

## THE BOURGEOISIE'S RISE TO POWER

### **Diversification of Economic Activity**

Peru was by no means an integrated economic region in the nineteenth century. On the contrary, various economic regions need to be differentiated. Although these were interconnected in one way or another, their impetus did not result from these connections but rather from internal factors and trade relations abroad, and their economic cycles were, consequently, independent of each other to a great extent. There was therefore as little uniform economic development in nineteenth-century Peru as there was continually increasing economic integration.<sup>1</sup>

The axis that had existed between Lima, the administrative center; Huancavelica in the central Andes, where the mercury mines were located; and Potosí in the southern Andes, where the silver mines were had linked and structured the different regions during the colonial period but broke down completely after Peru's independence. This was not only due to the emergence of two independent nation states but also to the dwindling of the mining industry in these centers, a process that had already begun in the late eighteenth century.<sup>2</sup> The wars of independence and the internal struggles that ensued consequently precipitated the country's economic decline.

Economic revival following independence varied from region to region. In the central Andes, the silver mines in Cerro de Pasco assumed a key role, one that had previously been played by the mercury mines in Huancavelica

further to the south. After a nadir lasting from 1814 to 1828, silver mining expanded greatly over the next fifteen years, and silver extraction in Cerro de Pasco reached its zenith in the early 1840s. The mining industry's demand for labor materials, food, animals, and workers stimulated the central Andean economy. At the same time, it created capital that enabled cattle breeders, impoverished by the wars of independence, to build up new livestock, which then provided an independent source of income when silver mining faced a crisis—primarily because of decreasing prices on the world market and a lack of technological innovation—in the latter half of the nineteenth century.<sup>3</sup>

The southern Andes (Cuzco, Ayacucho, Puno, and Arequipa) scarcely profited at all from the mining boom in Cerro de Pasco, and wool export became the main economic activity in the region. Arequipa, where the trading houses (of which the majority was foreign) were situated, was the center of the wool export trade. These firms bought the wool and then shipped it to Europe from the small ports at Islay and Mollendo. Trade in wool increased greatly from the mid-1830s on. While trade in alpaca wool grew fairly steadily until the end of the nineteenth century, the sheep wool trade collapsed in the mid-1840s, before recovering in the following decade. The income gained from these exports nevertheless ceased to grow in the second half of the nineteenth century due to sinking prices on the world market.<sup>4</sup>

From the 1840s, the economy of the central and northern coastal regions also experienced a boom that was sparked by the export of guano. Guano is the waste of seabirds and is rich in phosphorous and nitrogen. It was used as a fertilizer, particularly in England, where agricultural yields needed to be increased to provide for continually growing urban centers. Peru had an almost perfect monopoly of this fertilizer on the world market and was therefore able to continue increasing its exports right up into the 1870s.<sup>5</sup> The guano was to be found on small islands not far from the coast, and neither special technology nor any large investment in materials or infrastructure was necessary for its extraction. The guano merely had to be shoveled into sacks and brought to waiting ships. Even workers did not generate great expense as extraction and transport could be carried out by a relatively small group of people, mainly consisting of Chinese indentured laborers. "Guano was a monopoly without production costs."<sup>6</sup>

Because guano was situated on barren islands that were uninhabited, it was the property of the state, which had stumbled upon an immense source of income that was soon to overshadow other forms of revenue.<sup>7</sup> To export the guano, the government signed contracts with a number of private firms. Based on the type of contract made, the parties to the contract, and the quantities exported, the age of guano can be divided into four stages. In the

earliest phase (1841–1848), a variety of trade houses exported relatively little guano. In the second phase (1849–1861), the firm Gibbs gained a monopoly over the most important market at that time, which was England, and exports rose considerably. In the third phase (1862–1869), a consortium of Peruvian businessmen controlled the guano export, which was then transferred back to foreign trading houses in the fourth phase (1869–1879), before collapsing when the War of the Pacific broke out.<sup>8</sup>

The riches amassed from the guano trade in the mid-nineteenth century were instrumental in the development of a ruling class, which profited in a variety of ways from the new source of income. This elite was directly involved in guano export itself but, in addition, the state transferred part of the profits gained from the guano trade to the emerging bourgeoisie. In the early phase, Peruvian traders organized the guano export. In 1840, a Peruvian named Francisco Quiroz leased the Chincha islands and began to ship guano to England. However, the profits he made were so remarkable that the Peruvian government revoked the leasing contract. It then formed a company together with Quiroz and a Frenchman, Allier, and demanded two-thirds of the net profits.<sup>9</sup> It was not long before more companies trading in guano appeared on the scene. Successive Peruvian governments preferred foreign traders, because, in contrast to Peruvian trading houses, they were in possession of sufficient capital to pay a part of the expected profits to the government in advance. In 1847 therefore the government signed a contract with the English Gibbs and French Montané trading houses. In return for credit amounting to 850,000 pesos, the firms were licensed to export 100,000 tons of guano on the government's behalf. The government was then to repay the credit with the profits from the export.<sup>10</sup> This contract was the decisive step toward the consignment system, which remained predominant until the War of the Pacific. According to this system, the Peruvian state remained owner of the goods until they were sold in the destination country, while the other party to the contract was merely an agent who shipped and sold them. For their trouble, the trading firms were reimbursed expenses and were paid a commission. Part of the consignment agreements were loans given to the government by the private parties to the contract. In its turn, the state promised to pay the loaned sums together with the corresponding interest with revenue obtained from the guano export provided for in the contract. This system initially excluded domestic trading houses from the more important transactions because no Peruvians had sufficient capital at their disposal for such large loans.

The first attempt by Peruvian traders to export guano in significant quantities failed in 1851. Felipe and Federico Barrera, Julián de Zaracondegui, and Nicolás Rodrigo founded the Sociedad Consignataria de

Guano, which was to export guano to North America, France, Spain, Brazil, the Antilles, and China, but they were unable to raise the necessary capital. They therefore withdrew from the (already signed) consignment contract and confined their export activities to the United States. In the 1850s, however, Peruvian trading houses succeeded in breaking into the consignment business. José Sevilla obtained the consignment for Asia in 1853 and Medina acquired one for Costa Rica in 1855. In 1856, the consignment for North America was again awarded to a group of Peruvians consisting of the Zaraqondegui, Ugarte, and Oyague trading houses. In 1859, Zaraqondegui obtained the consignment for Spain, Cuba, and Puerto Rico, and Valdeavellano received one for Guatemala.<sup>11</sup>

The most important guano trader in the 1850s was nevertheless Gibbs, an English firm, because it ran the consignment business—initially together with Montané and consequently alone—for Great Britain and virtually the whole of continental Europe. The breathtaking rise in guano exports was closely linked to this trading house, with a huge increase in exports occurring after large consignment contracts were signed with Gibbs in 1847 and 1850.<sup>12</sup> Apart from the consignees, the Peruvian state gained primarily by this increase because—with the exception of the early 1840s—it was the recipient of approximately two-thirds of the profits. While guano revenues made up less than 10 percent of the national budget in 1846, fifteen years later they amounted to almost 80 percent.<sup>13</sup>

From the 1850s, guano revenues allowed the government to practice a generous fiscal policy. The consolidation of the internal debt and compensation claims made in connection with the abolition of slavery were initially of primary significance for the rise of the bourgeoisie. Internal debts were those obligations into which the state had entered in the wars of independence and the postindependence civil wars through forced loans and confiscations, as well as the salaries of state employees (which had sometimes not been paid for years) and the usual loans that had been taken out with private trading houses. The state's permanent financial crisis in the first two decades of independence had made it impossible to repay these debts. At the end of the 1840s, however, guano revenues enabled the state to begin tackling the internal debt.<sup>14</sup> Three laws, passed between 1847 and 1850, established the consolidation procedure and stipulated that the same interest-bearing public debt issues be given out for all claims. Although it was initially estimated that these would amount to not more than 10 million pesos in total, the sum of the debt issues, which continued to be handed out until 1853, in fact, came to 24 million pesos.<sup>15</sup> The enormous rise in state debts mainly arose from the recognition of unfounded claims, which were lodged with fraudu-

lent papers or without any documentation at all. Only the guano revenues could have made such generosity on the part of the state possible.

Despite the security offered by the guano, the real value of the new debt issues at the beginning of the 1850s was only between 25 and 50 percent of their nominal value. The reason for this low value was their frequently dubious origin, which made their settlement doubtful. Each change in government could mean that particular debt issues were no longer recognized. Echenique's government therefore decided in 1852 to transform a number of domestic debt issues into foreign ones, thus forcing subsequent governments to recognize these converted issues. In 1852 and 1853, both foreign and a number of Peruvian trading houses purchased bonds at 25–32 percent of their nominal value, only to exchange them for bonds at their full nominal value which had to be discharged in Europe by the guano sold there.<sup>16</sup> Trading in domestic debt issues was, however, also a profitable business. These were sold at the end of the 1840s for 10 percent of their nominal value, then increased in value, and thereafter fell back to just under 30 percent of their nominal value with the change in government in 1854. However, when the new government decided to recognize the debt issues that the preceding government had given out, their market value increased from 50 to 90 percent of their nominal worth in the mid-1860s. Traders who had acquired their debt issues in the 1840s made an enormous profit as they could now either sell them on the market or redeem them from the guano-rich state.

It was therefore chiefly a small group of traders willing to speculate in debt issues that profited from the consolidation of the internal debt. At the beginning of the 1850s, the 126 largest creditors possessed two-thirds of the debt issues, a group of 402 creditors 21.8 percent, and the 1,500 least significant creditors were left with only 11.9 percent. The most important group of creditors was the traders. They already owned 38 percent of the debt issues in 1852 and 50 percent by 1857. On the other hand, the landowners, who had suffered the greatest losses in the wars of independence, possessed 29 percent of the debt issues in 1852 and by 1857 only owned 14 percent.<sup>17</sup> The already existing trading houses gained most from the consolidation of the internal debt because they were able to make enormous profits by speculating with public debt issues. Even if the consolidation of the internal debt did not create any Peruvian capitalists, it did allow domestic trading houses that were still too small to participate in the guano trade the opportunity to profit from the guano boom.<sup>18</sup>

The compensation payments made in the wake of the emancipation of slaves were a further mechanism by which the state was able to divide a gen-

erous amount of money between an astonishingly small group of traders and landowners. Ramón Castilla decreed the emancipation of slaves in December 1854. Slaveholders received 300 pesos compensation for each slave, whatever their age or sex—a sum that was much the same as the market price in Lima at the time.<sup>19</sup> As with the consolidation of the internal debt, the state money transfers were primarily financed by public debt issues; only slaveholders who had owned one or two slaves were paid their compensation in ready money. Those who had owned more than two slaves received a quarter of their compensation in cash and the other three-quarters in interest-bearing promissory notes. From a total of approximately 8 million pesos in compensation payments, 2.75 million pesos were settled in cash.

Fraud also took place on a grand scale in connection with these compensation payments. While the approximately 2,000 compensated slaveholders can be assumed to have owned around 17,000 slaves altogether, they were awarded restitution for more than 25,000. A third of the compensation payments therefore represented a net transfer by the state to former slaveowners who did not correspond to any losses or costs they had incurred. Aside from the slaves themselves, the people who gained most from the emancipation were those who had owned the largest number of slaves. Despite the fact that almost half of the country's slaves lived in urban areas, the wealthiest slaveowners were the landowners and monasteries on the coast, as it was only the estates that they owned that were run to a large extent by slave labor. If the owners of the coastal haciendas were the principal beneficiaries of the generous compensation provisions, the large trading houses in Lima also profited because almost all the coastal landowners owed them large amounts of money. The compensation payments therefore helped both the coastal agriculture to settle its debts and Lima's traders to recover their loans. Only two years after they were issued, it was the trading houses and no longer the landowners who owned the majority of the debt issues.<sup>20</sup>

The consolidation of the internal debt and compensation payments in conjunction with the emancipation of slaves represented an important transfer of money to individuals by the state, which had become rich through the guano. Lima's trading houses mainly profited from these payments, and they therefore helped strengthen the nascent banking and mercantile bourgeoisie. Although the state transfers were not initially the chief source of capital acquisition for the new bourgeoisie, they increased its capital and eventually enabled Peruvian trading houses to become major guano consignees.<sup>21</sup>

After a number of Peruvian trading houses had obtained the guano consignments for smaller markets in the second half of the 1850s, a campaign was started in the late 1850s that aimed at transferring the lucrative trade

with England to Peruvian consignees rather than extending the contract with Gibbs, which was soon to expire.<sup>22</sup> This campaign benefited from a law that had been passed in 1849 and confirmed in 1860, according to which the state had to give Peruvian companies preference in all transactions with private firms.<sup>23</sup> The success of this campaign reflected the Peruvian bourgeoisie's increased economic and political clout. The British consul, Jerningham, complained "I have discovered that the president was willing to extend the guano contract with this firm (Gibbs) [sic]. However, when he was told there would be a revolution if he did not give the contract to a national firm, he became frightened and changed his mind."<sup>24</sup>

The government's new partners in the guano trade with England were Julián Zacondegui, Juan de Ugarte, José Vicente Oyague, and José Canevaro. All were Peruvian, and all had already been active in the guano business on a smaller scale. Beginning in 1862, they were now supposed to export guano to England. As in 1851, this attempt by Peruvian traders to conquer the most important market failed. In 1861, they terminated the contract because they were dissatisfied with some small changes the government had made to it.<sup>25</sup> In contrast to the similar occasion in the 1850s, a second group of Peruvian traders was ready and waiting to deliver to the English market. In 1862, Clemente Ortiz de Villate, Felipe Santiago Gordillo, José F. Canevaro, Manuel Pardo, Carlos Delgado Moreno, and Felipe Barreda obtained the consignment contract for England. To raise the necessary capital—the first loan to the Peruvian state was in itself a million pesos—the *Compañía Nacional de Consignación de Guano en Inglaterra* was formed, which issued two million pesos' worth of shares.<sup>26</sup> In the same year, the group that had withdrawn from the English contract obtained the consignment for Spain after the Peruvian traders protested against an agreement that had already been signed with European trading houses.<sup>27</sup> The period from 1860 to 1862 was a time of transition in which Peruvians became dominant in the guano trade and foreign trading houses took on the secondary role with which the Peruvians had hitherto had to content themselves. By now, the Peruvian firms had such large capital resources that in the 1860s, various Peruvian consortia began to compete with one another for the guano consignments.<sup>28</sup>

The Peruvians' predominance in the guano trade did not last long. In 1869, the government signed a contract with Dreyfus, a French trading house, transferring the monopoly for guano sales in Europe and its colonies (with the exception of Cuba and Puerto Rico) to the firm. In his turn, Dreyfus committed himself to purchasing two million tons of guano after the expiration of the consignment agreements, some of which were valid until the end of 1872. He also loaned the government more than two mil-

lion soles<sup>29</sup> and guaranteed monthly payments of 700,000 soles between August 1869 and March 1871, as well as security for annual debt payments of five million soles. Dreyfus's financial advances were subject to interest and were to be settled with the price paid for the two million tons of guano, which totaled 73 million soles. The consignment system that had begun with the contract with Gibbs now ended as the first part of the Dreyfus Contract was a simple purchase agreement and the second part a credit agreement.<sup>30</sup> Financial considerations initially spoke in favor of the contract because it was able to rescue the dire public finances with one stroke. Political considerations would, nevertheless, also certainly have played a role because the government no longer depended on negotiations with the new Peruvian ruling class to settle budgetary issues and could shape its domestic policy more freely.

The loss of the guano business hit the large Peruvian trading houses hard, and they used all the means at their disposal to rescind the Dreyfus Contract.<sup>31</sup> To begin with, they improved their offers so that the proposed consignment contracts surpassed even Dreyfus's favorable conditions. When the government did not succumb to this temptation, the Peruvian traders took the case to the country's Supreme Court. They cited the laws of 1849 and 1860, which had laid down that Peruvian firms must be favored over foreign companies in business agreements made with the state. The Supreme Court found for the plaintiffs and ordered the government to re-advertise bids for the guano sales contract. Even before the court decision had been made, three of the five members of the cabinet had tendered their resignations because of the affair. Only the president's brother and Minister of War, Juan Francisco Balta, and the Finance Minister, Nicolás de Piérola, who had negotiated the Dreyfus Contract, remained loyal to President Balta. The legislature initially declared itself against the contract as well. The permanent commission, which represented the Congress during recess, called for the president to annul it. However, the contract had already been signed and was not revoked. The matter became an important incentive for the bourgeoisie—which had the guano to thank for its wealth—to become more involved in politics to prevent its business interests from being ignored. The Partido Civil was founded in 1871, after both chambers of Congress had approved the Dreyfus Contract in 1870.

The money the Dreyfus Contract poured into the public purse led to a veritable construction frenzy on the part of the state, further boosted by a new credit from Dreyfus of almost 60 million soles. The next credit agreement with Dreyfus followed in 1871 and provided for debt restructuring of 108 million soles and new borrowings of 75 million.<sup>32</sup> The debt redemption proved too much for Peru's finances, particularly as income from the guano

decreased sharply in the 1870s. Despite various debt restructuring programs with Dreyfus, a partial termination of the Dreyfus Contract and a new consignment contract with an English consortium, Peru had great difficulty in fulfilling its obligations to international creditors during this decade.<sup>33</sup>

The new bourgeoisie had already invested its capital in various branches of industry by this point, although it chiefly owed its existence to the guano. In the 1840s and 1850s, the banking and mercantile bourgeoisie had mainly profited from the guano boom through small-scale guano trading and the generous regulations governing debt consolidation and the emancipation of slaves. In the 1860s, the bourgeoisie was finally in a position to supply the most important guano markets itself. The profits allowed for a banking system that helped the ruling class to control the most lucrative business sectors. Thus the Dreyfus Contract did not endanger the livelihood of the Peruvian businessmen who had not put all their business eggs in one basket and who, after the loss of the guano trade, simply invested their capital in other branches.<sup>34</sup>

The banking system in Peru developed during the years in which the guano trade with Europe was primarily in Peruvian hands. In 1862, a Belgian called Francisco Watteau set up the first private Peruvian bank, *La Providencia—Sociedad Anónima General del Perú*. His initial capital of 500,000 pesos increased continually to reach 3,200,000 soles in 1871. The bank was closely associated with the guano business, with at least half of the ten-member executive board made up of guano traders.<sup>35</sup> The *Banco del Perú*, founded in 1863, was still more closely allied to the guano business. Almost all the ten founders, each of whom had raised one million pesos start-up capital, were actively involved in guano export, and indeed, five of them had founded the *Compañía Nacional de Consignación de Guano en Inglaterra* the year before.<sup>36</sup>

Apart from the Peruvian branch of the English *London, Mexico and South American Bank Limited*, which was opened in 1863, the *Banco de Crédito Hipotecario* was the third Peruvian bank to be founded. While the first two banks were an attempt to institutionalize the bloated monetary system, the mortgage bank, founded in 1866, was to channel income from the guano trade into agriculture. However, only urban land ownership and the cotton and sugar haciendas on the coast achieved a margin of profit capable of financing mortgage loans. The emancipation of slaves had helped the coastal agricultural enterprises to repay their debts and given creditors a fresh source of capital. Now, ten years later, these creditors headed the mortgage bank and facilitated the consequent boom in sugar and cotton production.<sup>37</sup>

The success of the first banks led to the founding of a series of banking

institutions. The Banco de Lima opened in 1869, and a second mortgage bank followed in 1870. Dreyfus's involvement in Peru led to the founding of the Banco Nacional del Perú in 1872, and the French guano trader provided most of the bank's capital. The large credits he granted between 1870 and 1872 increased the banking fever. Between 1871 and 1873, another bank was founded in Lima, and six were opened in other locations. Twelve years after the founding of the first private Peruvian bank, the country boasted a savings bank, two mortgage banks, and thirteen discount and issuing banks.<sup>38</sup> None of these were initially subject to any special legal requirements or state control. The lackadaisical way in which they issued bank notes in combination with the public debt quickly led to a banking crisis. By the beginning of the 1870s, most of the banks were no longer able to exchange the notes they had issued for silver money. Manuel Pardo's government could only prevent a massive bank crash by accepting the notes from the majority of banks as legal tender. Even this measure could not save the banks in the long term, and scarcely any of them survived the War of the Pacific.<sup>39</sup>

The guano boom did not only lead to a flourishing—if short-lived—banking system but also to an increase in export agriculture on the coast and expanded railroad construction. Despite the fact that sugar and cotton had been produced in Peru since colonial times, they had only played a marginal role in the first decades of independence.<sup>40</sup> The upturn in export agriculture on the coast really began in the mid-1860s. While an average of 361 tons of cotton and 1,189 tons of sugar were exported annually between 1856 and 1865, exports grew to 2,085 and 8,709 tons, respectively, between 1866 and 1870, and 4,264 and 27,380 tons, respectively, between 1871 and 1875. Although the annual volume of cotton exported sank again to 2,799 tons at the end of the 1870s, sugar exports continued to rise rapidly, to 65,261 tons.<sup>41</sup> Cotton and sugar plantations were concentrated in the fertile valleys on the coast in northern and central Peru. While cotton was mainly produced in Piura, in the extreme north, and in Ica, which lay south of Lima, sugar plantations were scattered over a large number of valleys between these two towns. The center, however, lay in the midnorth, between Chiclayo and Trujillo.<sup>42</sup>

There were a number of reasons for the upswing in export agriculture. First, the American Civil War and the high price of sugar worldwide improved the conditions necessary to find a foothold in the world market. Second, large sums of money were invested in coastal agriculture. This did not only include investment in infrastructure (canals, railroads, etc.) and machinery but also in human labor, mainly the recruitment of Chinese indentured laborers. These investments established export agriculture as an important branch of industry in Peru, demonstrating that Peruvian businesses were

able to make use of the favorable situation in the world market to develop a new branch of industry.

Sugar haciendas, in particular, were transformed within two decades into capitalist agricultural enterprises in which canals irrigated the fields and railroads brought the sugar cane to steam-powered presses. The sugar was then transported by railroad to the nearest port.<sup>43</sup> The relationship between employer and employees on the estates scarcely corresponded to the modern methods of production. The labor shortage in the coastal agricultural industry became clearer after the abolition of slavery, as insufficient numbers of rural inhabitants of the Andes or European immigrants could be found to work on the coastal haciendas. The practice of bringing over Chinese indentured laborers, initiated by the cotton producer Domingo Elías in 1849, became of increasing importance.<sup>44</sup> While only 700 Chinese laborers had come to Peru annually during the 1850s, by the end of the 1860s, there were 3,600, and by the time the practice was ended in 1874, the number had reached almost 10,000 per year.<sup>45</sup> Moreover, although these laborers had technically come to Peru of their own accord, they were really temporary slaves. The contracts, which they, as illiterates, could not read and had frequently not signed themselves, obliged them to serve eight years with the master who bought their contract in Peru. Inhumane working conditions on the coastal estates were the rule, often leading to resistance on the part of the Chinese.<sup>46</sup> Nevertheless, bringing over the Chinese laborers both solved the problem of manpower and was a lucrative business for those who organized it. The trade in the eight-year contracts for the Chinese laborers became a business in its own right, one that afforded profit margins of up to 50 percent.<sup>47</sup>

The boom in export agriculture was a consequence of a flurry of investment, which itself was a reaction to increased international demand. Such investment was possible because of the agricultural debt clearance after the emancipation of slaves; the wealth of the guano merchants, who could now invest in agriculture; and vast amounts of capital, provided by mortgage banks. The wealth amassed from the guano trade thus helped a branch of industry to its feet that would otherwise have been unable to expand to such an extent.

The guano trade was also responsible for the fast pace of railroad construction. As it turned out, however, many planned railroad lines were bad investments, and state railroad policy became one of the main reasons for the financial crisis in the 1870s, when the money invested in railroad construction did not pay off the Dreyfus credits. Plans to encourage rapid economic development by investing guano profits in major railroad projects proved to be unrealistic. The huge railroad projects begun under Balta

(1868–1872) had to be called to a halt in the mid-1870s. Only one of the larger lines (linking Mollendo, Arequipa, and Puno) could be completed.<sup>48</sup> In contrast to the state railroad, the small, private railroad lines proved profitable. As well as the routes that connected Lima to Callao, Chorrillos, and Magdalena, economically profitable lines ran from the sugar presses, cotton fields, and nitrate mines to nearby ports. For this reason, landowners often financed the lines. This railroad construction was an investment in infrastructure modernization, whose costs were generally quick to pay for themselves. Despite its limited range, this endeavor represented an important opportunity to reinvest profits from the guano, nitrate, sugar, and cotton export trades.<sup>49</sup>

The new ruling class, which had acquired its wealth during the guano boom, fulfilled an important function in the nitrate export trade, although not the leading role it had played in export agriculture. Until 1868, the state had made the nitrate fields, which lay in the far south, available free of charge, with exports not subject to any restrictions or taxes.<sup>50</sup> Nitrate extraction and export was in the hands of a large number of businessmen and entrepreneurs. These included both financially powerful international trading houses such as Gibbs, as well as numerous smaller producers, a situation that resulted in primitive nitrate extraction methods coexisting with modern techniques that used steam power. Because nitrate was also used as a fertilizer, it began to provide formidable competition for guano in the course of the 1870s. Manuel Pardo's government therefore attempted to control nitrate extraction by raising export taxes, introducing a state export monopoly—which, however, it failed to enforce—and finally, by purchasing the production sites. A contract was signed with four leading Peruvian banks to manage the expropriated nitrate mines and compensate private owners.<sup>51</sup> By 1878, nitrate production had been almost entirely expropriated by the state. The La Providencia bank became responsible for managing the entire nitrate trade, as well as for European sales on a consignment basis (to which end it founded the *Compañía Salitrera del Perú*). The nitrate business was ipso facto transferred from a group of businessmen and entrepreneurs with diverse social backgrounds and nationalities to a bank that was closely associated with both the state and the guano revenues. Lima's banks profited from the nitrate business, as they assumed an important function in its expropriation. Nevertheless, they did not play any role in the establishment or development of nitrate production itself.

By the mid-1870s, it had become obvious that the guano boom had created a new elite, which, from the 1860s, no longer limited its investment to speculation but also used its capital to establish banks in the commercial

agricultural export trade, in the construction of a railroad network, and—when the opportunity arose—in nitrate extraction. The sharp rise in sugar exports, a consequence of considerable investment, shows that the new elite was also willing to invest its capital into production, which it did with great financial acumen as long as it could be sure of reasonable profits. Investments in sugar cane haciendas were chiefly motivated by the profits they were likely to yield rather than the social prestige that would result from the ensuing land ownership. It would otherwise be impossible to explain why the new elites purchased no land whatsoever in the mountains or why they invested enormous sums in acquiring steam engines, in railroad construction, and in hiring Chinese indentured laborers. The new ruling class can justifiably be described as a banking and mercantile bourgeoisie. But because it did not invest in industrial projects—whether in textiles or foodstuffs—of any kind, it would be inappropriate to call it an industrial bourgeoisie. Moreover, this new class consisted of a small group of people who were, for the most part, acquainted with one another and whose mutual personal relations frequently determined business activities within the group. Last, work relations were not free contract relations, even on the modern sugar plantations, but were determined by noneconomic constraints and obligations. Thus, the banking and mercantile bourgeoisie that the guano export trade created wished to sever itself from the economic systems of the past but, nevertheless, still preserved a number of its attributes. The new class cannot therefore be described either as a “parasitic rentier class” or as “Schumpeter-like entrepreneurs.”<sup>52</sup>

Manuel Pardo, the founder and first leader of the Partido Civil, is a prime example of the changes that took place in economic activity during the 1860s. Pardo came from a respected but not especially wealthy family.<sup>53</sup> Although he studied in France, he earned his living in Peru through small-scale commercial transactions and as manager of a hacienda belonging to a cousin of his mother, José Antonio Lavalle.<sup>54</sup> Manuel Pardo's rise as a businessman began in 1859 when he married Mariana Barreda y Osma, whose father was one of Peru's wealthiest men. While Pardo's personal capital at the time was worth 62,000 pesos, his wife's dowry was 100,000 pesos.<sup>55</sup> To these 162,000 pesos came an additional 18,000 pesos that Manuel Pardo administered for his father, which meant that he had a total capital of 180,000 pesos at his disposal.<sup>56</sup> He managed this capital so successfully that by 1873, Pardo and his wife's combined property was worth almost 700,000 pesos (see table 1.1). This did not make Pardo one of Peru's richest men, but it meant that his economic position had significantly improved.<sup>57</sup>

At the beginning of the 1860s, Manuel Pardo's main investments were

TABLE 1.1  
An Overview of Man

Guano
Public bonds
Trade in Chinese labore
Participating interest in banks
Credits, promissory not participating interests
Participating interest in companies
Railroads
Property
Miscellaneous
<b>Total</b>
Guano
Trade in Chinese labore
Banks (account and loan
Credits, promissory not participating interests
Mariana Barreda de Par
Profits and losses
Miscellaneous
<b>Total</b>
<b>Capital</b>

<sup>1</sup>Amounts are all rounded to the nearest sol. The total is the sum of the rounded values. Conversion rate of 1 sol to 1.25 pesos. All amounts are in 1864. Breakdown of the heading "Capital" is given in FMP, "Cuaderno de Contabilidad," pp. 295–298.

in guano export, the trade in Chinese laborers, and a variety of financial enterprises. England was the most important market for the guano trade. In 1864, as a member of the *Compañía Nacional de Consignación de Guano en Inglaterra*, Pardo invested two-thirds of the money he had put into the guano trade in consignment contracts with Britain. Exports to Spain, Holland, and the United States only played a minor role in his business transactions as a whole, until he invested large amounts into trade with Spain in 1864. By the middle of 1864, the trade in guano made up more than 50 percent of Pardo's investments. In the following years, however, it became far less important. By 1868, that is, even before the Dreyfus Contract was con-

30 June 1868		28 Feb. 1870		31 Dec. 1870		Dec. 1871		1 Dec. 1873	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
...	80 000	...	80 000	...	80 000	...	65 000	...	34 000
...	168 998	...	131 229	...	57 928	...	56 235	...	46 985
...	69 318	...	101 951	...	83 412	...	110 686	...	118 109
...	43 750	...	64 694	...	67 194	...	72 500	...	117 500
...	95 800	...	77 292	...	130 526	...	136 906	...	86 090
...	30 185	...	38 393	...	38 777	...	52 277	...	64 398
...	...	...	53 125	...	177 576	...	186 742	...	167 130
...	84 146	...	109 708	...	89 175	...	98 884	...	557 127
...	731	...	12 731	...	10 190	...	97 534	...	8 438
...	572 927	...	669 121	...	734 776	...	876 854 <sup>2</sup>	...	1 199 770
...	...	...	...	...	...	...	...	...	...
...	...	...	...	5 809	...	...	...	...	...
...	...	...	...	...	...	88 574	...	320 981	...
67 522	...	40 316	...	58 791	...	49 596	...	174 995	...
104 054	...	203 309	...	203 309	...	398 941	...	398 941	...
...	...	...	...	...	...	66 309	...	18 318	...
5 831	...	...	...	...	...	...	...	13 104	...
177 408	...	243 625	...	267 907	...	603 420	...	926 336	...
395 519	...	425 496	...	466 869	...	273 434	...	273 434	...

<sup>2</sup>The arithmetical mistake was made in the original accounts. This figure should be 876,764 pesos. The sum given for Pardo's capital is 90 pesos higher than the actual amount.

cluded, Pardo only had 80,000 pesos—approximately 16 percent of his investments as a whole—invested in guano. By 1873, the trade was only of marginal significance for Pardo's business activities.

In 1863, Pardo joined forces with Carlos Delgado, José Sevilla, and José Francisco Canevaro, all of whom managed large Peruvian trading houses, to take part in the Chinese laborer trade.<sup>58</sup> The ships *Camilo Cavour*, *Perseverancia*, and *Napoleón Canevaro* were purchased in the same year and were immediately put to use transporting laborers.<sup>59</sup> In February 1864, the *Camilo Cavour* brought 562 Chinese laborers to Lima on its first crossing, and their contracts were sold for more than 17,000 pesos.<sup>60</sup> In the years that followed, Manuel Pardo continued to invest large sums of money in the trade with the

Chinese indentured laborers, and from 1870, it became more important for his business transactions than guano export. Pardo did not stop his business activities in this area until the covert slave trade came to an end, following pressure from Britain. Canevaro led the business operations from the very beginning and became Peru's most important Chinese laborer trader on the strength of the sums he, Pardo, Sevilla, and Delgado invested.<sup>61</sup> Although none of the ships used in this trade was to be found under Pardo's name, he still was to thank for a significant part of Canevaro's fortune.

Finance was the third pillar of Pardo's investment. He was one of the founders of the Banco del Perú, and had 50,000 pesos' worth of shares in the bank. Toward the end of the 1860s, he began to purchase shares in the Banco de Crédito Hipotecario. As he had also increased his share in the Banco del Perú at the beginning of the 1870s, he had 117,500 pesos in bank shares by 1873. During the same period, he reduced the number of public debt issues he owned, with the exception of railroad bonds. While he had owned state promissory notes worth almost 175,000 pesos in 1866, he had just under 50,000 pesos' worth by the end of 1873. His private lending, on the other hand, did not decline; on the contrary, it rose sharply in the early 1870s. Only when Pardo acquired the Tumán hacienda was he forced to reduce his investments and loans.

Until the mid-1860s, Pardo's investments were almost completely limited to trade and finance. At this point, however, he began to change his business strategy and began to put money into small service companies, then into railroad construction, and finally into sugar production, in which he invested on a large scale. Pardo's first interest in a service company came about through his wife, who had shares in the *Compañía de Alumbrado de Gas de Lima*. By 1871, he had bought shares in the *Compañía de Navegación*, the *Compañía de Seguros Marítimos*, the *Compañía de Seguros "Lima,"* the *Compañía del Dique de Callao*, and the *Compañía Nacional Telegráfica*, all of which came to a total of almost 50,000 pesos. Apart from service companies, which included the sea transport, insurance, ports, and communications sectors, Pardo also had shares in the nitrate firm *Compañía Salitrera Barrenechea*, which increased from 3,750 to 21,250 pesos between 1871 and 1873. This meant that he had also invested a significant amount in the nitrate business. At this point, Pardo had already bought an extensive number of government bonds in railroad construction and shares in the private *Etén-Ferreñafe* line. At the beginning of the 1870s, Pardo had invested more money in the railroad sector in loans and holdings than he had in the guano and Chinese trade put together.

The purchase of the Tumán sugar hacienda in May 1872 altered the

composition of Manuel Pardo's capital. Pardo bought the hacienda from Diego Buenaño for 404,000 pesos. He financed the purchase, made in his wife's name, with a loan of 300,000 pesos from the Banco de Crédito Hipotecario, and a private loan of 125,000 pesos from Carlos Delgado's trading house.<sup>62</sup> In 1873, almost two-thirds of the Pardos's joint capital, now equaling around 670,000 pesos, was invested in the Tumán estate, which was leased to Alfredo Solf for ten years at an annual payment of 24,000 pesos immediately after its purchase. Solf also committed himself to pay all the taxes associated with the estate and to raise the value of the sugar cane plantation by 129,000 pesos within this period. He was to transfer a total of 36,900 pesos to Mariana Barreda de Pardo annually. On the other hand, there were annual interest payments of 35,250 pesos to be made.<sup>63</sup> Even if the lease was not nearly enough to finance the acquisition of the land in the medium term, it was still a worthwhile investment as sugar was a product with a promising future. The Pardos did not purchase the Tumán estate as a status symbol but as a capital investment. This was clear not only from the clause in the contract that stipulated the expansion of the sugar cane plantations but also from the fact that the Tumán was a modern estate on which there were several steam engines, the largest of which ran at 50HP.<sup>64</sup> Tumán would have been entirely unsuitable for the Pardos if they had wanted to play the part of lord and lady of the manor because it was too far away for them both to commute between the estate and Lima. It was thus not because of a traditional or colonial mentality preoccupied with land ownership that they became estate owners, but rather business acumen, which led them to consider—quite rightly—that sugar production would become a profitable business.<sup>65</sup>

By the beginning of the 1870s, Pardo's capital was distributed far more broadly than it had been a decade before. Apart from trade and finance, he now had interests in service companies and investments in the railroad industry and had become involved in sugar production. Guano and the trade in Chinese laborers mainly served to facilitate his other, later enterprises, as these branches paid particularly high dividends. While the interest payable on credit was approximately 8–12 percent, profits of 15–20 percent could be made from the guano trade, and those from the trade with Chinese indentured laborers were sometimes even higher. Pardo did not only use his own capital but also loaned money to generate profits, and he ran up large debts until the mid-1860s. At the beginning of 1864, his debts exceeded his personal capital by more than 65 percent, not taking his wife's house in Lima into account. However, the share of personal capital in his investments rose swiftly from then on. From 1868, there was scarcely any borrowed capital in

Pardo's investments, and he only owed money to his wife.<sup>66</sup> Not until they purchased the Tumán hacienda did the Pardos's debts begin to increase again.

Just as Pardo had loaned large sums to go into the guano business and the trade in Chinese indentured laborers at the beginning of the 1860s, his activities in sugar production also began with enormous borrowing. Pardo thereby proved himself to be a committed businessman who invested his capital in a number of different, sometimes novel, enterprises and who was not afraid of the risks associated with taking out credit. At the same time, Pardo was only able to get into such debt during this period because his background and marriage made him creditworthy to a measure that was no longer economically sound. His most important creditors in the 1860s were also his partners in the guano business and the trade in Chinese laborers.<sup>67</sup> He was therefore able to fall back on his old business contacts in 1872 when buying the Tumán hacienda. He borrowed some of what he needed from the Banco de Crédito Hipotecario, in which he himself owned a large stock package and among whose founders were some of his associates from the Compañía Nacional de Consignación de Guano en Inglaterra and the Banco del Perú. He obtained the other part of his loan from Carlos Delgado, with whom he had already been in the guano, Chinese, and banking trade for the past ten years and who was himself one of the founders and partners of the Banco de Crédito Hipotecario. Pardo's meteoric rise as a businessman reflected many features of the banking and mercantile bourgeoisie of his time. On one hand, the bourgeoisie's investments diversified in the 1860s. Investments in sugar, cotton, and nitrate export; railroad construction; and the service sector meant that economic activities other than pure finance and trade became more important. On the other hand, these business operations were run by an extremely small group of businessmen who constantly regrouped to form new alliances and whose economic power primarily arose from their control of the financial market. These characteristics were also to shape the young bourgeoisie's political concepts.

### **Basic Political Concepts**

The rise of the banking and mercantile bourgeoisie in Lima coincided with the evolution of a new political discourse, which focused on the ways in which the wealth from the guano could be used to best help the country's development. The bourgeoisie, thus, took part in an early developmental-theoretical debate that anticipated many of the arguments used in twentieth-century discussions on development and underdevelopment. Historical literature has already engaged in a comprehensive discussion of the basic