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# MODERN CURRENCY REFORMS

A HISTORY AND DISCUSSION OF RECENT  
CURRENCY REFORMS IN INDIA,  
PORTO RICO, PHILIPPINE ISLANDS,  
STRAITS SETTLEMENTS  
AND MEXICO

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PARTICULAR REFERENCE TO THE ESTABLISH-  
MENT OF A GOLD-STANDARD CURRENCY

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PART II  
THE PORTO RICAN CURRENCY REFORM OF  
1899-1900

## CHAPTER I

### CURRENCY HISTORY OF PORTO RICO PRIOR TO THE AMERICAN OCCUPATION

THE Porto Rican currency reform of 1899-1900 differs from most other currency reforms in the simplicity of its plan and in the shortness of the period in which it was carried through. The plan of reform adopted was the one which would most naturally suggest itself to the superficial observer, and the work of effecting the transition from the old currency to the new was almost entirely accomplished within a period of three months. This reform involved a great increase in the unit of value and affords the student of monetary science valuable lessons as to the economic results of large and rapid increases in the monetary unit.

In order to facilitate an understanding of the monetary problems that confronted the American Government at the time of the American occupation and of the attitude of the Porto Rican people to the different reform plans suggested, it will be advisable to summarize briefly the recent monetary history of the Island under the Spanish régime.

#### *Monetary History of Porto Rico from 1879 to the Reform of 1895*

A convenient starting place for this study is the year 1879, the year in which the Mexican peso became legally current in the Island. For some time prior to that year<sup>1</sup>

<sup>1</sup> The reader interested in the extremely varied monetary history of Porto Rico will find it summarized in a series of newspaper letters written for *El Aguila de Puerto Rico*, of Ponce, Porto Rico, in the spring of 1910 by

the principal coins of Porto Rico had been Spanish and American silver and gold coins, although there were in circulation also English sovereigns, French napoleons, and certain other foreign coins, notably from South America.<sup>1</sup> These different coins were legally current at certain established rates, the nominal unit of value being the Spanish five-peseta piece, peso or *duro* — a coin of 25 grams .900 fine, or of approximately 93.5 per cent of the silver content of an American silver dollar.

In the year 1873 slavery was by Spanish law abolished in the Island, and bonds were issued for the purpose of providing funds with which to compensate the slave owners. A French syndicate in 1879 bought the slave bonds and was granted the privilege of making payment in imported Mexican pesos. These Mexican pesos were given legal currency by a royal order of February 22, 1879. They were overvalued in circulation as compared with the other coins, and, since they could be freely imported and silver was at the time depreciating in terms of gold, they gradually drove out of circulation the Spanish and American gold and most of the other silver coins, including the Spanish peso, thus becoming the dominant currency of the Island. Although the Spanish peso continued to be the nominal unit, and the Mexican peso was legally rated as only 95 per cent of a Spanish peso, for all practical purposes the Mexican peso was the monetary unit of the country.<sup>2</sup>

Rafael López Landrón, and republished in book form in 1911 under the title *Cartas Abiertas para el Pueblo de Puerto Rico* (pp. 64-98). The letters exhibit a rather crude monetary philosophy on the part of the author, but the statements of fact, regardless of their interpretation, appear to be fairly reliable.

A good brief historical account of the Porto Rican currency is contained in a memorandum prepared in 1899 by the Civil Secretary of Porto Rico, Cayetano Coll y Toste, Jr. See Davis, Annual Report, 1899, pp. 708-709.

<sup>1</sup> A list of the gold and silver coins most current in Porto Rico in 1878, with their respective bullion contents and money values, will be found in Manuel Ubeda y Delgado, *Isla de Puerto Rico, Estudio Histórico, Geográfico y Estadístico de la Medida*, pp. 90-91.

<sup>2</sup> Cf. Landrón, pp. 69, 72-76; Robert P. Porter, Report on the Currency

As the price of silver continued to decline there was a consequent increase in the importation of Mexican pesos and a rise in foreign exchange.<sup>1</sup> The latter part of 1886, the Spanish Government, with a view to maintaining values in Porto Rico, issued a decree prohibiting the further importation of Mexican pesos. Henceforth only such Mexican pesos as bore the date of 1886 or of earlier years were legally current. This limited the supply of money, divorced the value of the monetary unit from that of silver, and transferred Porto Rico from a silver standard to a fiduciary standard similar to that prevailing in the Philippines from 1877 to 1898.<sup>2</sup>

The following chart will show in a rough way the relation of the exchange value and the bullion value of the Mexican peso for the years 1890 to 1895, reliable data for earlier years not being available.<sup>3</sup> For the convenience of the American reader exchange rates have been converted to the value of the Mexican peso in terms of United States money. A glance at the chart will show that after the beginning of 1891 the value of the peso as measured by New York exchange continually ruled substantially above its bullion value. From March 1891 to December 1895 the differentials between the dominant New York exchange rate and the maximum monthly bullion value of the peso varied from 3 per cent, in July 1891, to nearly 40 per cent, in March 1894. The differential was largest during the year and a half following the great drop in silver consequent

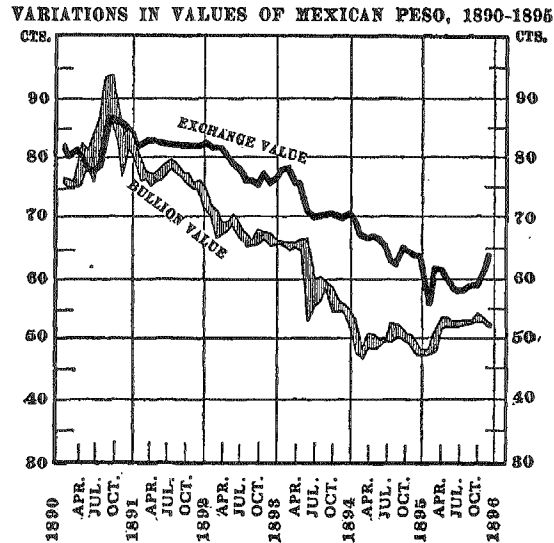
Question of Porto Rico to the Secretary of the Treasury, January 3, 1899, pp. 8-9.

<sup>1</sup> Rates in Porto Rico on New York are quoted in terms of the number of Porto Rican pesos required to buy \$100 in New York, *e.g.* 150 or 170. Often these rates are spoken of in terms of percentage premium, as for example 50 per cent or 70 per cent. Spanish exchange was quoted like New York exchange. Sterling exchange was quoted in terms of the number of pesos to the pound sterling, *e.g.* 7.70, 7.80, etc.

<sup>2</sup> Cf. *infra*, pp. 235-36.

<sup>3</sup> A table giving the figures on which this chart is based will be found in Appendix A, pp. 247-53.

on the closing of the Indian mints (June 1893) and the repeal of the Sherman Silver Purchase Act (November 1,



1893), *i.e.*, July 1893 to December 1895. During this period the exchange value of the peso tardily followed the bullion value in the direction of a lower level. For the period the oscillations of the exchanges were the reflections chiefly of the demand and supply of merchandise bills, and had little relation to the price of silver, except in so far as declines in silver made the smuggling of Mexican pesos into Porto Rico more profitable, and thereby tended to increase this illicit traffic. The situation in this regard was very similar to that existing in the Philippines in the latter days of the Spanish régime.<sup>1</sup> The law denied legal currency to Mexican pesos bearing later dates than 1886, but coins of earlier dates were smuggled into the Island, and also those of later dates, the dates having first been altered. This was often

<sup>1</sup> *Infra*, p. 248, note.

done, it is reported, with the connivance of Spanish government officials, and a more or less regular contraband trade in Mexican pesos was conducted.

The evils of a fluctuating exchange,<sup>1</sup> with a declining gold value of the peso, the well-known smuggling abuses, and the general dissatisfaction arising from the fact that the country's currency consisted chiefly of foreign coins possessing the unlimited coinage privilege in another country, and therefore largely beyond the control of the Colony or its sovereign State, gave rise to frequent complaints in Porto Rico, and to petitions for currency reform. The hope and expectation in the Colony appears to have been that the Island's monetary system would be assimilated to that of the mother country.<sup>2</sup>

#### *The Currency Reform of 1895*

In 1895 the Spanish Colonial Minister (*Ministro de Ultramar*) took the subject under advisement, and considered three different proposals: (1) the introduction of a gold standard with gold coins in circulation; (2) the introduction of the Spanish monetary system with Spanish silver coins; and (3) the creation of a distinctive Porto Rican coinage, the unit to be a peso of the same weight and fineness as the Spanish five-peseta piece, but to bear a distinctive Porto Rican stamp. It is not necessary to enter into the details of the arguments advanced for and

<sup>1</sup> "In February, 1895, exchange rose suddenly and fully 30 per cent within a few days, owing to the smuggling of P 600,000 Mexican silver; [the symbol "P" will be used throughout this paper to signify pesos in contrast to "\$" signifying U.S. dollars] but it dropped down almost as fast when the momentary requirement of drafts was covered." Henry K. Carroll, Special Commissioner of the United States to Porto Rico: Report on the Island of Porto Rico, etc., p. 478.

<sup>2</sup> As early as 1864 a law was actually published fixing as the monetary unit the Spanish escudo, and providing other coins of gold, silver, and copper for the provinces of Ultramar, including Porto Rico; but the law was never put into operation in the Island. Cf. Landrón, pp. 70-71.

against these plans.<sup>1</sup> Suffice it to say that the plan of a gold standard with gold coins, while looked upon as an ultimate ideal, was thought to be out of the question at that time because: (a) it would be altogether too expensive, and it was unreasonable to expect Spain to place her colony upon a strict gold standard when she could not afford such a monetary luxury for herself; and (b) gold if introduced into circulation would immediately disappear, thus denuding the Island of its currency.

The objection to the proposal to assimilate the currency of Porto Rico to that of Spain was even less convincing. It was chiefly that if Spanish money were substituted for Mexican pesos, the Spanish money would be drawn out of the Island and exported to Spain in settlement directly of trade balances due Spain, and, through Spain, indirectly, of balances due other countries. This would cause a rarefication of the Porto Rican currency and would result in serious financial disturbances and disaster.<sup>2</sup> The fallacy of this naïve reasoning is obvious. Clearly the very rarefication, which the Minister feared, would have so tightened the Porto Rican money market as to protect the insular currency supply against depletion, and even to draw more money from Spain when it was urgently needed in the Island. A country like Porto Rico, moreover, having only about 6,000,000 pesos of metallic money in circulation, could not have pumped a disturbing amount of money into the Spanish circulation at home; nor could it have

<sup>1</sup> For a detailed discussion of this subject see: *Canje de la Moneda en Puerto Rico. Discursos pronunciados por el Excmo. Sr. D. Tomás Castellano, Ministro de Ultramar, en las sesiones del Congreso de las días 6 y 8 Agosto de 1896 y en la del Sendaio del 11 del mismo mes y año, pp. 20-22.*

<sup>2</sup> Later, as a proof that this would have taken place, the fact (p. 164) was cited that the Spanish copper coins, of which 70,000 pesos had been introduced in 1895, and which as fractions of the Mexican peso were undervalued as compared with their values as fractional coins in Spain, had tended to flow back to Spain and would all have flowed back had they not had holes bored in them to prevent their exportation.

received an undue amount from Spain in any year without its promptly "overflowing the channels of circulation" and finding its way back to the home land.

*A Distinctive Porto Rican Coinage Introduced.* This objection, however, appeared conclusive to the Spanish authorities, and as a result the third plan, namely that of a distinctive Porto Rican coinage, was adopted. The action was taken in Spain without discussion in Porto Rico, and the money was coined and arrangements made for putting it into circulation before the fact became known to the Porto Ricans<sup>1</sup> (except in so far as there had been official "leaks"). The plan was inaugurated with secrecy and dispatch in order to prevent the further smuggling into Porto Rico of Mexican currency, which otherwise would have occurred with the object of taking advantage of the "favorable rate" at which the *canje* (exchange) was to be effected.

The three cardinal features of the plan, as contemplated by the Spanish authorities, were described by the Colonial Minister. They were:<sup>2</sup> (1) Both silver and gold should be legally current in Porto Rico, and preference should be given to gold, which should be legally rated at a premium over silver approximately equal to the commercial premium prevailing in Spain, *i.e.*, about 13½ per cent. "This rating," said the Minister, "is recommended, not because I would pretend to subject the foreign exchanges to such a premium, but rather to give greater facility and encouragement to the introduction of gold coins into the circulation of the Island, in the future when the economic conditions have improved." (2) The unit of value was to be a peso of the same qualities as the Spanish duro, with the same fineness and the same design, the chief modification being that the legend "Isla de Puerto Rico" was placed on the front side to indicate that its circulation would be limited to Porto Rico. This coin contained approximately

<sup>1</sup> Castellano, p. 41.

<sup>2</sup> *Ibid.*, p. 25.

8 per cent less fine silver than the Mexican peso.<sup>1</sup> (3) To afford encouragement to those whose hopes could not at the moment be realized, "but the realization of which it was none the less possible to contemplate for the future, namely, to those who hoped that a time might arrive when the silver money of Porto Rico would circulate in Spain, and likewise that of Spain in Porto Rico," there were to be inscribed at the bottom of the new pesos the words "Un peso, igual 5 pesetas."

The transition to the new basis was effected during the latter part of 1895 and the forepart of 1896 by royal orders of December 5 and January 27. The rate of exchange was the long-established legal, though purely nominal rate, for Mexican pesos in terms of Spanish duros, of 95 centavos to the peso — a rate representing an overvaluation of the new coin, on the basis of bullion content, of 12½ per cent. Pending the arrival of the new money, which was coined in Spain out of silver obtained through a temporary advance from the Bank of Spain,<sup>2</sup> temporary certificates (*billetes de canje*) were employed in making the exchange. These certificates, which had been prepared in Spain under a decree of August 16, were issued during a brief period of 21 days in some 42 convenient places in the Island in exchange for the Mexican pesos.<sup>3</sup> They had coupons attached and each certificate and coupon bore the same number. As many of the certificates were given out as Mexican pesos were offered, the

<sup>1</sup> The size of the Spanish duro, or five-peseta piece, under the Latin Union agreement, was the same as that of the French five-franc piece, *i.e.* 25 grams .900 fine. This gave the new Porto Rican peso a fine silver content of 347.2 grains or about .9352 of that of an American silver dollar, and .921 of that of the full weight Mexican silver peso for which it was to be a substitute.

The Porto Rican fractional silver coins of 40-cents, 20-cents, 10-cents, and 5-cents were of proportionate weights with the peso, but their fineness was .835 instead of .900. Cf. Federico G. Paton: *La Fabricación de las Monedas*, Table 6.

<sup>2</sup> Cf. Castellano, pp. 41-45; Landrón, pp. 78-79; Carroll, p. 450; and Davis, *Ann. Rep.*, 1900, p. 172.

<sup>3</sup> Castellano, p. 40.

coupons being retained by the exchange officer.<sup>1</sup> When the new Porto Rican pesos arrived the certificates were redeemed on presentation. The exchange of the new pesos for the certificates was effected in the surprisingly short period of eight days.

There had been much uncertainty as to the amount of metallic money in circulation on the Island. Estimates varied widely, some being several times as large as others. The estimate accepted by the Spanish authorities proved to be excessive. There were coined in 1895 and the forepart of 1896 at the Madrid and Sevilla mints for Porto Rico the following silver coins:<sup>2</sup>

Peso pieces . . . . .	P 8,500,021
40 ¢ " . . . . .	290,000.80
20 ¢ " . . . . .	670,001.20
10 ¢ " . . . . .	70,000.60
5 ¢ " . . . . .	30,000.30
Total . . . . .	P 9,560,023.90

Of this sum only P 6,426,395 were used. The balance were returned to Spain during the years 1896-97.<sup>3</sup> Furthermore, it was estimated that at the time of the American occupation about P 600,000 were taken back to Spain by Spanish soldiers. This would have left a silver circulation in Porto Rico of P 5,826,395, of which approximately P 1,000,000 consisted of fractional coins.<sup>4</sup>

Although the expenses of the *canje* were very large,<sup>5</sup> the difference between the bullion value of the new coins and that of the old ones provided a sufficient margin to give a net profit on the entire transaction of P 480,000 gold. This was sent to Porto Rico in the form of 5-peso gold

<sup>1</sup> Carroll, p. 450.  
<sup>2</sup> Paton, La Fabricación de las Monedas, Table 6.  
<sup>3</sup> Davis, Ann. Rep., 1900, p. 172; and Ann. Rep., 1899, p. 505.  
<sup>4</sup> Few if any of the fractional silver coins minted for Porto Rico in 1895 and 1896 appear to have been taken out of the Island.  
<sup>5</sup> Cf. Cayetano Coll y Toste Jr., in Davis, Ann. Rep., 1899, pp. 708-709.

pieces<sup>1</sup> legally rated to circulate at 1.20 to the peso.<sup>2</sup> Of this sum P 410,916 were exported to Spain in the forepart of 1898 as a contribution to the building of a Spanish cruiser to be named "Puerto Rico," which as a matter of fact was never built, leaving a balance of only P 69,084, which was kept in the Island.<sup>3</sup> While this sum of gold appears in most of the estimates of the Porto Rican circulation for 1898, it was in no proper sense of the word part of the circulating medium. It was rated in the market at a high premium, and held largely in hoards and as souvenirs. Occasionally money changers sold small quantities to persons returning to Spain or France.<sup>4</sup>

One other item in the metallic money of Porto Rico that deserves passing mention is the Spanish copper coin. Seventy thousand pesos of these Spanish copper coins were sent to Porto Rico in 1895. Being similar fractions of a less valuable monetary unit in Porto Rico than in Spain, they began to flow back to the home land under the force of Gresham's law. From 20,000 to 25,000 pesos of this copper coin was remitted by merchants to Spain, according to the Subgovernor of the Spanish Bank of Porto Rico,<sup>5</sup> before the authorities became aware of the fact that the coins were being exported. To avoid the further depletion of the country's copper currency the remaining copper coins were punched, and were thereby deprived of the privilege of legal circulation in Spain.

Summarizing, then, we may say that at the time of the American occupation the metallic circulation of Porto Rico in round numbers was approximately as follows:

<sup>1</sup> Cf. Castellano, pp. 45-47; and Landrón, pp. 77-80.

<sup>2</sup> Castellano, p. 51.

<sup>3</sup> This appears to have been distributed in the form of civil and military pensions or gratuities to old government employees in Porto Rico. Landrón, p. 79.

<sup>4</sup> Cf. Carroll, p. 498, also p. 456.

<sup>5</sup> *Ibid.*, p. 476, and Davis, Ann. Rep., 1900, p. 172.

(1)	Porto Rican silver pesos . . . . .	P 4,800,000
(2)	Fractional silver coins of the denominations 40 ¢, 20 ¢, 10 ¢, and 5 ¢ . . . . .	P 1,000,000
(3)	Copper coins 2 ¢ and 1 ¢, say . . . . .	P 50,000
	Total . . . . .	P 5,850,000
(4)	Gold coins, only nominally in circulation . . . . .	69,000
		P 5,919,000

*Bank Notes.* In addition to the above coins there were in circulation the bank notes of the Spanish Bank of Porto Rico.<sup>1</sup> A decree of May 5, 1888 had conferred upon this bank the exclusive privilege of bank-note issue in Porto Rico for a period of twenty-five years. The issue was not to exceed three times the amount of the bank's paid-up capital. This capital was P 900,000 but could be increased to P 1,200,000. Prior to the American occupation the circulation is said to have exceeded P 2,500,000, but Commissioner Carroll in his preliminary report of December 1898 estimated the amount then outstanding at P 1,500,000.<sup>2</sup> These notes were not legal tender, but were received by the Government and normally circulated freely in the large towns. The bank was required by law to

"have constantly on hand, in current gold or silver coin, or in bars of said metals, at least the third part of the amount of the notes in circulation, and the other two thirds in securities of preferred guaranty, sure collection, and for a period not exceeding one hundred and twenty days."<sup>3</sup>

The notes were payable on demand at the place of issue.<sup>4</sup>

<sup>1</sup> A history of this bank, and translations of important documents relating to it, will be found in Senate Miscellaneous Documents, 56th Congress, 1st Session, XII, No. 197.

<sup>2</sup> Carroll, p. 450.

<sup>3</sup> Sen. Miscel. Doc., 56th Cong., 1st Sess., XII, No. 197, p. 6.

<sup>4</sup> A form of quasi paper money having a limited circulation in one city is described by Mr. T. G. J. Weymouth, a banker of Porto Rico (Carroll, p. 454): "In Ponce they use a considerable amount of paper money of the Caja de Ahorros (savings bank). They are not exactly notes; they are in the nature of bills payable at a certain date, with coupons paying interest, but they are received the same as notes by merchants and others. They do

*How the New Currency System Worked.* Such were the constituent elements of the Porto Rican currency immediately preceding the American occupation. The unit of value, and the money that the Spaniards called *moneda regulador*, was the new Porto Rican peso. This was a fiduciary coin, as had been its predecessor, the Mexican peso, in Porto Rico. It differed from the Mexican peso chiefly in the fact that it did not circulate outside of Porto Rico, and therefore could not be smuggled into the Island. Its supply was controlled by the Spanish authorities, and was so limited that it circulated at a gold value far above its value as bullion. Although containing nearly 8 per cent less silver than the Mexican peso it tended to circulate at a higher gold value than would the Mexican peso because: (1) by the exchange of Mexican currency for the new currency at 95 the metallic money in circulation was reduced by about 5 per cent; and (2) both the practice and the fear of illicit importations of money were eliminated.

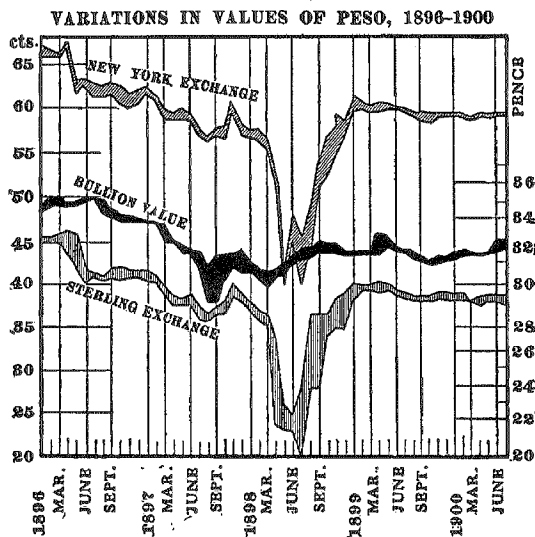
The immediate effect of the substitution appears to have been an advance in the gold value of the peso,<sup>1</sup> and a great increase in the differential between bullion value and money value. For the year 1895 the average monthly differential between the bullion value of the peso (high) and the prevailing gold exchange value was 7.7 cents, while for 1896 the average monthly differential for the new peso between the bullion value (high) and the gold exchange value (low) was 13.7 cents. Here was a case where the exchange value of an inconvertible fiduciary coin rose appreciably in spite of the fact that the silver content was decreased by about 8 per cent. The supply of money in circulation was reduced, and confidence in the money was increased. This is another illustration of Ricardo's dictum, "no depreciation except from excess." A reduction in the bullion value of an inconvertible fiduciary coin reduces the money value only

not circulate in other parts of the Island, however, and are unknown except in Ponce."

<sup>1</sup> Cf. chart, opposite.

when it results in an increase in the monetary supply, or a decrease in the demand (which results often from a decline in public confidence). In this instance the opposite took place, the monetary supply was reduced, and confidence in the money was strengthened. Its value accordingly rose.

The monthly movements in the exchange and bullion values of the Porto Rican peso for the next four and a half years are shown graphically on the following chart.<sup>1</sup>



A glance at the chart will show that the gold exchange value of the peso fluctuated, from January 1896 to March

<sup>1</sup> Curves represent high and low monthly rates. Those for New York exchange and for bullion value are measured from the schedule on the left, while that for sterling exchange is entirely separate and is measured from the schedule on the right. The rates plotted are the United States currency and sterling equivalents of the quoted rates. They are based upon actual business figures compiled for the writer through the courtesy of the American Colonial Bank of San Juan. Figures for bullion value are computed from the monthly quotations for the London price of standard silver issued by Pixley & Abell of London. The figures upon which the chart is based will be found in Appendix B, pp. 237-38.

1898, with a general downward tendency,<sup>1</sup> but at a level far above the bullion value of the peso. The normal differential was in the neighborhood of 13 to 16 cents, while the average differential between bullion value (high) and gold exchange value (low) for the twenty-seven months was 13.9 cents. Although the new currency was an improvement on the old in that its supply was completely under the control of the authorities, and that it was not an object of illicit trade, it was not much more stable in its gold value than the Mexican peso had been in Porto Rico during the last two years of its history there, and it was a very unsatisfactory money from the standpoint of foreign trade. Aside from the uncertainties arising from the frequent and often substantial oscillations in exchange — an evil particularly serious in a country like Porto Rico which exports such a large proportion of what it produces, and imports so much of what it consumes<sup>2</sup> — there was the handicap of monetary isolation. Porto Rico was a country with less than a million people, and with a total metallic circulation of less than six million pesos. None the less it had a distinctive currency of its own, and that currency was neither on a gold standard, a silver standard, nor the fiduciary standard of the Spanish home land;<sup>3</sup> and there was no satisfactory medium for

<sup>1</sup> A partial explanation of the downward tendency in the gold value of the peso was the uneasiness in business caused by the trouble in Cuba, and the consequent withdrawal of capital from Porto Rico. Another cause was the currency inflation resulting from the large bank-note issue of the Spanish Bank of Porto Rico, which is said to have reached as high a figure as P 2,580,000 or a sum nearly half as large as the total metallic circulation of the Island. Cf. Carroll, p. 479.

<sup>2</sup> "Porto Rico has been an exceptional country with regard to its experiences of exchange. It is hardly possible to name any other land where oscillations so great and sudden have almost prevented foresight and calculations to such an extent that operations in exchange have resembled gambling rather than banking transactions." Carlos M. Soler, Sub-governor of the Spanish Bank of Porto Rico, in Carroll, p. 472.

<sup>3</sup> Spain would not accept Porto Rican money at par in settlement of Spanish trade balances, and exchange rates on Spain fluctuated widely. On October 26, 1898, for example, Spanish exchange was at a premium of 10 per

settling foreign trade balances. Porto Rican pesos could not be exported, and foreign coins could not be imported for circulation in Porto Rico. While there appears to have been some adjustment through the flow back and forth of small quantities of Spanish and French gold coins which had a ready market in Porto Rico as a sort of merchandise, the burden of adjusting international trade settlements fell heavily upon long foreign credits,<sup>1</sup> and upon wide fluctuations in exchange rates.<sup>2</sup>

*Spanish American War.* With the outbreak of the Spanish American War, business in Porto Rico became demoralized, foreign trade was practically stopped, and there was a great clamor on the part of foreign merchants, especially Spaniards, for means to get their capital out of Porto Rico. The demand for exchange became extremely heavy and rates soared to unprecedented heights, representing a depreciation in the gold value of the Porto Rican peso, as shown by the large dip in the chart, from 57 cents in March to 40 cents in May and July. The rate representing the lowest sterling value (namely 20 pence) was reached in July, the force under General Miles having landed July 25. When the American flag was raised over San Juan October 18, exchange had pretty well

cent and a fortnight before was at a premium of 16 per cent. Cf. Carroll, p. 457.

<sup>1</sup> Mr. William R. Corwine, who was sent to Porto Rico in 1899 by the Merchants Association of New York to report on commercial conditions in that Island, reported that English merchants generally gave credit for nine months on shipments to Porto Rico, Spanish and German merchants for six to nine months; while American merchants as a rule demanded cash or cash terms. Report on Porto Rico to the Merchants Association of New York. New York, June 5, 1899.

<sup>2</sup> Obviously an abnormally high rate of exchange (expressed in terms of pesos) favored exporters and handicapped importers, thus tending to stimulate exports and depress imports; while an abnormally low rate favored importers and handicapped exporters, thus tending to stimulate imports and depress exports. Either the high rate or the low rate, if pronounced and long continued, would tend to force the trade balance in the opposite direction. Long credit periods allowed time for different seasonal tendencies to compensate each other.

recovered, although rates were still rather nominal. By January 1899 it had entirely recovered, and the gold exchange value of the peso then attained a level slightly higher than it had had for some time prior to the War. From that time forward Porto Rican exchange was fairly constant at this level.

The depreciation of the Porto Rican peso in the spring and summer of 1898 as measured by exchange rates was great, reaching in two months as much as 30 per cent. The reader should be on his guard, however, not to over-estimate the importance of this decline. It was but temporary, and the amount of business done at these abnormal rates was small. The Subgovernor of the Spanish Bank of Porto Rico characterized the rates prevailing from April to September 1898 as "merely nominal and at the same time capricious and arbitrary."<sup>1</sup>

<sup>1</sup> Carroll, p. 473.