

# “NADA DE PAPELUCHOS!”

## Managing Globalization in Early Porfirian Mexico

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*Abstract: This essay argues that in the early Porfiriato Mexican officials deftly negotiated the pace and sequencing of the country's reinsertion in the world economy. Despite the government's financial weakness, officials flouted international conventions and obtained the foreign capital necessary to spark growth before settling the foreign debt, in default for more than fifty years. Rather than simply accommodating powerful private financial interests, the government's plans and policies often provoked conflict with its bankers and creditors. However, by employing a wide set of strategies that ranged from manipulating competitors to selectively not enforcing agreements to exploiting nationalist sentiment among local elites, Mexican policymakers preserved their autonomy and advanced a coherent set of policies. In addition to successfully exploiting international capital markets, the Mexican government also successfully maneuvered to establish a more competitive local market. The government's ability to exploit these capital flows, without undermining domestic support, helps explain the regime's early economic growth and political resilience. The findings of this essay extend to the financial realm previous historical scholarship that has noted that the early Porfirian regime enjoyed a surprising degree of autonomy from its economic partners.*

### INTRODUCTION

The foreign bankers were having trouble closing the deal. 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 Jesús 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 foreign partnership. Indeed, as the bankers turned their three now-empty carriages away from the general's offices, it occurred to Noetzlin that they had neither receipt nor signature nor *pesos fuertes*.<sup>1</sup>

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 instruments, for *papeluchos*, there was deep irony. The general 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, the essay claims that the Mexican government managed its financial policies with relative autonomy to advance its own developmentalist agenda. Noetzlin's unease upon delivering the *pesos fuertes* highlights the second theme, because his unease was warranted. Although Noetzlin 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. In the early Porfiriato, when the state was literally bankrupt and financiers promised deliverance, neither well-heeled foreigners nor well-placed insiders like General Lalanne determined state policy. But as the opening vignette illustrates, the former assumed policy was for sale and the latter stood ready to trade handsomely on that conceit. Meanwhile, other actors, namely Mexican policymakers, adroitly pursued a strategy of mobilizing and managing financiers and finance to advance the government's own developmentalist agenda.

The last quarter of the nineteenth century initiated the first modern age of globalization, as the magnitude of capital, commerce, and human transfers accelerated across the globe. This essay focuses on a key aspect of globalization in Mexico by addressing two questions about how the Mexican government managed the process of attracting and disciplining the global capital flows that underwrote its reintegration into the world economy. First, how did Mexican officials manage the onset of

1. Jacques Kulp, *Mes Souvenirs*, AH PB.

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 Porfirio Díaz administration (1876–1880) and then early in the Manuel González 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.<sup>2</sup> 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 González himself had retreated from the plan, the result of its inherent limits and contradictions.

2. The literature on the impact of the railroads on Mexican economic development is large and still lively. See the classic analysis, John H. Coatsworth *Growth Against Development: The Economic Impact of Railroads in Porfirian Mexico* (DeKalb, IL: Northern Illinois University Press, 1981), and for a provocative counterpoint, the essays in Sandra Kuntz Ficker and Paolo Riguzzi, *Ferrocarriles y vida económica en México* (México: El Colegio Mexiquense, Ferrocarriles Nacionales de México: Universidad Autónoma Metropolitana Xochimilco, 1996).

This essay joins growing fields of scholarship 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.<sup>3</sup> Recent economic historiography of Porfirian Mexico has argued that financial policies were compromised by the government’s weakness, which allowed private actors to connive and collude with public officials.<sup>4</sup> In exchange for providing the government needed financial resources, a clique of private bankers obtained privileges that restricted market access, making the financial arena and the economy more concentrated and less competitive.<sup>5</sup> As this essay will show, the relations between private actors and public officials were fraught with recurring conflict, specifically over the disposition and enforcement of laws and policies, and that the government’s autonomy and its capacity to manage that conflict helps explain its early resilience and the foundation of its longevity.<sup>6</sup> Thus economic elites supported the regime, despite recurring conflict, because the regime provided those elites something far more valuable than discrete concessions. It provided them political stability and deepening ties to an expanding global economy. For

3. One of the subjects of this essay is the founding and development of Mexican banks in the early 1880s. The essay provides new archival evidence and advances several new claims about this process, but it also draws on the pioneering institutional and social history of these banks done by Leonor Ludlow (cited throughout). Moreover, my work places the creation of the banking system within the broader context of the Mexican government’s political economy as well as the often-competing strategies of foreign and domestic bankers. For a more critical appraisal of government’s role in public finance in the early 1880s see work of Carlos Marichal, the leading authority on Mexican public financial history—for example, “La crisis de 1885: Coyuntura crítica en la evolución de las finanzas mexicanas,” in Jorge Silva y Leonor Ludlow, eds., *Negocios y ganancias: Fiscalidad, crédito e inversión en México: siglos XVIII a XX*, (México: (México: Instituto de Investigaciones Dr. José María Luis Mora: Instituto de Investigaciones Históricas-UNAM, 1994), 419–44; see also Don M. Coerver, *The Porfirian Interregnum: The Presidency of Manuel González of Mexico, 1880–1884*, (Fort Worth, TX: Texas Christian University Press, 1979), especially chapter six.

4. For arguments that assert an identity of interests between financiers and the Porfirian government, and claim that the cronyism, or “vertical political integration” distorted the economic trajectory of Mexico, see Stephen Haber, Armando Razo, and Noel Maurer, *The Politics of Property Rights: Political Instability, Credible Commitments, and Economic Growth in Mexico, 1876–1929*: (New York: Cambridge University Press, 2003) and Noel Maurer, *The Power and the Money: The Mexican Financial System, 1876–1932* (Stanford, CA: Stanford University Press, 2002).

5. Ironically this is largely the old revolutionary critique of the Díaz regime wrapped in a new econometric skein.

6. For a work that claims that the Díaz government enjoyed a relative degree of autonomy from business elites, both foreign and domestic, see Robert H. Holden, *Mexico and the Survey of Public Lands: The Management of Modernization, 1876–1911* (Dekalb, IL: Northern Illinois University Press, 1994). For another work that suggests the Díaz regime developed a degree of economic policy autonomy from private interests, albeit somewhat later, see Edward Beatty, “Visiones del futuro: La reorientación de la política económica en México, 1867–1893,” *Signos Históricos*, vol. 10, 2003, 39–56.

domestic bankers, these “public goods” outweighed the costs associated with the government not strictly enforcing the set of privileges and rights it had conceded them.<sup>7</sup>

Much scholarship on business history and globalization in late-nineteenth- and early-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.<sup>8</sup> The point of view adopted here, to focus on globalization from the local perspective is not simply rhetorical: I am not concerned with redressing 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. 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.

7. This argument is extended to the entire Porfiriato, and is fully fleshed out in my book manuscript, “Managing Globalization: The Politics of Finance in Porfirian Mexico” (forthcoming).

8. The debate about foreign business influence in Latin America is an old one. Once associated with the terms imperialism and dependency, it has increasingly been replaced or supplemented by “globalization.” Among representative interventions, see D. C. M. Platt *Finance, Trade and Politics in British Foreign Policy, 1815–1914* (London: Clarendon Press, 1968) and “D. C. M. Platt: The Anatomy of ‘Autonomy,’” Stanley J. Stein and Barbara H. Stein *Latin American Research Review*, vol. 15, no. 1. (1980), 131–146. For works specifically on Mexico that identify the agency of both foreign and Mexican actors see Friedrich Katz, *The Secret War in Mexico* (Chicago, IL: University of Chicago Press, 1981) and Jonathan Brown, “Foreign Investment and Domestic Politics: British Development of Mexican Petroleum during the Porfiriato,” *Business History Review* 61 (1987): 387–416; for a contrary sampling see John Mason Hart, *Revolutionary Mexico: The Coming and Process of the Mexican Revolution* (Berkeley, CA: University of California Press, 1997) and Thomas F. O’Brien, *The Revolutionary Mission: American Enterprise in Latin America, 1900–1945* (New York: Cambridge University Press, 1996).

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? Almost the entirety of the so-called English Debt was the result of two loans contracted by the Mexican government in 1824 and 1825, totaling some thirty-two million pesos, which a bankrupt treasury stopped servicing in 1827. Notwithstanding the occasional remittance or readjustment or renegotiation, *la deuda inglesa* remained in suspension for the next sixty years, weighing like a millstone on successive Mexican regimes, restricting access to external finance, inviting foreign meddling (that culminated in a four-year occupation), and obliging officials to turn inward and rely exclusively on domestic creditors.<sup>9</sup> 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 appreciated. When the City of London was the sole source of public finance for debtor countries, its embargo exercised decisive pressure on countries that had defaulted. After the 1850s, however, 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.<sup>10</sup> 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.

9. The literature on Mexico's foreign debt of the nineteenth century is vast. See the old, but still classic, Jan Bazant, *Historia de la deuda exterior de Mexico (1821–1946)*, second ed. (Mexico: El Colegio de Mexico, 1981) and Barbara Tenenbaum, *The Politics of Penury: Debt and Taxes in Mexico, 1821–1856* (Albuquerque, NM: University of New Mexico Press, 1986).

10. Mexico first experienced the more competitive North Atlantic capital markets in the 1860s, not as a sovereign debtor, but rather under French imperial control. In 1864 and 1865 French bankers issued two loans, the so-called *azulitos*, totaling 534 million francs. See Steven Topik, "When Mexico Had the Blues: A Transatlantic Tale of Bonds, Bankers, and Nationalists, 1862–1910," *American Historical Review* 105, no. 3 (2000): 714–38.

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 U.S.) railroad construction, paying companies a specific dollar amount for every kilometer of line laid.<sup>11</sup> 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.<sup>12</sup> 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 domestic political stability. By determining the pace and sequencing of its financial opening, the Mexican government was exercising its relative autonomy against

11. For an excellent discussion of the issues at stake in the railroad subsidy plan, see Paolo Riguzzi, "Los caminos del atraso: Tecnología, instituciones e inversión en los ferrocarriles mexicanos, 1850–1900," in Kuntz Ficker and Riguzzi, *Ferrocarriles y vida económica en México*, 64 ff.

12. Evidence of policymakers' fear of the costs of settling the debt early are indirect but numerous and compelling. Throughout nineteenth-century Mexico, public officials perceived that a depleted treasury was intimately linked to political revolt. This linkage, captured in the nineteenth-century Mexican proverb, "when salaries are paid, revolts fade," was noted by a key porfirista, Justo Sierra, *The Political Evolution of the Mexican People*, (translated, Charles Ramsdell, 1969), 191. When Díaz's immediate predecessor, President Sebastián Lerdo de Tejada, attempted to arrange the old debt, the congressional commission opposed it and the matter was dropped. See Leonor Ludlow, "Manuel Dublán: La Administración Puente," in Ludlow, ed. *Los Secretarios de Hacienda y sus Proyectos*, tomo II, (México, D.F.: Universidad Nacional Autónoma de México, 2002), 146–147. Moreover, that the settlement of the English Debt was an intensely domestic political issue, is also supported by the political firestorms that *did* erupt, in 1884 and then again in 1885, when the González and then the Díaz administrations, sought to settle the debt. For the congressional debates and public response to the 1884 debt accords see the contemporary journalistic account, Salvador Quevedo y Zubieta, *Manuel González y su Gobierno en México* (México, D.F.: Estab. tip. de Patoni, 1884), 282 ff. and Cosío Villegas, *Historia Moderna de México Vida Política I* (México, D.F.: Editorial Hermes, 1972), 780 ff. For the 1885 dispute see Cosío Villegas, *Historia Moderna de México Vida Política II* (México, D.F.: Editorial Hermes, 1972), 215–274.

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.<sup>13</sup> The Committee was first organized in 1830, and worked fitfully until 1887, by means of public and private campaigns to pressure successive Mexican administrations to resume debt servicing. 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 English 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.<sup>14</sup> 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.

13. For a recent work on the Bondholders and Mexico, see Michael Costeloe, *Bonds and Bondholders: British Investors and Mexico's Foreign Debt, 1824–1888* (Westport, CT: Praeger Press, 2003).

14. For the Committee's efforts to starve Mexico of funds and more specifics of the judge's ruling, see Wynne, *State Insolvency and Foreign Bondholders* (New Haven, 1954), pp. 36–39.



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 "Mexico 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."<sup>15</sup>

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 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.<sup>16</sup> Díaz had begun his regime by borrowing funds from *agiotistas*, local Mexican lenders to the state, to service the debt owed to the United States, 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. 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."<sup>17</sup> For the first time since the 1820s, when Mexico broke from Spain and borrowed on the London market, the international

15. Velasco to SRE, August 30, 1880, Legajo II, no. 404, AH SRE.

16. In spring 1879, the Mexican government, through financial intermediaries, was seeking a five-million-peso foreign loan. See Manuel Alvarez to Edouard Noetzlin, October 17, 1879, C. 629 AH PB. See also "Extract from a letter of Mr. M. R. Alvarez, dated Veracruz, September 18, 1879," C. 629 AH PB.

17. Carlos Pacheco to Porfirio Díaz, March 31, 1882, CGPD Legajo 7, 244.

capital arena offered opportunities and incentives, and these incentives conditioned the state's decision-making process.

#### BANQUE FRANCO-EGYPTIENNE

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's financial interests in Egypt declined through the 1870s, the consequence of both international political rivalry and the increasingly untenable finances of the Khedive.<sup>18</sup> 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 these relations gave bankers access to valuable insider information about local governments.<sup>19</sup> 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.<sup>20</sup> In addition to trading government bonds and railroad stocks, the European bank promoters would sell the bulk of their shares at a substantial premium on European bourses.

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 Paris flood of 1910.<sup>21</sup> Born in 1848 in Basel, Switzerland, to a family of petty bankers, Noetzlin became associated in the early 1870s with the Bischoffsheim family, whose banking network extended from

18. See David Landes, *Bankers and Pashas* (Cambridge, MA: Harvard University Press, 1958), especially 315 ff.

19. On their activities in the Ottoman empire, see James Thobie, "European Banks in the Middle East," *International Banking, 1870–1914*, edited by Cameron and Bovykin (New York: Oxford University Press, 1991), especially 406–413. See also the joint-stock banks promoted by Bischoffsheim and Goldschmidt, Stephan Chapman, *The Rise of Merchant Banking* (Boston: Allen & Unwin, 1984), pp. 133–34; on the interests of these bankers in the 1864 Maximilian debt see P. L. Cottrell, "Anglo-French Financial Co-operation, 1850–1880," *The Journal of European Economic History* 3, no. 1 (1974): 75–86; and more recently his "The Coalescence of a Cluster of Corporate International Banks, 1855–75," *Business History* 33, no. 3 (1991): 31–52, which considers the reach of these banks into Latin America.

20. For a reconsideration of the role information asymmetries played see Philip Keefer, "Protection Against a Capricious State: French Investments and Spanish Railroads, 1845–1875," *The Journal of Economic History* 56, no. 1 (1996): 170–192.

21. Edouard Noetzlin to Mortimer Schiff, July 25, 1925, Roll 684, JSP AJA.

Germany, through France and the Low Countries, to England.<sup>22</sup> They had united several banks in France, Holland, and Belgium under the name Banque de Paris et des Pays-Bas, and it was at this bank that Noetzlin clerked for several years. In 1875, he was appointed general secretary of yet another Bischoffsheim venture, Banque Franco-Egyptienne.<sup>23</sup> Soon thereafter Noetzlin, was sent to New York to negotiate a settlement for Franco-Egyptienne and Bischoffsheim's London banking house over a disputed bond issuance.

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, Ezequiel, 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 Sucs) in New York City, where in the spring of 1879 they discussed a possible five million dollar loan at 10–12 percent interest.<sup>24</sup> Then, as now, young bankers advanced by bringing new business to the firm; Noetzlin notified Franco-Egyptienne of the situation, and in late June 1879 when he left New York for Paris he carried a detailed loan proposal from his Mexican intermediaries.<sup>25</sup> 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.<sup>26</sup> This proved to be an initial stumbling block.

22. For the best account of the Bischoffsheim's activities, see Kurt Grunwald, *Türkenhirsch* (Jerusalem: Israel Program for Scientific Translations, 1966), especially, pp. 13–20.

23. Eric Bussière, *Paribas: Europe and the World*, (Paris: Banque Paribas, 1992), 45–46.

24. Manuel Alvarez to Edouard Noetzlin, October 17, 1879, C. 629 AH PB.

25. Manuel Alvarez to Edouard Noetzlin, October 17, 1879, C. 629 AH PB; *New York Times*, June 21, 1879.

26. Manuel Alvarez to Edouard Noetzlin, October 17, 1879, C. 629 AH PB.

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 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 reestablishment 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.<sup>27</sup> 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 such a national bank. Negotiations over the national bank, which could serve as a clandestine channel of foreign capital in the era before settling with the Bondholders, 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.<sup>28</sup>

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"<sup>29</sup> Without the incentive of a monopoly, the bankers argued that their risk-taking would subsidize later entrants, and if the government reserved for itself

27. Velasco 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.

28. Velasco to SRE, March 15, 1880, Legajo III, no. 495, AH SRE.

29. Velasco to SRE, August 7, 1880, AH SRE.

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 (and subsequently pursued by private intermediaries like Alvarez and Noetzlin), the negotiations with Franco-Egyptienne waxed and waned for more than 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, Díaz was forced to lease government mints to internal investors, a policy whose financial costs and constraints the opposition press attacked.<sup>30</sup> In that summer, Franco-Egyptienne seemed to be on the verge of receiving the bank concession. In the last weeks of the Díaz 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.<sup>31</sup>

Nevertheless, talks continued in Mexico. Little is known about the exact steps that led the new González 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.<sup>32</sup> 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 González 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.

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

31. The opposition of local financiers excluded from the eventual bank project loomed as political and economic risk for Díaz's successor, Manuel González. When President González consulted an adviser about the project he was warned that "the national bank is going to harm profoundly many local interests and provoke a struggle that could be dangerous. Capital employed today in loans and in credit operations will be the first to suffer a strong blow, and the competition is going to be terrible for them, and it is natural that a reaction against the bank will be the first consequence of its founding." Quote taken from Ralph Roeder, *Hacia el México moderno: Porfirio Díaz*, Vol. I (México, D.F.: Fondo de Cultura Económica, 1973), 207. The adviser was prescient, because events unfolded precisely in this way.

32. Hegewisch to Noetzlin, with cable from Manuel Alvarez, December 4, 1880, C. 629, AH PB.

## 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 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, observing that "Mexico is a famous country for petty and small intrigues, and I do not wonder at the opposition made to you."<sup>33</sup> 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.<sup>34</sup> 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.<sup>35</sup> 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 lobbied European states during Mexico's civil wars. But Guzmán was not yet an anachronism. The *empresario* spirit—making fistfuls of money the old-fashioned way, through speculation—was still alive. Franco-Egyptienne learned that Guzmán not only "worked to impede a bank in Mexico until the debt was settled" but also that he "was decisively important in public treasury affairs despite not being a public official."<sup>36</sup> 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 Banco Nacional Mexicano's (Nacional's) largest shareholder, with some 6,500 shares.<sup>37</sup> 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

33. Hegewisch to Noetzlin, October 20, 1880, C. 629, AH PB.

34. Quevedo y Zubieta, *Manuel González y su Gobierno*, pp. 107–8 and 249ff.

35. Velasco to SRE, August 19, 1880, France Legajo III no. 514 AH SRE.

36. Velasco to SRE, August 17, 1880, France Legajo III no. 512 AH SRE.

37. Only Banque Franco-Egyptienne held more shares, 16,000. By comparison, Noetzlin received only 2000 shares.

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 newly won public trust.<sup>38</sup> 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 20 percent share. The Mexican investors Noetzlin assembled held to an identifiable pattern, influenced by his initial contacts in Mexico, his newly won ally Guzmán and other agiotistas, and the northern European merchants resident in Mexico.<sup>39</sup> They constituted a minute fraction of Mexico's extensive credit networks. As Leonor Ludlow observed, save for a handful of Veracruz merchants (including Noetzlin's initial Mexican contact, Manuel Alvarez), there were few provincial representatives.<sup>40</sup> 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 Congress reconvened 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 practice of leaving the chamber of deliberation, at voting time, as a way to prevent the necessary quorum."<sup>41</sup> Unfortunately the lack of a Senate debate leaves us to look elsewhere for understanding the political opposition to the bank and the core issues at stake.

38. See Ramón Guzmán to Baring Bros., February 10, 1883, and then again December 19, 1883, HC 4.5.46 BBA GL.

39. For a complete breakdown of the origins of the various shareholders of Nacional see the marvelous, groundbreaking essay by Leonor Ludlow, "El Banco Nacional Mexicano y el Banco Mercantil Mexicano," *Historia Mexicana* 39, no. 4 (1990).

40. From Ludlow's appendix it is noted that there were six subscribers from Veracruz, two from San Luis Potosí, and one from Guanajuato, and more than fifty from Mexico City. Ludlow, "El Banco Nacional Mexicano y el Banco Mercantil Mexicano," 1019–1020.

41. Richemont to St. Hilaire, June 13, 1881 *Correspondence Politique* vol. 71, Mexique, AMAE.

Evidence that emerged in 1882, after the concession was finally granted, confirms that Franco-Egyptienne and their native partners had not offered sufficiently broad domestic participation. In late 1882 the president of the Nacional, Antonio Mier y Celis, wrote to his counterpart at Franco-Egyptienne, blaming Nacional's troubles exclusively on the extremely limited subscription offered in Mexico, about which Mier y Celis repeatedly warned Noetzlin. He concluded that had Mexico been allocated more shares, Congress would have immediately ratified the concession.<sup>42</sup> In addition to the issue of excluding important local creditors, it is likely that others feared the power of a foreign-controlled bank, especially a national bank, since commerce and credit had been organized and channeled along kin-client networks with strong ethnic biases.<sup>43</sup>

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 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.

The oblique way in which Mexican politics and elites functioned deserves comment. The Congress under González 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 González 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

42. Antonio de Mier to Sr. Presidente del Banco Franco-Egipcio, November 13, 1882, *Comunicaciones 2*, AH BNM. Furthermore, a key participant (on the side of Nacional), Pablo Macedo, admitted that, "algunos dijeron entonces, que en la suscripción del primitivo capital del Banco [Nacional]... haya presidido cierto espíritu de exclusivismo que no dio entrada a todas las principales firmas de la plaza." See Pablo Macedo, *Tres Monografías* (México: J. Ballester, 1905), 354.

43. Financial circuits were not coordinated on putatively national lines. That is why the Barcelonettes, nominally French, were outside the small group of Northern Europeans of British, Parisian, and northern German stock who were the principal recipients of Mexico's allocation of shares.



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.

Noetzlin was ill-prepared for his negotiations with the González regime. Though considered as shrewd by his colleagues, 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 the nation's 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.<sup>44</sup> 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 bankers thought little of the impact the bank might have on French commerce. Indeed, by the end of Noetzlin'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, it "will not cost one *centavo*."<sup>45</sup>

As the opening vignette showed, Franco-Egyptienne ultimately paid not one centavo, but rather fifty thousand pesos, and still the concession proved elusive for months. 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

44. Richemont to St. Hilaire, May 13, 1881, *Correspondence consulaire et commerciale*, Mexico, vol. 9, AMAE.

45. Velasco to SRE, June 30, 1880, #497 AH SRE.

and the timing and direction of negotiations, Noetzlin's trip to Mexico was another indication of weakness. The delays that Noetzlin faced in securing the concession throughout 1881 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, the "foreign-ness" of this quasi-public institution, 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 raised a vexing future paradox. Having sought 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.

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. Eventually, the government's mounting financial needs drove it back to Franco-Egyptienne, but only after excluded locals had organized an effective competing bank.<sup>46</sup> The national bank project offered the possibility of 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 González's blessing and the pesos fuertes, the concession remained stalled in the Senate. In early November 1881, almost two months after Congress reopened, Noetzlin still was ensnared in lengthy meetings with the Senate Treasury Committee, which sought to modify Franco-Egyptienne's national bank contract.<sup>47</sup> 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 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 fifty sacks of pesos fuertes for the expedited signature, excluded locals gathered to plot an insurgent campaign. These excluded

46. Morgan to Blaine, Papers Relating to the Foreign Relations of the United States, 1881, U.S. Government Printing Office, 1882, p. 798.

47. *La Voz de Mexico*, November 4, 1881.

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 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.<sup>48</sup>

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.<sup>49</sup> 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' claims 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 Nationale 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."<sup>50</sup>

Why had "Mexican" creditors waited until a foreign-inspired and foreign-financed 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, most merchants and private bankers preferred to conduct only commercial lending, believing public finance was too risky. Indeed, no national bank had ever existed in Mexico. Another measure of this risk was the relatively high interest rates charged on irregular public and private loans.<sup>51</sup> After Nacional's founding with mainly foreign

48. Leonor Ludlow was the first to describe some of this bank conflict. See "La construcción de un banco: El Banco Nacional de México (1881–1884)," in Leonor Ludlow y Carlos Marichal, eds., *Banca y poder en México* (México, D.F.: Grijalbo, 1986).

49. *La Voz de México*, August 31, 1881.

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

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

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 Ibáñez, announced that capital and potential investors "no faltan en el país pero que estaban *miedosos* de estas luchas, por causas de todos nosotros conocidos."<sup>52</sup> 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."<sup>53</sup> 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.<sup>54</sup> 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."<sup>55</sup> 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 counteroffer 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,

52. Manuel Ibáñez, August 29, 1881, (emphasis mine) quoted in Ludlow, "El Banco Nacional Mexicano y el Banco Mercantil Mexicano," pp. 1005–6.

53. Coutouly to Freyeinet, May 10, 1882, *Correspondence consulaire et commerciale Mexico* Vol. 9, AMAE.

54. Again, see appendix II (anexo II) of Ludlow, "El Banco Nacional Mexicano y el Banco Mercantil Mexicano," 1020–25.

55. 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. See letter from Mercantil to Porfirio Díaz, May 1882, quoted in Ludlow, "Banco Nacional Mexicano y Banco Mercantil Mexicano," 1011.

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 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 support of the government. Franco-Egyptienne directed Guzmán and Mier to open merger talks, and Nacional even persuaded the González 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 González 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.<sup>56</sup> 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, Mercantil utilized its members' regional political links to block the proposed legal reforms.<sup>57</sup> However, the government's reliance on Nacional for public finance limited its freedom to legislate a liberal bank law. On the other

56. Mexican Senate, México, Congreso, Cámara de Senadores, *Diario de los Debates*, 1884; 1885.

57. *Libro de Actas*, Banco Mercantil Mexicano, Diciembre 11, 1882, AHBNM.

side, the government refused to enact restrictive banking laws. 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.

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.<sup>58</sup> However, in the commercial arena, Nacional could not compete against Mercantil, with its broad clientele throughout Mexico.<sup>59</sup> 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 percent. By contrast, in a shorter fiscal year than Nacional's, Mercantil earned 12 percent on subscribed capital.<sup>60</sup> In fiscal 1883, Nacional's profits jumped to 12.5 percent, a result of its increased government business, but Mercantil's return climbed to 16 percent.<sup>61</sup> 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.<sup>62</sup> Soon after Nacional's initial offering, the notorious crash of Union Générale depressed all bank stocks in Paris. Causes deeper than market vagaries were also at work,

58. For more details see Banque Nationale Mexicaine, *Rapport du Conseil du Administration*, (Paris, 1883).

59. Reviewing its fiscal year 1883, Nacional admitted that Mercantil had the majority of commercial business.

60. 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* (México, D.F.: n.p., 1883).

61. The rates of return are based on the calculations found in, Joaquín Casasús, *La cuestión de los bancos a la luz de la economía política y del derecho constitucional* (México, D.F.: Impr. de F.D. de León, 1885), pp. 116–25.

62. Noetzlin made this very clear in his conversation with Velasco. February 14, 1882, Legajo III, AH SRE.

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.<sup>63</sup> In 1881 and 1882 Noetzlin visited Barings Brothers, seeking help to open the London market to Nacional's shares.<sup>64</sup> Moreover, he met the Bondholders' Committee itself in January 1883, explaining that the Bank was not providing the Mexican government with substantial funds.<sup>65</sup> 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 González administration fell victim to 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 30 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

63. 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.

64. See HC 4.5.46–47, BBA GL.

65. See here the archive of the Committee of Bondholders, "Meeting with Noetzlin," January 13, 1883, BBA GL.

Treasury obligations and a looming budget crisis. In fiscal year 1879–1880 (Díaz's last year in office), rail subventions summed to \$1.2 million. In González's first year, railroad obligations increased by 50 percent to \$1.8 million. In 1882, subsidies doubled to \$3.6 million, and in fiscal year 1883 they ballooned to \$8.9 million.<sup>66</sup> 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.<sup>67</sup> 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.

The looming budget crisis that González 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.<sup>68</sup> 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. Even within the governing board of Nacional itself, conflict over how to manage its relations with the government pitted foreign and local directors 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

66. Lionel Carden to Lord Granville, May 5, 1883, PRO FO 50, vol. 442.

67. México, Secretaría de Hacienda, *Memoria de la Secretaría de la Hacienda 1883–84*, lxiii–lxvi. Tipografía de Gonzalo A. Estera, 1886.

68. *Actas de Consejo*, vol. 2, BNM February 23, 1883, AH BNM.



the political economic strategy of Díaz was to avoid the political risks that the Bondholders' "shock" policies entailed. Mexican officials 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 and their foreign partners. 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 Díaz government was forced to declare a temporary moratorium on the payment of railroad subsidies, the stolid and reliably 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.<sup>69</sup>

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 renegotiating its London debt, so long in default. Moreover, by tapping these alternative sources, the state improved its bargaining position vis-à-vis the British Bondholders.

69. *Banker's Magazine*, August 1885.

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The findings of this paper suggest that the prevailing characterization of the Porfirian political economy as one of vertical political integration is too narrow for at least two reasons. First, as for the *type* of political integration that allowed the Porfirian project to flourish, the findings herein suggest that the term *horizontal* political integration may fit better the regime's behavior.<sup>70</sup> It was horizontal in the sense that the regime simultaneously pursued and managed an elaborate external and internal strategy, embracing multiple partners in multiple markets to finance the infrastructure that helped integrate Mexico more tightly into the global economy and generate impressive long-term growth. In this sense key initial stakeholders (investors, literally) in the regime were spirited foreign entrepreneurs. A striking example of this was the founding of Mexico's *national* bank by predominately foreign capital. Yet as this paper has shown, this financial globalization (or horizontal integration, if you like) did not retard or repress domestic finance, but rather was a key domestic political economic event in Mexico, awakening and emboldening local competitors, who had previously eschewed formal credit institutions.

As a political economic model, vertical political integration is too cramped for a second and perhaps more important reason, because it points to a narrow *exchange* in which public officials conceded special terms and privileges to economic elites who in turn supported and invested in the regime. Relations between economic elites and the Porfirian policymakers were more complex, nuanced, and fraught with conflict, often precisely over the application and enforcement of the specific privileges the government had conceded. This is glimpsed in the early 1880s when the government refused the national bank's demand that the government enact more restrictive laws in return for public credit. In other work I have shown that the government repeatedly revoked or reduced the privileges it granted the national bank, without ever incurring a loss of support, especially among the domestic directors of the bank. Indeed throughout the Porfiriato, it was always the foreign directors who remonstrated (in vain) to have their bank concession fully enforced. Domestic elites invariably were more conciliatory towards the regime. In an important sense, the exchange between domestic elites and the Díaz regime was more far-reaching. Domestic elites had swapped their political rights for a propitious *general* environment in which the Díaz regime provided them political stability and external economic integration, conditions that heretofore had not prevailed in nineteenth-century Mexico.<sup>71</sup> The Porfirian regime

70. Indeed, as John Coatsworth recently noted, Haber et. al, have suggested as much. See Coatsworth, "Structures, Endowments, and Institutions in the Economic History of Latin America," *Latin American Research Review* 40, no. 3 (2005): 143.

71. In one historian's memorable phrase, prior to the Porfiriato, "the empresarios and other groups that made up the emerging dominant class in Mexico ruthlessly manipulated the state for private gain to the detriment of class interests, economic growth, and political

thus created spaces in which it could defend and assert its policymaking freedom, either by stimulating competition, appealing to nationalist sentiment, or by shading its intention through deploying domestic institutional proxies, be it courts, congress, or custom.

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 importantly, the government's autonomy rested on its deft ability to act in the long-term interests of elites by initiating economic growth through global opening while simultaneously protecting threatened local interests and promoting political stability.

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 Porfiriato, 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 partial answer might lie in 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.

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stability." See David Walker, *Kinship, Business and Politics: The Martínez del Río Family in Mexico, 1824–1867* (Austin, TX: University of Texas Press, 1986), p. 22.

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. Indeed while economists might argue that manipulating the international community suggests inefficient williness 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

AH BNM	Archivo Histórico Banamex, Mexico City, Mexico
AH PB	Archive Historique Banque Paribas, Paris
AH SRE	Archivo Historico, Secretaría de Relaciones Exteriores
AMAE	Archives du Ministère des Affaires Etrangères, Quai d'Orsay, Paris
BBA GL	Baring Brothers Archive Guildhall Library, London, England
CGPD	Colección General Porfirio Díaz, Universidad Ibero-Americana, Mexico City, Mexico
CMG	Colección Manuel González, Universidad Ibero-Americana, Mexico City, Mexico
PRO FO	Public Record Office (Great Britain) Foreign Office
JSP AJA	Schiff Papers American Jewish Archive, Cincinnati, Ohio, U.S.