

**Dynamizing the economy in a ‘*façon irrégulière*:’
A New Look at Mexico’s 1897 Bank Reform**

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Alentado por el desahogo que imagina le dan los millones que ahora tiene en nuestras cajas y por la codicia de los demás que nos hacen competencia, el Gobierno impone y hace prevalecer su voluntad; y nosotros, colocados en falsa y delicada posición, debemos atemperarnos á ella, procurando no provocar conflictos en que de seguro sacarémos la peor parte.

Banco Nacional de Mexico to Noetzlin 1897

Notwithstanding the Díaz regime's slogan “poca política, mucha administración,” in Porfirian Mexico banking and financial policies were fashioned by politics, by unstable alliances between public officials, local elites, and foreign investors. This essay examines the politics and the political economy of financial reforms undertaken in the late 1890s by the Porfirian government. Contrary to prevailing scholarship, this essay argues that the Mexican government was not hamstrung by private interests, but rather designed and implemented the reforms both to dynamize the economy, and shield it from the costs of volatility.¹

Elsewhere I have described these complex, shifting alliances from the late 1870s to the early 1890s, and analyzed the relationship between these shifts and the evolution of bank policies, the banking system, and financial diplomacy. The instability of these coalitions and policies was rooted mainly in the state's fluctuating financial goals and health, but also in irreducible conflicts of interest between the state's agenda and the interests of foreign and domestic financiers, and in the growing competition between

¹ See for example the many works of Stephen Haber on banking in the Porfiriato, and more recently the revisions to the “Haber thesis” advanced by Noel Maurer, *The Power and the Money: The Mexican Financial System, 1876-1932*, 2002.

financial groups. The Porfirian state sought to control economic policy to ensure that it served the state's broader economic and political goals--what it regarded as the national interests. Public officials were guided by a generally liberal bias, consistent with the republic's constitution and with the belief that unfettered markets (capital as well as labor and land) would encourage economic growth and political cohesion.

Free capital markets held little appeal for the key group of foreign and native bankers who founded Nacional, as earlier chapters have shown. If these spirited financial pioneers were to lend their money to the state and the public, they required a monopoly concession as an incentive and a protection against the uncertainties and risks. In previous work I argued that policymakers accepted these constraints as a temporary cost of securing the financial resources necessary to subsidize the growth of the transportation infrastructure. In the short-term, liberal banking principles were sacrificed for broader policy ends. It was axiomatic: when the Porfirian state was financially vulnerable, private financiers' direct political influence expanded; as the state's finances improved, it sought to expand control by altering arrangements and policies. Throughout the 1880s the state's autonomy was limited and contradictory, since it rested on finding financial counter-weights first to Nacional, and then to Banamex, and on manipulating domestic law and its application. Given the relative weakness of the state's finances in the 1880s, and given the direct role it assumed to stimulate economic growth, its freedom to maneuver and act was noteworthy.

In the late 1880s and early 1890s the Díaz government, after having obtained the foreign loan offered 1888, altered its tenuous alliance with Banamex by starting to overhaul the banking system and reconcile it with free market precepts. However, the

government's freedom hinged not on financial strength, but on access to external credit flows. In 1892-3 financial shocks pushed the Treasury to the brink of default. Default was only staved off thanks to a series of emergency bridge loans from Mexico's creditors (Banamex and its foreign partners) who lent the government the funds necessary to continue to service its past debt to them. Although evidence is scant, it seems clear that these bridge loans carried a rider that forced Mexico to declare a de facto moratorium on new banks. In May 1893 in the midst of the Treasury crisis, Limantour decreed that no bank could open without approval from the Treasury Minister and in accordance with the Code of Commerce--and none did until the late 1890s.² This occurred after initial steps had strengthened rival banks and established several new ones. Now, the system and the government's plans were frozen. The abortive reforms of 1888-89 had an impact, nonetheless. In 1890 the circulation of bank-notes was dominated by Banamex with 67%; Banco de Londres had 27%, and the state banks only 6%. By 1895 Banamex's portion dropped to 56%, while Banco de Londres and the state banks had enlarged their shares to 31% and 13%, respectively.

This essay examines Porfirian financial policies in the aftermath of the 1892-93 depression. The main financial event was the landmark bank reform that President Díaz signed into law on March 19, 1897. This legislation represented the first comprehensive body of credit law in the history of the Mexican Republic. As earlier chapters indicated, in 1884 an initial set of banking statutes was included in the Code of Commerce to which revisions were made in 1889. The 1897 bank reform was part of a broader set of initiatives undertaken by the Porfirian state and private financiers in the years following

² McCaleb, Present and Past Banking in Mexico, 105-06.

the 1893 depression. This chapter seeks to account for the timing, nature, causes, and consequences of these financial initiatives. The main subjects and issues remain political. It also scrutinizes the policy process, describing the shifting coalitions and alliances that drove the reform initiatives. We are interested in assessing and accounting for the state's autonomy in policymaking vis-à-vis private finance. Moreover, these reforms not only altered relations between the state and Banamex, but they also altered relations within Banamex. The paper's conclusion is devoted to assessing the reform's broader implications, namely its achievements and successes, as well as its limits, contradictions, and failures.

The timing of the reform initiatives is attributable to the growing financial power of the Mexican state. In February 1896 as the Mexican Finance Minister began private negotiations with Banamex to abrogate its monopoly concession, the Treasury carried a cash balance of some \$2,937,940.84.³ For the first time in its history, the Porfirian state was negotiating from unquestioned financial strength. The Mexican economy and state emerged from the depression of the early 1890s stronger. What had happened? The reasons are familiar to historians. In 1894 the Mexican economy resumed economic growth, responding to surging demand for primary products from the industrial economies of the North Atlantic. Mexico's newly laid railroads helped meet this demand by carrying agricultural and mining goods efficiently to frontiers causing custom receipts to swell.⁴ In addition, a brief cyclical recovery in silver bullion prices was an added boon

³ Cartas al Comité de París Vol. 2 Feb. 4, 1896.

⁴ Coatsworth has suggested that the real economic benefits of the railroads were concentrated in the era after the mid-1890s, Growth versus Development, p. 117.

to the Mexican Treasury since it collected taxes in silver pesos, but paid its external debt in gold-denominated currency.

The Mexican state was not alone in its prosperity or in its goal to revise credit law. The Mexican economy had rebounded from the recession, and existing state banks were beginning to increase their capital. A notable example was the Banco Minero de Chihuahua, which proposed to double its capital.⁵ Profits from agriculture, manufacturing, mining, and commerce sought financial outlets. As supply increased, so did demand--to finance more ambitious commercial and manufacturing projects. The export-driven growth had created new pockets of economic wealth, outside the orbit of Banamex, both in the capital and the provinces. These two developments, the state's financial solvency, and the private sector's desire to extend credit facilities, prompted the Díaz regime to renew efforts to establish a more extensive, competitive banking system and to encourage counter-weights to Banamex.

What were the goals and features of the Bank Reform? The reform had two goals, one public and one private. First, the reform sought to dynamize the economy by stimulating the rapid growth of the nation's domestic credit system. Second, as will be detailed later, the reform sought to increase the state's freedom of action by establishing domestic alternatives for public finance. In November 1896, Finance Minister Limantour introduced the reform to the Mexican Congress, explaining that, "there arose the necessity of entering without delay on the preparation of laws and regulations intended to serve as a complement and corollary to the suppression of the tolls on interstate traffic by facilitating the expansion of commerce, agriculture, and all branches of industry by a

⁵Creel to Limantour, 14 December 1894, AH JYL.

well-planned and far-sighted development of the institutions of credit.⁶ In short, the Mexican government hoped to aid and stimulate the economy through new credit legislation.

The 1897 reform was not as liberal as Dublán's scotched plan of the early 1890s. Still, its principle restrictive feature, granting only the first bank in each state tax-free status, was designed, to accelerate the founding of credit institutions. Other restrictive provisions were flexibly enforced, for example permitting state banks to operate in more than one state to allow for past development.⁷ The key provision granted tax-free status to the first bank established in any state, and penalized later banks with an additional two percent tax. This statute might be interpreted as evidence of the reform's restrictive nature. Its author did cite the fear that given the early stage of banking in Mexico, a more liberal law might create too many credit institutions and admitted "the new law will no doubt give birth, at least in the early years of its operation, to a sort of banking oligarchy."⁸ The law was janus-faced. It sought to induce the rapid expansion of competitive banking into all states (the new state banks and Banamex and Banco de Londres' branches), and to regulate and restrict the growth as a guard against speculative over expansion. As an early historian commented, "Clearly it was Limantour's purpose to make the prize worth the seizing on the instant—in short, so great the inducement that the organization of banks in the several states would be pressed at the earliest possible

⁶Limantour, , "Report on the Banking System of Mexico to the Congress of the Union, November 15, 1897," Charles Conant, The Banking System of Mexico, Appendix A., 110-11.

⁷ Because Banco de Nuevo Leon had operated in four states, its new concession permitted it to continue to do so.

⁸ Jose Y. Limantour, "Report on the Banking System of Mexico to the Congress of the Union, November 15, 1897," Charles Conant, The Banking System of Mexico, Appendix A., p. 117.

moment.”⁹ More recently historians have been reluctant to recognize the ‘subsidy’ nature of this provision, tending rather to stress that this provision restricted growth.

Contemporaries feared that charters would be taken out willy-nilly, as they had after 1889, simply as a speculative flier rather than as a first step to opening up a bank.

Overcoming this obstacle was a goal of the reform.

The creation of the state bank system required the government rescind the de jure monopoly concession granted Banamex in 1884. Banamex still had a pending, formal complaint registered against the banks chartered after the abortive reforms of 1888-89. Moreover a law that reconciled Banamex's rights with those of a future banking system was needed to give confidence to prospective investors, wary of a government with arbitrary power to resolve juridical contradictions. In a prelude to the reform, the government wanted Banamex to acquiesce to the demise of its monopoly privileges. A unilateral government attempt to abrogate or reduce the legal privileges of Banamex would have been fraught with difficulties.

The key question was how to abrogate property rights without undermining investor confidence. Given the role of foreign capital in Porfirian Mexico, the state was solicitous toward foreign investors’ property rights. The government did not want to be perceived as raising doubts about the sanctity of government-business contracts, especially when those contracts involved prominent foreign investors, such as those linked to Banamex. Perceptions mattered; perceptions were material. The Porfirian state was determined to protect the hard won perception of safeguarding property rights and honoring government contracts. For that reason the government would not unilaterally

⁹ McCaleb, Present and Past Banking in Mexico, p. 107.

abrogate Banamex's monopoly, and preferred to avoid recourse to the courts. Bank policy was but one example where the regime had given monopoly rights over a public good to private investors, which later became a barrier to further growth. In fact, chapter two noted that the initial bank monopoly created immediate obstacles and problems. By the mid-1890s, the Banamex monopoly stood as a legal obstacle to more rapid economic growth. The state preferred a legal environment more hospitable to financial innovation.

In early 1896, as he prepared to overhaul Mexico's banking laws, Finance Minister Limantour privately negotiated with Banamex, seeking to modify its concession. The existing fragmentary evidence (mainly cables Banamex officials exchanged with its foreign board) reveal two simple, unacknowledged truths: Banamex opposed the government's reform, and its opposition proved futile. The Mexican government employed several devices to advance its agenda against Banamex.

First, to reduce Banamex's bargaining strength, the state informed the bank that a syndicate of local merchants (led by the Barcelonettes) had proposed to purchase Monte de Piedad's charter and to transform it into a local rival. Monte de Piedad was the one bank that posed a potential threat to Banamex, because its charter permitted it to issue banknotes. Banamex cabled Paris that "influence et puissance pecuniaire contraires failblissent un peu Président de la République en notre faveur," but that "comptons bonne volonté Ministre des Finances"¹⁰ The Díaz regime was engaging in its version of the "good king/bad minister" ruse, but with the roles reversed. Limantour pressed Banamex to create a special credit account for Monte de Piedad, forgo its monopoly concession and allow without protest the creation of a state bank system, in exchange for which he would

¹⁰ Cuevas to Noetzlin, Cartas al Comité March 17, 1896 AH BNM.

be able to thwart the rival project. Although Noetzlin urged Banamex to simply assert its rights, his counterpart in Cuevas replied, “Ici on conduit les affaires de cette façon irrégulière que vous connaissez. Comme adversaires ne sont pas encore détachés j’ai besoin de mener une campagne avec précaution.” To no avail, Paris urged Banamex to staunchly defend its monopoly rights. Banamex replied that “Gouvmt. Mexicain insiste accorder une ou plusieurs Banques chaque Etat pour éviter objection Monopole.”¹¹ By the end of March, the state had elicited from Banamex a pledge to drop its monopoly right, increase its current account lending limit to the Treasury, and issue a special \$500,000 loan at 3% to Monte de Piedad. In return for these concessions the government withdrew Monte de Piedad’s legal right to emit banknotes.

Why did the government finally succeed in overturning Banamex's monopoly? Most importantly, the state’s financial strength had reduced its dependence on the bank. The threat to authorize an alternative, increased the state's negotiating position. The presence of the constitutional objections to monopolies also weakened Banamex's ability to proceed with legal objections. In addition to underlining Banamex’s futility the exchanges reveal a classic Díaz negotiating ploy—the cynical mixing of personality and policy. In this case, Finance Minister Limantour interposed himself as Banamex's protector, while portraying Díaz as supporting its rivals.

The establishment of a state bank system was only the first of several financial reforms the Díaz regime undertook in 1896. Unbeknown to Banamex, in the weeks after obtaining the bank's consent to abrogate its monopoly, the Mexican

¹¹ Telegramas al Comite, March 23, 1896, Cuevas to Noetzlin, AH BNM.

government continued to secretly pursue other financial alliances, alliances that threatened to profoundly alter the balance of banking power in Mexico.

The most important of these alliances drew together two groups of foreign-born merchants, led by the so-called "Barcelonettes." The Barcelonettes were a group of foreign-born merchants from the town by that name in the Bas-Alpe Department in southeast France. After gaining a foothold in Mexico as cloth merchants, the Barcelonettes began to invest in other fields, most prominently in textile manufacturing in Mexico City and Puebla. Thanks to the booming post-depression economy, they commanded large commercial profits with which they sought to establish an independent financial base. Having been denied the Monte de Piedad charter, in subsequent discussions with the Diaz government, the Barcelonettes and several allied Spanish merchants, also long resident in Mexico, decided to gain control of the Banco de Londres y Mexico and transform it into a formidable rival of Banamex. Specifically, they proposed to more than triple the bank's capital from \$3,000,000 to \$10,000,000 and to extend its concession ten years, equal to Banamex's. Their plans meshed with those of a Mexican government bent on reshaping Mexico's credit landscape. A stronger Banco de Londres, empowered to establish branches throughout the republic, would complement and add more competition to Banamex's branches, and to the impending state bank system. Moreover, a Banco de Londres with deeper local resources would offer the Mexican government a true domestic counterweight in public finance affairs.

On May 2, 1896, Banamex learned of the Barcelonettes' proposals. Alarmed, it exchanged a flurry of cables with Noetzlin, attempting to stave off the initiative. Banamex perceived this as a more serious threat to its business than the rise of

state banks. Cabling Noetzlin, Banamex sketched a bleak scenario: "Avec affaires Gouvernement Mexn. Banque N. du M. aura mediocre existence.--Portefeuille baissera puisque commerce barcelonette ira Banque Lond. et Mex.--En outre concurrence faira baisser taux 5% ó bien moins."¹² In a subsequent letter to the full Paris board, Banamex underlined the development's gravity: "no se ocultará la importante magnitud que adquirirá la competencia que seguirá haciendonos esa institución, influyendo probablemente la depresión de los tipos y en la desconfianza de los valores cuyas consecuencias es imposible calcular desde ahora hasta que llegarán."¹³ On both sides of the Atlantic Banamex campaigned intensely against the plan. Noetzlin suggested co-opting key rivals. Director Cuevas replied it was "impossible to seduce a few Barcelonettes."¹⁴ These rival merchants, he explained, "desean adquirir influencia y representación que no tienen en ntro Establecimiento."¹⁵ For his part Cuevas urged Noetzlin to persuade Banco de Londres' English shareholders to reject the deal, based on the illegality of the proposed contract extension, since Banamex's concession prohibited other banks from being granted term extensions.

Whether the Banco de Londres' head office was moved by Noetzlin's entreaties is not known. However, archival sources indicate that none of the private actors, be it Banamex's local or foreign boards, or even Banco de Londres' principal shareholders was decisive in determining the fate of Banco de Londres' proposed

¹² Telegramas al Comite, May 21, 1896, Cuevas to Noetzlin, AH BNM.

¹³ Cartas al Comite, May 28, 1896, pp. 399-400.

¹⁴ Telegramas al Comite, May 21, 1896, Cuevas to Noetzlin, AH BNM.

¹⁵ Cartas al Comite, May 28, 1896, pp. 399-400.

reconstitution. The arbiter was the Mexican government, which stood poised to intimidate foreign investors and sweep aside legal obstacles. Events moved rapidly. On May 12, 1896 the aforementioned syndicate of merchants formally proposed that Banco de Londres increase its capital to \$10,000,000. A week after asking Noetzlin to remonstrate with London, Banamex's Cuevas reversed himself and cabled that President Díaz personally sought the extension for Banco de Londres, and “nous croyons que Gouvernement nous demandera consentir à cette prorogation.”¹⁶ Still, final approval for a larger Banco de Londres officially rested with its London shareholders who remained cool to the project. At first they demurred, proposing instead only a modest increase in the bank’s capital. Banco de Londres' local manager in Mexico, D. H. Waters, who had travelled to London to confer with the parent house, “refused to transmit [the counter-proposal] to his local board because it would obviously be unacceptable.”¹⁷

For several weeks the decision laid unresolved. Then on June 13, the London office received a cable from Thomas Braniff, president of the Mexican branch of Banco de Londres, with news of an urgent meeting he had just left with President Díaz. Braniff informed London of his encounter: "The President sent for me to find out the process of the new combination and expressed his desire in the strongest terms to have it carried out. I foresee great difficulties with Government in future march of the Bank, should we not accept proposed combination, furthermore we could not expect any protection.”¹⁸ On June 17, faced with the prospect of hostile government relations, the

¹⁶ Cartas al Comite, May 28, 1896, pp. 399-400.

¹⁷ Joslin, A Century of Banking in Latin America, p. 211.

¹⁸ Ibid.

London stockholders reluctantly accepted the proposals and in August the new contract was signed.

Banamex's lobbying had failed. In late June, Banamex wrote to Paris that, "se rumora tienen el proyecto de establecer cuanto ántes Sucursales donde no los tengamos nosotros."¹⁹ This increase of capital was foisted on a recalcitrant foreign bank, amounting to its hostile takeover by a group of local investors. Moreover, the takeover was aided and abetted by the Díaz government in a number of ways. The government granted Banco de Londres a more advantageous concession, and it threatened to punish the bank (and its foreign shareholders) if it rejected the plans and partner. Local investors and the Mexican government acted in direct conflict to the interests of the government's long-time banker, Banamex. The government had helped to reshape the bank, thereby ensuring that it would be an effective instrument to lower financial costs and to provide the state more freedom of action.

The Porfirian state's efforts to reorganize its domestic financial relations included other machinations. For example, the state renegotiated the terms of its relations with Banamex. Specifically the Treasury sought to reduce what the bank charged to collect and deposit federal monies (from 2 to 1 3/4 per cent), double the maximum credit advance to \$4,000,000, and reduce the bank's charges from 2 to 1 percent for managing the republic's internal debt.²⁰ Banamex tried to delay indefinitely the implementation of these initiatives. In early August 1896, the agreements had still not been concluded. At that time the Paris board questioned the local directors about a

¹⁹ Cartas al Comite, June 22, 1896, AH BNM.

²⁰ Mexico, Memoria de Hacienda, 1896-97 (Mexico, 1899), pp. 241-44.

steep decline in funds collected by Banamex from treasury offices throughout the country. After investigating the matter, Banamex learned that the government, "turbando compromisos y á espaldas nuestras," was sending the treasury accounts to the private banking house of Hugo Scherer. Banamex lodged an informal complaint against this contractual violation ("con la circumspección á que estamos obligados"), but was advised by the state that "ningún efecto produciría mientras no estén firmadas las nuevas estipulaciones para dicho servicio."²¹

This vignette illustrates how the Mexican government exploited the expansion of the local financial network. The local expansion did not lead the government to break relations with Banamex, but rather allowed it more autonomy and negotiating power. The state's use of Scherer is also notable because it highlights the growth of Mexico's financial community. The burgeoning field of credit was not limited to official banks. Private banking houses, like Scherer's, were growing rapidly and offered the state and private sector increased options.

By any reckoning, 1896 witnessed a dramatic reordering of private banking and public finance in Mexico. An active government had decided to promote a new credit system, based on a limited plurality of banks of issue. With a substantial capital infusion from a group of merchant/creditors the state helped establish a second large bank in Mexico City. It had successfully renegotiated its financial relations with its own banker, Banamex. Each initiative benefited either the private economy or the Treasury, and reduced Banamex's role. Banamex relinquished its monopoly, and it watched as the Mexican government encouraged and aided rival local financiers.

²¹ Cartas al Comite, August 8, 1896, AH BNM.

Pressured by state machinations, it reduced the price it charged for services provided to the Treasury. In the 1880s when the state was financially weak but bent on directly subsidizing economic growth, Banamex had obtained exclusive rights and privileges. The state's initial dependency was responsible for the influence Banamex had exerted over public policy. This influence drew the parties into inevitable conflict.

As the state's maneuvers frustrated Banamex and its foreign board, both boards detected a disturbing pattern. Yet the two differed on how to respond to the state's irregularities. In early January 1897, the Paris board suggested that the bank forthrightly confront the government by presenting it with a list of grievances. However, the local board cautioned discretion because "presentar al Sr. Ministro de Hacienda reclamaciones escritas sobre infracciones, dificiles de concretar y justificar con documentos, nos expondrá a dar golpes en vago y predisponer los animos en contra nuestra cuando ni los tiempos ni las circunstancias nos favorecen para asumir una actitud firme en la enérgica reclamación de nuestros derechos."²² In June 1897, faced with stronger recriminations from Paris, Banamex sought to account for the government's recent hostility toward the bank and the reasons why the government was effective. First, it declared that "nuestra conducta no ha cambiado, aunque sí han cambiado las circunstancias, que nos han creado una situación especial." Second, it reviewed recent history and circumstances.

Bastará para ello expresar que, desde que el Banco se resistió hace dos años á elevar á \$5,000,000 el saldo deudor del Gobierno, impidiendo que, como este lo deseaba, rescatara de un solo golpe todas sus casas de Moneda, comprendimos que nos habíamos granjeado su malquerencia que, aunque encubierta, se ha traducido desde entónces en actos encaminados á cercarnos prerrogativas, disminuirnos emolumentos y favorecer á otras instituciones de crédito. Alentado por el desahogo que

²² Cartas al Comite, February 15, 1897, AH BNM.

imagina le dan los millones que ahora tiene en nuestras cajas y por la codicia de los demás que nos hacen competencia, el Gobierno impone y hace prevalecer su voluntad; y nosotros, colocados en falsa y delicada posición, debemos atemperarnos á ella, procurando no provocar conflictos en que de seguro sacarémos la peor parte.²³

Thus, the bank recognized that its old alliance with the government was subject to serious revision since both the state and the private sector had grown financially stronger and more assertive.

Although preliminary discussions about bank reform occurred in early 1896, the reform became law in March 1897. Banamex quickly felt the effects of the reforms, especially the newly competitive environment. For example, in the booming northern state of Chihuahua, Banamex began to lose deposit accounts to local banks. All of the Chihuahuan banks, including its chief competitor, Banco Minero, offered interest-bearing checking accounts. At the end of 1897, writing to Paris, Banamex observed disdainfully that "excitada, por la reforma bancaria, la codicia de los que creen que el país se prestará al desarrollo y prosperidad de esas numerosas instituciones, dejandoles pingües ganancias, han obtenido concesiones que han comenzado á poner en planta." Yet Banamex was not above joining the competitive battle for the "pingües ganancias" in an anticipatory way, advising Paris that "para no aparecer obligado por la competencia, nuestro Banco ha bajado al 6% annual el tipo de sus descuentos en todas sus dependencias, medida que ha sido aplaudida y lo coloca en buen terreno para hacer frente a los acontecimientos."²⁴

²³ Varona to Comité en Paris, Cartas al Comité de Paris, June 7, 1897, AH BNM.

²⁴ Cartas al Comite, December 24, 1897, AH BNM.

The making of the banking reform provoked many conflicts between the state and Banamex, but its implementation sparked even more. The most serious attended a Treasury circular dated October 17, 1897. This circular clarified a statute of the bank reform that required banks to have on deposit a metallic reserve equal to one half of the banknotes issued. Without naming any specific bank, the circular required that the metallic reserve be either in specie or bullion, implying that banks could not treat Banamex's notes as fiduciary money. Banamex urged Limantour to repeal the measure, or exempt it from the provision. Banamex wanted its banknotes to circulate as freely as possible, and it thought if local banks could substitute Banamex notes for specie or bullion, demand for its notes would rise. Banamex feared the actions of "los bancos locales, que nos hostilizan y nos llevarán en caso contrario a defendernos usando de represalias y rechazando los billetes de todos, sinó también, y, sobre todo, por el efecto moral sobre el crédito de ntros billetes."²⁵ Banamex blamed the act on the excessively liberal bank law. It lodged official protests with Limantour, claiming he had neglected its rights "en su afán exigir garantías á los bancos que hoy no ofrecen ninguna al abrigo de su demasiado liberal Ley sobre Instituciones de Crédito."²⁶ Over its repeatedly strong objections, the government continued to prohibit state banks from counting Banamex's notes toward their metallic reserve.

The dispute festered. Five months later, in April 1898, Noetzlin himself wrote to Limantour seeking modifications to the circular. After reminding the minister of the indispensable aid Banamex had lent the government in troubled times and the "bonne

²⁵ Cartas al Comite, November 19, 1897, AH BNM.

²⁶ Cartas al Comite, November 19, 1897, AH BNM.

grace” with which it had accepted all the modifications recently imposed by the Diaz government, Noetzlin asserted that, “nous sommes, je crois, d’autant plus fondés de compter que le peu qui reste de nos privilèges originaux soit respecté.”²⁷ He alleged that the circular was based on a fundamental contradiction (“à nos yeux européens inexplicable”), namely that while Banamex’s notes alone were accepted by federal offices as legal tender, they could not be treated as fiduciary currency by private banks. Limantour replied that he had not instituted this requirement to penalize Banamex, rather he had imposed the restriction to safeguard and instill confidence in the new banking system. He explained to Noetzlin that

el mejor modo de hacer frente á una crisis, es que le numerario se halle en todas aquellas partes donde el público tenga derecho á acudir para exigir el reembolso inmediato de los billetes, sean estos del Banco Nacional ó de los Bancos locales. En una época anormal la circulación se restringa y de lo que debe más cuidarse es de asegurar la inmediata convertibilidad de los billetes en numerario y no de unos billetes por otros.²⁸

For Noetzlin's instruction he provided an example of an 'epoca anormal.' If Banamex for any reason, including government problems, experienced a panic, he asked rhetorically, “no sería entonces trascendental [sic] la crisis sabiendo el público en todo el país que las cajas de los Bancos Locales en lugar de tener dinero estaban repletas de billetes del Banco Nacional?..”²⁹

This dispute over the reserve requirements illustrates particularly well how both the design and implementation of the bank reform drew the state and Banamex into direct

²⁷ Ed Noetzlin to J.J de Limantour, April 15, 1898, AJYL.

²⁸ J. Limantour to Eduardo Noetzlin, May 28, 1898, AJYL.

²⁹ J. Limantour to Eduardo Noetzlin, May 28, 1898, AJYL.

conflict, and underlines the futility of the bank's objections. It also illustrates the twin objectives of the state, both to promote greater competition in the credit market and to regulate it to insure public confidence. Thus, the reform's regulatory features were not, as others have argued, restrictive devices designed to appease a collusive financial elite.

By means of the bank reform and associated initiatives, the Porfirian state reordered relations between itself and the financial elite, upsetting old alliances, nurturing new ones, and creating a more hospitable legal framework for financial entrepreneurs. The state's conduct, not inadvertently, also sparked a new era of relations between Banamex and its foreign board. Banamex's own priorities were evolving as it grew increasingly independent of Paris. The two boards mainly wrestled over the bank's relations with the state. The conflict grew out of an evolutionary change in the loyalties of the Mexican directors, and in the balance of power between the two boards. The divided loyalty of Banamex's directors was foreshadowed in the 1880s by the early tension between Nacional and Mercantil before the two merged. As the Díaz regime matured, Banamex's domestic directors began to identify themselves less as discrete bankers (or as Paris' junior partners) and more as supporters of the regime's general interests. This evolution formed part of the process of the making of a national economic elite, nationalist to the extent that its formation occurred in confrontation with foreign partners and in support of its national government when the latter found itself in conflict with those same foreign partners. Banamex's leaders had extensive and growing investments in many economic sectors, investments that depended on political stability and the regime's favor. They more readily acceded to banking reforms because they were well placed to exploit the economic opportunities created by legal and institutional

change. Moreover they recognized that opposing the reforms was futile and might threaten their remaining privileges.

For its part, the state was aware of divisions between the local and foreign boards of Banamex, recognized that local bankers were more likely to be swayed by appeals to the national interest, and sought to exploit those divisions and make those appeals. Thus, the state pursued one tactic repeatedly: to pressure Banamex to quickly decide on a business proposal without conferring with its foreign board. The state had learned that the foreign board was more likely to postpone unfavorable deals indefinitely. However, as alternatives to Banamex grew, like the Barcelonette-invigorated Banco de Londres or the private Scherer house with extensive financial relations in the lower Rhine, the government increasingly brought propositions to Banamex with effective urgency. The Paris board criticized Banamex for acting unilaterally, and for not apprising it of important business affairs with the state. Banamex sought to defend itself by asserting that “Esperamos se penetrarán Uds. sin esfuerzo de que, siempre que se nos proponga un negocio apremiando su resolución, habrémos de aceptarlo ó rehusarlo de plano, segun lo estimemos ventajoso ó desventajoso á los intereses del Banco, sin recurrir á consultarle.”³⁰ In April 1897, Banamex tried to explain why it acted to sell government bonds for the competition of the Tehuantepec Railroad to Paris by pointing to Limantour's pressure, noting that it had acted “por la urgencia con que el Sr. Ministro Limantour deseaba una inmediata resolución nuestra, y á fin de demostrarle nuestra constante buena voluntad de prestarle los servicios que necesite.” Cuevas concluded that the native

³⁰ Ibid.

directors were convinced that it was a sound operation, especially “en vista de las bonancias circunstancias de la Administración pública.”³¹

In the following years, the rift between the Paris and Mexican boards widened. The two boards continued to disagree sharply over the bank’s relations with the Díaz government. The French board criticized the aid Banamex lent the state--aid Noetzlin deemed unwarranted given the government's hostility. In late 1898, Noetzlin sharply criticized Banamex’s use of bank reserves to support the value of Mexico’s debt. On behalf of the European board, Noetzlin complained that employing reserves in such a speculative maneuver exposed the bank to ill-advised risk and that such “favours” were especially unnecessary since the Mexican government had been working “para facilitar el establecimiento los otros bancos competidores y sus encubiertos y constantes propositos de reducir nuestras operaciones con su Tesoro.”³² The domestic directors admitted that the “el contingente que con esto prestamos al gobierno, para acreditar sus finanzas, no es correspondido en la proporción debida.” Yet they continued aiding the state because “evitaremos corresponder a una inconsecuencia con otra.” And thus “prolongaremos la buena inteligencia que estamos conservando con el actual Ministro de Hacienda, a cuya perspicacia y pericia no se ocultan la corrección de nuestra conducta ni la utilidad de nuestros servicios.”³³ Banamex recognized that it needed to tread carefully in its relations with the government, and its behavior bespoke a fine regard for the subtleties of

³¹ Varona al Comité en Paris, April 17, 1897, Cartas al Comité de Paris, AH BNM.

³² Nacional to Comité en Paris, Jan. 1, 1899 Cartas al Comité de Paris, AH BNM.

³³ Nacional to Comité en Paris, Jan. 1, 1899 Cartas al Comité de Paris, AH BNM.

dealing with a Treasury Ministry whose financial strength and options were growing and whose capacity to punish (or reward) was far-reaching.

The Mexican board's forbearance frustrated Noetzlin, and the frustration erupted into recriminations unusually candid in the formal culture of international finance.³⁴ He charged that the reason why the state had adopted a hostile attitude towards Banamex lay in the fact that the local directors had neglected its relations with Finance Minister Limantour. Banamex fired back that "causas muy altas y en las cuales alguna responsibilidad tuvo ud. explican—ya que no justifican" the Finance Minister's behavior toward the bank. Banamex distinguished its relations with Limantour, which "han sido frecuentes y cordiales," from Noetzlin's relations which were not "tan amistosas como lo habían sido antes." As proof, Banamex offered Noetzlin an example of its intimate relations with Limantour. Banamex's director wrote to Noetzlin that Limantour had read to him "alguna carta de Ud. y su contestación. Esta dato bastaría para demostrar a Ud. que esta Dirección no ha estado tan alejada de la Secretaria de Hacienda como Ud. supone." Banamex gave further proof of its close relations with the minister. For example Limantour had asked Banamex to intervene "muy directa y eficazmente" in the selling of Mexican bonds on the Frankfort market, which the director did "para reforzar nuestra afirmación de buenas relaciones con el Ministro." The bank explained that "nada dijimos á Ud. ni al comite [de Paris] sobre tan interesante asunto, pero esta discreción fue impuesta á nuestro director por el Señor Ministro."

³⁴ The culture had its reasons. See the concept of gentlemanly capitalism, as explored by Hopkins and Cain.

The Mexican directors' growing independence was echoed in private banking affairs, which also drew Noetzlin's ire. Again Banamex retorted, "no debe Ud. pensar que todo lo hecho sea obra suya ni que para andar necesitamos ser impulsados por su valiosa iniciativa. Alguna tenemos nosotros tambien, y a la nuestra se deben realmente los mejores negocios hechos ultimamente." Specifically the bank questioned Noetzlin's advice that it be drawn into more aggressive banking business, arguing that "no sería prudente ni daría buenos resultados aventurar capital y prestigio solicitando y entrando en negocios ajenos á los Bancos de emisión."³⁵

These incidents were not simply personal and ad hoc. Rather they reflected the limits and contradictions of Banamex's hybrid foreign/domestic composition. And they reflected that state's clever manipulation of those divisions and appeal to national sentiment. Over succeeding years the tensions and conflicts grew between the foreign and domestic boards of Banamex. To follow further this fascinating, unknown story would take us far afield of the chapter's subject. However I would suggest that this is a fertile area for research, especially comparative work given the strikingly analogous divisions that existed in Russian finance, involving no less than our man Noetzlin.³⁶

Suffice it to say that in the politics of bank reform in Mexico, the state not only profited from Banmex's internal (and inherent) tensions and divisions, but exploited and

³⁵ Nacional to Comite en Paris, Jan. 1, 1899 Cartas al Comite de Paris, AH BNM.

³⁶ Writing about relations between Russo-Asiatic Bank's domestic head and its two French directors (one of whom was Noetzlin), Boyvkin and Anan'ich observed that "from the outset [they] were at odds over various matters. Part of the problem was the system of the bank management—'Board-Paris Committee,' which proved to be very unwieldy." Various conflicts ensued, with the Russian head alternatively "threatening resignation and demanding greater freedom of action." Ultimately the French bankers "continued to exercise control over the [Bank's] shares, but in its practical activity [it] was guided by its own program." See the authors' superb "The Role of International Factors in the Formation of the Banking System in Russia," International Banking, 1870-1914, edited by Rondo Cameron and V.I. Boykin, p. 155.

accelerated those divisions. As we can glean from a letter written by Banamex to its Paris board in December 1910, in the last days of the regime, the local directors were still defending both their *class* and *national* interests:

séame permitido recordar que el Banco Banamex desempeña y ha desempeñado siempre en México un papel que no es simplemente el de una institución que, sin preocuparse de las circunstancias generales é inspirándose solo en miras de egoismo, trata únicamente de obtener ganancias, sino que, siendo en el fondo un importante regulador del crédito nacional, público y privado, en su sentido más amplio, tiene altos deberes que cumplir, aunque sin sacrificar nunca á sus accionistas y con el designo de tener y conservar para estos, como siempre ha tenido y conservado, la ilustrada protección y el benévolo apoyo de los poderes públicos.³⁷

Alongside the bank reform initiatives and the transformation of Banco de Londres, there was one other financial novelty of the late 1890s: the creation of a central clearinghouse for all state banks' notes. On October 12, 1898, eighteen months after the bank reform became law, the Treasury Ministry granted a concession to a group of Mexican bankers permitting them to establish a clearinghouse bank in Mexico City. In January 1899 the bank's name was changed to Banco Central Mexicano (henceforth Central). Its capital was increased from one to six million pesos, reflecting the need for greater resources and a substantial investment by a foreign syndicate (Bleichroeder, J.P. Morgan, and Deutsche Bank). The birth of Central directly followed and was related to the specifics of the bank reform. Because the credit legislation geographically restricted the operations of state banks, the need arose to create a mechanism whereby these various

³⁷ Sebastián Camacho to E. Huard, December 20, 1910, Cartas to the Comité de Paris, AH BNM.

state banks could exchange their respective notes throughout Mexico. The mechanism devised was the creation of a clearinghouse bank.

A fuller treatment of the rise of this bank is outside the scope of this chapter. Moreover, that task is made difficult by the lack of available archival material. Here I will touch upon only a few political and economic issues.

First the bank reform did not provide for such a clearinghouse. Whether this reflected an oversight or hostility from Banamex and Banco de Londres is not known. The state banks wanted an efficient mechanism whereby their respective bills might circulate freely and without prejudice throughout the republic. But as McCaleb observed, "at first . . . it was not clear just how the plain terms of the law might be evaded, if indeed, Secretary Limantour would permit such an evasion."³⁸ He also wrote, "and the Banco Nacional, doubtless realizing the futility of protest . . . remained silent."³⁹

It is noteworthy that Central, like Banamex, developed problems with its foreign investors. However, Central's differences, also arising from a refusal to subordinate its policies and autonomy to its foreign partners, became so serious that the foreign syndicate divested itself of their Mexican shares. In the case of Central, the partnership between the Creel-based Mexican group and the foreign syndicate of Deutsche Bank, Bleichroeder and Morgan lasted just two years. On Dec 19, 1900, Deutsche Bank cabled Morgan:

For some time past evident that healthy development Central difficult owing to impossible unreasonable demand local banks, also discord

³⁸ McCaleb, Present and Past Banking in Mexico, p. 113.

³⁹ Ibid.

amongst Mexican and Foreign members Board; therefore considered advisable sale syndicate's holding even with small profit only.⁴⁰

The sale was completed in January, and it took Creel more than five years (and the monetary reform) before a new set of foreign bankers would invest in Central.

Having described certain consequences of the reform for Banamex, we now briefly sketch the effects of the reform on Mexico's credit system, leaving to others the important work of analyzing the effect of this reform on Mexico's general economy. What difference did the banking legislation make to the growth of credit institutions? If we look at the banks of emission and their percentage of bills in circulation, we find that in 1895 Banamex had 56%, Banco de Londres 31%, and the state banks, 13%. Five years later, or three years after the bank reform, we find a much different environment. Banamex had dropped to 36%, Banco de Londres share had fallen to 29%, and the state banks share had risen to 35%. In terms of market share, Banamex had lost more than one-third of its share, Banco de Londres some 7%, but state banks had experienced almost a 200% increase.

In absolute terms, note circulation had expanded dramatically. On June 30, 1897, just three months after the reform was enacted, total notes issued stood at almost \$42,340,491, of which Banamex had almost 24 million, and the remaining banks just over 18 million. A year later total outstanding currency had grown almost 25%, but almost none of the gain (only \$235,000) was attributed to Banamex. This trend continued over the next years. For example in June 1901 total notes had grown to \$63

⁴⁰ Deutsche Bank to JP Morgan, Dec 19, 1900 Syndicate Book #2 MA PML. Wallich also gives a brief account of Deutsche Bank's problems with Banco Central, Zwei Generationen im deutschen Bankwesen, 1833-1914, (Frankfurt, 1978), p.149.

million, but Banamex's notes had actually decreased to \$23.3 million.⁴¹ If we look just four years later in 1905, we find Banamex market share had dropped to 28%, Banco de Londres had fallen to 21%, and the state banks had surpassed 51%. Indeed in the wake of the monetary reform when a new burst of foreign capital invested in new and old banking houses, Great Britain's minister in Mexico reported of talk that the country "is being over-banked."⁴²

It would be misleading to attribute this growth in banking assets entirely to government policies. The expanding economy swelled bank ledgers, notes in circulation, and loans. But the reforms played a crucial role. It would be useful to have a study that examined more carefully and directly the role that the reformed banking system had on the era's economic performance and on the role that the economic expansion had on the growth of the banking system.

Both qualitative and quantitative evidence supports the conclusion that the 1897 bank reform sparked a more competitive era of banking, causing interest rates to fall, the larger banks to lose market share, and the government to have a wider range of public finance options.

Conclusion

The 1897 Bank Reform and associated initiatives represented an important juncture in the Mexican state's search for a viable strategy for public and private financial development. This chapter has sought to raise and answer a series of questions about the

⁴¹ For these numbers and more, see Boletín de Estadística Fiscal, No. 225, (Mexico, 1901), pp. 101-102.

⁴² Max Muller to E. Grey, Aug. 3, 1906 PRO FO 368 Mexico.

timing, nature, causes and effects of these financial reforms. Thanks to a resurgent export-driven economy, both the Treasury and private sector commanded the financial resources necessary to overturn more restrictive policies imposed earlier. Overturning earlier policies brought the state into conflict with powerful vested interests that resisted the abrogation of their legal privileges. This process found striking analogies and parallels across Pofirian Mexico, as early policies were overtaken by economic and political challenges associated with the very success of the export economy. As Coatsworth observed, "Vested interests created in the 1870s and 1880s, when the government bent every effort to attract investment, began to pose actual or potential obstacles to growth later on."⁴³

Historians have tended to emphasize the reform's restrictive aspects. How should we characterize this reform? Did it break with Mexican banking tradition? Was this reform the result of collusion between the officials and Mexico's financial elite? Did it tend to promote or restrict banking competition? What effect did the reform have on subsequent bank development?

The reform intended to create a more open, competitive banking system, and it succeeded. Ironically, the 1897 Reform signaled less a new approach towards banking, than a new capacity by the government to impose its will on public policy. It overturned an important *de jure* monopoly restriction and subsidized new entrants (by granting them tax-free status). A more competitive credit market promoted economic growth by lowering the cost of financial and commercial capital. Nevertheless the law had important regulatory, restrictive features designed not to reward government cronies, but

⁴³ Coatsworth, "El Estado y el sector externo, 1800-1910", p. 157.

rather to discourage speculation and bank failures through excessive competition. Although the regime did not embrace the idea that raw competition necessarily yielded the optimal market result, the reform was the most liberal bank law in the republic's history. And it resulted in the unprecedented growth and diversification of the credit system, without provoking a costly series of bank failures. Mexico's banking system was damaged by the 1907 recession, but bank problems were concentrated in only one region, the Yucatán.

The effects of bank law and reform are measured not just by the system produced, but also by how the resulting system affects the real economy. As Gabriel Tortella reminds us: "to determine to what extent different banking systems have contributed to overall growth is one of the main functions of banking history."⁴⁴ Such a determination is outside the scope of this investigation, but I would like to raise a series of questions touching on this theme and related to recent economic history about the effects of Porfirian credit policy on economic performance.

Recent studies of Porfirian credit policies have unfavorably compared their general economic effects to those of contemporary Brazil where more liberal policies reputedly produced more industrial competition and higher economic growth. Without disputing this analysis, I would argue the need for more comparative study focusing on the mid- and long-term effects of bank failures on both the financial sector and the economy as a whole. Recent economic work has indicated that bank failures cause significant damage to economic growth. It suggests that bank failures, in fact, can have significant macroeconomic consequences. For example, Richard Grossman has found

⁴⁴ Tortella "Banking and economic development in Spain," Banking, Trade and Industry (1997), p. 229.

that bank failures can indeed lead to a 2% decline in real GNP, with larger failures up to 20%.⁴⁵ The historical examples of 1890s Brazil and Mexico would be an especially apt comparative testing ground, given that in the case of the former, liberal credit legislation ended quickly in broad-scale bank failures, and in the case of the latter, a slightly less liberal policy resulted in the absence of bank failures.⁴⁶

The 1897 bank reform did not narrowly cater to the interests of the nation's financial elite attached to Banamex. On the contrary the state's policies reflected its growing autonomy and were intended to increase that autonomy. Other recent students of the Porfirian state have also found that it enjoyed a degree autonomy from economic elites that traditional historiography had not acknowledged.⁴⁷ The regime's policymaking autonomy raises questions about its social base.

This paper has argued that the Porfirian state's autonomy from its financial elite was based in part on its growing fiscal strength, and in part on a more competitive domestic and foreign financial arena, where the state could exploit counter-weights and alternatives. I have also suggested that political factors increased the state's autonomy vis-à-vis Banamex. It seems clear that the Mexican directors were more

⁴⁵ See Richard Grossman, "The Macroeconomic Consequences of Bank Failures under the National Banking System," Explorations in Economic History 30, 294-320. See also the recent discussion of the alleged benefits of a completely liberal banking system Economic Journal 1997.

⁴⁶ For example, "All indicators point to a substantial decline in real per capita product during the 1890s, though they differ considerably as to its size. Contador and Haddad estimated 35%, whereas Goldsmith arrived at 11 percent. Between 1900 and 1913, when for the first time an index is available that is based for a large part of the economy on quantitative series, both aggregate and per capita real product increased substantially, 77 and 34 percent, respectively, for annual rates of 4.5 and 2.3 percent. In spite of all uncertainties, there can be little doubt that the Brazilian economy grew very slowly during the first years of the Republic and that pci declined in 90s and increased 1900-13." See Maria Bárbara Levy, "The Banking System and Foreign Capital in Brazil," International Banking 1870-1914, pp.360-61.

⁴⁷ Holden, Mexico and the Survey of Public Lands.

easily swayed by nationalism or considerations of the 'national interests,' than were its foreign directors. The former recognized that the regime generally acted in its long-term interests, its class interests. Only when one considers political interests that are not explicable in terms of efficient markets or discrete benefits can one understand the different responses among Banamex's local and foreign shareholders. Issues having to do with the maintenance of power were important. This suggests that what Hubert Bonin has written about French financiers with respect to their own government was also true of their Porfirian counterparts: "private interests showed themselves to be strangely malleable and submissive, when, in the name of the general interest, public authorities appropriated for themselves a proportion of the controllers of wealth's inheritance."⁴⁸

The financial elite's response to the bank reform can also be judged in a comparative social light, by considering the impact of Minister Limantour's other main fiscal innovation of the 1890s, the elimination of the *alcabala*, the internal commercial tax. When this internal tax was withdrawn, the state found other means to raise revenues, mainly through new direct contributions, which fell heaviest on popular classes. The state was less successful in persuading rural folk that it was acting in their long-term interests. As Banamex reported to Paris:

Como motivo de la proxima supresión de las Alcabalas y su reemplazo por distintas contribuciones, dos ó tres poblaciones del Estado de Oaxaca se amotinaron y asesinaron á algunas autoridades, saqueando y atrapellando al vecindario. El Gobierno movió en el acto numerosas tropas sobre las indígenas, quienes ya andan dispersos en los montes y todo quedará pronto completamente apaciguado. Se atribuyen esos sucesos á lo inconsulto de la ley fiscal relativa y á explotadores de la ignorancia y malos instintos a

⁴⁸ Hubert Bonin, "Bankers and financiers in France," *Finance and Financiers*, (New York, 1992), p. 239.

los indios, á quienes les pintan como más onerosa para ellos una reforma que mejorará las antiguas condiciones de su comercio.⁴⁹

Three weeks later Banamex noted that "las rebeliones in el Estado de Oaxaca han sido reprimidos con severidad y toda aquella región está ya tranquila."⁵⁰ Upon such acts of swift and severe justice against those who balked at economic reform, the Porfirian state reconstructed its autonomy and reassured elites that it acted in their nation's long-run interests.

Above we have noted the achievements and policy successes of the bank reform. It helped increase the state's freedom of action, reduce the institutional constraints on the growth of domestic financial institutions, and nurture the growth of a more competitive, stable system. Alongside these achievements the reform specifically and state policy more generally imposed limits, suffered contradictions, and produced failures. One of the reform's great ironies was that on the one hand it sought to promote economic change by establishing credit institutions that would regularize, stabilize and make more predictable financial activity. Yet on the other, the policy effort needed to create these institutions occurred in an unstable, opaque environment subject to the interventions and manipulations of an activist finance minister and president. The strength of the state's autonomy rested in part on its capacity to manipulate private actors by covert threats to apply (or not) the law in an arbitrary way. Autonomy based on this lack of transparency, based on pursuing policies in a "façon irrégulière" was also a structural weakness, especially where tradition and history prejudiced the public against the state's bona fide.

⁴⁹ Cartas al comite, May 2, 1896, AH BNM.

⁵⁰ Cartas al comite, May 28, 1896, AH BNM.

Even in the late 1890s pockets of financial autonomy persisted within Mexico that preferred to conduct business outside formal institutional channels, at least partly out of fear of the state. For example, in 1897 Banamex reported that in Mazatlán, neither its branch, nor that of Banco de Londres, nor even a new bank started by several of its principal shareholders (Sebastián Camacho and Roberto Symón) would enjoy much success. Banamex informed Paris that all official bank ventures in Mazatlán soon learned of the “imposibilidad de negociar, moverse y utilizar, porque los capitalistas de allá monopolizan el tráfico bancario y están muy unidos para ayudarse mutuamente con los elementos propios de que disponen.”⁵¹

The lack of transparency and the resulting unease with the Mexican state and its legislation tended to lead U.S. investors in another direction. Because U.S. banks were prohibited from establishing foreign branch banks, U.S. financiers sought to have U.S. law applied in Mexico. This failed because as Minister Limantour explained to James Speyer, head of the Speyer firm in New York, whose firm had extensive financial ties with the regime,

on different occasions important American firms have approached me with requests for a concession for the establishment of a great bank; but they have asked for impossible things, as, for example, that they should be allowed to transact their business in accordance with American law and custom. This inadmissible request has been the chief obstacle to the realization of projects of this nature and the practical result is that, while other nationalities have succeeded in securing control of some of the most powerful banks, American capital does not figure at all in any of the thirty odd banks which operate in Mexico under a government charter. Permit me to tell you on the strength of our friendship and with entire frankness that the reason for this anomaly is to be sought in the fact that you Americans are prone to expect that everything, even outside of your country, should be done in the manner to which you are accustomed and in

⁵¹ Varona to Comité, Cartas al comite, October 9, 1897.

accordance with your own legislation, assuredly not reflecting that, however favorable to you may be a comparison between your wealth and the wealth of other countries, each nation has the right to insist that all who settle within its borders shall submit to its laws and customs. It is necessary, therefore, to dismiss any other idea than that of founding a bank in accordance with Mexican legislation, a bank enjoying no other privileges nor franchises other than such as are conveyed by the general law.⁵²

Both the independence of the Mazatlán merchant/creditors and wariness of U.S. bankers reflected a tacit skepticism of state law. That this fear was not unfounded is evidenced by the state's heavy-handed treatment of Banamex during private negotiations, its thinly veiled threats to Banco de Londres, and the appearance of Banco Central Mexicano when the reform provided for no such bank. The state's wiliness was a two-edged sword that it brandished at its own peril.

As Limantour's telling response to Speyer suggested, foreign investors (at least U.S. ones) wanted more than a clearly defined legal environment. They wanted their own legal environment. But in fact, they wanted even more. As Jacob Schiff wrote in the early 1890s to Cassel, "If the American public only knew that after Diaz's death, an equally energetic and satisfactory leader could be found to act as the head of Mexico, there would be much more confidence in Mexican affairs and Mexican securities."⁵³ Ironically, at the time of Schiff's letter, a move was afoot in Mexico to establish a political party, to attempt to institutionalize politics. However the Científico party scheme was squashed by Diaz, who believed that it might serve as a lightning rod for dissent. Instead, the regime sought to institutionalize the dictatorship. In late 1895,

⁵² JYL to James Speyer, June 12, 1905, File A635, HA DB.

⁵³ Jacob Schiff to Ernest Cassel, January 15, 1892, SP AJA.

responding to uncertainty attending reelection limits, an initiative was brought to Congress to permanently remove the restriction for presidential terms. Lest the import of this initiative be missed on their Paris colleagues, a Banamex director wrote the committee expressing the hope that the initiative to change the election law, "disipará la incertidumbre del porvenir que retraía á todos de acometer empresas de larga duración y aventurar capitales á largo plazas."⁵⁴ Although Congress could rescind election limits, they could not legislate against the inevitable. The inevitable was foreshadowed for bankers whenever news of an assassination attempt against Díaz or a rumor of his declining health spread abroad: foreign markets would record a steep sell-off in Mexican bonds and securities.

We conclude this work by briefly comparing the nature of the bank reforms of the 1890s with the policy pursued in the "early" Porfiriato. It is growing commonplace to distinguish the early Porfiriato as a time of unabashed liberal, laissez-faire policies from a later period in which the government began to intervene more directly in economic policy. At least with respect to bank policy, this description seems to be exactly wrong. In the late 1870s and early 1880s, the Mexican government intervened forcefully in bank matters, granting a monopoly concession in order to receive funds necessary to do what the private sector alone would not or could not do: invest in an improved transport system. In doing so, the state flouted liberal international conventions that required countries in default to resume debt payments before receiving fresh capital flows. The direct role played by the government in subsidizing the transport system could not be classified as liberal and neither could its policy of accepting so many restrictions on the

⁵⁴ Cuevas to Comité, Cartas al Comité, November 25, 1895, AH BNM.

nation's banking system. In both cases the Mexican state proceeded because it believed the public return on these policies was so high.

On the other hand, the interventions of the late 1890s removed most (but not all) restrictions to market entry into the banking system. The late 1890s initiatives reflected that the Porfirian state had fully embraced new, if silent, partners in its design of financial policies. These partners, the international banking syndicates, left the state free to design a banking system of its choosing. However, these partners would only reward the Porfirian state with lower interest rates and better terms and conditions if it pursued financial policies that sought to balance the budget, control and limit expenditures, reform its currency system, and reduce its financing of additional public investment. The irony of the state's financial strength in the late 1890s, expressed in terms of its successful bank reform and its elevated status on the international bond markets, was that it was made possible by its withdrawal from assuming a direct, active role in the economy, even if the public return on such activism might have proved to be exceptionally high.