“Nada de Papeluchos:”
Managing Globalization in Early Porfirian México

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Introduction

The global exchange did not go as planned for the bankers. In the summer of 1881, a young banker sent from Paris by the Banque Franco-Egyptienne, Edouard Noetzlin, was still in Mexico City trying to obtain the elusive concession for the national bank of Mexico. After months of delays, in a last effort to secure the concession, the Franco-Egyptienne succumbed to local pressure, and authorized Noetzlin to pay a bribe of fifty thousand pesos to a well-placed official, General Jesus Lalanne. When Noetzlin presented the check, he watched as Lalanne scrutinized it, turning the check over and over in his hands before shouting at the banker: “Nada de papeluchos! Pesos fuertes!” The general, it seems, did not take checks. Days later when Noetzlin and two associates returned in three carriages laden with fifty sacks, each bulging with a thousand silver coins (twenty-seven kilos a bag), the deal was consummated. It was not a particularly auspicious start to a global partnership. Indeed, as the bankers turned their now three empty carriages away from the general’s offices, it occurred to Noetzlin that they had neither receipt nor signature nor pesos fuertes.¹

For Noetzlin the rude exchange may have simply confirmed prejudices about late nineteenth-century Mexico. To the historian, however, the encounter suggests other truths. It captured the provincial’s distrust of the foreigner and crystallized the ways in which power relations, those between creditor and debtor, between foreign and local actor, were often surprisingly inverted. Furthermore, in Lalanne’s contempt for financial

¹ Jacques Kulp, Mes Souvenirs, AH PB.
instruments, for papeluchos, there was deep irony. He was rejecting the very essence of the modernity European bankers were hoping to bring, and profit from in Mexico. The vignette also illustrates two main themes of this essay. First, this essay claims that the direction, terms and timing of global exchanges were more complex, ambiguous, and multidirectional, more subject to shifts and reversals than is commonly thought. Second, Noetzlin’s unease upon delivering the pesos fuertes highlights the second theme, because his unease was warranted. Although Noezlin acted on the belief that public policy was for sale, in fact the monopoly that he believed he had purchased never materialized. Throughout the 1880s, he and his bank, Franco-Egyptienne, repeatedly failed to secure the privileges and concessions to which they felt entitled. Even in the early Porfiriato, when the state was literally bankrupt and financiers promised deliverance, private actors, neither well-heeled financiers nor well-placed insiders like General Lalanne determined state policy. As the essay argues, despite the much ballyhooed corruption and cronyism captured in the vignette, Noetzlin never received the monopoly, because the Mexican government managed it financial policies with relative autonomy to advance its own developmentalist agenda. Thus the vignette ultimately vividly points to the challenges that prominent foreigners faced, as well as their assumptions about how to overcome them.

The last quarter of the nineteenth century initiated the first modern age of globalization, as transfers of capital, commerce, and humans accelerated across the globe. Focused specifically on Mexico in late 1870s and early 1880s, this essay addresses two questions about the process of globalization, especially global capital flows. First, how did Mexican officials manage the onset of globalization? Second, how did both Mexican
officials and private actors manage the conflicts and problems that globalization unleashed? The specific developmental dilemma that Mexican policymakers faced was that Mexico required foreign capital in order to finance its growth, but because its foreign debt was long in default, external capital markets were closed to it. I argue that globalization was not imposed by external forces, nor did foreign actors dictate the terms, conditions, or timing of Mexico’s insertion into the global economy. Rather, global capital flows into Mexico were negotiated and renegotiated, between Mexican officials and private actors and the foreign investors who sought the field and favor. Politics, international and domestic, shaped policy in myriad ways more subtle than much scholarship suggests. Moreover, the impact of foreign finance was not to displace or drive out local entrepreneurs, but paradoxically the contrary—it galvanized and united them.

Mexican officials in the first Diaz administration (1876-1880) and then early in the Gonzalez administration (1880-1884) devised and pursued a complex, well-coordinated plan to overcome both external and internal obstacles to Mexico’s economic development. They sought to promote political stability and economic growth by pursuing a path of financial globalization that tapped alternative capital flows before settling the country’s foreign debt, long in default. After agreeing to subsidize foreign-led railroad construction, they leveraged short-term foreign capital flows to finance the railroad subsidies and other costs of those infrastructural investments. The government pursued its plan not only with relative autonomy, but also in conflict with foreign and domestic financiers. Mexican officials managed this conflict by deftly overcoming constraints and thereby contributed to the economy’s longer-term growth and dynamism.
Moreover, the government’s ability to exploit global capital flows without undermining domestic investors strengthened the regime’s political resilience and domestic support. At its heart, the plan sought to put off the British Bondholders until the Mexican economy and polity were sufficiently robust to absorb the shock that debt servicing would entail. Of course, not every public official or private actor agreed with the plan, nor backed it with equal enthusiasm and commitment. Indeed by 1883, as I show in last section of the paper, President Gonzalez himself had retreated from the plan, the result of its inherent limits and contradictions.

The findings and arguments of this essay join several related scholarly debates, not only about Porfirian economic and political history, but also more generally about the existence and effect of “crony capitalism” and the role, impact, and influence of foreigners and foreign capital in Latin America. Most scholars assert that early Porfirian public finances were barely manageable and Mexican policies chaotic, as policymakers careened from one ad hoc solution to another. More significantly, they suggest that financial policies were compromised by the government’s weakness, which allowed private actors to connive and collude with public officials. In exchange for providing the government needed financial resources, a clique of private bankers obtained concessions and privileges that restricted market access. In consequence, early Porfirian financial initiatives harmed the long-run performance of the economy, making the financial arena and thus the economy more concentrated and less competitive. In this view, these inefficient arrangements were the result of collusion between public officials and economic elites -- a kind of “crony capitalism” or “vertical political integration.”

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2 For arguments that assert an identity of interests between financiers and the Porfirian government see Stephen Haber, Armando Razo, and Noel Maurer. The Politics of Property Rights: Political Instability.
Much scholarship on business history and globalization in the late nineteenth- and twentieth-century Latin America focuses either on how North Atlantic actors drove the process, or on the impact of globalization on the receiving country. In both cases the receiving country or region is the object of external action. The point of view adopted here, to focus on globalization from the local perspective is not simply rhetorical—I am not concerned to redress an historiographic slight of the periphery. Instead I offer compelling evidence that Mexican policymakers largely determined the pace and sequencing of the economy’s opening to global forces. These same local actors then continued to shape and manage the unfolding process.

The setting

In 1876 in what seemed only the most recent cynical coup, General Porfirio Díaz rose at Tuxtepec and ousted President Lerdo de Tejada, shattering the tenuous peace of the Restored Republic and presaging Mexico’s return to an orbit of political and economic chaos. To the surprise of many, Tuxtepec proved not to be an atavistic apparition. Except for a four-year interregnum (1880-1884), Díaz presided over Mexico until 1911 overseeing an unprecedented era of national political stability and economic growth.


growth. These notable policy successes often created unintended conflicts and contradictions, some of which were adroitly managed. Yet other conflicts and contradictions less apparent or seemingly less momentous or more intractable, were left to fester, and later erupted violently in the Mexican Revolution.

General Díaz inherited the economic dilemma that had bedeviled Benito Juárez and Sebastián Lerdo de Tejada, and in some sense every Mexican leader, since the 1820s. How could Mexico attract foreign capital to spur economic growth when it first needed to settle the English debt? But how could it afford to resume debt service without first launching economic growth? If we assume a rough correspondence between economic growth and railroads, policymakers faced the following circular riddle: Mexico needed railroads in order to begin servicing the debt, and needed to repay the debt in order to build the railroads. As with the other areas of national policy, Díaz’s timing was impeccable. The Tuxtepec uprising of 1876 coincided with a white-hot international economy characterized by strong demand for primary goods and by a growing supply of capital, conditions generally acknowledged as the major external factors driving the Porfiriato’s economic growth.

Although the dynamic international economy created the basic conditions in which Mexico could grow, the ways in which Mexican policymakers exploited those conditions to protect and increase its autonomy is less well appreciated. When the City of London was the sole source of public finance for debtor countries, its embargo exercised decisive pressure on countries which had defaulted. However, after the 1850s, the increasingly competitive North Atlantic capital markets relaxed the stranglehold that London had enjoyed, providing debtor countries with a wider range of financial policy
options. The capital-starved Mexican government exploited these conditions. Barred from the London capital market, Mexico mobilized competing foreign and local financial resources with which it initiated economic growth before settling the debt.

Viewed within a comparative context, the initial U.S. capital flows into Mexican railroad construction should be seen, from the demand side, as a response to the Mexican government’s self-conscious plan to exploit the competitive international arena. In the late 1870s, after many false starts and much policy debate, the Díaz regime resolved to subsidize private, foreign (mainly US) railroad construction, paying companies a specific dollar amount for every kilometer of line laid. Ultimately, the Mexican government paid between a quarter and a third of construction costs. It was not quite a solution, however. As became clear in 1883, the subsidy program simply had delayed the day of reckoning because subsidies caused government deficits to balloon quickly.

Why did Mexico’s policymakers choose not to settle the British debt earlier? Settling the British debt would have demanded financial sacrifice and exposed Mexican administrations to political risks without any immediate corresponding benefit. Moreover, officials feared that such a policy would expose them to political attacks couched in nationalistic terms by their rivals.4 Thus, although settling with the Bondholders was an alternative that the Mexican government contemplated, it did not attract a broad following. Mexican public officials, by postponing the resumption of the English Debt, had made a profoundly political economic decision. The government sought above all to manage its economic diplomacy by preserving and extending

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4 Evidence of policymakers’ fear of the costs of settling early are indirect but numerous and robust. Throughout nineteenth-century Mexico, public officials linked a depleted treasury with political revolt. Moreover, when in 1884 and 1885 officials attempted to settle the English debt, political firestorms broke out.
domestic political stability. By determining the pace and sequencing of its financial opening, the Mexican government was exercising its relative autonomy against its historic creditors. The government’s strategy was to induce growth first, in order to make growth more viable by creating a broader class of stakeholders in the economic opening as well as improving its bargaining terms with the bondholders. Such a policy, the government hoped, also would strengthen its nationalist credentials, its legitimacy.

Thus, the Mexican government initiated the booming growth of the Porfiriato by flouting a central tenet of financial liberalism: that a debtor country had to resume servicing past loans before it could borrow anew. The regime defied this canon for ten years, finally settling with the British Bondholders only in 1886. The early Porfirista/Gonzalista financial policy was an essential plank of a larger program of domestic and international political economy that the regime pursued aggressively, with considerable autonomy and striking success.

**Flouting the British Bondholders**

Every foreign project that tried to raise capital for Mexico—for railroad companies, banks, or mines—drew fire from the Committee of Bondholders, the English group that officially represented Mexico’s creditors. The Bondholders opposed the resumption of capital flows to countries in default. They argued that further access to capital undercut its pressure, delaying and weakening settlements, and rewarding bad faith (in today’s parlance creating a “moral hazard”). The Bondholders had elicited a promise from the Amsterdam market alone to refrain from issuing Mexican loans. But in the late 1870s, the Bondholders’ credit embargo of Mexico started to crack, the result of growing international competition for investment outlets. Their vigilance failed to
prevent private British and U.S. firms from raising funds for Mexican railroad construction. When the Bondholders sought an injunction against the sale of Mexican railroad bonds, the English judge ruled against them, chiding them for their short-sightedness. The judge encouraged them to view such investments as enabling Mexico to acquire the wherewithal to resume debt service. The judge might have added that in the expanding global capital market of the 1870s, the Bondholders’ attempts to restrain the flow of capital to Mexico would simply leave the field to competitors.

In an effort to spur growth (and break the Bondholders' grip) Mexican officials aggressively pursued alternative alliances. In 1880, Emilio Velasco, Mexico’s diplomat charged with reestablished relations with France reported to the Foreign Minister that the Bondholders were continuing the policy of closing the English market to Mexican business. He observed that if “México could establish a bank with French capital, it would make our creditors understand that London is not the only market and that without it we could develop our local enterprises.” Velasco suggested that if Mexico could “liberate itself from the London market” it could use funds borrowed from the French to purchase the devalued London debt and also proceed to “construct railroads with American capital and found banks with French capital, with the effect of demonstrating to the Bondholders their impotency in pressuring us.”

Mexican officials were not simply balancing foreign interests, nor were they seeking only to reduce British power and influence. Rather, by exploiting the competitive international arena, they sought an alternative path to globalization, a path

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5 For the Committee’s efforts to starve Mexico of funds, see Wynne, State Insolvency and Foreign Bondholders, (New Haven, 1954), pp. 36-39.

6 Velasco to SRE, August 30, 1880, Legajo II, no. 404, AH SRE.
that allowed the Mexican economy to nurture growth and political stability. Flouting the rules of Britain’s informal empire was a self-conscious aim, designed to manage Mexico’s delicate political economic challenges. For these reasons, in the late 1870s the Díaz regime began to search abroad for a small loan to cover some of the costs of subsidizing its program of internal improvements. Díaz had begun his regime by borrowing funds from local agiotistas to service the debt owed to the U.S., for losses suffered by U.S. citizens resident in Mexico during the war against the French. The U.S. indemnity was the one loan paid religiously, given national sovereignty concerns. But the agiotistas supplied insufficient credit to finance a robust development plan. The English debt was simply put on hold until a later date, and the French debt was consistently repudiated. Nevertheless, it was in France, more specifically in the improbably named Banque Franco-Egyptienne that the Mexican government found bankers interested in investing in Mexico.

When President González assumed office in December 1880, he continued Díaz’s policy of postponing the settlement of the English Debt settlement. He agreed that the debt settlement should wait until Díaz’s return, “when increased revenues will make it easier to pay the debt and the U.S. debt will be paid off.”7 For the first time since the 1820s when Mexico broke from Spain and borrowed on the London market, the international capital arena offered opportunities and incentives, and these incentives conditioned the state’s decision-making process.

**Banque Franco-Egyptienne**

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7 Carlos Pacheco to Porfirio Díaz March 31, 1882 CGPD Legajo 7, 244.
The credit embargo against Mexico created an opportunity for any financial institution outside the orbit of the bondholders. This opportunity was seized by the Banque Franco-Egyptienne (henceforth Franco-Egyptienne), a small, fledgling bank that in the early 1870s provided public finance to the Egyptian Khedive. Franco-Egyptienne was pushed out of Egypt as a result of the international politics that saw England replace France as the country’s dominant foreign power. In the third quarter of the nineteenth century a rash of smaller banks, like Franco-Egyptienne, sought formal and exclusive relations with sovereign governments, because they brought bankers into close relations with local governments, for whom they brokered loans and managed a raft of state financial operations. This was the strategy the Franco_Egyptienne was following when it sought a concession to create what became in 1881 the Banco Nacional de Mexico (hereafter the Nacional). If the banks helped Mexico gain access to international capital markets, and Mexico managed to grow and to settle these earlier debts, these officers stood to make fortunes.

In addition to trading government bonds and railroad stocks, French bankers had planned to sell the bulk of the future bank's shares at a substantial premium. Mexican bankers alone could not exploit these financial advantages, because without the crucial intervention of foreign financiers they could not raise corporate funds on European bourses. In addition, the foreign bankers created special foreign "committees" that oversaw the new bank’s operations, in part to protect their investment and instill investor confidence. Over time the divided management structure, with overlapping foreign/local boards, created tensions and conflicts usually resolved in favor of local control. Yet the foreign boards succeeded in another role, largely hidden from public view. Since these
banks served governments, their overseas boards were privy to insider information.⁸ Access to such information was exploited on European bourses by trading, speculating and manipulating a range of securities such as public debt bonds, railroad stocks, and currencies.

The man responsible for bringing Franco-Egyptienne and Mexico together was one Eduard Noetzlin. Noetzlin, who would continue to play a crucial role in Mexico’s finances until the Mexican Revolution, deserves a brief introduction. Very little is known about Noetzlin, and it seems that he will remain an obscure figure—since his private papers were destroyed in the infamous Paris flood of 1911. Born in 1848 in Basel, Switzerland to a family of petty bankers, Noetzlin followed a path north and west, first apprenticing in Frankfurt. In the early 1870s he was brought to Paris by the Bischoffscheim family, whose banking network extended from Germany, through France and the Low Countries, to England.⁹ They had united several banks in France, Holland, and Belgium under the name Banque de Paris et des Pay-Bas, and it was at this bank that Noetzlin clerked for several years. In 1875, he was appointed general secretary of yet another Bischoffscheim venture, Banque Franco-Egyptienne, founded in 1871 as a semi-public bank for Egypt, serving the Khedive. Noetzlin, however, having developed a reputation as a shrewd negotiator, was sent to New York 1877 to negotiate a settlement for Franco-Egyptienne and Bischoffscheim’s London banking house over a disputed bond issuance.

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⁹ For the best account of the Bischoffscheims’ activities, see Kurt Grunwald, Türkenthirsch (Jersusalem 1966), especially, pp. 13-20.
The two houses had co-issued a series of U.S. railroad bonds that fell into trouble because the U.S. companies misallocated the funds. As the negotiations dragged on, Noetzlin spent most of the next several years in New York. By happenstance in 1879 Noetzlin learned through his New York colleague, Adolfo Hegewisch, that the Mexican government was searching for a loan. Hegewisch's brother, Evevardo, had married into the Veracruz merchant banking family of Manuel Alvarez. Acting on Hegewisch’s tip, Noetzlin sought out Alvarez (owner of Formento F. y Suc.) in New York City, where they discussed a possible $5 million loan at 10-12%. Then, as now, young bankers advanced by bringing new business to the firm; Noetzlin notified Franco-Egyptienne of the situation. The bank authorized Noetzlin to pursue the lead, and so began Noetzlin’s life work.

Franco-Egyptienne instructed Noetzlin to insist as a loan precondition that the Mexican government settle a dispute over French bonds issued under Maximilian, the so-called ‘petit-bleus.’ After the French were expelled from Mexico in 1867, successive Mexican administrations had denied the validity of the petit-bleu holders’ demands, claiming that the bonds were issued under an illegitimate foreign occupier. In the late 1860s, the French government reimbursed the bonds at fifty percent. The bondholders sought the other fifty percent from the Mexican government, and had lobbied the Paris Bourse not to admit future Mexican government debt until their claims were satisfied.

After meeting representatives of Díaz’s administration, Alvarez reported that Mexico was keenly interested in a loan, but only if the French bankers acted swiftly and dropped talk of the petit-bleus. This proved to be an initial stumbling block.
Absent a resolution of the petit-bleus, the bankers advised Mexican officials that the Paris Bourse would not welcome new Mexican public debt. At this point negotiations shifted to Paris, where several directors of the Franco-Egyptienne began talks with Mexico’s minister in France, Emilio Velasco. As a way around the Bourse’s opposition, Franco-Egyptienne suggested that it provide Mexico with the required funds through a different format, by leasing the Mexico’s mints. This would impart, as they said, an “industrial character” to the affair. In the proposal, the French bank also stipulated that it be given preference for a concession to create a national bank in Mexico. Velasco, who was negotiating the re-establishment of official relations with France, scrutinized the contract. In a detailed report to Mexico’s Secretary of Foreign Relations, Velasco pointed to the plan’s high financial costs for Mexico and to the political risks inherent in leasing the government’s mints to foreign investors. He also concluded that the Mexican government “would lose all freedom of actions” if it ceded to the French bankers preferential rights to establish a national bank. He urged his government to reject the proposal. The Díaz government did reject the loan proposal and began discussing with Franco-Egyptienne a project limited to creating just a national bank. Negotiations over the national bank, which would serve as a clandestine channel of foreign capital in the era before settling with the Bondholers, quickened when Velasco ascertained that the Franco-Egyptienne would not link the bank’s creation to the issue of the English debt. Indeed, a director of Franco-Egyptienne, Frederic Flersheim, assured Velasco that his bank did not want to link the bank with a complicated affair like the debt.

10 Velaco to SRE, December 15, 1879 #217, Legajo II France, AH SRE. For the government’s concurrence see SRE to Velasco, December 27, 1879, #220, Legajo II France AH SRE.

11 Velasco to SRE March 15, 1880, Legajo III, no.495, AH SRE.
The long arch of negotiations reveals the Mexican government’s primary aim: to obtain funds for itself, but not at any price. Just as the Mexican government denied the Bondholders, it also rejected other foreign schemes when the financial or political costs (or both) were deemed too high. Therefore despite the regime’s weakness and financial exigencies, it rejected a string of costly proposals. The negotiations also highlight the consistent aims (but flexible tactics) of the Franco-Egyptienne, which sought new investment outlets and wanted to serve as Mexico’s foreign conduit. In subsequent negotiations, its bankers insisted on monopoly privileges over private banking and over Mexico’s public finances. Velasco reported that Franco-Egyptienne’s representatives “made it clear that the monopoly provision was absolutely essential”\(^{12}\). Without the incentive of a monopoly, the bankers argued that their risk-taking would subsidize later entrants, and if the Government reserved for itself the freedom of accepting the bills of other banks, it would be a constant threat to the proposed national bank. As described below, the bankers’ fears were prescient, because soon after receiving the national bank concession, Franco-Egyptienne faced a competitor whose emergence it had (in some sense) subsidized.

Initiated in 1879 by the Mexican government, the negotiations with Franco-Egyptienne waxed and waned for over two years. Mexican officials repeatedly delayed the final agreement to ensure that the national bank contract fit its plans and would not displace domestic bankers. In 1880, Diaz was forced to lease government mints to internal investors, a policy whose financial costs and constraints the opposition press

\(^{12}\) Velasco to SRE, August 7, 1880.
In the summer of 1880, Franco-Egyptienne seemed to be on the verge of receiving the bank concession. In the last weeks of the Diaz administration, however, the government postponed an agreement, citing a reluctance to commit the state to such a contract on the eve of a new administration—President-elect Manuel González was to assume office in December 1880. The actual reasons for the delays are not clear, but the reason offered seems doubtful given that Díaz finalized two momentous railroad contracts in September 1880. Díaz’s reluctance may have reflected his sensitivity to local financiers who opposed the foreign proposal.

Nevertheless, talks continued in Mexico. Little is known about the exact steps that led the new Gonzalez administration to pursue the bank concession. In November 1880, Alvarez traveled from Veracruz to Mexico City to meet with Díaz, González, and Treasury minister Toro, apparently to explain to them the general outline of the proposed national bank. Alvarez and other Mexican intermediaries urged Noetzlin to send an official representative to Mexico. Given the expenses involved and the risk of failure, Franco-Egyptienne waited until the new Gonzalez administration made a concrete gesture. In January 1881, the Mexican Congress authorized the government to create a national bank. Soon thereafter, Franco-Egyptienne dispatched Noetzlin to Mexico City to secure the concession.

**Negotiations in Mexico**

Initial rumors of a European bank project alarmed Mexico's banking community. Some Mexican creditors, like Manuel Alvarez, were boosters since they stood to be

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13 See the series of editorials in *El Siglo XIX* (Mexico) January 17, 20, 21, 1880.

14 Hegewisch to Noetzlin, with cable from Manuel Alvarez, December 4, 1880. C. 629, AH PB.
rewarded for their mediation. But important agiotistas saw the proposed bank as an unwelcome competitor. In addition, since several had accumulated large blocks of Mexico’s foreign debt, they were aligned with the English Bondholders and wanted the regime to first settle the English debt. Noetzlin’s U.S. colleague Hegewisch discounted the agiotistas’ mischief, saying that “Mexico is a famous country for petty and small intrigues, and I do not wonder at the opposition made to you.”¹⁵ The intrigue awaiting Noetzlin in Mexico was neither petty nor small, however. The most formidable opponent was both an agiotista and Bondholder. His name was Ramón Guzmán, speculator extraordinaire.¹⁶ Guzmán, a wealthy agiotista and railroad promoter, had speculated in the foreign debt, a fact that had brought him into collusion with the Bondholders. In England Guzmán and other Mexicans (including the government’s financial agent in Liverpool) had conspired with the Committee of British Bondholders to condition the creation of a national bank on a debt settlement.¹⁷ By holding the national bank project hostage to their own financial speculations, Guzman and others were working to undermine the government’s plan to initiate growth before settling the English Debt.

Guzman’s deployment of foreign and domestic political resources recalled past tactics of Conservative financiers, who during Mexico’s civil wars lobbied European states. But Guzmán was not yet an anachronism. The empresario spirit—making fistfuls of money the old-fashioned way, through speculation—was still alive in the Porfiriato. Franco-Egyptienne learned that Guzmán not only “worked to impede a bank in México

¹⁵ Hegewisch to Noetzlin, October 20, 1880, C. 629, AH PB.
¹⁶ Quevedo y Zubieta, Manuel Gonzalez y su Gobierno (México, 1884), pp. 107-8 and 249ff.
¹⁷ Velasco to SRE, August 19, 1880 France Legajo III no. 514 AH SRE.
until the debt was settled” but also that he “was decisively important in public treasury affairs despite not being a public official.”¹⁸ When Noetzlin arrived in Mexico to obtain the bank concession in the spring of 1881, he did not find it difficult to persuade Guzmán to drop his opposition, but it was expensive. The two reached a happy understanding and Guzmán emerged as Nacional's largest shareholder, with some 6,500 shares.¹⁹ But the cost of buying him off would soon become apparent. One unintended consequence of this costly ‘purchase’ was that the European bankers believed there was little left for other Mexican participants, and thus strongly resisted offering shares to many key local merchant-creditors. It was emblematic of Franco-Egyptienne's elitist approach to resolving negotiating obstacles. Until his death in March 1884, Guzmán, as a leading officer of the state’s bank, traded gainfully on his new-won public trust.²⁰ Yet on balance, the collaboration of Guzmán and his ilk with the European investors was a boon to the Mexican government. The alliance finally unmoored London’s ties to Mexico’s financial elite, leaving the bondholders adrift and the Mexican government free from a powerful obstacle to pursuing its economic strategy.

Franco-Egyptienne partnered with a small fraction of the local elite, offering it a twenty per cent share. The Mexican investors Noetzlin assembled held to an identifiable pattern, influenced by his initial contacts in Mexico, his newlywon ally Guzmán and other agiotistas, and the northern European merchants resident in Mexico. They constituted a minute fraction of Mexico’s extensive credit networks. Save for a handful of

¹⁸ Velasco to SRE, August 17, 1880 France Legajo III no. 512 AH SRE.
¹⁹ Only Banque Franco-Egyptienne held more shares, 16,000. By comparison, Noetzlin received only 2000 shares.
²⁰ See Ramon Guzmán to Baring Bros. February 10 1883 and then again December 19, 1883. HC 4.5.46 BBA GL.
Veracruz merchants (including Noetzlin’s initial Mexican contact, Manuel Alvarez),
there were few provincial representatives. Divisions among Mexico’s political and
financial elite had long served as a drag on coherent national economic policy. When
Franco-Egyptienne offered only a twenty per cent share of the new bank to local
investors, a struggle erupted between the haves and have-nots (in terms of shares of the
proposed national bank). The excluded investors they were not without political clout of
their own. Their influence was felt in several ways: in the Senate, where a first bill
ratifying Franco-Egyptienne’s concession was stymied; and later in President Gonzalez’s
cabinet. Over the next several years, the lack of provincial representatives and the
virtual exclusion of competing credit networks bedeviled the bank.

Nevertheless, in May 1881 Noetzlin and his local partners succeeded in
introducing the bank bill to Congress. The bill sailed through the Mexican House of
Deputies, but met a different fate in the Senate. The upper house delayed consideration
of the bill until May 30, the last day of the spring session. Just as the vote on the bank
was called that afternoon, many Senators suddenly exited the floor--to begin their
summer recess. Although the bill had not been defeated, it was postponed at least until
the reconvening of Congress in September. The French Minister explained the ruse:
"From the start, many members of Congress had decided to vote against the project, and
not wishing, at least, to act in direct opposition to the Government, they have taken to the

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22 See: Morgan to Blaine August 24, 1881 FRUS (Washington 1882) 798-801; and also Richemont to St.
Hilaire August 16 1881 Correspondence Politique Vol. 71 Mexique AMAE.
practice of leaving the chamber of deliberation, at voting time, as a way to prevent the necessary quorum.”

The oblique way in which Mexican politics and elites functioned deserves comment. The Congress under Gonzalez was not the ineffective register of private interests that it became later in the Porfiriato. The Senate’s behavior also suggests that the relationship between politics and economic life during the Gonzalez administration was delicate. Public policies were affected by formal politics, but lawmakers sought to avoid the appearance of conflict with the executive (especially in the latter’s negotiations with foreign capital), while nevertheless effectively opposing unpopular policies. This reflected perhaps not only the regime’s fragility, but also the international scrutiny to which these lawmakers feared the government was subject.

Evidence confirms that Franco-Egyptienne and their native partners had not offered sufficiently broad domestic participation. The president of the proposed Banco Nacional, Antonio Mier y Celis, wrote to his counterpart at Franco-Egyptienne, blaming Nacional’s troubles exclusively on the extremely limited subscription offered in México, about which Mier y Celis repeatedly warned Noetzlin. He concluded that had Mexico been allocated more shares, congress would have immediately ratified the concession.

Franco-Egyptienne remained inflexible in limiting the shares to local financiers for two reasons. First, it had not conceived the project as an equal partnership between foreign and local investors. International bankers tended to divide markets and were wedded to maintaining strict geographical market shares. Franco-Egyptienne wanted to

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23 Richemont to St. Hilaire June 13 1881 Correspondence Politique Vol. 71 Mexique, AMAE.

24 Antonio de Mier to Sr. Presidente del Banco Franco-Egipcio, November 13 1882 Comunicaciones 2, AH BNM.
control its satellite bank and still treat it as a speculative venture. It had planned to realize a substantial gain by creating an artificial scarcity of bank shares, setting up a syndicate that would withhold shares from the market for six months after the initial offering and only later sell the majority at a significant premium. In this scenario, more shares apportioned to Mexican partners at the outset would have cut into their profits. Second, the European investors also had a more traditional reason for limiting the initial capital base of Mexico’s national bank: they did not want to create too much credit and run the risk of inflation. In the rich market of the early 1880s, the bankers’ principal goal was to bring a company’s shares to the bourse.

Noetzlin was ill-prepared for his negotiations with the González regime. Though considered shrewd, Noetzlin had never negotiated with public officials, and did not know Spanish. For Noetzlin, Mexico’s political and financial landscape was uncharted terrain, seemingly shifting at every step. Nor was he aided or abetted by the French minister resident in Mexico. Upon arriving in Mexico Noetzlin enlisted the offices of the Spanish Minister, a fact that France’s representative, Richemont, found “bizarre.” Richemont wished to see French bankers avoid financing the Mexican state, given its history of debts and defaults. Instead, he argued that a French bank in Mexico should be devoted to supporting French commerce and the French colony resident in Mexico.\(^{25}\) This indicated how disarticulated European bankers and “their” governments often were, even in the late nineteenth century. Noetzlin was negotiating on behalf of a bank whose directors (and clients) were drawn from at least five European countries. Franco-Egyptienne was French only inasmuch as it was domiciled in Paris. Unlike minister Richemont, the

\(^{25}\) Richemont to St. Hilaire May 13, 1881 Correspondence consulaire et commerciale Mexico Vol. 9, AMAE.
bankers thought little of the impact the bank might have on French commerce. Indeed, by the end of Noezlin’s first sojourn to Mexico, Richemont was complaining to Paris of Noetzlin’s indifference to French interests in Mexico, an indifference he attributed in part to Noetzlin’s Swiss nationality.

Nada de Papeluchos

The Senate fiasco revealed significant local opposition to the proposed national bank. Franco-Egyptienne ignored the advice of Mier, who had advised Noetzlin to increase the local subscription, choosing instead a subterranean path. From the outset of negotiations, Franco-Egyptienne tried to resist or at least reduce payoffs. During the initial phase of negotiations, in fact, a bank director had warned Velasco that the levy of extraordinary commissions or fees on the part of Mexican negotiators would doom the project. Velasco assured him that if the bank succeeded in obtaining the concession, “will not cost one centavo.”

The concession costs did not cost one centavo, but rather fifty thousand pesos. The bribery was but one revelation of the position in which Franco-Egyptienne found itself. Since the bank had insisted initially that all negotiations take place in Paris, to control costs and the timing and direction of negotiations, Noetzlin's trip was another indicator of weakness. The delays throughout 1881 faced by Noetzlin and Kulp were caused not by the regime’s torpor, nor by its cupidity. Rather, the González administration recognized that the proposed bank, specifically the monopoly provisions and the small allocation to Mexicans were unpopular among its economic elite who took advantage of the delays to organize and design a strong response. Moreover, the graft

26 Velasco to SRE, June 30, 1880 #497.
raised a vexing future paradox. Having obtained the concession by means of a bribe, the
foreign bankers insisted that the regime henceforth adhere to legal standards. It was a
bet, but a bad one. In light of the state’s duplicity, one could ask why Franco-Egyptienne
persevered. The best answer is that Franco-Egyptienne’s own investment opportunities
were sharply limited—especially if its goal was to find a government without an existing
national bank or European credit relations.

Despite these problems, at its next annual stockholders’ meeting, Franco-
Egyptienne’s directors crowed that “après de nombreux et persévérants efforts, notre
Société a été déclarée concessionnaire d’une Banque Nationale au Mexique.”27 During
the 1880s, however, each of Franco-Egyptienne’s goals remained just beyond its grasp.
Its designs were thwarted by a succession of local and foreign competitors as well as the
Mexican government, bent on preserving its policy options. Indeed, despite (or perhaps
because of) its signal role in channeling global capital to the Mexican government over
the 1880s, in 1889 the Franco-Egyptienne was forced to liquidate and was purchased by
another Parisian bank.

The Mexican government persisted in the Banco Nacional project over the
objections of a majority of its merchant/creditor community, over the protest of the
Senate, and over Cabinet dissent. One must resist the temptation to over-interpret the
role played by graft. Just a couple of months later, Ramon Fernandez bilked Nacional’s
rival Banco Mercantil for $50,000 (pesos fuertes). Eventually, the government’s
mounting financial needs drove it back to Franco-Egyptienne, but only after excluded

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locals had organized an effective competing bank. The bank offered immediate financial relief to a government long denied foreign capital. If the government needed greater funds to meet its growing obligations than local creditors could provide, it was also true that government officials were wary and sensitive to the objections of its financial elite. Thus even with Gonzalez’s blessing and the pesos fuertes, the concession remained stalled in the Senate. In early November 1881, almost two after Congress reopened, Noetzlin still was ensared in lengthy meetings with the Senate Treasury Committee, which sought to modify Franco-Egyptienne’s national bank contract. Only after the contract removed specific monopoly provisions did the Senate finally ratify the concession on November 16, 1881.

**Bankers’ Revolt**

In late August 1881 when Mexico City newspapers announced that the executive had signed a preliminary contract for the Banco Nacional Mexicano (henceforth Nacional), the local elite reacted in two ways. On the one hand, would-be investors scrambled to obtain an allocation of shares. The second reaction was more consequential. On August 20, 1881, just days after Noetzlin and Kulp swapped the 50 sacks of pesos fuertes for the expedited signature, excluded locals gathered to plot an insurgent campaign. These excluded investors decided to create a bank of their own, the Banco Mexicano Mercantil (hereafter Mercantil). For the next two and one-half years, these local bankers competed intensely with Nacional. The story of this early bank competition is largely unknown, and offers a window into the contrasting styles of

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28 Morgan to Blaine, *FRUS* 1881, p. 798.

29 *La Voz de Mexico*, November 4, 1881.
entrepreneurship between foreign and local financiers as well as the relations between both and the González administration, itself facing a complex set of political and economic challenges.\footnote{On this point Leonor Ludlow’s superb work is ambivalent. In a first essay she suggested that the two institutions were quite competitive; in a later piece she argued that relations were always rather harmonious, basing the revised interpretation on the presence of common shareholders and directors and on the fact that the two banks fused just two years later. My own research and reasoning follows more closely her original interpretation, the reasons for which are given below and in the next section which treats conditions of the fusion.}

The emerging conflict between Nacional and the insurgent bankers did not exactly pit Mexican financiers against foreigners, since many key ‘insurgents' were either Spanish-born or of Spanish origin. Yet they had been excluded from the limited subscription. The Nacional had aggregated northern European creditors resident in Mexico, while the rival Mercantil attracted more investors from Spain and southern France. In Mexico, as in most pre-modern credit networks, ethnicity conditioned destiny. Initially, the insurgents named their institution Banco Hispano-Mexicano.\footnote{La Voz de Mexico, August 31, 1881.} Within weeks, however, these merchants embraced the civic religion of nationalism, wrapping themselves in the Mexican flag and distinguishing themselves (in contradistinction to Nacional’s founders) as long-time residents of Mexico. Ignoring birthplace, they argued that in terms of national identity, merchants voted with their feet. Unlike Nacional’s controlling interests, Mercantil’s founders claimed were truly “Mexican” since they had opted to earn their living in Mexico. On September 13, 1881, the French Minister in Mexico reported that "a black cloud has emerged on the horizon for Banque Nacionale de
Mexique” in the form of a rival bank, and that that bank, Mercantil, will be a “serious adversary because its founders dominate Mexico's commercial banking business.”

Why had “Mexican” creditors waited until a foreign-inspired and foreign-finance project seized the initiative before acting to create a national bank themselves? After the Nacional was founded, a great amount of pent-up capital was unleashed in the founding of Mercantil. Here we may look to the question of crowding out and fungibility. Prior to the founding of Nacional, merchants and private bankers preferred to conduct only commercial lending, believing public finance was too risky. One measure of this risk was the interest rates charged on irregular public and private loans as well as by the fact that no national bank had ever existed in Mexico. After Nacional’s founding with mainly foreign capital, the perceived risk was lower. In Mercantil’s initial drive, one of its leading officers (and a major figure in subsequent bank disputes), Manuel Ibañez, announced that capital and potential investors “no faltan en el país pero que estaban miedosos de estas luchas, por causas de todos nosotros conocidos.” That the Mexican banking community feared the state’s predatory assaults was an open secret, even among the foreign diplomatic corps. In early 1882, the French minister, analyzing Mercantil’s business success in competition with Nacional, noted that "merchants and businessmen [are] always disposed in the country to consider with distrust the measures emanating from government initiative or enterprises placed under its patronage."

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32 Richemont to St. Hilaire September 13, 1881 Correspondence Politique vol. 71 Mexique AMAE.

33 Given the relative scarcity of capital in Mexico, it was not surprising that the local financial elite had not founded a bank.


35 Coutouly to Freyeinet May 10 1882, Correspondence consulaire et commerciale Mexico Vol. 9, AMAE.
Moreover, the Mercantil dissolved the older kin- and client-based credit networks and tied together Mexico’s large, heterogeneous group of merchant/creditors, great and petty, rural and urban, native and immigrant. The effect multiplied through the commercial sector, initiating the first steps toward the creation of a more self-consciously national economic elite. Against the threat of financial globalization, where foreign creditors would displace local enterprise, Mexico’s community of creditors united.

In large part Mercantil succeeded through an astute mix of formal and informal politics, where local knowledge weighed heavily. In their first meeting, Mercantil’s founders created a "comisión de gobierno" that quickly secured former President Díaz's support. Claiming to be without financial resources, Díaz was given 100 shares (unlike Nacional’s shares for which he had to pay), which Mercantil charged to “installation costs.” In May 1882, soon after Mercantil opened for business, it thanked Díaz for his support and assured him that the bank would serve the nation so long as it enjoyed the protection of key local patrons.³⁶ With Díaz's support secure, the Mercantil’s commission visited President González. In September 1881, after meeting the president, Mercantil planned a public campaign against Nacional, which was to include newspaper reports detailing its advantageous counter-offer to the government. On the eve of the campaign, Mercantil’s leaders convened a meeting to deliberate the plan’s merits. After extensive debate, it chose to negotiate privately with the regime, fearing that such a public campaign might embarrass the González administration. Mercantil’s tactic here recalled the Senate behavior in its reluctance to openly challenge the executive. And

contrary to Nacional’s niggardly Mexican allotment, Mercantil opened its subscription to anyone. It drew investors from every regional hub, eventually increasing its capital goal from two to three and finally to four million pesos. Compared to the Nacional, its steps were sure-footed. The initial global capital flows into Mexico did not repress or destroy local creditors. Instead the unintended, even unanticipated, consequence was to galvanize and unite hitherto disparate financial networks into a nettlesome competitor for Nacional. Moreover, Nacional’s ostensible partner, the Mexican government, managed the conflict between the two rival banks skillfully, profiting from the two sources of public finance, and strengthening its domestic political support.

**Nacional versus Mercantil**

How did Nacional respond to this local challenge? European bankers tended to absorb competitors only as a last resort. The upstart enjoyed broad domestic support, apparent links to alternative European houses, and the blind eye of the government. Franco-Egyptienne directed Guzmán and Mier to open merger talks, and the Nacional even persuaded the Gonzalez government to encourage Mercantil to discuss a possible fusion with Nacional. The merger “talks” consisted of one brief meeting. Mercantil’s representatives rejected the proposed fusion since their demand for complete equality was denied. Pride combined with garden-variety greed to keep the two institutions independent, competitive, and hostile.

Bank competition spilled over into legislative struggle, legal challenge, and personal acrimony. During the first years of banking, the Gonzalez administration, pressured by Nacional, asked Congress to write general credit legislation. The Cámara de Diputados drafted a law, and sent it on to the Senate’s finance committee, which
quickly approved it. In addition, a presidential commission was convened to report on the proposed bank legislation. During the meetings, serious differences emerged, pitting Manuel Dublán (an important Senator and future Treasury Secretary) against Pablo Macedo (Nacional’s lawyer), a division that anticipated the bank’s later conflicts with the Díaz government throughout the 1880s and early 1890s.\(^ {37} \) In the legislative battle, Mercantil exploited its provincial political strength. Mercantil learned that Nacional’s leaders were seeking to push through Congress banking legislation that would have restricted Mercantil’s lending arrangements. In response, the Mercantil utilized its members’ regional political links to block the proposed legal reforms.\(^ {38} \) However, the government’s reliance on Nacional for public finance limited its freedom to legislate a liberal bank law. On the other side, the government refused to enact restrictive banking law. The government continued granting bank charters through 1882 and 1883, so that when the recession hit late that year, Mexico’s banking system had changed dramatically.

For the first half of 1882, Nacional’s capital lay idle, while Mercantil took most of the commercial business. Initially, Nacional refused to provide public finance to the government, believing that if it withheld funds, it could pressure the government to pass a banking law giving it a monopoly. This state of affairs persisted through July 1882, when the Mexican board of Nacional changed its tactics with the government. In a contract signed on July 29, Nacional opened a credit account with the González administration.

\(^ {37} \) Mexican Senate, Diario de los Debates 1882.

\(^ {38} \) Libro de Actas, Banco Mercantil Mexicano, Diciembre 11, 1882 AH BNM.
Nacional’s decision was forced on it by its dismal showing over the first half of 1882. But this reversal opened a conflict with the Paris board, which adamantly opposed opening any credit flows to the Mexican government because it felt such a policy would reduce pressure on the government to pass the coveted restrictive banking legislation. In the second-half of its first fiscal year, the bank’s business and profits from the government quickened, with advances totaling $3.7 million pesos.\[^{39}\] However, in the commercial arena, Nacional could not compete against Mercantil, with its broad clientele throughout Mexico.\[^{40}\] In reviewing its first year’s performance, Nacional attributed poor results to the simultaneous founding of another bank, and the influx of foreign currency brought in with railroad construction. In its first year, Nacional’s return was a meager 3.5%. By contrast, in a shorter fiscal year than Nacional’s, Mercantil earned 12% on subscribed capital.\[^{41}\] In fiscal 1883, Nacional’s profits jumped to 12.5%, a result of its increased government business, but Mercantil’s return climbed to 16%.\[^{42}\] During 1883 Nacional lent increasing sums to the government to cover mounting railroad subsidy payments.

Nacional was also beset by foreign problems. In Paris, the initial public offering had flopped. Shares traded below par.\[^{43}\] Soon after Nacional’s initial offering the notorious crash of Union Générale depressed all bank stocks in Paris. Causes deeper than


\[^{40}\] Reviewing its fiscal year 1883, Nacional admitted that Mercantil had the majority of commercial business.

\[^{41}\] Banco mercantil mexicano. *Memoria que el consejo de administracion del banco mercantil mexicano presenta a la asamblea general de accionistas convocada para el dia 22 de enero de 1883* (Mexico, 1883).

\[^{42}\] Joaquin Casasus, *La Cuestión de los Bancos á la luz de la Economía Política y del Derecho Constitucional* (Mexico, 1885), pp. 116-25.

\[^{43}\] Noetzlin made this very clear in his conversation with Velasco. Feb 14, 1882. Legajo III, AH SRE.
market vagaries were also at work, however. Franco-Egyptienne learned that London's stock exchange, acting on the Bondholders’ petition, decided not to list the Nacional’s shares. The Bondholders were futilely trying to shore up their leaky credit embargo. The Franco-Egyptienne had believed that the London market would be available, since shares of the London Bank of Mexico and several Mexican railroad stocks freely traded there.\textsuperscript{44} In 1881 and 1882 Noetzlin visited Barings Brothers, seeking help to open the London market to Nacional’s shares.\textsuperscript{45} Moreover, he met the Bondholders’ Committee itself in January 1883, explaining that the Bank was not providing the Mexican government with substantial funds.\textsuperscript{46} The Bondholders’ effective opposition to Franco-Egyptienne drove home the point that while global capital flows appeared increasingly untethered, its various constituents—namely the international banks--were often constrained by their own local markets, lobbying, and law.

**Challenges to the Plan**

The plan of the first Díaz administration to attract and subsidize railroad construction (itself a financial operation) and to fund it and other expenses through short-term financing drawn from foreign and domestic sources, was always a temporary solution. Its authors never intended to repudiate the defaulted English debt, but rather postpone its resumption until the railroads facilitated the expansion of trade and thus tariff revenues. In some sense, then, in 1883 the Gonzalez administration fell victim to

\textsuperscript{44} See here the extensive correspondence between Noetzlin, Velasco, and Secretaria de Relaciones Exteriores, February 14, 1882, March 16, 18, 21, 1882--all of which treats the French efforts to have Nacional’s shares traded on the London Stock Exchange, Legajo III, AH SRE. For Noetzlin’s request for power to treat with London stock exchange, see Libro de Actas, 1884 AH BNM.

\textsuperscript{45} See HC 4.5.46-47 BBA GL.

\textsuperscript{46} See here the archive of the Committee of Bondholders, “Meeting with Noetzlin”, Jan 13, 1883 BBA GL.
the plan’s success, at least its success at inducing foreign companies to rapidly build out rail lines. During González’s first three years as President (1881-83), Treasury receipts did grow rapidly, by more than thirty percent, from twenty-five million pesos to almost thirty-three million pesos. However expenditures grew more rapidly, largely as a result of railroad construction, the speed of which Mexican policymakers had not anticipated. González’s presidency coincided with Mexico’s great boom in rail construction, as the number of kilometers completed jumped from 1,000 to 5,000.

It is difficult to ascertain the amount of subsidies that the González government actually paid or owed by 1883, or would owe in the coming year. The best estimates, however, point to an indisputable trend of rising Treasury obligations and a looming budget crisis. In fiscal 1879-1880 (Díaz’s last year), rail subventions summed to $1.2 million. In González’s first year, railroad obligations increased by fifty percent, to $1.8 million. In 1882 subsidies doubled to $3.6 million, and in fiscal 1883 they ballooned to $8.9 million. In González’s last year (1883-1884), the Finance Ministry reported that it paid almost $4.5 million for rail subsidies, with more than one million pesos each going to the Mexican Central and Mexican National, the two U.S.-owned trunk lines that stretched north from central Mexico to the U.S. border. Part of these subsidies had been covered by the new banks, mainly Nacional and Mercantil, but the government borrowed from others, too. Nevertheless these banks had insufficient resources to meet the government’s mounting obligations to rail companies.

47 Lionel Carden to Lord Granville May 5, 1883 PRO FO 50 Vol. 442.

48 Mexico, Secretaria de Hacienda, Memoria 1883-84, lxiii-lxvi.
The looming budget crisis that Gonzalez faced in 1883 revealed the limits of the financial plan initiated by Díaz and continued by González. For this reason, in early 1883, President González reneged on his pledge to continue Díaz’s debt strategy. Because of the mounting deficits, he and his cabinet opted to seek to settle the English Debt and obtain a new foreign loan sufficient to cover it and provide a cushion for the budget. In February 1883, when Nacional’s foreign board learned of González’s debt scheme, it wrote to the Mexican board asking it to remind the government of its contractual right to negotiate the English Debt. This put Mexican bank officers in the difficult position of trying to dictate conditions to the government, a behavior they sought to avoid. Thus they respectfully declined Paris’s requests. Thus even within the governing board of Nacional itself, conflict over how to manage its relations with the government pitted foreign and local directores against each other.

These limits and contradictions created a new set of political, economic and diplomatic challenges for the Mexican state in the succeeding years and were largely responsible for the dramatic re-ordering of Mexico’s nascent banking system in 1884. These challenges and the state’s responses form the subject of another work.

**Conclusion**

This essay began by asserting that the process of globalization in early Porfirian Mexico was shaped by the goals and strategies of Mexican public officials. The government largely determined the timing and imposed its own terms and conditions on the opening of large-scale capital flows. Politics did inform and affect policies, but in ways more subtle and less reductive than what might be assumed. From the outset the

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49 *Actas de Consejo*, vol. 2, BNM February 23, 1883, AH BNM.
political economic strategy of Diaz was to avoid the political risks that the Bondholders’ “shock” policies entailed. Mexico chose not to settle first with its historic creditors. Indeed the government opted for an alternative strategy. By initiating growth first, it sought to increase the support of stakeholders in the new government and to postpone imposing the sacrifices that debt resumption would have entailed.

In this sense, timing, the sequencing and pacing of policies and reforms, was critical to the success of the broader strategy. The larger policy promoted political stability both by not imposing immediate costs on any specific group in Mexico, and positively, by creating vested interests in the success of the government and its growth strategy. In the Mexican government’s view, the Bondholders’ sequencing of events would have jeopardized the political and economic viability of Mexico’s reinsertion into the global economy. Instead Mexico opted for a more gradualist path, leveraging smaller scale capital flows, drawn both from global and local capital, to initiate and finance growth before debt resumption. In doing so, the regime placed a premium on political stability, not by narrowly and selectively rewarding a few economic actors (rent-seekers) with special privileges and market restrictions. Indeed its early policy created, or at least sharpened, a divide among the financial elite in Mexico. Because alternative paths were not taken, it is easy to forget that plausible alternatives existed: treating first with Bondholders, meeting the demands of the holders of the Maximilian debt, giving the early Nacional the restrictive clauses it sought—these were plausible roads, but they weren’t taken. Mexican officials were able to resist these pressures in part because the economy had already fully borne the costs of default. Indeed in 1885, when the Diaz government was forced to declare a temporary moratorium on the payment of railroad
subsidies, the conservative banker’s mouthpiece ironically praised Mexico, observing that,

Mexico doubtless needed railroads, but when the Government inaugurated the policy of subsidizing them, it was evident she was assuming larger burdens than she could safely carry. The wonder on the whole is, not that she is compelled to stop, but that she has been able to pay so much.  

The early history of Porfirian banking suggests that the government shaped financial policies in an effort to pursue a larger developmental strategy, seeking to maximize its ability to finance large-scale capital improvements. Thanks to a more competitive international capital arena, the government was able to tap alternative foreign capital sources before re-negotiating its London debt, so long in default. Moreover, by tapping these alternative sources, the state improved its bargaining position vis-a-vis the British Bondholders. Domestically, the state’s bank strategy triggered a remarkable response by merchants and creditors who, when threatened by a foreign-led bank, created for the first time a local bank that competed successfully for both public and private banking business. It would be hard to imagine an alternative government strategy that could have induced so many creditors to invest so much, so quickly.

More abstractly, we might say that in designing and implementing bank policy, the state enjoyed a degree of autonomy from economic elites surprising given its financial weakness. This autonomy rested on its ability to apply and enforce agreements, its ability to stimulate competition among financial groups, and its willingness to reward selectively these groups while preserving its freedom of action. Perhaps most

50 Banker’s Magazine August 1885.
importantly, its autonomy rested on its ability to act in the long-term interests of elites by initiating economic growth through global opening.

One might compare Mexico’s insertion into the global economy in the 1880s with the more contemporary Mexican efforts, beginning in the 1980s, to restart or reinvigorate its global links. In both the late nineteenth and twentieth centuries, international creditors demanded that the government in default (or threatening default) resume (or continue) debt servicing as a condition for new capital flows. In the early Porfiriat, a weak Mexican government was able to resist pressures by its creditors to settle its debt, and to resist the imposition of terms and conditions that new lenders sought. As I have argued, it did so for both political and economic reasons. In contrast the more contemporary Mexican governments have shown themselves less willing or effective in resisting the dictates of the international lending community. The reasons for these differences lie outside the bounds of this paper, but it does suggest that the contemporary governments perhaps have calculated that the political and economic costs of external impositions can be tolerated or that the current international arena has limited their policy freedom. A tempting answer might point to the dramatic changes within global capital markets, namely to how much better organized and less competitive lenders are today, with the International Monetary Fund and the World Bank serving as united fronts. On the other hand, given the political and economic outcomes of embracing external dictates, latter-day policymakers may have underestimated their own relative freedom to adopt alternatives and may have underestimated the domestic political costs of the policies pursued. In any event, it is clear that all parties to the more recent experiments in
financial globalization have overestimated the benefits, both short and long-term, of such an immodest embrace of orthodox policies.

It is worth stressing that Mexico’s experience suggests that globalization was a multidirectional process in which the power of the external actors has perhaps been overemphasized. The Mexican government not only resisted the demands of the Bondholders, but it rejected several early offers from the Franco-Egyptienne because of the conditions attached—settling with the azulitos, leasing its mints, demanding a monopoly. Globalization was not foisted upon Mexico. Policymakers kept historic creditors at bay, opting instead to restart their economy. Indeed while economists might argue that ignoring the international community suggests inefficient wiliness on the part of the Mexican government, there is another reading. The early Porfirian case suggests a precocious (and expansive) use of what we might call bankruptcy protection that allowed Mexico the political and economic wherewithal eventually to resume debt servicing. The Bondholders’ insistent demand that their debt be settled first, like the Franco-Egyptienne demand that it be given a monopoly over certain banking privileges, took no measure of the political or economic implications for Mexico of these foreign policy preferences, of how their demands would (or not) create greater political cohesion and economic growth within Mexico. Ironically, by not bowing to foreign pressures, the Mexican government was not only sensitive to local constituents, but equally important, it was perceived at home as “nationalistic,” precisely at the moment it was managing to make globalization happen.

Archival abbreviations

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