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EUROPEAN BANKS IN LATIN AMERICA IN THE LATE 19TH AND EARLY 20TH CENTURIES: THE CASES OF BRAZIL AND MEXICO, A STORY OF DIVERSITY

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The history of the role of European banks and, particularly, of British banks in nineteenth century Latin America is frequently misinterpreted as a result of the prevalence of a series of traditional but largely unexplored suppositions. The most common of these is that British banks traditionally dominated Latin American finances and faced little competition from domestic banks.¹⁹ The second is that the operation of foreign banks and bankers in Latin America followed a standard pattern and that there was relatively little diversity from country to country. Moreover, the role of non-British banks and bankers- particularly French and German- in Latin America tends to be neglected.²⁰ It is the purpose of the present paper to use recent research on the history of Latin American banking to indicate the need for a revision of the traditional stereotypes as well as to suggest the richness and diversity of the history of both domestic and foreign banking in the subcontinent during both the 19th and early 20th centuries.

¹⁹ For example, in his magnificent overview of the history of British multinational banking, Geoffrey Jones (1993), p.373, tends to discount the role of domestic banking in Latin America in the 19th century.

²⁰ The very excellence of the study by Joslin (1966) on British banks in Latin America and the lack of similar studies on French or German banks in the region (until recent times) have tended to reinforce this trend. A recent study that opens new vistas is M. Pohl (1987) on

Our point of departure consists in arguing that in any comparative historical study it is necessary first to distinguish between the activities of European investment and commercial banking firms in Latin America in the period under study. European *merchant bankers* were heavily involved in Latin American international trade and finances from the early nineteenth century but they played little role in domestic commercial banking.²¹ Private firms such as Baring Brothers, Rothschilds (British and French), Bleichroeder and PariBas, among others, exercised a particularly marked influence in the issue of international debt for Latin American governments, occasionally combining this business in public bonds with the sale of private stock in firms which were investing in Latin America.²²

On the other hand, from the 1860s quite different and distinct groups of European investors and entrepreneurs promoted the establishment of a considerable number of commercial banking firms within the Latin American economies. These commercial banks- which were initially small- came gradually to exercise an important role in the domestic financial markets of most of the nations of the subcontinent, although their strategy, structure

the role of the Banco Alemán Transatlántico.

²¹ The early activities of British merchant bankers in Latin America in the 1820s have been studied in the entertaining study by Dawson (1990).

²² A review of the loan activities of the major European merchant and investment banking firms in Latin America during the 19th and early 20th centuries can be found in Marichal (1989), particularly Appendixes

and evolution differed markedly.

This essay considers four themes relative to foreign banking in Brazil and Mexico in the late 19th and early 20th centuries. With respect to each country we begin by reviewing the role of European merchant banking firms in the international debt business. Next, we consider the impact of foreign banking firms in their domestic commercial banking systems. With this background we explore the ways that foreign bankers understood local political economies. Finally, we devote the last section of the paper to analysis of the reasons underpinning the competitive pressures and consolidation of foreign banking in Brazil and Mexico. With this in mind we compare the case of the mergers in the Mexican banks in late 19th century with the mergers of British banks in Brazil in the 1920s. The basic hypothesis is that these important organizational transformations came as a result of major changes in the domestic financial markets of Brazil and Mexico.

**PART II: EUROPEAN BANKS IN MEXICO IN THE LATE 19TH AND
EARLY 20TH CENTURIES**

While in the Brazilian case, British banks and bankers exercised a fundamental- if not dominant role- in international trade and finance during most of the nineteenth century and into the early 20th century, in Mexico the story was substantially different. During early decades of the Mexican republic, British merchant bankers played a significant role but subsequently their influence waned. In this respect it is worthwhile underlining, in particular, the key part that French banks, bankers and French financial models were to have in the late process of modernization of Mexican financial markets. But before doing so, we shall begin with some historical antecedents.

European merchant bankers and the quandary of Mexican foreign debts during the nineteenth century

As in the Brazilian case, European merchant bankers were involved in Mexican trade and finance from the early nineteenth century. It should be recalled in this context that Mexico had long been- and would continue to be- the world leader in production and exports of silver, a fact which forcefully attracted the attention of European financiers from early on. For three centuries, however, the Spanish Crown had exercised a close control and supervision of the silver remittances, excluding foreign merchants from *direct* participation in the transport and trade between the colonies and the mother country. But as the

Spanish empire gradually collapsed in the early nineteenth century, British, French and Dutch bankers moved quickly to take a share in the large and profitable business of American remittances of precious metals and coin.

The most spectacular of these transactions took place in the years 1805-1808 (during the Napoleonic Wars) when the administration of the Spanish monarch, Charles IV, signed contracts with the flamboyant French financier, Gabriel Ouvrard, and with the merchant banking firms of Hope & Company of Amsterdam and Baring Brothers of London to assure the transport of silver from Mexico to Europe. This quite extraordinary financial operation has been described by various distinguished economic and political historians, including Marten Buist, Andrés Fugier and Richard Bruchey.²³

Following the declaration of independence of the new nation in 1820, a number of British merchant banks took stakes in Mexican silver mines and in two foreign loans issued on behalf of the government. The Mexican bonds were issued and sold on the London stock exchange in 1824 and 1825 by the financial firms of Goldschmidt & Company and Barclay, Herring, Richardson & Company, but after two and a half years interest payments were suspended, initiating an early and prolonged debt crisis. As a result of the

²³ The complex silver transfers from Mexico to the United States and hence to Great Britain, Holland and France are described in Bruchey (1958), Buist (1974) and Fugier (1930).

bankruptcy of the two banks mentioned, the Mexican government approached the influential London firm of Baring Brothers in order that it act as financial agent on its debts, making service payments when the treasury could remit the funds required.

During ten years (1827-1837), Baring Brothers acted as intermediary for the Mexican treasury and the British bondholders, but since payments were extremely irregular the bankers finally cancelled their participation in this nonlucrative business. Nonetheless, Barings did continue to participate until past mid-century in the financing of Mexican trade, particularly in the export of silver and cochineal and the imports of mercury and textiles, operating through their correspondents in Mexico City, the firm of Manning and Mackintosh, as well as receiving detailed financial and commercial reports in the 1830s and 1840s from their direct representatives, George White and Francis Falconnet.²⁴

From the mid-1830s another leading European merchant banking firm, that of Rothschilds, attempted to corner the important commerce in mercury which was indispensable to the refining side of Mexican silver mining. In 1835 Rothschilds obtained a monopoly over the Almadén mercury mines in Spain which were the principal world suppliers of this product and, as a result, these powerful financiers became major players in the silver and mercury trade of

²⁴ Liehr (1983) and Platt (1982) describe the operations of Barings in Mexico.

Mexico.²⁵ Operating through their local financial agents in Mexico City, Guillermo Drusina and Nathaniel Davidson, the Anglo/French bankers also participated in other local business operations although information is scarce on the latter since there are extremely few historical studies on this subject despite the availability of archival sources.²⁶

While heavily interested in the silver and mercury trade, neither Barings nor Rothschilds participated in any loans for the Mexican government which, in fact, had great difficulty in renewing service on its old foreign debts. The impact of the prolonged moratorium upon Mexican public finance during the first half of the nineteenth century has been analyzed in a variety of recent studies which demonstrate that due to the lack of new foreign loans, Mexican finance ministers were obliged (from the 1830s) to rely on local sources of credit which provided funds at extremely high rates of interest. The result, as Barbara Tenenbaum has demonstrated, was that internal public debts became the major cause of government deficits.²⁷ In fact, the operations of Mexican money markets were largely determined and skewed by the great weight of these debts which forced most available liquid funds into the hands of the government and of the coterie of

²⁵ See Otazu (1987) for the activities of Rothschilds in nineteenth century Spain.

²⁶ Gille (1965) and Ludlow (1997) provide information on Rothschilds in Mexico in the 1860s with brief mention of their business interests there in previous decades.

²⁷ The growth of extremely high-interest internal debts on Mexican government finance is analyzed in Tenenbaum (1987).

powerful moneylenders who largely controlled the state treasury. But as the historian, D.C.M.Platt, argued, this situation was not unique to Mexico:

"Financiers have always shown an impressive capacity for making money out of bankrupt governments- capacity as evident in Mexico as it was, say, in Austria, Italy, Spain and Portugal over the same period (1820-1870). The Mexican government could not borrow abroad. For its short-term needs it was dependent on resident financiers, sometimes foreign but usually national. The business was risky, but the profits were spectacular."²⁸

That the Mexican government remained in a state of virtual default on its foreign debts from 1828 onwards (with the exception of a few years) effectively ostracized the republic from European capital markets during decades.²⁹ Moreover, a renewed moratorium declared by president Juárez in 1861 was one of the key factors that led to the intervention of the port of Veracruz by combined British, French and Spanish forces and, subsequently to the military occupation of Mexico by a French army (30,000 soldiers) sent by Napoleon III.

Thus began the brief and tragic empire of the Austrian archduke, Maximilian, who governed Mexico with French support during the years 1863-1867. Less well-known is the complex story of the foreign loans issued in Europe in this period to finance

²⁸ Platt (1982).

²⁹ The Mexican government provided several payments to foreign bondholders in 1837, in the years 1848-50 and during the imperial government of Maximilian, 1863-67, but otherwise no service was forthcoming to foreign bondholders. For details see Bazant (1981).

this French imperial venture in the Americas. Among the only monographs on this subject is that of Genevieve Gille who analyzed the role of competing European financial groups to issue *Mexican imperial bonds* in Paris, London and Brussels.³⁰ Initially, Rothschilds and Barings jointly proposed a loan to the French finance minister, but the final contract was signed between the government of Maximilian and an Anglo-French consortium led by Glyn, Mills Company, the Crédit Mobilier and the Compagnie financiere internationale, which proceeded to issue 200 million francs in *Mexican imperial bonds* in late 1864. The sales were largely failures in London and Brussels, but in Paris the Crédit Mobilier was able to place the bulk of these securities. A second loan for 250 million francs was issued in 1865 by the Comptoir d'Escompte, succesfully placed in the French *bourse* with the support of numerous firms of the Parisian *haute banque*.³¹

At the same time, four competing European financial groups promoted schemes for the establishment of a national bank in Mexico in the years 1863-1864.³² None of these, however, came to fruition, as the bankers haggled with Maximilian and his ministers

³⁰ Gille (1965) used rich materials from the French Rothschild archives as well as other bankers' correspondence in the Archives Nationales.

³¹ Gille (1965), *passim*.

³² The first bank proposal was made by a syndicate of Parisian banks- Salomon Heine, Credit Mobilier, Oppenheim et Cie, Fould et Cie., and several British financiers. The second was advanced by another Anglo/French consortium headed by the Société Internatinale Financiere and Glyn Mills. The third was promoted by members of the *haute banque*, Heine, Mallet, Hottinguer, Fould, as well the firm of Finlay, Hodgson of London. Finally, the fourth was promoted by the French branch of the

over the concessions which they wished to obtain, each group pressing for a monopoly of banknote issue and a major share of government financial operations. Meanwhile, a less prominent and more modest proposal by a group of British investors led to the establishment of the first commercial bank in Mexico, the Bank of London and Mexico, established in 1864, which we review in a following section.

European financiers and the renegotiation of Mexican debts in 1880s: the role of Edouard Noetzlin.

After the fall of the Empire of Maximilian in 1867, the new Mexican government led by president Benito Juárez declared an indefinite moratorium on foreign debts, and in particular on the loans of 1864/65 which had served specifically to cover the expenses of the occupation of Mexico by French troops and were thus considered spurious as having an explicitly colonial and exploitative character.

As a result of the suspension of payments, during the 1870s European investors remained extremely wary of any proposals by the Mexican government to invest more money in private enterprises or in prospective loans. Nonetheless, by the early 1880s this situation began to change. This was a result, in the first place of the reestablishment of diplomatic relations between France and Great Britain and Mexico as of 1880. But it was also the

Rothschilds. For details see Gille (1965) and particularly Ludlow

consequence of the extraordinary activities of the Swiss/French banker, Edouard Noetzlin, a shrewd financier with excellent connections in European money markets, an indispensable prerequisite for the restructuring of the Mexican debt, which was held in London, Amsterdam and Paris. In the early 1880s Noetzlin was director of the *Banque Franco/Egyptienne* (a firm controlled by the Bischoffsheim financial families), a position which allowed him to develop excellent relations with a great number of financiers throughout Europe and the United States. These contacts were to prove fundamental in what was to prove to be one of his most successful banking experiments, the creation of the Banco Nacional Mexicano in 1881, which is discussed later.³³

In 1884 the Mexican president, Manuel González, decided to provide Noetzlin with a virtual *carte blanche* and urged him to raise a foreign loan in Europe as soon as possible. Not surprisingly when Noetzlin returned to Europe in the summer of 1884 he had little difficulty in putting together a financial package which quickly received the support of European bankers and bondholders. According to this plan, the bulk of the outstanding Mexican debt (dating from as far back as 1824) was to be converted into new bonds payable in gold. In order to carry out this plan, the Mexican government would negotiate with the foreign bankers the issue of six million pounds in bonds, the bulk of which would

(1997).

³³ I wish to thank Peter Hertner for informative notes he provided me on Noetzlin's career. The role of Noetzlin in Mexico in the early

then be handed over to the bondholders.

The news was welcomed by the Council of Ministers in Mexico City, but surprisingly when the proposal was presented to the National Congress an acrimonious and impassioned debate broke out which lasted almost three weeks and stymied approval of the so-called "Noetzlin contract".³⁴ Numerous deputies -including the prestigious intellectual Justo Sierra -argued in favor for ratification of the loan with the European bankers, insisting that this would reduce the dependency on United States capital. But the opposition counterattacked, emphasizing the high costs of the transaction. Criticism was vented particularly against a clause which called for the payment of a series of huge commissions and potential profits, totalling more than 13 million pesos, of which presumably 10 million pesos would go to Noetzlin and his associates.³⁵ In fact, the opposition of the press and the popular outcry became so intense that, before a final vote could

1880s is briefly discussed in Ludlow and Marichal (1986), pp. 304-310.

³⁴ According to the Congressional finance commission this was the first public debate on the question of the foreign debt in thirty years, the last major legislative discussion having taken place in 1850. *Cámara de Diputados 1885*: 178-179.

³⁵ It should be recalled that Noetzlin was acting in the name of the Banco Nacional de México and that the commissions were probably intended to cover the huge advances the bank had been forced to make to the government on account of the future proceeds of the loan: these surpassed 5 million pesos between May and October, as well as two million pesos in previous months. Nonetheless, on being informed of the popular opposition, Noetzlin wired the government his renunciation to the commissions mentioned. The Noetzlin contract was analyzed critically by contemporary financial specialists, although the exact nature of the commissions was never clarified. On Banco Nacional de México advances see the contracts signed between November 24, 1883 and October 10, 1884, Banco Nacional de México 1883-1914. For critical interpretations of the Noetzlin contract see Casasús 1885: 457-480,

be carried out, popular demonstrations forced the closure of the legislature.

After the election of Porfirio Díaz to the presidency in December of 1884, the new finance minister, Manuel Dublán, wasted no time in sending a telegram to Noetzlin advising him of the suspension of the proposed contract and loan negotiations.³⁶

Nonetheless, by June, 1886 -after the renewal of prolonged negotiations with European creditors- the financial agent of the Mexican government in London, general Francisco Z. Mena announced the successful conclusion of an accord with the Corporation of Foreign Bondholders to recognize and convert the outstanding foreign debt of Mexico.³⁷ The European bondholders accepted the clauses of the June 22, 1885 decrees by which they exchanged their old 6% bonds for new 3% bonds on which they would soon begin receiving cash interest payments. The Mexican government, in turn, was to establish a financial agency to supervise the conversion of the debt, and designated the prestigious London firm of Glyn, Mills, Currie and Co. as banker in charge of making make interest payments, beginning January, 1887.³⁸

Ortiz 1886: 101-115; 461-551 and Bulnes 1885.

³⁶ Copy of communication dated January 21, 1885, in Castillo 1903: 54-57.

³⁷ For the text of the agreement signed June 23, 1886 with E.P. Bouverie, president of the Corporation and with H. Sheridan, president of the Committee of Mexican Bondholders, see *Secretaría de Hacienda, Memoria de Hacienda, 1886*, pp. 275-278. For additional details on the negotiations see Marichal (1996).

³⁸ Glyn, Mills were the main correspondents of Banco Nacional de

As a result a major conversion loan was arranged in 1888 loan which once again placed Mexican finance under the sway of of European bankers, the most important being the German syndicate headed by the famous firm of Bleichroeder, banker to Bismark. Noetzlin was able to convince Bleichroeder to participate for strictly financial reasons but this move into Mexico coincided with contemporary German foreign policies which favored expansion into new regions in which German trade could make inroads. According to Stern:

"In 1888 Bleichroeder opened up yet another country to German influence: it was he who organized a major international loan to Mexico at a time when that country's government was desperately looking for European help. Mexico's need was great and European interest minimal: the German minister in Mexico thought that the only guarantee for the healthy development of Mexican politics was the person of President Porfirio Díaz; all other signs were unfavorable. Given everybody's skepticism, Bleichroeder could extract singularly advantageous terms for his consortium..." (Stern 1977: 427.)

Indeed, the financial terms were singularly attractive to the European bankers as they were to take the first tranche of 3.7 million pounds of the loan at the low price 70% of the loan and a second tranche of 5.8 million pounds at 85%. Since Bleichroeder was able to sell the bonds corresponding to these two issues at 85% and 92%, respectively, it may be estimated that his syndicate

México in London and the latter had a large account with the London firm.

garnered earnings of over 700,000 pounds simply by selling the Mexican securities on the European markets. The money, however, did not go only to the German bankers but also to other financial houses participating: 62% went to the Bleichroeder syndicate, 20% to Antony Gibbs and Sons of London, and 18% to the BANAMEX branch in Paris.³⁹

The success of the great 1888 conversion loan signalled the reentry of Mexico into the international financial markets and established a favorable antecedent for the subsequent issue of a string of loans between 1889 and 1893 and, later between 1899 and 1913. The bulk of the Mexican bonds were sold initially on the London and Berlin stock exchanges, while a smaller portion were placed indirectly among investors in secondary financial markets in Belgium, France and Holland. The bonds sold in France were promoted by the Banco Nacional de Mexico- acting through Noetzlin and other Paris-based financiers- although the latter had to act discretely given the fact that the Paris bourse did not allow French banks to officially sell Mexican bonds there until the turn of the century.⁴⁰

³⁹ Bleichroeder also received an additional commission of 130,000 pounds for taking charge of the whole transaction. Details are in Secretaría de Hacienda y Crédito Público (Mexico), Memoria de Hacienda, years 1888-89, 1889-90.

⁴⁰ The exclusion of Mexican securities in the Paris bourse was due to the fact that the government of Mexico continued to refuse to recognize or pay the old *Mexican imperial bonds* which had been originally issued in 1864 and 1865 by the administration of Maximilian and were latterly known as the Mexican "petis bleus". On this issue see Stephen Topik, "Controversia crediticia: los azulitos del periodo de Maximiliano," in Ludlow and Silva (1993) pp.445-470.

European participation in commercial banking in Mexico from the 1860s: contrasts between British and French practice

The late reentry of Mexico into international capital markets reflected the slow process of financial modernization and in particular the slow development of domestic commercial banking there when compared to other Latin American nations. Proof of this is the fact that the first commercial bank, the *Bank of London and Mexico and South America*, founded in 1864, during the empire of Maximilian, remained the only institution of its kind in Mexico until the early 1880s, whilst dozens of banks had emerged in the major South American nations.⁴¹

The *Banco de Londres* - as it was long known in Mexico- was originally one of a diverse number of Anglo/foreign banks- to use the expression of Cassis- which were established in the 1860s- but it should be noted that it built upon the previous mercantil/financial business practice of English mercantile houses long established in Mexico.⁴² In particular, the new bank used the extensive networks contacts (commercial, mining and political) which had been the operative base of of the once powerful firm of Manning y Mackintosh, that had served as as correspondants to Baring Brothers for almost two decades until the bankruptcy of the

⁴¹ For a brief contrast of the late development of banking in Mexico in contrast to Argentina, Brazil, Chile and Peru see Marichal (1986).

⁴² Cassis (1987), pp.37-40. For some details on the early history of the Banl of London, Mexico and South America see Joslin (1963).

Anglo/Mexican firm.⁴³ Using the extensive experience of British merchants in the silver and mercury trades as well as their role in the commercial ports of Tampico and Veracruz, the Bank of London and Mexico was thus ideally suited from the start to carry on a flourishing business. As an official history of the bank indicates:

A month before the official opening of its offices, the Bank had established links to important mercantile houses in the interior of Mexico, many of which were amply known in Europe, especially those in the mining towns of Zacatecas and Guanajuato and the ports of Veracruz and Tampico.⁴⁴

For the period 1860-1880, the paucity of secondary studies makes it unwise to make any categorical affirmations about the evolution of the Mexico City money market. Certainly the establishment of the Bank of London and Mexico suggests that some important changes were taking place, especially with regard to international financial traffic. But then again, this bank had a relatively limited scope of activities and no other banking institutions followed in its steps until the 1880s. The risks of carrying on a regular banking business were still high, and therefore most local credit transactions continued to be handled by several dozen, large merchant houses in the diverse Mexican cities and ports, with the largest contingent being established in

⁴³ Among the correspondent firms which later established close links to the Bank of London were the firms of Stewart Jolly y Cía., in Tampico, Davis y Cía., in San Luis Potosí, Randell y Cía. in Durango and E. Turnbull y Cía. in Puebla: for details see Tenenbaum (1979).

⁴⁴ See the centenary volume published by the Banco de Londres y México, (1964), p. 19.

the nation's capital.⁴⁵ It was precisely from this circle of merchant/financiers that came many of the future directors and stockholders of two new banking institutions, the Banco Nacional Mexicano and the Banco Mercantil Mexicano, both established in 1881, leading to the incipient creation of a banking network in Mexico City in this decade.

The establishment of the *Banco Nacional Mexicano* in 1881, however, owed most to Edouard Noetzlin who was able to mobilize a singular alliance of European and Mexican investors and financiers to create what would become the largest commercial bank in the republic. The institution was launched with a majority of foreign capital (French, British and German financiers were heavily involved, as well as some New York bankers) while a minority portion of shares were taken by merchants (mostly of French and German origin) established in Mexico City and other cities and ports throughout the republic. The cosmopolitan nature of the stockowners of this financial *joint-venture* merits attention as it established a pattern of association between domestic and foreign capital which was to play a major role in numerous Mexican corporations in the period under review.

Among the largest stockholders of the newly-founded Banco Nacional Mexicano in late 1881 were several Parisian-based banks which held 26% of total capital, including the Banque Franco-

⁴⁵ An interesting portrait of the "new" commercial and financial

Egyptienne with 16,500 shares and the Société Générale with 3,000 shares. Among the individual French investors there were several important financial figures, including Frédéric Grueninger (2,00 shares) of the Comptoir d'Escompte, Ernest May (1,425 shares), Antoine Joubert (500) and Henri Bamberger of the Banque de Paris et Pays Bas, Edouard Noetzlin (2,000), the firm of A.M. Heine (1,000), Seligman Freres (500), and many others. ⁴⁶

But Noetzlin did not limit the promotion to France. He also was able to interest the well-known London-based financier Ernest Cassel who took 200 shares initially as well as the German banker Bleichroeder who acquired 500 shares. At the same time, shares were placed in New York, the firm of Drexel and Morgan taking 1,000 of these in late 1881. ⁴⁷

When news of the creation of this new bank began to circulate in Mexico, a rival group of wealthy merchants of Spanish origin, who controlled much of the wholesale business in Mexico City in textiles, tobacco and food products, decided to create their own financial institution, the Banco Mercantil Mexicano. The capital of the latter bank was subscribed in early 1882 by a total of 305 merchants and entrepreneurs of whom 156 had firms in Mexico City, 82 in the port of Veracruz and the rest in various cities of the

bourgeoisie of the capital can be found in Luddow (1990).

⁴⁶ Ludlow (1990) provides a detailed analysis of the original foreign stockholders of the bank (who took 70% of the original issue) as well as the Mexican stockholders (who bought the remaining 30%).

⁴⁷ *Ibid.*

republic.⁴⁸

The two new banks operated independently until 1884 when, as a result of a banking crisis, they merged thereby creating what would become the largest banking enterprise in the nation, the *Banco Nacional de México* (BANAMEX), soon surpassing the *Banco de Londres y México* in virtually all spheres of financial activity. The merger and consolidation of BANAMEX reflected the convenience of a close association between foreign and domestic capitalists in a key economic institution and sector, establishing a pattern of transatlantic financial alliances which would later be followed by other leading banks in Mexico.

The political economy of banking in Mexico: the crisis of 1884/85 and the consolidation of BANAMEX

In this section we would like to emphasize the importance of studying the merger which led to the creation of the BANAMEX in 1884 for two reasons. The first is that it reveals the special public/private character of what would become the nation's largest commercial bank, a fact which led the managers and directors of this private firm to adopt a dual and sometimes contradictory view of the Mexican political economy as they attempted to combine their broad-ranging commercial credit operations with the more lucrative but riskier government loan transactions. The risks became particularly evident as a result of the crisis of 1884

⁴⁸ Ludlow (1990) provides a careful description and geographical

which led to the aforementioned merger.

A second related feature which we wish to underline is the fact that the combination of public and private financial transactions carried on by this bank reflected an experiment in what might be classified as one contemporary French model in banking overseas which became quite common in various countries in quite different world regions for some time. It may be recalled that there were several other banks -as of the 1880s- which displayed similar features to that of the Banco Nacional de México combining heavy participation in public finance with an extensive commercial banking business: for instance, the Banque Ottomane, the Banque Russe et Francaise, the Banque des Pays Hongrois, the Banque Nationale de Bolivie and the Banque Nationale d'Haiti.⁴⁹

When Noetzlin visited Mexico to negotiate the establishment of the Banco Nacional Mexicano in 1881, one of his principal objectives consisted precisely in obtaining a series of concessions over public finance and over the issue of banknotes that would guarantee its future power and profitability. As a result, the Mexican government established a privileged relationship with the Banco Nacional Mexicano from its very inception. The latter opened a regular account for the Ministry

breakdown of the Banco Mercantil Mexicano stockholders.

⁴⁹ Information on these and other overseas French banks can be found in the contemporary French financial journals: an especially article is in Revue économique et financière, April 12, 1882.

of Finances which allowed the treasury to draw for large sums on the bank. In exchange, the bank was to take charge of the accounts of the national customs houses, including the sale of traditional customs certificates as well as of the accounts of the Stamp Tax offices in the nation's capital and of the National Lottery. In effect, the Banco Nacional thus became the government banker, and, in principle, only its bills were to be accepted at the fiscal offices. ⁵⁰

The Banco Nacional did not limit its loans to the federal government. It also provided funds for various local government entities. In early 1882, for example, it provided an advance of 200,000 pesos to the municipal government of Veracruz, and later in the year a 30,000 peso credit to governor Madero, of the State of Coahuila. ⁵¹

From the beginning of 1883, the federal government began to pressure the Banco Nacional to provide larger loans, including the contracting of a two million peso bond issue. The bank had previously refused to engage its own capital in such large loans, and did so once again, providing only an advance of 150,000 pesos in May. Nonetheless, falling customs revenues forced the Finance Ministry to keep pressing and in November, 1883 the Banco Nacional

⁵⁰ The precise details of the contracts established between the government and the bank are summarized in Ludlow (1986).

⁵¹ The details can be found in the Archivo Histórico Banamex, (AHBAN) Libro de Actas-Acuerdos del Consejo de Administración (1881-1884).

in conjunction with seven allied merchant houses in Mexico City and the Paris-based Banque Franco-Egyptienne finally agreed to advance 700,000 silver pesos to the treasury in exchange for one million pesos in customs house certificates.⁵²

The increasingly difficult financial position of the government, however, could not be resolved merely with one loan. The deficits had already surpassed two million pesos in 1882-83 according to published figures, but were in fact much higher. The large expenditures on subsidies for private railroad companies were the main cause of this problem: the amounts of subsidies surpassed 7 million pesos in 1882-83 and 3 million pesos in 1883-84, which went to the Ferrocarril Central, Mexicano and Interoceánico. These subsidies as well as previous loans to the Banco Nacional were guaranteed with customs revenues, thus effectively mortgaging most of the regular fiscal income of the government.⁵³ The fiscal constraints were aggravated accompanied by a banking crisis in Mexico City which threatened to lead to a complete financial collapse.

⁵² The Banque Franco-Egyptienne was still the leading foreign-based stockholder of the Banco Nacional. The Mexico City merchant financiers concerned in this deal included Bermejillo Hnos., Benecke Sucs., Felix Cuevas, Gutheil y Cia., Ramón G. Guzmán, Lavie y Cia., and Antonio de Mier y Celis. See "Contrato no.1, "Sindicato "Ordenes del Pacífico"", in AHBANANAMEX, Libro de Contratos Originales de Empréstitos, 1883-1914.

⁵³ In his financial report, minister De la Peña, stated in September, 1884, estimated that 60% of the customs revenues of the port of Campeche, 90% of those of Tampico and Matamoros and 84% of the income of the customs house of Veracruz were mortgaged to companies, merchant

The solution found to these problems lay in the fusion of the Banco Nacional with the Banco Mercantil into one large bank known from then as the Banco Nacional de México (BANAMEX). Edouard Noetzlin, representative of the European stockholders, arrived in Mexico in February, 1884, precisely for the purpose of signing the final agreements for the fusion. He met with president Manuel González who suggested that an official commission be named for this purpose under the auspices and direction of general Porfirio Díaz. Noetzlin, who maintained good relations with Díaz, quickly drafted a draft of the fusion, and by May it was ratified.

The establishment of the BANAMEX represented a major change in Mexican finances as this institution now formally became the government's bank, although it remained privately owned and administered. BANAMEX opened a large account for the finance ministry on which it could draw for a total of 4 million pesos during the year. In exchange, the government allocated 15% of all customs revenues to the bank as well as the income from the National Lottery and the stamp tax, as had been standing practice from 1881. It also was granted a monopoly of banknote issue in the entire republic.

Apart from short-term credits, the BANAMEX was also expected to help arrange some long-term finance for the government. Most important, Noetzlin was personally charged by president González

to serve as financial agent for Mexico in Europe and to arrange a foreign loan for six million pounds which would be accompanied by the conversion of the outstanding foreign debt.⁵⁴ The interaction of public and private finances was thus not only institutionalized but internationalized.

Subsequently, it may be observed that BANAMEX operated simultaneously as the government bank (albeit remaining a private bank) and as the largest commercial bank in the republic. This meant that the bank directors in Mexico City (who were all Mexicans or resident merchants of foreign extraction) had extremely detailed information on both the future direction of public financial policy as well as on the overall evolution of the private sector economy. The relative advantages of having this information meant that the managing board in Mexico City generally took their own decisions on major domestic business transactions with only occasional requests to the Paris-based board of the bank for additional opinions or recommendations.

A review of the bank correspondence between the Mexico City and Paris boards indicates that after 1884, generally speaking, the opinions of Noetzlin and the other foreign-based directors were crucial only with respect to strictly international financial operations such as the issue of international loans. In those

Hacienda, 1884, pp. ixx-lxxix.

⁵⁴ For the text of the legislative decree authorizing the foreign loan see Castillo 1905: 17-18.

cases the participation of the Paris-based directors was essential as they were charged with placing Mexican external gold bonds on many occasions from 1888 to 1913. But during most of the time, it was the Mexico board which took the key decisions, a fact which reflects the advantages bank managers could have over the majority financial owners.

That the European stockholders were not displeased with this arrangement may be found in the fact that BANAMEX was able to post earnings which averaged well over 10% every year from 1884 to 1910 and that its stock quotations in Paris tended to rise substantially over time. Not surprisingly, this profitability led important European banks to increase their participation in the capital of this Mexican financial firm. In 1903, for instance, the bank documents indicate that Paribas had only 975 shares in BANAMEX and the Banco HispanoAmericano but 3,566 shares, most of the remaining shares being held by a large number of European investors. On the other hand, by 1911 Paribas had increased its stake to 9,775 shares and the Banco HispanoAmericano to 9,436 shares, making them the single largest stockowners of BANAMEX.⁵⁵

But BANAMEX was not the only Mexican bank in which European investors took significant stakes. The concentration of Banamex in international and government finance had unexpected results as independent mercantile and industrial groups in Mexico City began

⁵⁵ The information on stock ownership can be found in "Cartas de

to look elsewhere to broaden their sources of domestic industrial and commercial credit. In particular, it was the dynamic group of Barcelonette entrepreneurs who took an interest in the Banco Londres which they believed offered them the possibility of counting upon a secure financial instrument with which to promote their rapid expansion in both department stores and textile manufactures throughout Mexico. The result was that a result of an investment of 5 million pesos by these French capitalists in the 1890s in the *Banco de Londres y México*, the latter banking firm came to be dominated by domestically-based entrepreneurs leaving British investors with a minority stake. Subsequently, Spanish investors also took an interest in the firm, thereby further diversifying its capital base as well its international connections. This perhaps helps to explain why the *Banco de Londres y México* grew faster than BANAMEX between 1897 and 1910.

Another important example of what we could describe as a joint venture between domestic and foreign financiers included the creation of the *Banco Central Mexicano* in 1898. This private firm had special characteristics since it did not operate as an ordinary commercial bank but as an institution whose concession specified that its principal function was to rediscount the banknotes issued by Mexican provincial banks, thereby operating as a kind of a central clearing bank.⁵⁶

Juntas de París", 1903-1910" in AHBANAMEX.

⁵⁶ A most interesting study of this private bank which controlled the provincial Mexican note redemption system is that of Patrice

The chief promoter of the Banco Central Mexicano was Enrique Creel, perhaps the outstanding banker of northern Mexico at the turn of the century, his aim being to strengthen the various regional banks which were beginning to emerge all over the republic and which faced severe constraints as a result of existing obstacles to the circulation of their banknotes in contrast to the widespread diffusion of the banknotes of the Mexico City behemoths, the *Banco de Londres* and *BANAMEX*. Initially, other major investors in the stock of the Banco Central Mexicano included the powerful international financial firms of J.P. Morgan Company of New York as well as both Deutsche Bank and Bleichroeder & Company of Berlin. Nonetheless, after a few years both of these firms began to sell their shares as they lost interest in the Banco Central Mexicano when they became aware that they could not control Creel nor manipulate his network of regional financial alliances. Nonetheless, Creel was able to win additional international support for his support by getting the Banque de l'Union Parisienne to participate heavily in the capital increase of the Banco Central decreed in 1905.

The various alliances of Mexican and European bankers and entrepreneurs remained extremely important throughout the regime of Porfirio Díaz (1884-1910) but with the fall of the old

Robitaille, "Private versus Public Control of Payments System in Historical Perspective: The Case of Mexico", draft paper, Board of Governors of the Federal Reserve System, Washington D.C. March 1997, 40

dictator it became clear that they were now subject to both economic circumstances and political conditions which they could no longer control nor influence.⁵⁷

The long-term consequences of the Mexican revolution upon the banks with European participation and recent changes

The Mexican revolution began in 1910 but it is was only in 1913 that the financial and monetary situation turned truly grim as inflation gained ground, accompanied by the bankruptcy of dozens of mercantile and industrial. By early 1914 the government had suspended payments on foreign debts as a result of the drop in tax revenues caused by the collapse of foreign trade and subsequent commercial and fiscal deficits. At the same time, there began to be a massive issue of paper money by competing military groups including those led by Emiliano Zapata in south/central Mexico and by Pancho Villa in the northern regions of the country, provoking a new and feverish bout of extreme inflation which swept the entire nation.

In 1915 the triumphant forces of general Venustiano Carranza took control of government in Mexico City and quickly decreed the

pages.

⁵⁷ The traditional historiography of the period known in Mexican history as the "Porfiriato" tends to stress the close alliance between domestic political and banking elites and foreign financial elites. However, it is difficult to reach a definitive conclusion on this subject as the richest financial archive of Mexico of that period, that of Finance minister José Yves Limantour (1891-1910), is in the private hands of Alfonso María y Campos, who does not allow any researcher

nationalization of the metallic reserves of all banks in order to set up a more stable monetary system. Carranza then proceeded to intervene 15 provincial banks which had serious problems, and these were subsequently put under the custody of a monetary and financial commission created by the new revolutionary administration. They were to remain under effective state control for fifteen years until their final liquidation.

The two largest banks, BANAMEX and Banco de Londres survived the military and political maelstrom but their business was severely jeopardized: they lost much of their previous commercial business, most of their hard currency reserves and were no longer allowed to issue banknotes. Not surprisingly, foreign stockholders tended to lose interest as business and profits decline and risks increased. That this was predictable can be seen in the stock quotations of the three leading Mexican banks on the Paris stock exchange in the years immediately preceding the gravest political and monetary crisis in Mexico. [See Graph 1.]

The results of the Mexican Revolution were long-lasting, as European investors and bankers progressively moved to disengage themselves. It is true that this disengagement was also the consequence of the financial turmoil cause simultaneously by the First World War and, subsequently, by monetary instability in Europe in the 1920s, but the fundamental causes were the high

risks and low profitability of Mexican banks in the revolutionary and postrevolutionary period. The incentives to leave Mexico were further accentuated by the new banking law of 1931 which made all foreign commercial banks subject to severe legal and financial constraints.

From 1931 to the 1980s, the participation of European bank in Mexican commercial banking was virtually nill, a fact which may appear rather suprising in view of the experience of some other Latin American economies. Nonetheless, and rather curiously, this situation has begun to change rather rapidly in very recent times. The great spur to the reentry of European commercial banking interests in Mexico in the last years has not been the result of any precise plan but rather as the somewhat unexpected consequence of the great Mexican banking crisis of 1995-1996.

Following the devaluation of December, 1994, the majority of Mexican banks soon entered a stage of what has been described as *technical bankruptcy*, being saved only by the masive intervention of the government which provided close to 40 billion dollars in support funds. Subsequently, many Mexican banks sought to form alliances with international banks which might provide them with additional capital as well as the expertise, the international contacts and the new technology with which to overcome the crisis and relaunch growth.

The methods chosen by European bankers for reentry into Mexican domestic commercial banking recall rather powerfully the experience of the late 19th and early 20th centuries, for in practically all cases they have proceeded to establish joint ventures with domestic banking entrepreneurs. Hence three Spanish banking firms have taken minority or majority (but not exclusive) positions in three important commercial bank at the same time as the British-controlled Hong Kong and Shanghai Banking Corporation taken a 20% stake in the third largest bank of Mexico and the oldest, Banca Serfin which, coincidentally, is the descendant of the oldest bank in Mexico, the Bank of London and Mexico.

Conclusions

It would be presumptuous to affirm that there are specific and clear lessons to be learned from our overview of the historical experience of European bankers in two Latin American countries in the late nineteenth and early twentieth centuries. Nonetheless, it might be suggested that our review does suggest that this experience can be viewed as a rich and varied changing one, in which diversity constitutes a central element which should be further studied both with respect to the role of European merchant banks in Latin American international finance as well as the participation of European banks and bankers in domestic commercial banking in different nations of the subcontinent.

The story of British merchant bankers and Brazilian external bonds can be counted as one of the *success stories* of the foreign debt history of Latin America up until the First World War. On the other hand, the sad saga of Mexican foreign debts from the 1820s to the late 1880s is one of almost *unrelieved failure*. Nonetheless, by the end of the century the Mexican government had managed to successfully return to international capital markets, largely as a result of a complex alliance with German, French and British private bankers.

While developments in the sphere of international finance were of great importance, this essay also indicates it is necessary to further explore the trends in domestic commercial banking throughout Latin America.⁵⁸ From the 1860s a number of European commercial banks or subsidiaries did enter financial markets in most countries of the hemisphere, although their relative importance provides another study in contrasts. In Brazil the British commercial banks prospered particularly during the coffee boom and took a large share of the local business in import/export finance in cities and ports such as Rio de Janeiro,

⁵⁸ The first half of the 19th century was witness in Latin America to a series of relatively short-lived banking experiments with little long-term impact. Among these experiments stand out the first Banco do Brasil (1808-1829), the Banco de Buenos Aires (1822-26) and its successor the Banco Nacional (1826-1835), although a number of additional financial institutions were also established in other countries of the region such as the Banco de Avío (1830-1840) in Mexico. All of these were government-owned banks except for the Banco de Buenos Aires. On the Banco do Brasil see Pelaez (1975) and Levy (1980); on the Banco de Buenos Aires and Banco Nacional see references in Marichal (1986); on the Banco de Avío see Potash (1965).

Santos, Sao Paulo and Bahia. In Mexico, on the other hand, there were few exclusively foreign-owned commercial banks; the physiognomy of Mexican banks was apparently that of domestically-owned institutions because management was almost always in Mexican hands but, in fact, large portions of the stock was frequently held by European investors and, in particular, by European banks and bankers. These early Mexican financial *joint-ventures* were involved in extending credit for foreign trade but the bulk of their business was in domestic trade, industry and agriculture and in supplying loans to national and state governments.

The differences in ownership and management inevitably implied that the bank directors and officials in Brazil and Mexico had a dissimilar understanding of local political economy, a theme which is explored in the third part of our essay. Since European (and especially British) commercial banks in Brazil benefitted from a relatively long-standing trade boom, the concern of their managers was with retaining market shares of the import/export business and, therefore, lack of profound interest in the expansion of domestic trade and industry. As a result, by the early 20th century they were increasingly ill-prepared to compete with domestically-owned Brazilian commercial banks. On the other hand, Mexican banks- run almost inevitably by entrepreneurs with long experience in domestic trade and money markets- were much more in tune with changes in the local political economy and with government officials during the authoritarian regime of Porfirio

Díaz (1884-1910). The banks with foreign capital had certain clear advantages for many years but, even so, when the Mexican revolution broke out in 1910, domestic financial markets began to crumble, leading to widespread bankruptcy in a few years.

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