*See Appendix F, p. 129.

XV.—Application to the Present Case.

In applying this system in Nicaragua, let it be assumed that the par of 1,250 has been reached by the steps already described. If the exchanges go to say 1,400, this means that there is too much currency to support the par of 1,250. As the reserve fund sells to all comers at 1,250, the market will tender Nicaraguan currency for drafts on New York until the exchanges return to 1,250. Contrariwise, if the exchanges go to, say, 1,100, the market will tender gold in New York for drafts on Nicaragua until the Nicaraguan currency is so increased that its sales in terms of gold drop to the rate of 1,250. Obviously if the movements in either direction roughly balance and a profitable commission is charged upon the sale of drafts, the reserve fund is steadily augmented by the brokerage, &c., earned. So, too, if the movement is on balance for drafts on Nicaragua, the reserve becomes stronger, for these drafts are honored by the issue of notes or silver in Nicaragua on which there is a considerable profit (whichever medium be demanded), credited to the reserve. Danger, however, lies in the other direction. Should the balance of trade turn against Nicaragua the demand for drafts on New York naturally constitutes a drain upon the reserve, and in this connection due importance must be attached to the burden of gold debt, since the remittance of capital repayments and interest come on the unfavorable side of the balance.

As against these considerations it must be remembered that the balance of trade in Nicaragua is generally favorable: that the burden of interest is greater than formerly, but not so very much greater, and that the effect of locking up Nicaraguan currency in large quantities by the release of gold in New York tends to raise the value of Nicaraguan currency and so of itself to induce a reverse movement in the exchanges.

It is our belief that the trade of Nicaragua will expand under a stable government; that this expansion will, as is usual in new countries, be mainly agricultural, and that the balance of trade is likely to remain in favor of Nicaragua, as has been the experience of the world in similar circumstances. But the fact that the present borrowings are to be repaid in a short space of time will necessitate a skilful handling of the situation.

The necessity for economy is one of the strongest arguments for our proposals. The exchange standard system only converts the internal currency of the country into gold, when gold is required to settle foreign obligations. It discourages all but the inevitable demands by converting only large amounts, and it makes the conversion in the most inexpensive manner by giving gold where it is, instead of first importing it into Nicaragua. Withal, it is clear that the balance at disposal of the exchange fund is, as stated on page 34, not adequate. The amount of paper money circulating at commencement will be 35 millions of pesos or $2,800,000 and, say, $300,000 of metallic currency. Against this is the 370,000 dollars and the intrinsic value of the metallic currency which is about 120,000 dollars, or in round figures a total of $500,000. That is to say, the reserve is not equal to 20% of the outstanding currency. In these circumstances it becomes imperative to provide some further backing, and this has been wisely arranged for by the bankers at the least expense to the state, by the grant of a credit of $500,000 to be drawn upon if the cash reserve is exhausted.

Taking this into consideration, the exchange fund as now constituted should be sufficient to maintain the currency of Nicaragua at the par of 1,250.

XVI.—Management of the Exchange Fund.

In providing for an exchange fund on deposit in New

York, subject to drafts for the purpose of maintaining the parity of the currency, it is not contemplated that the business of dealing in foreign exchange will be monopolized by operations upon this fund. The purpose of the fund is essentially to protect the exchanges when they tend to become adverse, and not to deprive existing banks and bankers of the business in small drafts while operations in one direction approximately balance those in the other. The limitation that drafts upon this fund shall be sold only in amounts of not less than $5,000 after the National Bank is established is an indication of this purpose.

In practice, the local banks are likely to be the chief, if not the only, purchasers of drafts upon the fund. By buying drafts in multiples of $5,000, they will be able to cover drafts for smaller amounts sold by them, and will be able to charge their clients a reasonable profit above the rate of exchange paid to the National Bank for large drafts, in order to compensate themselves for the labor and expense involved in subdividing the amounts drawn. There is, indeed, nothing in the monetary law, nor in its possible application, to prevent the National Bank itself from keeping funds in New York or elsewhere, for exchange purposes, independent of the exchange fund herein provided for the purpose of maintaining the parity of the currency. In other words, the fundamental purpose of the fund, after the exchange is fixed, is to guard against a decided balance of demand for exchange in either direction, and not to interfere with ordinary transactions, for which the local banks would usually have ample funds and which would, in the usual course of business, nearly balance each other. The policy of the National Bank in dealing with exchange, apart from the official fund, is left to the policy and discretion of its management.

The commission for drafts upon the exchange fund is fixed in the monetary law somewhat below current commissions charged in Managua for drafts upon New York and other foreign points. It is probable that this will have a tendency to reduce somewhat the range of rates of commission charged upon ordinary exchange operations, but not necessarily to divert to the National Bank the entire business in exchange. It was necessary to give considerable latitude to the Government of the Republic and the administration of the bank in fixing charges for drafts upon the exchange fund, in order that the utility of the fund might be adapted to conditions as they arise; moreover, the commercial development of the country will not suffer if the existence of the exchange fund, and the competition of the National Bank, through other sources at its command, tend to establish lower charges than now prevail, and, in consequence, to encourage a freer movement of capital than now takes place between Nicaragua and foreign financial centres.

XVII.—Silver and Fractional Currency.

In monetary matters, what people need can only be ascertained by experiment. Silver was in general use prior to the depreciation of the paper currency, and the notes of the Bank of Nicaragua were redeemable in this medium. According to the well-established rule, that a cheaper legal tender will drive out a dearer, silver pesos were driven from circulation by the government paper money, and were soon followed by the subsidiary coins. Such silver coins of Nicaragua as are still in existence, are reported to be in circulation to some extent in Honduras, and others have gone to the melting pot or otherwise disappeared. Silver is still the money of the East Coast, which has refused to have anything whatsoever to do with the government paper money, even preferring to pay dues in silver rather than snatch a temporary profit by tendering paper, and so encourage its introduction.

There appears to be no doubt that silver coins, having a fixed gold value, whether they were full legal tender or only limited tender, would be readily accepted on the East Coast, and eventually in the western part of Nicaragua, where paper is now (with the exception of a few nickel coins of small value) the only medium of exchange. There are several reasons why silver coins would be acceptable as a limited tender for small amounts, which have even more force in a country like Nicaragua, subject in some degree to tropical conditions, than in countries in the temperate zone. Among these reasons may be suggested those of cleanliness and sanitary protection, and the comparative durability of the coin over paper.

The present paper currency, especially the pieces of low denomination, which pass from hand to hand in small transactions, is in many cases in a filthy condition. Much of it is so torn and defaced that even the denominations are recognizable with difficulty. The government has from time to time endeavored to replace such worn and soiled paper with new issues, but financial conditions have been such that there has often been a temptation to permit the continued circulation of such of the old paper as could be used, rather than to retire and destroy it. Existing notes of the one peso and half peso are now worth about six cents and three cents, gold. That is, they are the pocket money of the people and, owing to the rapidity of their circulation and the people's habits, they are in a dirty and unsanitary condition. They should be retired and destroyed as soon as they can be replaced by metallic currency. Moreover, silver is less destructible than paper. While paper is easily carried, it is often welded into an undistinguishable mass when subjected to tropical rains or other accidents. In the hands of a laborer or small producer who receives money in payment for wages or produce, silver would undoubtedly be preferred in many cases to paper. It can be hidden in a closet or under a piece of flooring, or even buried, without risk, which exists in the case of paper, of destruction by moisture and insects.

On the East Coast, where silver is now practically the only form of currency, the existing preference for silver over paper may even prevail after the paper is recognized as good. We have, therefore, recommended an experimental coinage of a few silver córdobas. But we hope that the highest coin in general use will be the 50-cent piece. We have a strong preference in matters of money for following the line of least resistance—that is to say, giving the people what they need. Should they find the silver córdoba less convenient than the note, they will abandon its use. On the other hand, if experience teaches them that it is a better medium, they ought to have it. Contrariwise, we have no prejudice against the fifty-cent note, if there appears to be a demand for it, in which case an experimental issue can be made. In monetary matters, the paradox holds that to promote the acceptance of any currency, it is wiser to be eager to receive than anxious to part with it. At present Nicaragua is adverse to its introduction. After recent bitter experience the people on both coasts want something they can bite, and on the Atlantic side they will at present have none of the "unclean thing"—paper currency.

With the paper peso reduced as it has been by overissue to a value of less than six cents gold, 50 cents gold is equivalent to about nine pesos. A coin having a gold value of 50 cents would represent, therefore, among the laboring classes, a high denomination. In these circumstances there is likely to be room for a considerable quantity of smaller coins. We have, therefore, provided for silver coin of denominations of 50, 25 and 10 centavos, a nickel coin of 5 centavos, and copper coins as low as 1 and ½ centavos.

Enough has been said, we hope, to indicate that our recommendation to adopt the dollar and its subdivisions under appropriate local designations is right, in view of both theoretical and local considerations.

In regard to fineness we have followed the advice of the assay office in England. A fineness of 800 is believed to be better than 835 for technical reasons, the chief of which are suitability for manufacture and resistance to friction.

In the foregoing no allusion has yet been made to the profit resulting from the silver currency costing less than its face value, for we feel strongly that it is wisest to approach the question as far as it is practicable without any bias of this nature. There will be a very considerable profit, amounting to not less than 50 per cent. of the face value of the silver currency maintained in the circulation, after deducting all costs of manufacture and supervision. We recommend that the whole of this revenue be carried to the exchange fund until the reserve in gold and commercial paper is not less than 70 per cent. of the net circulation. The allocation of this revenue thereafter is discussed later on.

XVIII.—Weight and Fineness of the Fractional Currency.

Theoretically, the intrinsic value of a token coin is not a matter of much account. Its value in exchange depends on what is behind it. Should the backing be exhausted, and it became necessary to offer the token coins for their bullion value, the amount so realized would be a bagatelle, in view of the catastrophe occasioned by the disorganization of the monetary system. For example, in the United States, silver certificates circulate at a par with other currency,—not because they are secured by silver, which would be unsalable on a breakdown, but because they are received for public dues, and the total currency circulating is not in excess of the country's needs.

Speaking broadly, it is wise and usual in effecting a monetary change to follow the line of least resistance and leave the people with what they are accustomed to. In the past, therefore, the unit of silver taken has not, as a rule, departed widely in weight and fineness from what has been the ordinary money of the country. In Japan the silver yen of about 50 cents gold value corresponded to the silver yen worth approximately $1, which had been issued before the great fall in silver. In the Philippines and in Mexico the Mexican silver dollar, which had circulated almost from the discovery of America, was made the basis of the new unit worth 50 cents, and in both cases the old coins had already descended to this value, and for a brief period to an even lower value. Similarly, in Panama, the adoption of the dollar as a 50-cent piece was in recognition of a coin which had circulated widely in Colombia when Panama was a part of that country and before the substitution of irredeemable paper.

In all these cases it may be broadly said that the gold exchanges were taken at more or less the rate of the day and the coins were unchanged. As silver had fallen to about half its former gold value, this involved rating the old silver dollar, which was the traditional currency of the American continent, at about 50 cents. When the

Indian currency was reformed the gold value of silver was not so low as at present, and for reasons not pertinent to this aspect of the question, it was considered proper to take a higher rate of exchange than that of the day. But the coin in principal use, the rupee, was retained, its bullion value being at the ratio of 22 to 1, instead of 30 to 1, for the reasons stated.

This happy-go-lucky plan of leaving the weight and fineness of token coins unaltered, the consequences of which India has escaped by good fortune rather than judgment, has met with retribution. Japan, Mexico and the Philippines have all had to recoin their token silver currency at higher ratios to prevent their disappearance from the currency when silver rose over its face value.*

It is possible, however, to escape the Scylla of putting too much intrinsic value into silver tokens, only to fall into the Charybdis of putting too little, and so offering an irresistible temptation to the counterfeiter. Countries, however, which have adhered to the system of coinage at 15½ to 1, or 16 to 1, and have large amounts of coins in circulation issued at these ratios, have not suffered from his efforts. Amongst them are Great Britain, France, Germany, Italy, several smaller European countries, and the United States. Only in Spain has there been serious complaint of fraudulent issues of silver coins by private coiners. In British India, where the ratio of 22 to 1 affords a profit of about 35 per cent. upon the fraudulent issue of coins of full value, such coinage is rare and insignificant. In point of fact, the prevalence,

*The recoinage of the Philippine currency would not have been necessary if the weight and fineness originally recommended for the standard coin had been adopted. The peso proposed was of 25 grams, 0.835 fine, which was about 15 per cent. below the value of the Mexican unit, which was finally adopted by Congress.—*Vide* Special Report on Coinage and Banking in the Philippine Islands made to the Secretary of War November 25, 1901, pp. 21-22.

or otherwise, of counterfeiting depends on the efficiency of the police system rather than the bullion value of the coins. While it may be possible to produce a few fraudulent coins by hand labor, on the part of jewellers or others, they cannot be produced in commercial quantities without expensive machinery. Moreover, when produced, the more difficult problem arises of getting them into circulation. If issued as new coins from a single source, they can usually be traced to their origin by competent detectives; while, if issued at different points in small amounts, the cost and precautions of distribution absorb a large proportion of the profit derived from the operation.

The subject of counterfeiting, in the light of practical experience, is not one of great importance from a strictly economic point of view. It may be desirable, upon moral and civic grounds, that undue temptation should not be extended by the coinage laws to their violation and evasion; but the amount of fraudulent coinage has rarely in any country borne such a relation to the entire volume of national coinage as to add to the burden of redemption or alter the movement of the exchanges seriously.

Addressing ourselves now to the problem as it arises in Nicaragua, in the light of these observations, it is, we think, clear that the question of the coinage ratio comes down to a narrow point. The ratio of 32 is too high, and we can find no ground for believing that the ratio of 15½ or 16 to 1 encourages false coining materially,—more than, say 22 to 1,—the truth really being that the prevalence of this crime (never very important) depends more upon other considerations. There are few good harbours in Nicaragua, and they are, as regards their imports, under the close supervision of the customs officials. It is, therefore, in a high degree unlikely that such smuggling of false coin can be effected, and it is certain that the country is not advanced enough to introduce, equip or run a mint clandestinely.

Taking all these matters into consideration, we have recommended the adoption, with a slight difference in the case of the silver dollar, of substantially the American ratio of coinage.

In Nicaragua we are fortunate in having on the West Coast a *tabula rasa*. It has no monetary traditions that have not been obscured by many years' experience of irredeemable paper; and there are no silver coins current. For some time past retail and wholesale dealers have been reckoning in gold, the custom dues are collected at a fixed gold rate, and the books take all deposits in gold or paper, keeping the two accounts perfectly distinct, and latterly treating the paper as more or less useless in the loan market. The East Coast currency is not issued under the sovereignty of Nicaragua, but imported and controlled by the few large business houses in Bluefields. It is on a gold basis and consists of silver coin of Latin America kept by these firms at a value of from 40 to 42 cents gold. In such an unsatisfactory condition of affairs it is not necessary to attach much weight to any possible local prejudice against receiving silver coins of lower intrinsic value than that now current. The people understand the matter and are in favor of a currency based on the dollar.

XIX.—Principles of the Note Issue.

It was originally intended that we should study local conditions on the spot for two or three weeks, and then return to New York and prepare a report, after consultation with you. The next step would have been the presentation by you of a currency plan to Nicaragua for passage into law. Circumstances, however, arose which made this sequence of events impracticable, if not impossible. The condition of Nicaragua's current finances was desperate. The Treasury was empty and the government was near the end of its resources. The government also desired a rate of exchange which could not be attained without further resources. All this spelt time and delay, for it was necessary to examine the position to see how much more was required on Treasury and currency account, and what security could be assigned. Meanwhile Nicaragua had parted with the control of its customs and the revenues therefrom, and the bankers had parted with the moneys which they had agreed to loan Nicaragua, but which could not be released under the Treasury Bills Agreement until a currency plan was agreed upon and had become statute law.

In these circumstances, it was decided to formulate the currency reform in detail sufficient to admit of the proceeds of the loan becoming available. The steps already taken, in pursuance of this policy and the reasons underlying them, have already been set forth. The act passed in accordance with our recommendations contemplates a paper currency based upon gold; it prescribes the method of its conversion into gold and from gold into paper; it deals with the rate of exchange; and it gives the unit of value, with the denominations, nature, weight and fineness of the metallic currency. No reference, however, is made in this law to the method of note issue, nor to the ultimate profits derivable from this issue or the seigniorage on the metallic currency, nor, indeed, to the general relations between the National Bank and the government.

We now propose to take up in order three points:

1.—The reason for not advising that the exchange standard system be the permanent arrangement for Nicaragua's currency.

2.—The system of note issue which we recommend for eventual establishment.

3.—The financial arrangements between the bank and government.

XX.—Limitations of the Exchange Standard System.

The essence of the exchange standard system is dependence upon another monetary centre. Java leans on Holland, the Philippines on the United States, India upon England. Each of these countries has a token currency, provides the funds requisite to support its parity, and leaves the bulk of these funds in the richer country.

Nicaragua is a sovereign state. Owing, however, to financial exigencies, it has sought assistance from the American bankers until such time as it may be in a fair way to discharge its obligations, as we expect it will be able to do under a prudent financial policy. During this interval, dependence upon the creditor country is not merely reasonable, but economically advantageous.

It may be questioned whether the policy is wise as a permanent arrangement. It economizes the use of gold, whereas the output of gold has been growing so enormously of late years, that it is probably more to the public interest to extend its sphere of use than husband the supply.

Secondly, the tendency in the world, including the United States, is to erect the fabric of money and credit on a small base—on an inverted pyramid, as it were. It would be better for the world at large, and for the guardian country, where the amount involved is considerable, that her dependent country should hold its own gold. Objection may be taken that earmarking the gold in the guardian country is the same thing and more economical. This is not so. The presence of the earmarked gold is always discounted, and the temptation is very great (in the case of India it has been found irresistible) to invest it.

If India held about twenty-five millions sterling in hard gold in India instead of investing the same in the London money market, there is not the smallest question but that this would be an invaluable bulwark behind the English currency system, and could be lent temporarily as a matter of international courtesy to Paris, Berlin or New York in the event of a serious monetary crisis, in addition to being a tower of strength in India.

So soon as gold can be securely held against revolutionary violence, Nicaragua would be more independent holding her own modest reserve. And in course of time it might be useful. The mouse can sometimes help the lion (perhaps the éagle is more apposite in this case). Nicaragua's plan, if accepted, may be followed, making Central American currencies an assistance instead of a responsibility to the outside world.

Apart from the temptation to skimp the store of hard gold, exchange standard systems have been subjected to the reproach of being state-managed systems. It lies with those controlling them to see whether at one time the gold reserve is sufficient, and at others whether the token money, be it silver or paper, is sufficient. For example, in India, when the tide of business is rising, the government is attacked if it is caught short of silver, whereas under old-fashioned automatic systems, the burden of estimating the need for currency is thrown upon those who desire to employ it, viz., the bankers. It lies with them when they desire currency, to import it, while the state stands aside, merely attaching to it the faculty of legal tender and certifying to its genuineness by stamping the metal or engraving the paper.

Again, under an exchange standard, there is but one line of defense,—the reserve fund; whereas, with gold circulating or in hoards, there are two more. Before the parity established is broken, the gold in circulation has to be exported, and the gold in hoards assists to righten the situation, so soon as the price rises high enough to tempt the holders to part with it.

Lastly, it is not easy to graft on to the exchange standard system a coherent scientific method of note issue.

On the other hand, the reverse is not true. If an adequate reserve of gold be provided against a note issue, there is nothing to prevent a portion of it being held abroad, which arrangement is the salient feature of the exchange standard system.

XXI.—Methods of Securing Notes.

Note issues in the past have been secured in a variety of ways. The principal methods are classified below:

(a) Secured by bonds.

(b) Limited by the capital of the issuing bank.

(c) Supported by general assets.

(d) Specifically secured wholly or partly by cash.

Few will be found to defend the first, for bonds have no logical connection with monetary needs, and the systems have had their origin in the same causes which have prompted the issue of inconvertible paper, namely, the needs of the government, which are more properly met by taxation. The second possesses also the defect that the amount of currency is not determined by the demand, but by the capacity of the supplier. It is, however, sometimes strengthened, as, for example, in Canada, by additional safeguards in the nature of a general pool or fund, and works well.

The third succeeds, in the case of the Bank of France, owing to the excellent traditions and judgment of what is probably the best governed bank in the world, but the success is due to conservative prudence, leading the directors to keep even a larger cash reserve than is usual under hard money systems.

The fundamental distinction in principle between these systems reduces itself to the point so much discussed in England at the time of the enactment of the Peel Act of 1844,—whether the paper currency shall be specifically secured by cash (at least above a certain agreed minimum in amount) according to the so-called "currency principle," or whether it shall be secured by the general assets of the bank, with such a proportion of cash on hand or within call as may be prescribed by statute or prudent banking policy, according to the so-called "banking principle."

The essential distinction between the two schools of thought is that the latter regards paper currency as a medium of credit of the same nature as book credits and checks, and so uses it. The other holds that paper money is like metallic money, that it is a counter and has no relation to credit. Where business transactions are numerous, it is not denied that more counters are necessary, but it is urged that the amount of currency issued, whether metallic or paper, should be solely determined by the amount required for such transactions.

It is impossible within the scope of this note *tantas componere lites*. The hard money system has the merit of detaching currency matters entirely from the complications and dangers caused by over-trading and commercial crises, whereas it has the defect of requiring business to have recourse, as it expands, to checks and book credits.

The whole question is really a matter of custom, tradition and temperament, but we feel that for a country, the development of which has been arrested by recent internal disorders, the safer and simpler course is to model our suggestions on the lines of the English, Indian and German arrangements.

The English system of issue allows the first eighteen millions sterling of the note circulation to be uncovered, whilst anything in excess of this amount must be covered by gold. The origin of the fiduciary part of the circulation lies mainly in an old debt of the government to the bank, whilst a portion thereof is in lieu of the issues of the private and joint-stock banks, which, under the Bank Act of 1844, forfeited their rights of issue on establishing offices in London. The Indian system follows the spirit of the English system. The notes are issued by the state, and a certain quantity are covered by government commercial paper, and anything in excess by silver or gold. The amount covered by government commercial paper was originally 80 millions of rupees; but it has been progressively raised by legislation, as the note issue has expanded, until it is now, we think, 120 millions.

There is not much to be said for the awkward arrangement by which these 120 millions are actually held in government bonds. Clearly, it would be simpler and equally effective, if this double entry were avoided by cancelling bonds to the extent of 120 millions. They are a state debt, and the notes are a state liability. The only argument of force that can be urged in favor of the existing system is that the note issue department can, should the metallic reserve run out, dispose of these bonds in the market piecemeal, without attracting public notice, and without the issue of a fresh loan.

The German system has been modelled on English lines, but marks a great advance in that it provides for some elasticity of issue.

The entire circulation must be covered as to one-third by gold and as to two-thirds by bills bearing not less than two signatures and maturing within three months. At the end of each week the total circulation is ascertained, and a tax at the rate of five per cent. per annum is levied on the amount of the circulation arrived at by deducting from the total circulation the holdings of gold plus a fixed amount of 550 millions of marks. This latter amount is termed the ''Kontingent'' and has a historic origin very similar to that of the uncovered circulation of the Bank of England.

The German system, better in most respects than the English, ignores, however, what is really at the base of the latter. Although the uncovered portion of the English issue has a historic origin,—the Indian being somewhat slavishly modelled upon it,—its real justification, which has enabled it to survive, is its recognition of the fact that there is a portion of the note circulation which requires no specific backing. Opinions may differ as to the exact amount of the note issue which will never be tendered for encashment, but it is quite certain that there is a point below which it can never fall.

It is, we believe, as certain as anything can be in monetary affairs, that in a country of which the main currency is paper, the public will in no circumstances tender so much as 70 per cent. of the currency for encashment. We, therefore, in our project, provide that 30 per cent. of the circulation shall be entirely fiduciary, and we believe this simple provision to be an improvement on both the English and German systems. We think that 40 per cent. of the total circulation should be kept in gold as against the statutory provision (33⅓ per cent.) of the German system, and for the remainder it will be best to keep bills of an unimpeachable character having less than thirty days of maturity to run.

For greater security in a country unfamiliar under recent conditions with monetary orthodoxy, we recommend that the note issue department be completely separated from the ordinary banking business of the National Bank. Such a separation has its drawbacks; but it makes for clarity of thought and really only creates a division in form which exists in fact.

XXII.—Provisions for Obtaining Elasticity.

The English and Indian systems are, however, too ironbound. No elasticity exists in the latter, and in the former it can only be obtained by the clumsy device of suspending the Bank Act. The German system, as already explained, allows further issues, but stimulates their retirement, when business slackens, by a tax.

Unquestionably, the German method is an advance on the English, but it has a defect of the same nature as that already indicated. That is to say, the *raison d'être* of an extra emission is that more counters are required at certain seasons, this being particularly true in countries dependent on agricultural products, the movements of which have to be financed. In other words, more counters being in demand, it is proper and safe to have a larger *fiduciary* issue. It is *not* necessary to provide more backing, but it is necessary to insure the retirement of the excess issues, when the tides of business recede. This is properly done, as in Germany, by a tax.

We therefore recommend that the Banking Department may, when it deems it advisable, borrow notes from the Currency Department to the extent of 10 per cent. of the note circulation then outstanding, on penalty of paying to the state a tax equal to interest on such extraordinary circulation at the bank rate ruling during the time the extraordinary circulation is taken out. Before leaving this point, we would draw again attention to the fact that the gold reserve against the ordinary circulation under our proposal is 40 per cent., as against the German statutory requirement of 33⅓ per cent.*

Lastly, we think that some provision should exist to meet grave emergencies, and recommend that with the consent of the Minister of Finance and of the bank directors, a further 10 per cent. of uncovered notes may be issued by the Currency Department of the bank, on which notes a tax shall be paid to the state at a rate of two per cent. per annum over the bank rate ruling at the time the notes are issued. Neither of these two provisions for elastic issues, each of 10 per cent., should be operative until after the note reserve has attained the standard contemplated,—viz., a cover of 70 per cent. in cash and commercial paper. At commencement the amount of gold or credit at the back of the note issue (estimated at 35 million pesos on p. 37 will be roughly about 30 per cent.** of the total circulation, whereas we consider that the cover should not be less than 40 per cent. in gold and 30 per cent. in commercial paper. The difference will be accumulated by the seigniorage derived from the metallic currency, brokerage commission on the sale of drafts, and the gold tendered for new notes in excess of the existing circulation. All this will take time, and it is conceivable that it may be necessary to retire more of the present government notes than we have estimated for. In the circumstances, it will be prudent to strengthen the currency reserve if funds can be obtained

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*The German figure is really lower still, for it counts as cash Imperial Treasury notes.

**So soon as the silver currency now being coined is exchanged for the silver currency on the East Coast, the amounts so realized can be credited to the currency reserve.

hereafter from surplus collections of customs revenue, or moneys accruing from the larger loan, or otherwise.

XXIII.—Liability for Notes.

The question arises as to the liability for the note circulation. At present it lies with the Republic which has issued the notes. We think that this liability should continue until a reserve of 70 per cent. against the circulation has been attained. Thereafter the Bank, in consideration of the advantages conferred upon it by the concession, should, during the period of the concession, release the government from all liability regarding the note issues. At the expiration of the concession, the liability of the government should revive and until sufficient arrangements are made to provide for this liability, the concession should continue.

Our project, when fully brought into effect, contemplates the coinage of gold on demand, the encashment of notes in gold on demand, the consequent withdrawal of the faculty of legal tender from bank-notes when tendered by the bank, and eventually the holding of the gold reserve of the currency department in Nicaragua* beyond such amounts as might be held in New York, Jamaica, London, Paris and Berlin, for convenience in carrying on exchange operations. Under it the entire metallic currency of the country (except gold) and the notes would be maintained at par by the gold and other reserves in the currency department. The accounts therefore of all these should be kept in the currency department, the bullion value of the silver and token currencies being entered on the credit side as an asset.

To make the financial aspect of our proposals clear,

*It may be held at branches as well as at the Managua office, where the bulk of the reserve will normally be.

we have appended to this report several tables.* The first shows the amount immediately available for the reserve from the Treasury Bills Agreement. The next gives the circulation account at commencement. The third gives it at completion. The fourth and fifth show the effect of a decrease and an increase in the circulation, and the sixth exhibits the fractional currency account.

XXIV.—Financial Arrangements with the Government.

Before discussing the financial arrangements to be made between the Republic and the National Bank, we enumerate the principal references to this matter in the various laws which are here relevant:

Schedule X, Paragraph 5, declares

That the bank is to be the instrument of the note issue and the coinage, as settled by the monetary plan approved by the Republic, and says that a compensation for this work shall be agreed upon.

Schedule C, Article 6, states

(a) That the bank shall be the government bankers;

(b) That it shall maintain the currency plan;

(c) That it shall have the exclusive right to issue the notes issued under the monetary plan.

Article 7 gives the bank

(f) General right to issue notes;

(g) A preferential right to coin, if coining be undertaken;

(h) The right to tender its notes to government as legal tender.

*Vide Appendix A, p. 63.

Broadly speaking, and apart from any contractual arrangements, we think the cases of notes and metallic currency should be distinguished.

The minting of coin in all countries, so far as we are aware, is the prerogative of the state. We think, therefore, that any payment made to the bank for undertaking the provision of coin or for having it minted should be in the nature of an agency commission.

Issues of bank-notes stand on a different footing. It is generally held that the function of note issue is better performed by corporations than by the government, and therefore that the franchise of issue can be alienated by the government under suitable conditions. In this case it is contemplated that the National Bank shall have the monopoly of issue. Such a franchise may become of peculiar value after 70 per cent. is accumulated; and equity, therefore, requiries that due compensation should be made besides the prescription of appropriate safeguards. We have kept these considerations in mind whilst making the recommendations hereafter set forth.

For the sake of clear thinking, we proceed to regard the bank as an independent corporation. It starts by being wholly a government institution, and your firms may acquire a controlling interest, but in the future no one can say who will own or control it. As regards the metallic and paper currencies, we recommend that for the first year the bank be repaid the out-of-pocket expenses of its issue department (which should include office rent, and clerical staff, but no *pro rata* charge for management), and in addition that the bank receive a commission of $20,000. In the second year the same payment should continue, the commission being reduced to $10,000.

The only sources from which these payments can be defrayed are general revenues or the currency exchange fund. The payments should be made out of general revenues, or, if these should prove insufficient, out of the currency fund. We are, of course, acutely aware, and so are you, that this fund should not be weakened, but if general revenues are insufficient, there is no other recourse open except the currency exchange fund, unless the government is to resort to borrowing. These payments being more or less from one pocket into another, appear somewhat artificial, but they should be exhibited, for they are real liabilities of this monetary reform.

It is, moreover, desirable that a bank should start well, for success is vital to credit. In the case of a railway, it is held permissible during construction to pay interest out of capital, and in this case we think the bank may fairly be credited with what it has earned. So soon as the currency system attains the standard set,—that is to say, so soon as the notes and the silver córdobas in circulation are covered to the extent of 70 per cent. by cash and commercial paper,—there will be a profit accruing from seigniorage on coin, interest on commercial paper held, and brokerage on the sale of drafts. We recommend that the net profit be divided equally between the bank and the government.

As regards work done by the bank in the banking department for the government, at headquarters or at branches, we recommend that all out-of-pocket expenses be calculated by the bank's manager and charged against the general revenues of the Republic. At the commencement, the credit balances of the government will be inconsiderable, and the work done by the bank will be unremunerative from a business point of view. Probably the fairest solution of the question will be for the bank to receive a commission on the larger side of the account, allowing the government a reasonable rate of interest if the amount of the balances warrant. The whole matter of the financial relations between the bank and the Republic in its banking department should be reconsidered in two years, if circumstances show this to be desirable.

XXV.—Transition to the New Money.

In discussion of our recommendations, it has been urged by critics that the transition from the existing state of affairs to the basis we have recommended will be difficult; that people who have been accustomed to be paid in pesos will resent the tender of a few centavos as an equivalent of a peso. One suggestion has been to extend the period of transition to a year. Another is to coin a piece equivalent to the peso and call it the peso, with the idea that it will die a natural death after achieving its purpose. A third is to over-print the peso note. Personally, we believe these fears are overdrawn. That monetary reform will be unpopular we are fully prepared for. All changes which affect prices hit one class or another. The opposition will find any stick good enough to belabor the party in power. The advent of external capital and the larger units of money may raise the cost of living. If so, this will be only of temporary effect, for wages and salaries will in time respond. On the other hand, the restriction of the currency (and the fall in exchange) works in the direction of reducing prices, and we have already pointed out that labor tends to gain.

We are not much impressed, nor would we be deterred, by these arguments. The masses are not so foolish as their critics imagine. The tourist who thinks he can best the small shopkeeper in a bazaar or market by a superior knowledge of exchange variations in small coin quickly finds out his mistake. Still, there is no harm in taking a precaution which may be of value. The alteration which we prefer is the over-printing crosswise of the existing one-peso note with the legend that it is worth a certain proportion of a córdoba in the new currency. Such notes might be allowed to remain out as legal tender for twelve months, and could be reissued during that time.

Provision is made by Article 8 of the new monetary law for a period of transition from the present monetary system to the new, which we believe to be entirely sufficient for the people to adapt themselves to the new money and to appreciate the alteration in the value of the standard unit.

Notice has already been given by the passage of the law of March 20, 1912, that the new unit is to come into effect as soon after July 1st next as preparations can be completed. Time will be necessary to have the designs of the coins and the new notes finished, to prepare the coinage dies, to execute the work, and to ship the new money to Nicaragua. When these measures have been carried out, the old notes will have a definite value in relation to the new notes, and both will have a definite value in gold.

After the final exchange is fixed, a period of six months is allowed, during which both the old and the new money shall be received at custom houses, post-offices, and in payment of other government obligations. During this time both the new money and the old will be legal tender also for debts between individuals at the rates which have been fixed.

If there should be for a time a preference for the small units of the old money, it would thus be possible to use it. The limitation of six months does not mean that at the end of that time the old money will be outlawed or will lose its value. It simply means that it will not be obligatory after that time to accept it if the person to whom it is presented demands the new money. If both sides to a bargain prefer the old money, there is no restriction upon its use. Gradually, however, the amount in circulation will tend to diminish, as the National Bank cancels the old notes which are received and the people become accustomed to the general use of the new money.

It is not proposed in any case or at any time to repudiate the old money or to refuse to redeem it. The only difference in dealing with the old money after the prescribed period of transition will be that, as it is no longer legal tender, it will be received only at the National Bank and at government offices, and some additional formalities may be prescribed in exchanging it for the new money or for gold. If it is decided by the government, after the old money has almost completely disappeared, to impose some formalities on its further use, such a regulation is a thing of the distant future and is not a part of the monetary plan as enacted by the National Assembly of Nicaragua. The National Bank is not given any power by the monetary plan to fix any limit of time upon the redemption of the National Treasury notes at the legal rate of exchange.

F. C. HARRISON,
CHARLES A. CONANT.

To
Messrs. Brown Brothers & Co.
and
J. & W. Seligman & Co.

APPENDICES.

APPENDIX "A."

Tables Accompanying the Report.

1.—Revenue & Expenditures Account of Treasury Bills Loan.

Credit.	Debit.	
$1,500,000	Bank capital ....$	100,000
	Coinage, labor and material ....$	120,000
	New paper currency cost ....$	30,000
	Legal and expert's fees, telegrams...$	70,000
	Agency commission of Bank....$	20,000
	Out of pocket expenses of Bank...$	10,000
	Purchase of old notes for incineration ....$	780,000
	Balance amount carried to note reserve ....$	370,000
$1,500,000		$1,500,000

2.—CIRCULATION ACCOUNT AT COMMENCEMENT.

The circulation account of notes and silver córdobas will, at commencement, stand thus:

Assets.		Liabilities.	
30% fiduciary	$ 840,000	Notes circulating 35 million pesos	$2,800,000
40% gold	$ 870,000*		
30% commercial paper	$ ——		
Deficit in gold	$ 250,000		
Deficit in Commercial paper	$ 840,000		
	$2,800,000		$2,800,000

3.—CIRCULATION ACCOUNT ON COMPLETION OF THE PLAN.

When the system is complete the note account will stand thus, assuming the same circulation for the sake of simplicity:

Assets.		Liabilities.	
30% fiduciary	$ 840,000	Notes circulating	$2,800,000
40% gold	1,120,000		
30% commercial paper	840,000		
	$2,800,000		$2,800,000

*As a matter of fact this figure will be lower by the amount, if any, appropriated for the considerations detailed on pages 58 and 59 of this report.

$870,000 is arrived at thus:

$370,000 being the balance shown in Table 1, plus $500,000 provided in the form of a credit by the Supplementary Loan.

So soon as silver córdobas are issued from stock they become value, and the amount issued should be entered in the debit side and their bullion value should be entered as an asset under the 40% head.

If any silver córdobas have been issued they will be accounted for as stated in second note under Table 2.

4.—Effect of Movements on the Accounts.

Let us suppose that there is a demand for drafts on New York and 800,000 dollars of notes are encashed. The circulation account will stand thus:

Assets.		Liabilities.	
30% fiduciary reduced to	$ 600,000	Notes circulating	$2,000,000
40% cash should be $800,000, but is	320,000		
30% commercial paper should be $600,000, but is	840,000		
Deficit is	240,000		
	$2,000,000		$2,000,000

Clearly the cash reserve needs strengthening. This is done as soon as practicable by realizing commercial paper, which is in excess of $240,000 and which is daily maturing. Ultimately, on the assumption that the circulation remains without further change, the account will stand thus:

Assets.		Liabilities.	
30% fiduciary	$ 600,000	Notes circulating	$2,000,000
40% cash	800,000		
30% commercial paper	360,000		
Deficit in commercial paper	240,000		
	$2,000,000		$2,000,000

Now, let us take the converse case, which will be the more frequent, as the currency is bound to expand. Let us assume a demand for notes to the extent of $800,000.

Assets.		Liabilities.	
30% fiduciary	$1,080,000	Notes circulating	$3,600,000
40% cash should be $1,440,000, but is	1,920,000	Add surplus cover	240,000
30% commercial paper should be $1,080,000, but is	840,000		
	$3,840,000		$3,840,000

We now hold more cash than our plan requires by $480,000, and less commercial paper by $240,000. This will be removed from the note account as provided in our scheme, and the circulation account will be as follows:

Assets.		Liabilities.	
30% fiduciary	$1,080,000	Notes circulating	$3,600,000
40% cash	1,440,000		
30% commercial paper	1,080,000		
	$3,600,000		$3,600,000

5.—THE FRACTIONAL COIN ACCOUNT.

The fractional coin circulation account will start as follows:

Assets.		Liabilities.	
Bullion values—		Fractional silver	$ 233,000
Silver @ 58¾ (plus)	$ 88,000	Fractional nickel	23,000
Nickel	600	Fractional copper	9,000
Copper	2,000		
Deficit, say	174,000		
Say	$ 265,000		$265,000

NOTE.—So soon as the fractional currency is exchanged for existing metallic currency the latter becomes an asset, which, when realized, is credited to the currency reserve.

APPENDIX B.

Address to the President of the Republic, December 15, 1911.

Your Excellency:

It is with especial pleasure that we come here, as the guests of your progressive Republic, to aid you as far as lies in our power in that course of economic development and national prosperity upon which the Republic has entered with accelerated steps under the existing patriotic and constitutional rule. Cradled in the same love of liberty regulated by law, the nations of the two Americas, while each pursuing its own high mission under its national flag and in harmony with the principles of local independence, are the heirs of a common heritage of liberty, progress, and glory. We come here, therefore, with no other motive than as servants of the government and people of Nicaragua to render you such expert service as may be in our power, as it would be rendered by experts in any other field of human endeavor, and as you have rendered service to us and to humanity by your great national resources and your glorious traditions of freedom. While we regard with keen and friendly interest, like other citizens of your sister Republic of the North and of the British Empire, your development along the same paths of liberty and order as ourselves, our purpose in Nicaragua is to aid you in giving to your country a monetary system which shall be entirely your own, independent of that of other sovereignties, and which will enable Nicaragua, by the assurance of monetary stability and security, to attract for the development of her rich fields, mines, and forests, the foreign capital which may be needed to supplement the intelligent, earnest and patriotic activities of her own people. As the servants of Nicaragua, therefore, we desire to join our hands with those of your own citizens in the common labor of upbuilding the economic progress, the peaceful development and the enduring glory of your Republic.

APPENDIX C.

The Monetary Law of March 20, 1912.

1.—Message of the President to the National Assembly, Submitting the Monetary Plan.

Managua, February 29, 1912.

The Executive being under the moral obligation to maintain the rate of exchange of the national currency with reference to American gold at twelve hundred per cent., this being the rate officially fixed by decree of the 8th June, 1911, has to find the means of bringing it towards that rate on changing our present circulation for the new coinage, as specified in the Plan decreed under the advice of the experts Harrison and Conant, who were appointed in accordance with the Loan Agreement.

The Government has taken this decision in the interests of the majority of the Nicaraguans, and with due regard to the commercial requirements of the country, inasmuch as all commercial operations have been based on the Government's promise already referred to, a promise which, if not fulfilled, would cause a general and profound crisis in the productive resources of the country for years to come.

In order to effect the change of currency under the favorable conditions I have mentioned, it will be indispensably necessary to increase by half a million dollars gold the sum set apart in the Treasury Bills Agreement for that object. The Government therefore has used its best endeavors to obtain said amount, in order to apply it exclusively to that use. With this end in view, and being under the urgent necessity of readjusting the balance between the receipts and the expenditure, which has been disturbed owing to the abnormal state in which the country has remained for so many years, and the natural though transitory effects of the very same contracts entered into as a remedy, I have decided, with the authorization of the honorable Assembly, to negotiate with the bankers who provided the general loan, a supplementary loan to fill the two very urgent needs which I have indicated.

I took steps in that direction and have the satisfaction to inform you that I have been successful in obtaining the indispensable sums on the terms and under the conditions set forth in the proposed contract, which I now submit to the high consideration of the honorable Assembly, with the hope of getting its authority to enter definitely into this contract with the bankers, Brown Brothers and Company and J. & W. Seligman and Company. * * *

I therefore ask of the honorable Assembly authority to agree to the enclosed contract.

With every consideration,

Yours faithfully,

(Signed) ADOLFO DIAZ.

2.—Letter Transmitting the Monetary Plan.

Managua, February 15, 1912.

Dear Sir:

We have the honor to transmit to you herewith the plan of currency reform provided for in Article 8 of the Treasury Bills Agreement of September 1st, 1911, and in the fifth paragraph of Schedule X attached to that agreement.

The plan as presented has the approval of the bankers and outlines the method by which it is hoped that the currency system of the Republic may be placed upon a stable basis and the circulating money of the country be given a fixed gold value.

The plan contemplates putting to effective use the proceeds of the loan of $1,500,000 gold made under the Treasury Bills Agreement. This loan is to be drawn upon, first, for reducing exchange, and, secondly, for constituting a reserve against the notes issued through the National Bank in exchange for the existing national currency notes. The reserve thus provided for will be maintained not only from the direct proceeds of the loan, but from funds arising from profits on the issue of silver coins and from other sources, which are intended to raise its amount within a short time to forty per cent. of the notes outstanding.

A monetary unit is proposed called the córdoba, in accordance with your recommendations, and its gold contents are fixed at the same amount as the gold dollar of the United States, which has so long been the standard by which the paper exchange has been computed in Nicaragua. Full provision is made also for silver and minor coins and for the free coinage of gold after the plan becomes fully operative.

The Executive is authorized to pay at once from the proceeds of the loan made under the Treasury Bills Agreement the capital necessary to put the National Bank into effective operation, and the President of the Republic is authorized to make an agreement with the bank, by which exchange operations may be begun at the earliest possible moment.

Certain details have been left to agreement between the Executive and the bankers, in order that the plan may be put into effect in such a manner as to meet changing conditions as they arise, avoid disturbance to business, and give to the Executive power to exercise his authority for the protection of the interests of the Republic.

The full powers of the bank are to be exercised under the plan both for the maintenance of the parity of the notes and for the extension of credit to the commercial interests of the Republic, with a view to their development upon a broader scale than has been possible under the system of irredeemable paper issues which have introduced such continuous perturbation and uncertainty into the making of contracts and the carrying on of legitimate business.

It has been our aim, in framing the new plan, not only to adhere strictly to the franchises granted to the National Bank in the Treasury Bills Agreement, but also to comply with several specific provisions of the new constitution of the Republic.

With the assurance of our highest esteem, we have the honor to be,

Yours very respectfully,
F. C. HARRISON,
CHARLES A. CONANT.

Don Pedro Rafael Cuadra,
Minister of Finance,
Managua.

3.—Text of the Law of March 20, 1912.

The National Constituent Assembly Decrees, that it approves the decree on the Monetary Conversion issued by the Executive Power in Council of Ministers on the 25th February of the current year in these terms:

Art. 1.—The monetary unit of the Republic shall be the córdoba, and shall contain one gram, 672 milligrams of gold, nine-tenths fine, and shall be divisible into one hundred equal parts.

Art. 2.—The gold coins of the Republic shall be as follows:

Ten córdobas, which shall contain 16.72 grams of gold, nine-tenths fine.

Five córdobas, which shall contain 8.36 grams of gold, nine-tenths fine.

Two and a half córdobas, which shall contain 4.18 grams of gold, nine-tenths fine.

Art. 3.—The silver and minor coins of the Republic shall be as follows:

The *córdoba,* which shall contain 25 grams of silver, nine-tenths fine.

The *half-córdoba,* which shall contain 12½ grams of silver, eight-tenths fine.

The *quarter-córdoba,* which

La Asamblea Nacional Constituyente decreta: aprobar el decreto que sobre conversion monetaria dictó el Poder Ejecutivo, en Consejo de Ministros, el 25 del Febrero del corriente año, en estos términos:

Art. 1°—La Unidad Monetaria de la República se denominará *"Córdoba"* y contendrá un gramo y seiscientos setenta y dos miligramos de oro de nueve décimos de ley y será divisible en cien partes iguales.

Art. 2°—Las monedas de oro de la República serán:

Diez Córdobas, pieza que contendrá 16.72 gramos de oro de nueve décimos de ley.

Cinco Córdobas, pieza que contendrá 8.36 gramos de oro de nueve décimos de ley.

Dos y Medio Córdobas, pieza que contendrá 4.18 gramos de oro de nueve décimos de ley.

Art. 3°—Las monedas de plata y las menores de la República serán:

El Córdoba, que contendrá veinticinco gramos de plata de nueve décimos de ley.

El Medio Córdoba, que contendrá doce y medio gramos de plata de ocho décimos de ley.

El Cuarto de Córdoba, que

shall contain $6\frac{1}{4}$ grams of silver, eight-tenths fine.

Ten centavos, which shall contain $2\frac{1}{2}$ grams of silver, eight-tenths fine.

Five centavos, which shall be of the weight of five grams, of which 75 parts shall be of copper and 25 parts of nickel.

One centavo, which shall be of the weight of four grams, of which 95 parts shall be of copper and five parts of zinc.

One-half centavo, which shall be of the weight of two and one-half grams, of which 95 parts shall be of copper and five parts of zinc.

Art. 4.—The amount of the coinage of both gold and silver shall be determined by the National Bank, under regulations approved by the Executive; provided, that arrangements may be made whenever it seems proper and desirable, by agreement between the Executive and the National Bank, for the unlimited coinage of gold.

Art. 5.—The tolerance, or allowance for wear, of all the coins of the Republic shall be determined by Executive decree.

contendrá seis y un cuarto gramos de plata de ocho décimos de ley.

Diez Centavos, pieza que contendrá dos y medio gramos de plata de ocho décimos de ley.

Cinco Centavos, pieza que tendrá el peso de cinco gramos, de los cuales 75 partes serán de cobre y 25 partes de níckel.

Un Centavo, pieza que tendrá el peso de cuatro gramos, de los cuales 95 partes serán de cobre y 5 partes de zinc.

La pieza de *Medio Centavo,* tendrá el peso de dos y medio gramos, de los cuales 95 partes serán de cobre y 5 partes de zinc.

Art. 4°—La cantidad acuñada de moneda de oro y plata será determinada por el Banco Nacional bajo reglamentos aprobados por el Ejecutivo, con tal que en cualquier tiempo que se juzgue oportuno se pueda establecer por convenio entre el Ejecutivo y el Banco Nacional la acuñación ilimitada del oro.

Art. 5°—La tolerancia ó concesión al público, por el desgaste de todas las monedas de la República, será determinada por decreto que dará el Ejecutivo.

Art. 6.—The National Bank shall have and exercise all the powers granted in the banking concession, attached as Schedule "C," to the Trust and Fiscal Agency Contract entered into between the Republic of Nicaragua and Messrs. Brown Brothers & Company and J. & W. Seligman & Company, of New York, on September 1, 1911, as modified by the Treasury Bills Agreement of the same date.

Art. 7.—The Minister of Finance shall subscribe, on behalf of the Government of Nicaragua, a sum not exceeding $500,000 of the capital of the National Bank of Nicaragua, authorized by the Treasury Bills Agreement between the Republic and Brown Brothers & Company and J. & W. Seligman & Company, of New York, dated September 1, 1911, and shall pay, in accordance with said agreement, such subscription from the proceeds of the loan provided for in said agreement.

Art. 8.—The President of the Republic is authorized to arrange with the bankers named as parties in said Treasury Bills Agreement for the exchange, on or before

Art. 6°—El Banco Nacional tendrá y ejercerá todos los poderes estipulados en la concesión bancaria que forma el Anexo C del Contrato del Trust y Agencia Fiscal celebrado entre la República de Nicaragua y Brown Brothers & C° y J. & W. Seligman & C°, de New York, el primero de Setiembre de 1911, con las modificaciones del "Convenio sobre Cédulas del Erario" de la misma fecha.

Art. 7°—El Ministro de Hacienda suscribirá por cuenta del Gobierno de Nicaragua una cantidad que no exceda de quinientos mil pesos ($500,000.00) del capital del Banco Nacional de Nicaragua autorizado por el "Convenio sobre Cédulas del Erario" entre la República y Brown Brothers & C° y J. & W. Seligman & C° de Nueva York, el 1° de Setiembre de 1911, y de conformidad con dicho Convenio pagará la suscripción con el producto del empréstito estipulado en el mismo Convenio.

Art. 8°—Se autoriza al Presidente de la República para arreglar con los banqueros nominados como partes en dicho "Convenio sobre Cédulas del Erario," el cam-

July 1, 1912, or with the approval of the bankers at a later date, if deemed proper, of the national currency of Nicaragua for notes of the bank, at a rate to be agreed upon by the President and the bankers and officially declared not less than three weeks prior to the date agreed upon, and in no event to be higher than fifteen hundred pesos in national currency notes for each one hundred córdobas.

bio de los billetes nacionales y monedas de Nicaragua por billetes del Banco, dentro de un plazo que expire el 1° de Julio de 1912, ó con la aprobación de los banqueros en una fecha posterior si se juzga conveniente, á un tipo que fijarán de común acuerdo el Presidente y los Banqueros, el cual será oficialmente declarado por lo menos tres semanas antes de la fecha que se convenga; no pudiendo en ningún caso este tipo ser mayor que el de mil quinientos pesos en billetes nacionales por cada Cien Córdobas.

Art. 9.—The present currency plan is hereby declared to be the plan referred to in Article 8 of the Treasury Bills Agreement of September 1, 1911, between the Republic and Brown Brothers & Company and J. & W. Seligman & Company, as bankers.

Art. 9°—Se declara que el presente Plan Monetario es el señalado en el articulo 8 del "Convenio sobre Cédulas del Erario" del 1° de Setiembre de 1911, entre la República y los Banqueros Brown Brothers & C° y J. & W. Seligman & C°.

In accordance with the provisions of that agreement the Minister of Finance is hereby authorized, with the approval of said bankers, to order the United States Mortgage & Trust Company, as trustee, to pay over or set aside, in whole or in part, as may become necessary, the moneys now in the hands of said trustee as said Minister of Finance, with

De acuerdo con los preceptos del referido Convenio, se autoriza por la presente ley al Ministro de Hacienda para que, con la aprobación de dichos Banqueros, ordene á la United States Mortgage and Trust C°, como fideicomisario pagar ó apartar bien sea por el total ó por partes á medida que sea necesario, el dinero que está ahora en manos del fideicomithe approval of the bankers, may determine.

The moneys thus paid over or set aside, together with any addition or increment thereto, shall constitute a fund to be called the Exchange Fund, which may be hereafter made a part of the reserve held against the notes of the National Bank. Said Exchange Fund shall be available and used for the following purposes:

First.—To exchange on demand for the gold coin of Nicaragua and the notes of the National Bank of Nicaragua, in sums of not less than five thousand córdobas, or the equivalent thereof in the money of the United States, at the principal office of said National Bank in Nicaragua, or at such branch offices of the bank as may be designated for the purpose, with the approval of the Minister of Finance, drafts on the said Exchange Fund in the United States or other foreign country, charging a premium of one-half of one per cent. for sight drafts and one per cent. for telegraphic transfers.

sario y que el Ministro de Hacienda, con la aprobación de los Banqueros, determine.

El dinero que así se pague ó se aparte, junto con cualquiera nueva agregación ó incremento que reciba, constituirá un fondo que se llamará "Fondo de Conversión" y que podrá en lo sucesivo formar parte del fondo que mantendrá el Banco Nacional para garantía de sus billetes. Este fondo de Conversión será disponible y será usado para los fines siguientes:

1° Para cambiar á su presentación por moneda de oro de Nicaragua y los billetes del Banco Nacional de Nicaragua, en cantidades no menores de cinco mil Córdobas ó en su equivalente en el dinero de los Estados Unidos de América, en la oficina principal del Banco Nacional en Nicaragua ó en las sucursales del Banco que para tal fin se designen, con la aprobación del Ministro de Hacienda, giros sobre dicho fondo de cambio en los Estados Unidos ú otro pais extranjero, cobrándose un premio del medio por ciento por los giros á la presentación y del uno por ciento por trasmisiones telegráficas.

Second.—To exchange on demand for the currency of the United States, or of any other foreign country in which a part of said Exchange Fund may be deposited, in sums of not less than five thousand córdobas, or the equivalent thereof in such foreign currencies, drafts on the National Bank of Nicaragua or upon such branch offices of the bank as may be designated by said bank for the purpose, with the approval of the Minister of Finance, charging a premium of half of one per cent. for sight drafts and one per cent. for telegraphic transfers.

Third.—To make exchanges between the notes of the National Bank, the gold or silver coin of the Republic, the currency of the United States, and other foreign currencies, under regulations to be made for that purpose by the National Bank, subject to the approval of the Minister of Finance.

The premiums charged for drafts and telegraphic transfers under this article may be temporarily increased or decreased by the National Bank or by the custodians of the Exchange Fund, under the direction of the National

2° Para cambiar á su presentación por dinero de los Estados Unidos ó de otros países extranjeros donde haya depositado parte de dicho fondo de cambio, en cantidades no menores de cinco mil Córdobas, ó su equivalente en el dinero de dichos países, giros sobre el Banco Nacional de Nicaragua ó sobre las sucursales del Banco que este mismo designe para tal fin con la aprobación del Ministro de Hacienda, cobrándose un premio del medio por ciento por giros á la presentación y del uno por ciento por trasmisiones telegráficas.

3° Verificar cambios entre los billetes del Banco Nacional, la moneda de oro ó de plata de la República, el medio circulante de los Estados Unidos y las demás monedas extranjeras conforme á los reglamentos que al efecto establecerá el Banco Nacional con la aprobación del Ministro de Hacienda.

Los premios que se cobren por los giros y trasmisiones telegráficas de acuerdo con este artículo, pueden temporalmente ser aumentados ó disminuidos por el Banco Nacional ó por los custodios del Fondo de Conversión, bajo la

Bank, and may be different between different points; but they shall in no case be fixed higher than one and one-quarter per cent. for sight drafts, nor one and three-quarters per cent. for telegraphic transfers, except with the approval of the Minister of Finance.

The exchanges above provided for may be made provisionally for and with the existing national currency notes of the Republic, until such date as may be fixed under Article 14 of this Act for the termination of the legal tender quality of such notes and at rates of exchange to be fixed from time to time by the Minister of Finance, with the approval of the bankers or their representatives.

The amounts received as premiums from the sale of drafts or transfers shall be carried to the credit of the fund herein provided for, which shall bear the cost of such drafts and transfers.

Any drafts against said fund, and any orders for payments therefrom, when drawn and signed by the National Bank of Nicaragua, Incorporated, shall be paid out of said fund by the depositary or custodian thereof. Such drafts or orders shall provisionally,

dirección del Banco Nacional y pueden ser distintos entre diferentes lugares; pero en ningún caso serán fijados más altos que el uno y cuarto por ciento por giros á la presentación, ni el uno y tres cuartos por ciento por trasmisiones telegráficas, excepto con la aprobación del Ministro de Hacienda.

Los cambios referidos pueden hacerse provisionalmente con los actuales billetes nacionales, hasta la fecha que se señala bajo el articulo 14 de esta ley para que dejen de tener curso legal dichos billetes, y al tipo de cambio que en su oportunidad el Minístro de Hacienda fije, con la aprobación de los banqueros ó su representante.

Las cantidades que se reciban en concepto de premios por la venta de giros ó trasmisiones, serán abonadas á favor del fondo provisto por este artículo, del cual fondo será pagado el costo de los referidos giros y trasmisiones.

Todo giro y orden de pago contra dicho fondo, si es emitido y firmado por el Banco Nacional de Nicaragua, Incorporado, será pagado de dicho fondo por el depositario ó custodio del mismo. Provisionalmente y mientras se abre el Banco en Managua, tales until the bank shall be opened for business in Managua, be drawn and signed by the Minister of Finance, and shall be valid when approved by the bankers or their representatives.

giros ú órdenes seran emitidos y firmados por el Ministro de Hacienda y serán válidos cuando sean aprobados por los banqueros ó sus representantes.

All of the drafts or orders referred to in this article shall be sufficient warrant to such depositary or custodian for the payments therein called for.

Todos los giros ú órdenes á que se hace referencia en este artículo serán autorización suficiente al depositario ó custodio para hacer los pagos solicitados en tales giros ú órdenes.

Art. 10.—Neither the government, nor any other person, firm or corporation, except the National Bank, shall, during the term of the charter of said bank, be permitted to issue paper currency or any other form of obligation payable to bearer and capable of being used for circulation as money.

Art. 10—Ni el Gobierno ni ninguna otra persona, casa ó corporación, excepto el Banco Nacional podrá emitir durante el período del contrato de dicho Banco, papel moneda ó cualquier otra forma de obligaciones pagadera al portador y capaz de servir para la circulación como moneda.

Art. 11.—The gold coin of the Republic, the silver córdobas, and the notes of the National Bank shall be receivable for customs and other public dues and shall be legal tender in the payment of debts within the Republic.

Art. 11—La moneda de oro de la República, los Córdobas de plata y los billetes del Banco Nacional, serán recibidos en pago de los derechos aduaneros y fiscales, y serán de curso legal y obligatorio para el pago de deudas dentro de la República.

The subsidiary silver and the minor coins of the Republic shall be legal tender to an amount not exceeding ten córdobas.

Las monedas subsidiarias de plata y las menores de la República serán de curso legal obligatorio hasta una cantidad que no exceda de diez Córdobas.

Art. 12.—The importation of foreign coin shall be sub-

Art. 12—El Ejecutivo reglamentará por decreto la imject to the control of the Executive, exercised by decree.

Art. 13.—The circulation of foreign currencies, whether of paper or of gold, silver or other metals, may be permitted or prohibited by Executive decree.

Art. 14.—Six months after the official rate of exchange provided for in Art. 8 of this Act comes into operation, the National Bank then being ready to issue its notes in exchange for the national currency and coins, the latter currency and coins shall no longer be received for customs or other public dues or be legal tender. The currency and coins remaining in circulation after this date—forged or altered notes excepted—may be redeemed under special regulations approved by the National Bank and the Executive.

Art. 15.—The Executive may take any measures necessary and proper for carrying out the provisions of this act and the provisions of the Treasury Bills Agreement dated September 1, 1911, and subsequent amendments thereto, and to enable the National Bank and the bankers parties to that agreement to better

portación de monedas extranjeras.

Art. 13—El Ejecutivo podrá prohibir ó permitir por decreto la circulación de monedas extranjeras, sean éstas de papel, oro, plata ú otros metales.

Art. 14—Seis meses después que empiece á regir el tipo oficial de cambio conforme lo dispuesto en al articulo 8 de esta ley, y estando el Banco Nacional listo para redimir con sus billetes los del Tesoro Nacional y las monedas de Nicaragua, estos billetes del Tesoro y monedas ya no serán recibidos en pago de los derechos aduaneros ni fiscales, ni serán de curso legal. Los billetes y monedas que después de esta fecha queden en circulación, podrán cambiarse (excepto los que estén alterados ó sean falsificaciones) previas formalidades especiales que aprobarán el Banco Nacional y el Ejecutivo.

Art. 15—Podrá el Ejecutivo dictar todas las medidas necesarias y convenientes para el cumplimiento de las disposiciones de esta ley y de las del Convenio sobre Cédulas del Erario, fechado el 1° de setiembre de 1911, con sus reformas subsiguientes, y para facilitar al Banco Nacional y á los Banqueros, que perform any or all the functions therein conferred upon them and to restore and maintain the stability of the national monetary system; the measures taken in this connection by the Executive to have legal effect provided they be not inconsistent with the present law.

Art. 16.—The counterfeiting of the notes of the National Bank shall be subject to the penalties which are provided by the laws relative to the counterfeiting of money.

Art. 17.—The Banking Law, promulgated by Executive decree March 6, 1882, and all other Acts inconsistent with this Act, are hereby repealed.

son parte de dicho Convenio, el desempeño de cualquiera y de todas las funciones conferidas á ellos y la restauración y sostenimiento de la estabilidad del sistema monetario nacional; teniendo las disposiciones que con este fin dicte el Ejecutivo, fuerza legal con tal de que no sean incompatibles con la presente ley.

Art. 16—Las falsificaciones de los billetes del Banco Nacional, por lo que toca á su penalidad, queda sujeta á las leyes relativas á falsificaciones de monedas.

Art. 17—Quedan derogadas la ley bancaria promulgada por decreto Ejecutivo el 6 de Marzo de 1882 y todas las demás leyes que se opongan á la presente.

APPENDIX D.

Agreement in Relation to Suspending Further Issues of Paper Currency.

1.—Letter on Behalf of the Bankers to the President of the Republic.

Managua, January 5, 1912.

Your Excellency:

We beg to submit for your respectful consideration the request of the bankers who are parties to the Treasury Bills Agreement of September 1, 1911, that assurances be given them in writing in a form legally binding, that there shall be no further issues of paper currency by the Government of the Republic of Nicaragua, nor of any form of government obligation capable of use as currency.

It is obviously of vital importance in fixing a new rate of exchange and providing an adequate reserve fund for maintaining it at its value as fixed in gold, to be able to calculate with precision upon the amount of the present circulation. As the value of paper currency is influenced to a considerable extent by its quantity, it is impossible to formulate plans for bringing about stability of exchange while new elements of instability are being introduced by the issue of additional bills.

The contract made by the bankers with the Republic of Nicaragua in the Treasury Bills Agreement of September 1, 1911, was made on data furnished by Mr. Ernest H. Wands, as the representative of the Republic. The statement then submitted to the bankers by Mr. Wands, upon figures furnished him by representatives of the government, was that the outstanding net circulation of paper currency was 30,902,603 pesos. It was upon this statement, which is considered by the bankers of the essence of the agreement, that the estimate was made that stability of exchange could be brought about at approximately the market rate of a year ago with the proceeds of the loan of $1,500,000, subject to the deductions for other purposes provided for in the agreement. The statement furnished by the Minister of Finance as of December 18, 1911, gives the outstanding circulation of paper currency on that date at 48,307,603 pesos—an increase of 17,400,000 pesos, or more than 50 per cent., over the amount stated to Mr. Wands. Obviously, this additional issue, by adding to the obligations of the Republic, has greatly added to the difficulty of working out a solution of the problem of stable exchange with the resources derived from the loan, especially in view of the desire expressed in many quarters for a rate of exchange appreciably lower than the market rate at the present time.

If a new form of currency is to be substituted for the existing national Treasury bills, in sufficient amounts to meet the requirements of the country upon a basis which will insure its practical convertibility with gold on demand, then it is of vital importance that the amount of currency thus determined upon sound economic principles should not be altered or increased, except in compliance with a legitimate demand indicated through the usual channels of commerce and banking. It would be impossible for either of us, with due regard to our own reputation or the interests of the country, to give our sanction or to recommend to the bankers any monetary arrangement which was not based upon these fundamental conditions—that the currency should be kept equal to gold, and that it should not be increased in amount, except in response to business needs and upon an adequate reserve of gold.

In view of the fundamental importance of these conditions, and of the statement of the bankers to us, that they cannot consider favorably, without a written assurance on this point, the measures which they are desirous of taking for the benefit of the government and the people of Nicaragua, we beg to request Your Excellency to advise us of the attitude of the Government of Nicaragua in this respect, as interpreted by you as its executive head, and also to advise us if your declaration on this subject will be indorsed by vote of the National Assembly as one of the measures connected with the plan for monetary reform which the government has already given assurances shall be enacted from time to time as may be considered necessary.

With the assurance of our highest esteem, we have the honor to be,

Yours very respectfully,
F. C. HARRISON,
CHARLES A. CONANT.

2.—Reply of the President.

Managua, January 6th, 1912.

Messrs. Charles A. Conant and F. C. Harrison,
City.

Dear Sirs:

I have the pleasure of referring to your very much esteemed letter of the 4th inst. which was handed to me by the Hon. Franklin Mott Gunther, Chargé d'Affaires of the United States.

I have given it due attention, and in justice to the scientific and opportune remarks it contains regarding the necessity (in respect of the currency reform) of a sure guarantee that no more bills shall be issued, except when indispensably required by reason of the economic situation, and backed by a corresponding gold deposit, I hasten to give you, by means of the present communication, the most solemn declaration that the amount of currency thus determined upon according to sound economic principles will not be altered or increased, except under stress of legitimate demand indicated through the usual channels of commerce and banking.

And in order that this declaration may have legal force, and may guarantee the promise for the future, I shall introduce into the National Assembly a bill to prohibit future issues of paper currency such as has been the custom up to now.

With the expression of my esteem and personal consideration, I remain,

Yours very truly,
ADOLFO DIAZ.

APPENDIX E.

Evidence and Memorials.

1.—Memorial of Leading Merchants Recommending an Exchange Rate of 1,000.

In order to facilitate the important work which has been entrusted to your great proficiency in economic subjects, we venture to present in this memorial certain data which may perhaps give you some idea of the causes which have brought about the present monetary crisis, thus saving you wearisome investigations which would delay solution of the important problem with which we are all so concerned.

From the time of the first issue of notes in 1895 until the middle of 1902, or say for over six years, the national notes did not depreciate any more than the silver coin represented by them. It may therefore be said that the notes retained their fixed value, which was equal to that of the silver coin, and that the creation and successive issues of notes had not, up to that date, disturbed or altered the Republic's economic status, inasmuch as the national notes fully answered their intended purpose as substitutes for the silver coin without change in their nominal and effectual value.

This equality in value between the coin and the notes representing the coin was maintained during that long period in spite of countless unfavorable circumstances which tended perforce to depreciate the notes. The decline in the price of coffee, which began to drop in 1896, reached its lowest level in 1899, and continued stationary until 1905 at extremely low figures; the poor crops, the constant revolutions, the disturbances in Central and

South American countries, and other innumerable causes which it is unnecessary to relate, failed to effect any appreciable decline in the value of the notes, notwithstanding the frequent issues—a demonstration of this country's fabulous wealth and inexhaustible resources.

In 1902, the explosion of the city's principal armory, resulting in an estimated loss of more than two million pesos, gold, and producing a large exodus of gold for the purchase of war materials, caused exchange to rise suddenly to 600%, at which figure it remained, with slightly varying fluctuations, until the year 1908—and all this, notwithstanding the fact that the issues from 1900 to 1908 reached the considerable sum of eight millions in national notes.

Figuring the value of the subsidiary silver—which is what the notes practically amounted to when first issued—at the price of 33¢, average, that is at 300% exchange, it is apparent that during eleven years of constant issues, amounting to a total of eleven million national pesos, exchange only rose 300 points, notwithstanding the unfavorable conditions above referred to, which continued to afflict this unhappy country and were aggravated by the war with Honduras and the country's continuous state of siege. Moreover, a new railroad was constructed—the "Central," from La Paz to Managua—also built by means of the note issues referred to.

All these things, occurring during the administration of General Zelaya, who was never famous as a prudent administrator of public funds, indicate the enormous economic vitality of this Republic, since it was able to absorb more than ten million pesos in paper currency without violent disturbances in its commercial and economic life, which, on the contrary, steadily improved, as shown by the financial and statistical activities of the nation for the last ten years.

The facts related in the foregoing chapter, which are absolutely authentic, show clearly the Republic's faculty for absorbing paper currency and the thorough economic soundness which has enabled the nation to bear the weight of such an avalanche of token money without being crushed or even staggering beneath the load of constant note issues, and furnish proof of a surprising wealth and a titanic endurance in suffering all manner of economic errors.

The fact that in the last two years the enormous sum of $46,000,000 in paper money has been issued, while exchange only reached 2100% for a few days, and immediately declined again, is another most eloquent proof of the country's economic vitality and phenomenal power to recuperate its lost energies as soon as the cause of the momentary exhaustion has been removed.

No other country in the world, with a population as small as Nicaragua's, and after a war as long and disastrous as the last, could have withstood such a drain of metal without falling into the most frightful bankruptcy. But, although the Republic's present situation may be considered bad, or the worst ever, yet it cannot be called disastrous, considering that there has not been a single failure among merchants or others. With a few months of a good government, things would return to their normal status and the crops would bring back to the country the enormous quantity of gold which has been exported.

Another cause of the sudden rise in exchange has been the excessive importation of merchandise during the last twelve months. The belief that upon the coming into power of the conservative party, an era of peace, prosperity and good government would be inaugurated and business would receive an unprecedented impetus was so prevalent in every class that all the merchants enlarged their orders and caused accumulations of stock and a superabundance of bills falling due. This, in conjunction with the exodus of gold and the continuous issues of notes, necessarily produced the present crisis, a crisis which might have been fatal if the country did not possess such great vitality and resources.

For the reasons above stated, the present exchange rate should be considered as merely casual and temporary; the rate which to-day prevails can never be the basis of transactions in normal times.

The causes of a rise so disastrous to the nation's economy cannot and should not be repeated; and the arrival of the Collector of Customs and the establishment of the National Bank which, subject to the budget laws, will manage the nation's funds, are more than sufficient to prevent such repetition. We therefore beg the honorable experts not to allow themselves to be influenced by this fictitious and abnormal situation, and to adopt as a basis for their calculations the average rate of exchange which has prevailed in normal or less disastrous times than the present.

In a country like Nicaragua, where exports are 50% greater in value than imports, economic crises cannot continue long; the gold balance remaining to the credit of the nation, if not foolishly squandered, soon restores the equilibrium which has been momentarily disturbed by transitory and exceptional causes; and it would be absurd to adopt as a rule for or index to the economic future of Nicaragua the present financial situation, which is only the result of a long and disastrous war and the fatal consequence of an uninterrupted series of political and economic blunders.

There is a small minority which believes that the government should take advantage of the present rate of exchange in order to convert its notes and thus obtain a considerable economy in gold, since if at 1,000% 4,500,000 dollars are required to redeem the paper currency, only 3,000,000 dollars are required with exchange at 1,500%.

At first sight the proposition seems very alluring, especially when those who advance it add that the public welfare must prevail over private interests; but an impartial investigation will show that the advocates of the proposition base their arguments upon false and erroneous premises.

To reduce the cost of living, especially for the poor, has been the promise and constant hope of the conservative party. Very peculiar and unfortunate circumstances have prevented it from realizing those good intentions in the sixteen months of its administration; indeed, the cost of living has so increased that many families find serious difficulty in meeting it. But the government cannot miss the opportunity which is offered it, through the American loan and the monetary reform, to restore matters to their normal status for the benefit of all concerned.

We have demonstrated beyond all question that the rise in exchange is due solely and exclusively to the constant and excessive issues of notes; and as those issues have all been authorized by the three administrations of the last three years, the present government, which has issued the largest amount, should not take advantage of that depreciation to buy at a low figure the notes which are now in circulation. That would be equivalent to speculating on the nation's misfortunes and making the public pay for the government's economic blunders. Such action would be the very height of administrative and financial immorality.

Speculation on the value of money is a tax which weighs heavily upon all classes, especially so upon the poorer, and it is the most sterile of taxes, for though everybody pays it, nobody collects it—it burdens everybody and benefits no one. The disastrous effects of such speculation have made themselves felt during these later days, when labor strikes—unknown in Nicaragua before the present crisis—have further aggravated the grievous situation. To minimize that odious and useless burden should be the noble and unwavering aspiration of a government interested in the well-being of its citizens, and the false prospect of economizing a few millions should not prevent the government from carrying out that beneficient work of true social betterment.

Moreover, it is a fact that the present administration, ever since it came into power, and until last May, consistently declared, in reports and official documents, its determination to fix exchange at 1,000%; and it was only after that time, for reasons still unknown, that the government decreed the fixing of the official exchange at 1,200%. All this constitutes a moral obligation which the government should respect, for, in reliance upon the official promise, many transactions were made upon that basis.

We have demonstrated the fallacy of the saving which the government would apparently make in converting its paper money at the present rate, and we are going to show not only that our statement is true, but also that in a few years the government's designation of the present extremely high rate as a fixed and permanent rate of exchange would come to be an actual burden.

The government has no gold income, whereas it has many obligations payable in gold, the principal one being the coupon on the foreign loan. Calculating its expenses at 2,000,000 dollars, which is not an overestimate (for even the merchandise which the government buys within the country is paid for in gold, such merchandise being imported), it will be seen that the government, by fixing exchange at 1,500% instead of at 1,000%, as it had promised, would annually have to pay out TEN MILLION more of our currency, in order to obtain which the government would be obliged to double taxation, thus increasing the already heavy burdens which oppress the public. In less than three years such increase would have entirely consumed the 1,500,000 dollars in gold gained in the conversion of notes, and it would continue thus indefinitely, inflicting upon the taxpayers the tremendous burden of the 500-point increase in exchange.

By fixing exchange at 1,000%, the government can, in addition to restoring the normal status, easily levy the customs duties at the same exchange rate, instead of at 650%, as is now done. That small increase, which will wholly and positively come into the national treasury, will be more than compensated by the public's relief from the heavy burden of high exchange which, as already stated, encumbers all and benefits no one.

Summing up our arguments, we beg of the honorable experts that the rate of the permanent exchange, for conversion of the notes now in circulation, and for giving value to the new notes which the National Bank will issue, be fixed at 1,000%, as that is the only rate which truly reconciles the interests of the national treasury and of every social class in the Republic.

Respectfully submitted,

Octaviano César, Manl. Lacayo, pp. Sala Chamorro & Ca., T. Chamorro Ch., Ag. Chamorro, Cesar Hnos., Frutos Chamorro, Alvarez C. Pinedo, Inocente Lacayo, Manuel Zavala & Ca., Ernaldo & José Ant° Lacayo, E. Cuadra & Ca., Rodolfo Arana, Roberto Martinez, Juan José Martinez, Fenetti & Britano, E. Castillo & Ca., M. N. y Leonidas Lacayo, Angel Reyes Ch., Franc° Bustos & Hnos., F. Alf. Pellas, Adolfo Benard, Labern & Thompson, pp. Franc° Brooking, HZM, J. Elizondo é Hijos, Fern° Lacayo, D. Morales, N. Wolf & Co., Dionisio Chamorro, Rodolfo Lacayo, Enrique Pineda, Filadf. Chamorro, Pellas & Horvilleur, S. Unza, D. Lacayo, M. Goodman, Benj. Vargas A., W. H. Downing, F. Alvarado & Cia., Fernando Chamorro & H°, David Arellano, pp. Munkel, Müller & Co., Arturo Reyes h., Creyut & Ca., The Nicaragua Sugar Estates, Ltd., C. Merritt, Srio., Luis Deseaud, A. Cortés, Const. Lacayo, Angel Caligaris, Bernheim & Portocarrero, T. P. Bingham & Hijos, W. Wheelock, C. Caso, Eugenio Lang, F. Lucingo.

2.—Memorial of Merchants of Rivas.

To the Financial Experts:

The Department of Rivas has followed with much interest the proceedings connected with your mission, and desires that its voice be heard, not for selfish or mean ends, but through patriotism. This city prides itself on having given signal proof of its patriotic feeling in all difficult situations through which the country has passed.

We have considered and discussed the financial problem in all its bearings, and are completely in accord with the arguments put forward by the merchants and estate holders of Granada and Managua in favour of fixing exchange at the rate of one thousand per cent, as being the rate most suitable to the requirements of the country, and which would tend to realize the ideal of the greater part of the Nicaraguans. We deem it useless to repeat those arguments here.

There are, however, political reasons not dwelt upon by the merchants in their memorial, to which we intend to refer, viz.:

The Conservative party has pledged itself to care for the interests and welfare of the Nicaraguan people, and should exchange be fixed at a high rate, these interests would suffer. Such a measure would probably bring about a revolution, and we think that the prominent members of the Conservative party who at present occupy important posts in the Government cannot, if they desire to be faithful to the ideal of their party, sanction such a financial measure—fatal to the interests of their party and to the interests of the country; fatal, moreover, to the friendly feeling of Nicaragua towards the great American nation, whose intervention in our financial affairs would become odious and be regarded in future with suspicion and distrust.

For these reasons we ask you to have exchange fixed at as low a rate as possible.

Rivas, 27 December, 1911.

(Signed) Rafael Urtecho, Rosendo López, Nemesio Martinez, M. A. Vega, Nemesio Martinez hijo, Max Gallegos, Isidro Urtecho, Ad. Gallegos, Juan Cordon, G. Gallegos, Isidro Urtecho h., Leonidas Guerra, Luis

Gabuardy, J. A. Navarrete, Tomás Marin, D. Maliaño, Leonidas Torres & Brothers, Ltd., Hurtado Bros., A. Valdez, M., F. E. Viales, P. Hurtado, David Donce, Franco Sacasa, E. Viales, Rafael A. Viales.

3.—Memorial of Merchants and Planters of León.

León, December 23rd, 1911.

Hon. C. A. Conant and F. C. Harrison,
Managua.

The undersigned, desirous that you should take into account the views of the merchants and of the planters of this city when hearing the opinion of the country on the subject of the official exchange to be fixed by Government for redeeming the national paper currency, take the liberty of sending you this letter.

In our view, the best interests of the country and of the Government (which are identical) demand an exchange of 1,000%, and we agree entirely with the memorial addressed to you on the 15th of this month by the merchants of Granada and by some of those from Managua.

(Signed) Ed Lacayo & Co., Ed. Lacayo, planter; Tomás Lang, for Pellas and Horvilleur; Julián Tercero, José Maria Tercero, Benjamín Gallo, José Maria Cortés, J. Gustavo Cortés, Constantino Herdocia, Liberato Cortés, Jorge Abraham, A. Herdocia, Robelo & Co., Norberto Salinas, Isidoro E. Gaitán, J. Prio, Tulio Amado Aguilar, Tomás Pereira, Carlos Overend, H. Flores & Co., Horacia Lanzas, How On Chon, Abraham Arguello, Irineo Mantilla, M. Castillo, Pedro J. Cerna, Camilo Somarriba, for Quan On Lon & Co.; J. Léon Quant, G. Herdocia, Presentacion Aguilera, Domingo Salinas, César Arana, J. A. Montalvan, J. Sansón, Gustavo R. Lacayo, Narcisco Lacayo & Co., Francisco Cardenal, Salvador Cardenal, Pedro Balladares Icaza, P. Arguello, Salvador Reyes, Tomás Telleria.

4—STATEMENT OF A. J. MARTIN, ESQ., MANAGER OF THE BANCO COMERCIAL DE NICARAGUA, December 16, 1911.

Q. Has the rise in exchange caused a corresponding rise in prices?

A. Yes. Practically, the rise is even greater than the rise in exchange.

Q. Even in the case of this recent heavy rise in exchange, has exchange been accompanied by a similar rise in prices?

A. Yes.

Q. Has this rise in prices been due to other causes than the rise of exchange?

A. Yes; other minor causes. Labor is exceedingly scarce, and it is difficult to find people to work on the plantations. The heavy rains, preceded by a drought, ruined some of the local products, which have gone up nearly double. The price of labor has also gone up.

Q. Has this rise in prices been accompanied by a rise in wages, expressed in Nicaraguan currency?

A. Yes. The rise in the wages of the day-laborer has kept a little under the rise in exchange.

Q. Has the rise in wages been as rapid as the rise in prices?

A. It goes a little slower.

Q. Has there been, since 1897, a large increase in exports of merchandise from Nicaragua?

A. I think the volume of export has risen since 1897, but it is exceedingly difficult to obtain reliable statistics from the government.

Q. Has there been, since 1897, an increase or decrease of imports into Nicaragua?

A. The increase in imports has been very large since the revolution.

Q. What, in your opinion, has been the cause, particularly in regard to matters within your personal knowledge?

A. The increase in the volume of exports and imports is due to the general progress of the country. Since the revolution and the promise of American intervention to place Nicaraguan financial affairs on a sound basis, there has been a large increase of imports in anticipation of better times—stable government, good administration, peace, and a sound economic basis. These are paid for by six and nine months' credits.

Q. Has the country benefited by the appreciation in exchange?

A. No; certainly not; quite the contrary. A high exchange rate is prejudicial.

Q. What, in your opinion, should be the rate of conversion of the present paper currency of Nicaragua into gold, if such conversion is desirable, or is to be made?

A. 1,000 per cent.

Q. Why 1,000 per cent?

A. I am unable to give one definite and comprehensive reason, but economical and general considerations have led me to consider that such a figure would be acceptable to all parties.

1. The importers would benefit by a fixed rate of 1,000, because if they have sold their goods on credit at present high rates, when they collect they will be able to purchase more gold owing to the lower rate. In so far as future business goes, a fixed rate will suit them, and for general purposes the lower the better. They will be able to scale down their prices, hence better business, and they will not have to liquidate the prices of their goods at 200/300 points higher than the current rate to guarantee themselves against loss.

2. The exporter, who at first sight might be thought to suffer, will, on the contrary, benefit by a fixed rate of 1,000. The price of labor will go down, as also the prices of provisions and current expenses. The ignorant coffee grower may appeal for a higher rate, but that is due to ignorance, as he only understands that he will get less for his coffee *in Nicaraguan money;* he doesn't realize

that he will be able to purchase as much with the smaller amount of money received as with the larger amount obtained if he sells his coffee locally at the present higher rate of exchange. I would suggest that the Commissioners take the opinions of the educated coffee growers, such as Dr. Rosendo Chamorro, Mr. Pellas, Messrs. Munkel, Müller & Co., and others. I am convinced that they would favor a fixed rate of 1,000 per cent.

3. Private bankers will benefit by a fixed rate, as with a fluctuating rate there is no rate of interest that can compensate a rise of hundreds of points in exchange, and many are suspending their discounting operations in currency for this reason.

4. It will not affect small farmers, because if it is true that the prices at which they sell their farm products are reduced, and which is doubtful, it is equally true that the price of labor will go down and their current expenses.

5. For foreign enterprises, a fixed exchange of 1,000 per cent. or less will be beneficial. Take the case of fire and life insurance: A great number of merchants and other people have allowed their life premiums and fire policies to lapse, owing to their inability to pay at present high rates of exchange.

6. In general, a fixed exchange of 1,000 means a betterment of trade conditions all around, as at present many enterprises are not undertaken, solely on account of the fluctuating exchange rates. Either the enterpriser does not care to risk his money, or he cannot obtain any financial assistance from banks for the same reason.

7. The only class of people, as far as I can judge, who would suffer discomfort—and they are a small community—are the small shopkeepers who have bought their stock-in-trade locally and owe for same in currency.

I will add that I have no personal interest at all in the rate to be fixed. The above reasons given are made after careful reflection, and I know from conversations that the importer and exporter in general favors a fixed rate of 1,000 per cent.

Q. What would be the effect of the rate of conversion suggested by you upon prices of merchandise?

A. An exchange of 10 to 1 would tend to scaling prices down.

Q. What would be the effect of such rate upon wages and upon the purchasing power of wages?

A. Wages would fall, but not so fast as the falling exchange. If undue reductions were made in wages immediately, the planters could not get the men; and they could not afford to take any risks. Therefore, the price of labor would go down slower, and so soon as the laborer discovered that the purchasing power of his lower wage was as great as his previous wage.

Q. What would be the effect of such rate upon exports of merchandise, especially in regard to articles within your personal knowledge?

A. I will cite the case of a coffee-grower. If he operates on a falling exchange, he is considerably humbugged; but with a fixed exchange, he knows where he is. A fixed exchange would be beneficial to the export of merchandise. At a given rate of 1,000, I do not consider that exporters would suffer, and they would certainly reap advantages later on, when their expenses became steadier, by a fixed exchange rate.

Q. What would be the effect of such rate upon imports of merchandise, especially in regard to articles within your personal knowledge?

A. It would be beneficial as well. I do not think a rate of 1,000 would check imports, but on the contrary.

Q. What would be the effect of a fixed rate upon the movement of foreign capital into Nicaragua?

A. I think a fixed rate of exchange would be beneficial all around. Many enterprises here would, I think, be taken up if we had a fixed rate of exchange. The railroad from Masaga to Diriamba was made with currency and the contractor broke, simply on account of the rise of exchange.

Q. Would the issue of a paper currency adequately protected by gold funds be an acceptable substitute for the present fluctuating paper currency?

A. Undoubtedly. The unit could be in paper as well as silver.

Q. If a gold standard is to be introduced into Nicaragua, what should be the value of the gold unit—should it correspond approximately to the franc, the shilling, the two-shilling piece, the old gold peso, the present Mexican peso, or the dollar of the United States?

A. I think that the Mexican system (the American half-dollar) would be the standard unit, because money here is very much cheaper than in the States, and the lower unit would facilitate operations. Labor is very much cheaper as well, and the laborers want a low standard. I think the subdivisions would be too large in the case of a dollar. Reflecting over the matter, I think that the unit should be equivalent to the half-dollar, but that the coin and subsidiary coins should be special Nicaraguan coins.

Q. What coins should be issued in subdivisions or multiples of the unit?

A. The denominations of 50, 25, 10 and 5 centavos.

Q. Would silver coins up to a maximum value of perhaps two francs or two shillings, with smaller subdivisions, be acceptable in circulation in Nicaragua?

A. Yes. The highest silver coin should be the unit, which would be *100 cents gold.* I will add later the lowest unit I consider suitable in silver, and lower than that I have no objection to nickel.

Q. Is the fractional nickel currency acceptable in circulation?

A. It is taken in stated quantities. The people, and particularly now the planters, like nickel. The common people of the towns have no objection to nickel in certain proportion, of course. In a general way, no objection is made to nickel as nickel.

Q. What are the fluctuations in exchange due to seasonal movements of merchandise?

A. There is a time, of course, when the exchange is higher and lower. Exchange is generally lower during the crop-moving time. The coffee crop runs from December to March. Planters require their money about September. The demand for financing the coffee crop begins in September and lasts until February or March. Exchange during that period is generally on the downward turn. Exports of cattle during the summer months also tend to drop exchange. I am speaking mainly of the Pacific seaboard. The Atlantic seaboard trade depends mainly on the banana, gold, and a small amount of rubber. The banana trade runs all the year around, and the rubber trade similarly. On the Atlantic coast there are no particular seasonal fluctuations. The Atlantic and Pacific trades are entirely distinct. On the Pacific coast, there is a dull season from May to August, in which exchange tends to rise.

Q. Is there any particular season when imports are heaviest?

A. Not to speak of, really. No. The sensible merchant will take no risks and will even buy ahead. Certain import merchants try to protect themselves against exchange by buying it forward.

Q. Is exchange normally in favor of either the seaboard or the interior; or in favor of the large towns or the interior?

A. With stable exchanges, the people who require money in the interior would have to pay to get it. When exchange is stable, the planting community would have to pay a premium to get their currency.

Q. What are the methods and cost of moving funds between the cities and the interior?

A. Generally by a merchant taking his money down himself. Merchants transport their own funds to the interior at present, which is due entirely to the high rate of exchange.

Q. What is approximately the present rate of exchange between Nicaragua and London and Nicaragua and New York, when the currency of Nicaragua is reduced to a gold basis?

A. Generally one and one-half per cent. With a stable exchange, we would have to work out exact calculations. I will try and give you my idea as to what the two bullion points would be between New York, Nicaragua and London. Some long time having elapsed since I have made shipments of bullion to New York and London, I am not to-day conversant of the freight and insurance rates, but these could easily be obtained, if required.

Q. Would a system of currency which permitted the conversion of drafts upon London and New York into Nicaraguan currency at a fixed rate of exchange tend to maintain adequately the convertibility of the currency of Nicaragua?

A. Yes.

Q. Would such a system of currency tend to promote trade with foreign countries?

A. It would be beneficial all around.

Q. Would such a system of currency tend to increase the investment of foreign capital in Nicaragua?

A. Yes. It would assist foreign enterprise. There are plenty of enterprises here which would be taken up if we had a fixed exchange. If exchange is taken at 10 instead of the rate of the day, I do not anticipate any serious loss to the community except to small retail shopkeepers. A large part of the importers have already cut off the credit of the small shopkeeper.

Q. Do you think that there is a large outstanding volume of obligations in national currency?

A. Yes. Debts of real estate and commercial debts. People who have bought coffee estates would be paid in paper a year ahead. There has been a movement for the last six months to speculate on the basis of exchange being taken at much lower than the market rate.

Q. In what form do you keep your deposit accounts? In gold or paper?

A. Both.

Q. How would you readjust your paper obligations? Would you pay depositors the same number of pesos they had deposited?

A. Yes.

5.—Statement of N. H. Lawder, Esq., General Manager of Belanger's Incorporated, and Agents in Bluefields of the Atlantic Fruit & Steamship Company, December 16th, 1911.

Belanger's Incorporated are the largest importers and distributors of general merchandise on the Atlantic Coast of Nicaragua, dealing in provisions of all kinds, general dry goods, notions, boots and shoes, lumber, hardware, mining machinery and supplies, oils, plantation supplies, etc.—which they distribute over the territory from Greytown North to Cape Gracias and up the different rivers along the coast at various points as far West as the Pis Pis Mining District. They export rubber in large quantities, gold, cocoanuts, tortoise shell, and bananas.

The currency of the Atlantic Coast, with the exception of Greytown, is practically on a gold basis. The books of all merchants are kept in gold, purchases and sales are made on a gold basis and prices fixed in the same standard. Payment in silver is always accepted for the equivalent of gold amounts at the current rate of exchange. The currency in general circulation is the Central American silver pesos or soles of Gautemala, San Salvador, Honduras and Peru, all of which have the same value. Haitian, San Domingo and Colombia pesos are not current except at rates much lower than their real value. There is also little or no Mexican or Costa Rican silver in circulation. Prior to the Revolution of

1909, large quantities of soles were shipped from Bluefields by the Government and representatives of monopolies to the interior of the country.

For many years the supply of silver on the Coast has not been sufficient for requirements, and it has been necessary for the banana companies and others to import from New Orleans. The price of soles in Bluefields is governed largely by their market value in New Orleans and New York and the rate of exchange fixed by the merchants and banana companies operating on the Atlantic Coast. For the three years prior to November 15th, 1911, this rate was fixed at 40 cents. During 1908, and part of 1909, the rate was 38 cents, and previous to 1907 was as high as 48 cents. Since about December 6th, 1911, soles have been worth 42 cents. There would be little or no difficulty in establishing a stable paper currency on the Coast, provided the people were convinced it had a real value properly guaranteed. A paper currency of uncertain value, such as the present paper money in the interior, would not be accepted under any circumstances. I do not think it would make any important material difference whether the value of the unit of the proposed new currency was 40 cents or 50 cents, gold. Personally, largely for purposes of convenience, I would prefer to have it 50 cents or two paper dollars equal to one dollar gold. All employers of labor would doubtless prefer to see it 40 cents—the approximate average value of the present sole or silver peso. The exchange or value of Nicaraguan paper currency does not at present affect the interests of the Atlantic Coast—that is to say, Bluefields, Pearl Lagoon, Prinzapulca and Cape Gracias. It is not current or in fact considered legal tender and will not be accepted until it has some fixed and properely established value. Owing to the scarcity of soles, the merchants and banana companies of Bluefields have been compelled during the last eight months to import U. S. currency to assist in paying off laborers. To economize the use of silver and also for other purposes of convenience they also issue drafts on their companies in New Orleans and New York. I do not think there is over $250,000 silver in circulation at this time on the entire Atlantic Coast. I think under new, stable and anticipated improved conditions a much larger amount of silver or its equivalent in other money will be required. I would much prefer silver to a 50-cents paper bill.

The present wage of the agricultural laborer is from 1.00 to 1.20 soles per day and board. The rate has been raised in some of the more remote sections during the past two years from 1.00 soles to 1.20 soles per day, and keep. Laborers at the gold mines receive from 2.50 to 3.50 soles per day without board. I anticipate that, due to proposed large agricultural developments, the wage of agricultural labor will probably have to be advanced. At present there is no large importation of labor from other countries, but I believe it will be necessary to import workmen before many months have passed.

The exports of bananas are considerably larger now than before the revolution of 1909. Until a few months before the commencement of the revolution, the only steamship service to Bluefields was that maintained by the Bluefields Steamship Company with two ships, between them making weekly sailings from New Orleans. A third steamer was added to this service, if I remember correctly, in May or June, 1909. Since December, 1910, the Atlantic Fruit & Steamship Company has had two ships plying between New York or New Orleans and Pearl Lagoon and Bluefields. For some months past these steamers have been sailing exclusively from New Orleans, making a weekly schedule to Pearl Lagoon and Bluefields. Since November, 1911, the United Fruit Company has also installed a weekly fruit steamer service between New Orleans and Bluefields. The Atlantic Fruit & Steamship Company will soon add other steamers to its Nicaraguan fleet, which, as soon as the Pearl Lagoon

Bar is dredged (work on which has already been commenced), will sail with bananas to Europe. The banana shipments of this Company will increase 5 to 10 fold or more in the course of the next two years, and it is expected there will also be a large increase in the exportations of the United Fruit Company.

Alluvial gold is brought to us on account, but not in as large quantities as formerly. We advance merchandise on such gold deposits to the extent of 80 per cent., or perhaps more, of the value estimated on a conservative basis, and ship the gold on owner's account, crediting him with proceeds on receipt of certificates from the New Orleans Assay Office. The merchants of Bluefields also export the gold produced by the various gold mines on the coast, shipping the quartz gold in the form of amalgam, the fineness of which varies from $10 to $16.50 U. S. currency, or more, per ounce, to New Orleans for owner's account. The progress of the coast mining industry has been considerably disturbed and interfered with by unsettled conditions during and since the revolution. There are valuable mines in the Pis Pis and other districts held by men without sufficient capital or knowledge to properly develop them. I have great confidence in the possibilities of the future of the industry with good government. Its successful development depends very largely on some of the more valuable properties falling into the hands of capable people with sufficient capital to properly develop them. The gold mines and their monthly yield are:

La Luz	$30,000.
Bonanza	20,000.
Topaz	5,000.
Siempre Viva	
Santa Rita	2,500.
Concordia	2,000.
Lone Star	8,000.
Various others	5,000.

With railroad communication between Bluefields and the interior of Nicaragua I believe that a large part of the cattle now driven overland from the Province of Chontales to Costa Rica will be shipped over the railroad to the seaboard. A railroad would also immediately develop a large export trade in mahogany, cedar and hardwood from the virgin forests adjacent to the route of the proposed railroad from Rama to Lake Nicaragua, and would also probably lead to the development of gold mines in regions now quite inaccessible. Practically all of the timber and other lands along the route of this proposed railroad, with the exception of the grazing country in the Province of Chontales, are owned by the Government. This proposed Rama to the interior railroad would also bring about a tremendous increase in the planting and export of bananas. It is my opinion that the timber traffic alone should make such a railroad pay from the beginning.

The importers of Bluefields and other ports on the Atlantic Coast pay their duties on a gold basis, while in the interior of Nicaragua the customs duties are paid in paper. The Government accepts paper in payment of duties on merchandise imported through Corinto and other Pacific ports on a basis of 650 to 100, whereas the importers are able to buy Nicaraguan currency at from 1,800 to 2,250 to 100. The result, very apparent, is greatly to the disadvantage of the interests of the Atlantic Coast. The present tariff in effect on the Atlantic Coast is the silver tariff of 1902, which is lower than that published by the administration of President Zelaya in 1908, which was in effect up to the beginning of the revolution of 1909. The tariff now in force on the Coast, taken as a whole, is a comparatiely fair one. The duties on many articles, however, could be materially reduced to the advantage of all concerned and, in my estimation, would lead to a much larger consumption of the articles referred to, and result in a larger revenue to the Government from the importation of these articles. A few of them are as follows:

> Nails, certain classes of hardware, building materials, felt and other hats, fine shoes, linen goods of all kinds, silk ribbons, silk piece goods, various kinds of acids used in the manufacture of ice, patent medicines, rifle, revolver and shotgun cartridges, paints, lubricating oil, woolen textiles, garments, articles of wood not specified in the tariff, lime, whiskey.

The Atlantic Fruit & Steamship Company, as successors to the C. A. G. & T. Co., has a contract with the Government by which it is authorized, among other things, to collect an export duty of five cents per bunch, gold, on all bananas exported from the port of Pearl Lagoon. It has never, however, attempted to enforce this privilege.

The supply of silver currency being deficient, we are usually glad to issue exchange on New York at par in exchange for soles at the current rate. When such exchange is issued for gold, the exchange charged is usually one per cent. I have never heard or known of any money being shipped from Bluefields to Managua or other interior cities by the Government or others since the revolution. Ordinarily the receipts of Bluefields and other Atlantic Coast ports and towns should exceed expenditures. This was always true prior to the revolution of 1909. Since the revolution, the surplus revenues of the Government from receipts of the Atlantic Coast have, I understand, been utilized in paying Government soldiers, army pensioners and debts incurred by the Government during the revolution.

6.—Statement of Mr. E. Palazio, Importer and Banker, December 18, 1911.

I am a commission agent in Corinto and partner in the Banco Comercial at Managua, and have resided in the country for the past twenty-seven years.

Mr. Palazio continued with the following remarks and replied to the questions *in re* the Nicaraguan currency submitted by Messrs. Conant and Harrison.

Q. Has the rise in exchange caused a corresponding rise in prices?

Q. If the rise in exchange has not caused a corresponding rise in prices, what is your estimate of the ratio of the rise in prices which has taken place?

A. Not in proportion. Of course, the prices of goods are more or less in proportion to the rate of exchange. The rate of exchange has been behind for this reason: When you sell to-day any kind of goods with an exchange, say, of eight, you have to be deterred, you cannot sell goods in the country, so you sell at three months. Generally when that invoice becomes due, the exchange is higher than at what you sold it. That has been the general tendency of the country.

Q. Has this rise in prices been accompanied by a rise in wages, expressed in Nicaraguan currency?

A. Well, wages have, as a rule, increased more or less in the same proportion. The wages of government employees have not increased quite so fast. The wages of labor have increased even more in proportion, because labor has been short in the country on account of the continual wars.

Q. Has there been, since 1897, a large increase in exports of merchandise from Nicaragua? Has there been, since 1897, an increase or decrease of imports into Nicaragua?

A. Excepting this year, that is, 1911, where the importation has been exceptionally large, there has been a decrease in the volume of imports and also in the exports, during the last fifteen years. In 1892, we had 250,000 quintals of coffee exported. In 1902, we had 320,000 quintals of coffee exported, but all the other years have been below 200,000. In reference to importation, I dare say that importations have not been large for the last fifteen years on account of the unsettled condition of Nicaragua.

The largest importations here were in 1891 and 1892. We had very high prices for coffee at that time. Coffee dropped badly in 1895, so, of course, there was less money to spend in the country. The determining features in the Nicaraguan trade were the dropping of the coffee market and the unsettled condition of the country. The drop in silver caused also a great depression in the country. A man who had sold a pound sterling, used to get six to seven silver dollars for it in 1892; and when he had to pay back that money, or buy sterling, he had to pay $16 for it. This was far too much, considering only four years' time. The country up to 1893 was on a silver basis. The first issue of paper was in 1894 or 1895.

Q. What, in your opinion, should be the rate of conversion of the present paper currency of Nicaragua into gold, if such conversion is desirable, or is to be made?

A. Well, we were working until June last with a rate of from 11 to 12, and I favor and hope for a rate of 10. I also believe that would be the popular rate.

Q. What would be the effect of the rate of conversion suggested by you upon prices of merchandise?

A. The prices of imports would be so much lower, and the poorest part of the country would have a big benefit by it. The poor would benefit by a lower price of imports with an exchange of 10. In regard to exports, the most important article of exportation is coffee; it has now a very high price, and the exporters, of course, would be affected a little with the lower exchange, without doubt; but they can afford much more to stand that little less than the whole of the country, which uses the imported goods. If exchange was reduced, we should reduce wages. I think the planters will find it possible to reduce wages, although the supply of labor is, at present, rather short, because the labor from the neighboring countries, as Honduras and Salvador, is paid at a lower rate and, therefore, will come in, and the prosperity of the country will increase the laboring population.

Q. What would be the effect of a fixed rate upon the movement of foreign capital into Nicaragua?

A. I think a stable rate of exchange will enormously encourage the employment of fresh capital in Nicaragua. Whenever people from the outside have applied for information in regard to the development of the country, they are always deterred by the fluctuating exchange.

Q. Would the issue of a paper currency adequately protected by gold funds be an acceptable substitute for the present fluctuating paper circulation?

A. The paper rate can always be kept at the par fixed by reducing or increasing the paper circulation so as to keep that par. I would rather say you can always keep a certain par by decreasing the circulation—for instance, the par of 12. My idea is that it might be kept with a circulation of 36,000,000 in bills.

Q. If a gold standard is to be introduced into Nicaragua, what should be the value of the gold unit—should it correspond approximately to the franc, the shilling, the two-shilling piece, the old gold peso, the present Mexican peso, or the dollar of the United States?

A. I suppose the natural unit here is the dollar. I would prefer a circulation of paper dependent on gold. I care nothing for silver except for small fractional currency. I have no objection to nickel being used for the very small coins. I would not like paper for denominations of less than a dollar. For amounts below the dollar, I would prefer silver and, at the bottom, nickel coin.

Q. What are the fluctuations in exchange due to seasonal movements of merchandise?

A. Exchange fluctuates yearly with the coffee crop. The drawing for coffee begins early, but the crop moves from December to March.

Q. Is exchange normally in favor of either the seaboard or the interior; or in favor of the large towns or the interior?

A. There is no premium or discount in the internal exchanges.

Q. What is approximately the present rate of exchange between Nicaragua and London and Nicaragua and New York, when the currency of Nicaragua is reduced to a gold basis?

A. At present, there is no charge for gold exchange between Nicaragua and London and New York. It is all included in the exchange quoted. The cost of transferring money between Nicaragua and New York and London, I put roughly at 1½ per cent.

Additional Remarks.

I think $1,000,000 in gold expended in buying up paper would bring the exchange from 16 and 17 to 10. A fourth or a fifth of the coffee crop belongs to the foreign houses and does not enter the exchanges, and therefore the effect of the coffee export trade is overrated by some. We had 13,000,000 of notes during the past government and the exchange went up to 10.50. With this new government, we came up to 36,000,000, and the exchange was not over 12. That is the fact. Now, what is the cause? The cause may be a complex cause. First of all, it is the confidence in the new government. Secondly, it is the amount of gold and credit put in circulation by the capitalists.

7.—Statement of Angel Caligaris, Coffee Planter, December 20, 1911.

I am the owner of extensive coffee estates, on which there are approximately half a million coffee trees. The yearly crop is from 25,000 to 30,000 quintals. I buy and sell drafts and also provide current capital to coffee growers and take coffee in liquidation of my advances. I sometimes advance money for the purchase of coffee estates, leaving the money out possibly for five years, and the rate of interest I charge depends upon the rate of exchange and the price of coffee. The repayments are usually made in coffee at a price fixed at the time of the loan. Then I lend to coffee growers who have good credit yearly, the loan being similarly repayable in coffee at a price determined at the time of making the loan. Planters usually either borrow from me or the banks.

Up to six or seven years ago, the usual practice was to lend, at the commencement, money at 18 per cent. The loan was liquidated in coffee at the current market rates. When I lend now, the planters have to deliver a fixed quantity of coffee at a fixed price. I have never had to distrain. If the planter has a surplus production, it remains at his disposal. Recently 1½ per cent. per month is the usual rate on which advances are made in coffee. Just at present it is a little lower owing to exceptional circumstances.

The banks make their charge of 1½ per cent. per month on a gold basis. I lend on a paper basis. The rate of interest on a paper basis is at present lower than that on a gold basis. The rate on gold loans is higher because gold is in greater demand. I do not make advances on or deal in Matagalpa coffee.

If selling $2,500,000 gold here would reduce exchange down to 1,000, it would be necessary then to convert bills in order to have $4,500,000. With $1,700,000 in gold, the government could begin paying drafts at 1,600, and lower the rate slowly until they got to 1,000. In that case only twenty millions of bills would remain in circulation. Therefore, there would be no more necessity of any gold to maintain the rate fixed at 1,000. I base my calculation on the theory that there is no banking issue—without taking the bank into account. Mr. Palazio's opinion is that twenty millions of paper, that is in circulation, is hardly sufficient for the circulation of the country, taking into account the amount of business that is done here. It would take from $1,400,000 to $1,500,000 to reduce the rate to 12.

I estimate the amount of paper now in circulation at 45,000,000. This is from official data and accessible here in the Ministry. I know, as a matter of fact, that these data are correct, because I have control over them. The issues of bills by Zelaya and Madriz are all of a certain amount, of which the record is in the Treasury, and the records are being consulted from which I calculated the amount. Of course, a certain amount must be deducted for the loss and tear of the bills. I estimate the loss through accidental destruction and wear at 3,000,000. I have no reason to distrust the official figures of incineration.

My idea is that it would be very suitable that the government should reduce exchange by a decree. Under that decree, the government is obligated to recognize bills at 1,200. It cannot raise the rate because it is pledged to recognize 1,200. Before that decree was issued, they had promised to lower it to 1,000. I, therefore, think the government is morally obliged to fulfil it. The government is under no moral obligation to lower exchange beyond 1,000, because it would not suit the general interests of the country. These references to a rate of 1,000 were merely declarations of public officials in private conversation. I think this opinion is held by the majority, especially among the poorer classes.

When exchange has reached 1,000, by buying up all bills beyond 20,000,000, any further currency required should be obtained through the agency of a bank which would issue additional notes against gold. To maintain those notes at par would require a reserve of 40 per cent. in gold, or what is easily turnable into gold. The present necessities of the Republic are not for gold coin; the demands of the people would be for drafts rather than for gold coin. Two classes of money are needed here—paper currency and drafts. On general principles, it is preferable that there be one bank, more necessarily a state bank, and other banks might be allowed whose credit was unimpeachable.

I will send to you my project for a bank, and will also put in a paper refuting the coffee planters' argument for a 2,000 exchange.

8.—Statement of Adán Sáenz,

December 22, 1911.

I am a general import merchant and have been in that business for thirty years. I import from England, the United States, Germany, France and Italy. I sold my business forty months ago to a Mr. Solomon. I have had to pay forced contributions in the times of Zelaya and Madriz, although I never mixed in politics. On one occasion I was assessed $50,000, but I paid $7,500. When I sold my business they reduced the demand to $15,000, and then I paid only half. To Zelaya, I had to pay two contributions of $4,000 and $5,000, for which I hold receipts. I have also made other contributions many times and have been repaid. At one time I was even put in the penitentiary. The contributions were always taken from the conservative party. Zelaya reimbursed only certain persons. When I was assessed for a contribution of, say, $10,000, I got a receipt. Then, when I found the government was in want of money, I offered them a further $10,000. They then acknowledged the whole as a debt of $20,000, which they agreed should be discharged against what I might owe for customs, and I was given credit for that sum by tendering the amounts due from me on customs invoices, until the amount was satisfied.

Silver disappeared from circulation about fifteen or sixteen years ago. Some made their contracts in current money without specifying whether paper, silver or gold was the medium to be employed. At the beginning of Zelaya's government the exchanges were still calculated in silver, and paper money then was at a discount of about 10 per cent. in silver. The exchange was then 250 per cent. on silver and 300 on paper, expressed in terms of gold. Three years after Zelaya's inauguration, silver disappeared from circulation. It think a rate of 1,000 is very reasonable. I hope you will receive my testimony as that of an absolutely disinterested person, because I have no business at present in Nicaragua. I have sold my business here and all my capital is in gold, and even the few houses which I possess in this town I rent on a gold basis and, therefore, my testimony is disinterested and I wish to set forth only what I think is best for the people.

Transactions have been taking place here in the confidence that the government, as it had promised, would fix exchange at 1,000 and keep it there, and I want you to especially consider the case of the poor people in this country, who are suffering greatly from the high rate and the fluctuations of exchange. For example, a servant, or people of the servant class, earn here 30 pesos per month, which is equivalent to about $2 gold, and the constant fluctuations cause them great poverty. I ask you in the name of the poor people of this country not to pay any attention to the discussions in the papers by interested parties, who do not understand what they are talking about, but to keep in mind the real necessities of the people, and above all to fix exchange as soon as possible on a fixed and definite basis, whether it is 2,000, 1,500 or 1,000, as long as it is done promptly. It is true that there are several persons who have got a great deal of money in bills which they have extracted from the Treasury by illicit means, but that is no reason why the poor people who have earned the billetes by their own work should suffer because of four or five individuals who have acted dishonestly by means of claims of losses they had suffered during the revolution.

Of course, it would suit debtors to have a high rate of exchange, but on the other hand the creditors would lose, because, for example, people who have done business two years ago on a basis of 800, or a year and a half ago on a basis of 1,000, will only receive half the value they had given when they received their money. A merchant can never protect himself against this rise in exchange. I, myself, have lost on this exchange, having calculated my merchandise at 1,000, and then afterwards found that the exchange had gone still higher, because there is no bank here where one can buy drafts from day to day, as there is in Gautemala, which buys and sells drafts daily. A bank is very necessary in Nicaragua and perhaps a private bank would be superior to a national bank, so that the government would have nothing to do with it. I have no objection to the bank being privileged, because nowhere is there a bank without similar privileges.

I think 1,500 should be about the true exchange. In my opinion, if you would issue a statement saying that the government is going to establish a rate of 1,000, it will make exchange immediately drop to at least 1,200. The establishment of a bank and the sale of drafts may keep exchange at that rate. Your mere statement will bring exchange down to 1,200, but to keep it there it will be necessary to establish a bank and sell its drafts. This would depend upon the form in which the bank is established. If the bank which is established issues notes at the value of 10 cents gold for each peso, then the exchange will remain fixed at 1,000.

I think the railway should be sold and the tariff fixed in gold, and that the funds so derived should be used for calling in and immediately burning the surplus notes. The government should, under no circumstances, issue any more notes. I cannot give any information as to the value of the railway. I do not know that the railway is very badly managed. The government has no need to possess it and it does not matter who owns the railway, so long as it is well managed and the public is satisfied. In the case of the excise duties the only thing that is lacking is an effective control of the illicit manufacture of liquor and smuggling. Owing to the very high rate of exchange, what the government receives in effect is very little. To obviate that difficulty, I think the government should fix the price at which it sells to the retailers and order the retailers to sell at a fixed price also, with the idea of allowing the retailers to make a profit of from 10 to 15 per cent.

Bills are incinerated in the presence of the Treasurer-General and two merchants, of which I have sometimes been one. When I have had occasion to be one of them, I have counted every bill myself. If I had to act, I would act on the assumption that the notes alleged to be burned had been burned. The two merchants chosen for this purpose have always been men of high character. If there was any mistake, it would be an inadvertence and not intentionally.

The general opinion is that Zelaya issued 2,000,000 in 50-dollar bills and Madriz 5,000,000 in 5-dollar bills manufactured out of country paper. I think there have been some, but not very many counterfeit bills out of country paper. The forged bills appeared about eighteen months ago. Dates were fixed and extended for the receipt of the country-made bills, the dates being prolonged sometimes because the government had not good paper to give in exchange. We do not see the country-made notes in circulation at present. You may treat them more or less as a negligible quantity.

9.—Statement of Jacobo Tefels,

December 22, 1911.

I have come here at the request of my father, who is ill. I am a banker, merchant and coffee grower. Our principal business is banking. We possess several coffee estates, upon which we grow coffee and export it. Our estates are south of Managua. The normal rate of interest in this country on good security is between 12 and 18 per cent. We lend to anybody that gives sufficient security. It does not matter to us what sort of security is given so long as it is good. The usual security is two signatures or mortgages. Loans are exclusively in gold, for many years. It is difficult for me to say at what rate exchange should be fixed, because I think it will have to be fixed according to the necessities of the case. Some people want a low exchange, because they hold a large quantity of the bills. I personally think the low rate of exchange will be good for the country, but that depends upon the necessities of the country more than on my private wish. It depends also upon the amount of gold that the country will get, and the foundation of the bank, and also the fact of the bank having a sufficient fund to respond to the necessities of commerce. I cannot express an opinion on that point, because I do not know sufficiently, and because I am not aware of the amount of bills in circulation, and it would depend upon the amount of bills at present in circulation. There are several reports in regard to the amount of bills in circulation, but there is no object in stating the amount, because there is no reason to believe in the truth of those reports and, therefore, it is not worth while repeating them. I, myself, cannot express an opinion upon the amount of bills in circulation. People usually take the circulation at about 50,000,000 and 55,000,000 pesos. There are rumors that Zelaya made irregular issues.

Exchange in May of this year was about 1200. We need drafts very badly to pay for our merchandise, of which we have imported a great deal, and there is also a heavy demand for gold. I do not think that this would be sufficient to lower exchange, but that it might maintain exchange at the present level, between 1500 and 1800. I think that the immense amount of money in circulation is enough to keep exchange high. Besides, it is not 12,000,000 pesos that have been issued since May, but 24,000,000. If that 24,000,000 were retired, exchange would be brought back to the original level, but only temporarily. Inasmuch as when the circulation was only 12,000,000, exchange was 1,000, how can it be expected when there is double that amount of paper in circulation exchange would not be higher? The quantity of bills is so great that it is impossible to keep exchange at 1,000.

I would not dispute theoretically if such amount of the paper was retired as to bring the amount to that figure which existed when exchange was 1200—that that would be the correct exchange. But, in my opinion, in view of the special circumstances, that rate could not be maintained, because the importations have been so great that there will be a very large demand for gold drafts. When the par of 12 had been reached owing to the special circumstances, I think it might take nearly $1,500,000 of gold to meet demands on the foreign exchange.

I have been a banker for fifteen years in Managua. I attribute these changes, first, to new issues of bills and also to difficulties in the exportation of agricultural products and to the bad crops. My idea is that the foundation of a bank which would have sufficient capital to respond to the necessities of the merchants would be very beneficial to the country. My opinion is that the bills should be called in at the lowest rate possible, and that the best means to get more gold for the bills is to increase the value of the bills. I think the bills should be called in at the rate of 1,200. It is to the general interest to try to arrive at the exchange of 1,200, in the commercial and agricultural interests.

10.—Statement of Mr. Herbert I. Thompson, of Labern & Thompson.

December 22, 1911.

I am engaged exclusively in the import business. My business is entirely wholesale. It has been on the credit system, on three months' time, payable in billetes. Lately, it has been impossible to do business in that way. We obtain credit in Europe, and we have connections in Manchester, London, New York and elsewhere. Rates of interest here are higher than abroad. On the best security they are 10 to 12 per cent. Imports of merchandise have lately been rather heavy. The reason for heavy importations was that we found that business had revived with the advent of the present government. We were not influenced by any expectation that the import duties might be reduced. We had never had any unpleasant experiences in the Custom House. We have been very fairly treated, indeed, except that under Zelaya a great many concessions were made which were inimical to honest merchants. It was a way of rewarding political services.

Our recent imports we have on hand and cannot sell under present conditions. Our sales have been below the average for the last few months, especially credit sales. Our credit and cash sales have been in the proportion of about one-third cash and two-thirds credit.

On account of having sold goods on credit for bills or national currency at rates much lower than the rate ruling to-day, we have incurred heavy losses, and expect grave loss in future if present high rates continue. I think the government should be obliged to redeem its paper at not over 1200. But before 1200 was mentioned as the official rate, we were led to suppose that the rate would be 1,000. I would rather not suggest how the government could meet obligations at 1200 when exchange at present is 1600. The date of my last transaction was December 15th, on which date we paid 1600 for a sight draft on New York. I consider exchange should be brought down to 1200 by any means, such as taxation or otherwise, but I would prefer that it should be done by a loan, preferably a foreign loan. I do not think there is any objection here to paper money, if it is good. I am quite indifferent as to whether the unit should be $1 or 50 cents.

I import principally from the United States and Europe. No alteration of the exchange would decrease the exportations. Everything grown in the country is in great demand and will be exported.

The establishment of a bank here would be of great benefit to commerce. No merchants keep a deposit account in paper currency. No checks are used in this country. In purchasing drafts, the vendor frequently prefers to receive an I. O. U. rather than be troubled with a bundle of dirty bills. We have to keep all our bills in our safe until we dispose of them. Important firms of high standing issue these I.O.U's, which pass current. These are generally for large amounts. We are only too glad to cash these I.O.U's in preference to holding the dirty equivalent. I think people would take kindly, as in Salvador, to a system of check payments with sound banking. I have spent seven years in business in Salvador, and the check system is very much appreciated by the public.

I wish to impress upon the Commissioners the inconvenience of the present high rates of exchange. Printed calico of the cheapest quality made in Lancashire cannot be profitably retailed to-day at less than 90 cents paper for 33 inches, English measure, although the duty on this article was reduced by government decree on September 27, 1910, from 56 to 30 cents gold per kilo. An amount of perhaps 50 yards makes a kilo. Five years ago the article was sold at 30 cents, and it is now 90 cents. Wages have not gone up in anything like that proportion.

I think people are turning their capital into gold and removing it from the country. Under a fixed exchange, there will be a profitable field for investment and capital will be attracted back. I think land might be taxed if more money is needed, in spite of the great unpopularity which would attach to a land tax. A house tax or any direct tax would be unpopular. The land is in the hands of rich people who would resent a tax.

11.—Statement of Don F. Alfredo Pellas, Planter and Capitalist, December 29, 1911.

I represent Messrs. Amsinck & Company, of New York. I am engaged in sugar planting and other industries.

In regard to the rate of exchange, I should say that it should be about 1,000. Most of the issues were made under the rate of 1,000. I favor this rate for the benefit of the people, who should be allowed to conserve the capital they have in this form. If exchange should be fixed at 1,500 or 2,000, the holders of the notes would lose half of their capital. I am interested in the production of coffee, sugar and gold. An exchange rate of 2,000 would make wages very high, at least nominally. If the rate of 2,000 is to be advocated, why should it not be 5,000? I think it better to take a mean rate. There is an opening for the extension of the use of paper at Bluefields. Bluefields does not now use paper; the foreigners there will not have it. Now, if it requires 4,000,000 or 5,000,000 pesos in Bluefields to pay duties and other government charges, why should not this amount of paper be found there? If the net stock in the western part of the country is reduced to 40,000,000 pesos, exchange will be reduced to 1,000. In view of the present demand for currency, a circulation of 42,000,000 on the Pacific Coast will not be too much. I would not oblige people to take the billetes at Bluefields, but would require them to be paid for customs, and customs employees to be paid in this manner. This would put it in circulation and others would take it without being compelled to by law. The Bluefields merchants are mistaken in sticking to silver. It would be better for them to use paper than to import soles to make their payments. The government made a mistake in requiring duties to be paid in soles. It was the result of a private speculation of Zelaya's. Mr. Solomon built a wharf, in order to handle goods before they went to the old custom house, and got a fixed charge on the packages handled. Zelaya got one-third. When the merchants protested and the privilege was taken away, Mr. Solomon had to have compensation. Zelaya changed the standard of payment from paper to silver about 1905, thereby increasing duties about 50 per cent., in order to get good money.

In my opinion, the people would accept paper in Bluefields if it was good. It is much more convenient than silver in making shipments to the plantations. We pay

$25,000 to $30,000 a week on our sugar plantations. Already the nickel coins are being exported to Honduras, Salvador, and elsewhere. In my opinion, silver disappears from circulation by hoarding. Gold coin would also tend to disappear. Costa Rica for a time had gold colones in circulation, but it was disappearing, and they issued notes. We might put in $200,000 in gold and it would soon disappear.

A high exchange would have a very serious effect upon the mercantile community. Messrs. Amsinck & Company have large obligations due them which could not be paid with exchange at 1,500 to 2,000. Many of their debtors are already backward in their payments. I should say there was already overdue to people whom I represent in New York, London, Amsterdam, Italy and elsewhere $150,000 to $200,000, and that the obligations in the general market, including those to my clients, would amount to $400,000 to $500,000. If two or three months pass without the settlement of some of these claims, it will be necessary to press them. It is usual, even under normal conditions, for merchants to demand more than the due time on their obligations. I open a credit for a man with them and authorize him to draw against it. If there are failures, it will be the importers who will fail. The retail shops will loss less, because they sell for cash. Goods are generally sold at about six months' time.

The general expectation has been that exchange would fall. Merchants calculated 250 points above the market in fixing their prices when exchange was above 1,200, but the actual rise was 400 and they suffered losses. After the retirement of Zelaya, everyone was anxious to do business and gave heavy orders. They knew of the decree for the issue of 15,000,000 billetes, but the news of the loan from the United States encouraged them and they thought that exchange would come down to 800 or to 700.

Orders for the new currency notes went from Messrs.

Amsinck & Company, through me. Under Madriz, I ordered 15,000,000 pesos. Of recent issues, my recollection is as follows:

1909, under Zelaya.

In notes for 50 dollars, made by Waterlow, 2,000,000
Made in California.. 500,000

Under Madriz.

Made in this country, in 5-dollar notes.......... 5,000,000
Made by the American Bank Note Co............15,000,000

Under Estrada.

Made by the American Bank Note Co............15,000,000

Under Diaz.

Made by the American Bank Note Co...............10,000,000

Prior to 1909, the circulation was 12,000,000 pesos, but was increased during 1909 and 1910 to 19,000,000 pesos. The last order through the American Bank Note Company was telegraphed by Sandino, unknown to me. Estrada was in Washington at the time. They were in such a hurry that they made the temporary issues without waiting for the American Bank Note Company, but afterwards called them in and burned them.

I would favor reducing the amount of paper by 10,000,000 pesos by means of a loan or by taxation. It could be done by a change in the customs duties, which are now collected at an exchange of 650. I should say fix it at 1,000 to 1,200. The people do not feel it, because the exchange would fall with the increase of duties. The saving could then be used to reduce the billetes. A certain amount of the loan should be used in reducing the circulation. There should also be a reduction of expenses, like putting in the surgeon's knife. I would also change the liquor law. The country formerly got $600,000 or $700,000 a year gold from the sale of liquor. By Sunday closing and other measures, they have reduced consumption one-half. Last year they did not have enough liquor, the shortness in the crop being due to war and other disturbances. I think there will be enough next year. I am the largest producer, but it it quite enough to make payment to the producer at 1.20 pesos, provided exchange is at 1,200. I would give a license to anybody who applied. It pays me to sell for 1.20 pesos, because it is a by-product, but it does not pay much to the smaller people. The government will not need to import if they keep strictly to the present method of enforcing the laws. The amount of 2,000,000 liters will be enough. If the law were relaxed, there would be a sale for, perhaps, 2,500,000 liters. If the price to retailers were steady at 5 pesos, it would reduce consumption, but would increase revenue. It would be better to remit the matter to a company, in order to stop contraband contracts. The government should take the excess profits, or divide with the company half and half, or the government should take all above a fixed part.

Under the present system, if the retailer of powder is nominated, he must have the approval of the government. I would favor having a company distribute it. Even under the present system, anybody can import revolvers, subject to the payment of the duty at the customs house.

In respect to powder and shot, there is a greater demand than the supply, but this is for other purposes than revolution. When cartridges are obtained for revolution, they come from the outside.

I would amalgamate the post-office, telegraph and telephone under one competent man from outside. The railroad also would give a splendid revenue if trains were run more frequently and faster.

12.—Statement of Mr. Nicolas A. Delaney, January 2, 1912.

I would prefer the exchange fixed at once. At present, we are in the air. Nobody knows where we are and people go on speculating either way and will continue to do so. I have no objection against an exchange of 1,000, 1,200 or 1,250. A thousand is a little low. Bills are not worth 1,000. Some of them have been put out at an exchange of 1,400. There is an average of 1,400. I do not consider that the possible increase in the gold wages of labor would be a serious obstacle for us in fixing the exchange of 1,200. Wages in some cases might be lowered a little and we may have to meet a small increase in gold value. This year wages have been increased largely and are being daily increased. This country has been much retarded by the Zelaya administration. It has been at a standstill for practically seventeen years. There might be ten times as much coffee grown as is now grown. The land is there and the labor is there. Under the law of 1894, indentured laborers could be forced to fulfil their contracts. We are told that this law no longer exists. We have a suggestion for restoring practically the law of 1894, which was favorably received and is still before the government. We believe that the coffee growing in Matagalpa would receive a death-blow if it was not possible to enforce a law relating to indentured labor. I think that Matagalpa coffee growers would accept an exchange of 1,200. We do not desire to propose a higher rate than 1,200. Roughly speaking, 33 per cent. of the present Matagalpa crop has been drawn on, and the remainder up to 90 per cent. will be drawn on during the next two months.

In regard to the monetary unit, I should prefer a low unit worth about 50 cents gold—because the transactions of the common people are in small amounts.

13.—Letter of Alberto Lopez, C.

Chinandega, 25th Dec., 1911.

Messrs. C. A. Conant and F. C. Harrison,
Managua.

The Minister of Finance, Mr. Pedro R. Cuadra, has done me the honour to ask, in your name, for my humble opinion (either in writing or expressed orally) on the financial question at present engaging your attention. I tender both to the Minister and to yourselves my best thanks for the unmerited honour shown me, and only regret not having sufficient ability to shed light on the present critical situation through which Nicaragua is passing. But as a Nicaraguan, and also because I wish not to disregard your polite invitation, I am going to state my frank and sincere opinion.

The financial problem of Nicaragua looms dark. The excessive rise of exchange during the last few months is owing to many causes, viz.: overissue of paper currency, uncertainty as to the exact amounts issued, acknowledgement by the Government of its liability in respect to large gold debts contracted by the Revolution of October, malversation of the public money, sudden increase of imports, causing disturbance of commercial equilibrium, and an urgent demand for drafts, etc., etc. One of the reasons, too, for the great fluctuation of exchange is the speculation which has taken place recently; all the gold possible is bought up at a relatively high rate in order to attract sellers, and as soon as there is a scarcity of drafts and the importers' need becomes acute, the demand exceeds the supply and, as a natural consequence, exchange rises fabulously—to our just alarm.

There are other causes besides, which I will not stop to examine. Let us cast a veil over the wounds of our country and endeavour to apply a healing balm to them.

The remedy, in my view, is to fix exchange. What is lacking (and here lies the most difficult part of the problem) is the adoption of proper measures for obtaining this result. There has been great discussion lately, through the public press and privately, over this point. Some maintain that an exchange of 1,000 would not hurt agriculture, while others say that by fixing exchange high our circulating medium could be redeemed with a smaller sum in gold. I agree with both views, but do not think that the rate of exchange can be fixed at will, inasmuch as the fluctuations are due to complex and grave causes.

A given rate might be maintained while there was sufficient gold to sell at that rate, but once the supply of gold failed, exchange would fluctuate anew. In my opinion, the evil is not in the higher or lower rate of exchange; I think that by reason of the laws of finance, and owing to the causes which have brought about the present crisis, our circulating medium must necessarily seek its rational ratio with regard to gold. This *rational ratio* will be found and will fix itself once a banking institution is established fit to control speculation, facilitating at the same time commercial operations by buying and selling drafts. The details for organizing such a bank should be the subject of your special study.

To resume, I think that the aim of the financial experts should be to establish a fixed rate of exchange, or a rate liable only to slight fluctuations.

With the expression of my distinguished consideration, I am,

Yours truly,
ALBERTO LOPEZ, C.

14.—Letter of Luciano Gomez, Former Minister of Finance.

Honorable Messrs. Charles A. Conant and
F. C. Harrison, Financial Experts of the
Republic of Nicaragua.

Managua, December 28, 1911.

Dear Sirs:

I am in receipt of your esteemed letter of the 19th inst. Having taken due note of its contents, I am pleased to reply.

In the first place, I thank you for the compliment you pay me, even though it be unmerited. I am certainly not a representative merchant nor an expert in the banking business.

The constantly changing political conditions of this country have seen me figure on various occasions in public posts.

I am bound to say, without vanity, that those were better times, for the country then throbbed with national life.

Two revolutions during the year '93, the Honduras war of '94, and the revolution of '96, which caused great expense, and other evils were not sufficient to set the country back in its finances. Owing to strict fiscal administration, it was possible to pay the debts arising from these wars and to keep current payments up to date; also to settle the question of the English loan of 1886 and pay the coupons. The Government of that time obtained the English loan on onerous terms (at 73 per cent. issue and 6 per cent interest, with repayment after thirty years) owing, no doubt, to the poor credit enjoyed at that period by the Republic.

In the year 1896, there were only half a million dollars national currency in circulation, exchangeable at sight for silver, and paper was even at a slight premium. The Diriamba branch of the railway was built, which cost a considerable sum, and still there remained a large amount of silver dollars in the Treasury.

I was then Minister of Finance, and fearing that an overissue of paper money might bring about the present deplorable state of affairs, and in the desire to avoid such a catastrophe, I sent abroad for the plates used in printing the bills with the intention of destroying them. But it was useless. The revolutionary fever had taken possession of the spirit of a greater part of the Nicaraguans, who never rested until they had brought about the present conditions.

You have come here as financial experts and you are undoubtedly such experts. Everyone has faith in your ability to find a remedy which will raise the Republic out of the slough and re-establish its credit, without which no country can be respected or esteemed.

You are well aware of the urgent need of fixing the rate of exchange with regard to gold so as to put an end to the scandalous speculation which is so much favoured by the frequent rise and fall in exchange.

My humble opinion in this matter differs, I am sorry to say, from that of other well-informed persons, but it seems to me just and right to fix exchange at the rate quoted on the day the conversion is decreed, thus not damaging nor unduly favouring the interests of either party.

I apprehend that the abrupt and total retirement from circulation of paper currency would have a disastrous effect on business owing to reasons which you, as experts, can well understand.

My suggestion is that simultaneously with the adoption of a gold standard (at a fixed rate with regard to paper money), a new tax be created, the proceeds of which would go towards the slow conversion of the paper, thus avoiding the disasters which would invariably follow the sudden and total retirement of the national currency. By doing this we should only be following in the footsteps of other Spanish-American countries which, for reasons identical to our own, have reached an equally deplorable condition.

Some people are under the impression that you have come to this country in the guise of philanthropists sorrowing for our misfortunes and desirous to remedy them, and though I cannot feel the same optimism with regard to your sentiments, still I do believe you to be educated, able and honourable men, and feel sure that whatever decision you may adopt in regard to the problems confided to your expert knowledge, you will in any case seek an equitable solution in the best interests of our dear, unfortunate country, passing over the claims of those who are not yet satisfied with the damage done.

The basis of the prosperity and smooth working of public business is peace, but it must be peace under such conditions that hard-working citizens may be enabled to enjoy the respect of authority and the protection of the laws, and not be subject to the caprice of passions which keep society in a state of constant alarm.

I shall have the pleasure of visiting you as soon as my occupations permit. For the rest, in this letter I have given an idea of my opinions such as they are without vanity.

I am, with every consideration and esteem,

Yours very truly,

LUCIANO GOMEZ.

APPENDIX F.

Operation of the Philippine Coinage System.

(Special despatch to *Financial America,* May 13, 1912.)

WASHINGTON, May 12.—A statement of the operation of the Philippine coinage system prepared by the Bureau of Insular Affairs, for Charles A. Conant, of New York, shows that the net profits derived from seigniorage on the silver coinage, the sale of drafts, and interest on deposits of the gold reserve fund, during the eight years which the system has been in operation, have reached more than $10,000,000, and amount to more than 45% of the outstanding circulation. The gold standard fund, which has been built up entirely from these profits, amounted on June 30, 1911, to $10,308,877, having increased about $620,000 during the fiscal year.

A tabulation prepared for each year shows the profits from seigniorage during the past five years alone to have been $8,294,536. To this should be added the seigniorage realized on the earlier coinage from 1904 to 1906, stated in the annual report of the latter year at $1,345,955. The receipts from the sale of drafts and telegraphic transfers during the entire period of the operation of the system have been $762,522, and the interest received on deposits of the gold standard fund in various American banks have been $1,181,790. There are three items of some importance on the other side of the account,—cost of coinage and transportation, $1,125,054; freight and insurance, $41,732, and interest on certificates of indebtedness, $726,741, but the last item is partially offset by the premiums realized on certificates of indebtedness, which amounted to $267,720. Interest on certificates of indebtedness and the cost of coinage have become negligible quantities now that the system is in full operation.

Certificates of indebtedness for one year were issued at the time of the inauguration of the system in order to obtain bullion necessary for coinage, but they were redeemed when the coinage was executed from the seigniorage profits which were available in excess of the amount required for an adequate reserve fund. All such certificates were retired by the close of the fiscal year 1908 and interest ceased early in the next fiscal year. The cost of coinage was enhanced by the necessity of the recoinage which became necessary in consequence of the rise in the price of silver buillon in 1906, but the recoinage yielded the larger part of the seigniorage profits, affording a large net gain to the gold reserve fund.

The total circulation of the Philippine Islands as reported by Senor Araneta, the Secretary of Finance and Justice, for the fiscal year 1911, was 48,155,587 pesos, representing about $24,077,000. This sum, so far as the Government obligations are concerned, is subject to the deduction of $1,695,000 in the notes of the Spanish-Filipino Bank, leaving a net circulation of Government currency of about $22,382,000. Against this sum the gold standard fund of $10,308,877 constituted a ratio of more than 46%. In consequence of this excess above reserve requirements, a law was passed by the Philippine Legislature on Dec. 8, 1911, providing that the gold standard fund should be reduced to 35% of the money in circulation, exclusive of the certificates protected by a gold reserve, and that the excess above this amount should be covered into the general Treasury of the Philippine Islands.

[THE END]