

The Transformation of the Mexican Banking System from the Porfiriato to 1925.

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Introduction

Most of the historiography on the Porfirian banking system has focused on chartered banks. However, there were also several banking houses operating in Mexico without a federal concession. From 1886 to 1910, 54 companies listed in the Mexico City Commercial Registry Office that used the word bank in their names or described their business to be related to banking. A new assessment of the banking system during the Porfiriato that includes uncharted banks and foreign banks operating in Mexico is required to provide a fuller picture of the banking system in that period, as well as to better understand its evolution during the revolutionary years, since these types of banks became increasingly important after 1911.

During the Mexican Revolution government policies forced most chartered banks to close their doors from 1915 to 1921. This opened up a window of opportunity for alternative banking institutions to emerge and expand. Some of them existed prior to the Revolution as uncharted banks; others were born during this period. In the mist of speculation and uncertainty, in a few years they grew to become the main banks of the country, rapidly changing the face of the Mexican banking system. However the lack of regulation that allowed them to take some of the market share of former important concession banks was the cause of their demise.

This paper assesses the importance of uncharted and foreign banks operating in Mexico during the Porfiriato and their survival and evolution through the Mexican

Revolution up to 1925. It seeks to provide new light on the transformation of the Mexican banking system that occurred as a result of the Revolution.

I. The Banking System during the Porfiriato.

After many decades of political upheaval, Mexico reached a period of stability and economic growth from 1876 to 1910 under the rule of Porfirio Díaz,¹ Díaz was able to pacify the country, gaining political control over the states, and gradually put in order the public finances. His government made important alliances with the private sector, enabling major investments in transport infrastructure, and in most economic sectors.²

During the 1880s the two preconditions necessary for financial market development were met. By 1883 the stabilization and broadening of short-term money markets had been achieved, and by 1890 the creation of a relatively open internal market for public securities became possible. After that year, public bonds began to be sold both nationally and internationally and a banking system began to spread throughout the nation.³

Whereas until 1880 there had only been one commercial bank operating in Mexico, the Banco de Londres y México founded in 1864, in the course of the next two decades banking facilities expanded, largely under the General Banking Act of March 19, 1897.⁴ Unsound practices and excessive expansion of credit resulted in severe strain in the 1907-

¹ He was the president between 1877 and 1911 except in the 1880-1884 period when Manuel Gonzalez, a politician closely related to Díaz, was president.

² John H. Coatsworth, *Growth Against Development: The Economic Impact of Railroads in Porfirian Mexico*, p. 35.

³ Carlos Marichal, "Obstacles to the Development of Capital Markets in Nineteenth-Century Mexico", pp. 127-132.

⁴ The Banco Nacional Mexicano and the Banco Mercantil Mexicano were founded in 1881, the Banco Internacional Hipotecario was established in 1882. The first two banks merged in 1884 to form the Banco Nacional de México.

1908 years ignited by the United States financial crisis of 1907. This led to a reform law of June 19, 1908 that introduced new rules to prevent fraud and excessive risk.

By 1909 there were 32 banks operating under a federal charter, and the larger banks had several regional branches.⁵ The law of 1897 set the structure of a banking system characterized by three types of banks: banks of issue, mortgage banks, and banks of promotion or encouragement. As Table 1 shows, by 1909 there were 24 banks of issue. The largest banks were the Banco Nacional de México (Banamex) and the Banco de Londres y México, both of which had branches throughout the country and the privilege of note issue with a national charter. The rest of the banks of issue had a state charter and could not branch outside their concession territories.⁶ The Banco Central Mexicano, in the capital, served as a clearing agent to exchange the state banks notes and performed other central functions for the state banks, which owned part of its stock. Issue banks also were meant to operate as commercial banks.

The concession of Banamex gave it from the beginning the role of the bank of the Mexican federal government, it was in charge of the government's national and international debt and it opened an account to the Mexican Treasury from which the government could get up to 8 million pesos yearly at an interest rate of 6%. In counterpart it was allowed to issue banknotes up to three times the value of its reserves, whereas the rest of the banks could only issue banknotes up to 50% of paid-up capital, instead of 33% allowed to the other

⁵ Stephen Haber, "Financial Markets and Industrial Development", 157; Carlos Marichal, "Obstacles to the Development of Capital Markets", 135; and Stephen Haber, Armando Razo and Noel Maurer, *The Politics of Property Rights*, p. 84 and Noel Maurer, *The Power and the Money*, 1.

⁶ Haber, Maurer, and Razo, *The Politics of Property Rights*, pp. 86-87.

emission banks.⁷ All federal taxes were deposited in Banamex, and taxes were to be paid exclusively with its banknotes.⁸

In addition to these banks, in 1909 there were two mortgage banks, the Banco Internacional e Hipotecario and the Banco Hipotecario de Crédito Territorial and six promotion banks of promotion (*bancos refaccionarios*)—intermediate credit institutions with lending powers midway between those of the issue/commercial banks and the mortgage banks of which the largest were the Banco Central, and the Banco Mexicano de Comercio e Industria. There was also the Caja de Préstamos para Obras de Irrigación y Fomento de Agricultura, founded in 1908 ostensibly to furnish credit for agriculture and irrigation works, though it was used to support banks during the 1907-1908 crisis and “appears to have been used as an institution for the profit of a small coterie.”⁹

There were also several banks and banking houses operating in Mexico without a federal concession. These banks operated under the legal framework that the Commercial Code of 1889 provided. The General Banking Act of 1897 was not designed to regulate all institutions of credit operating in Mexico but only the three types of banks it defined, since as the Minister of Finance, Yves Limantour explained, it would have taken much longer to try to encompass all the institutions of credit, and the country urgently needed the law to be enacted. With time, wrote Limantour, other laws would appear to regulate the rest of the

⁷ With the exception of the Bank of Nuevo León.

⁸ Leonor Ludlow, “La Formación del Banco Nacional de México”, p.174, Carlos Marichal, “El Nacimiento de la Banca Mexicana”, p.133, and Noel Maurer, *The Power and the Money*, pp. 23-24.

⁹ Joseph Edmund Sterrett and Joseph Stancliffe Davis, *The Fiscal and Economic Condition of Mexico*. p.129.

financial system, meanwhile they would comply to article 640 of the Code of Commerce of 1889.¹⁰

In 1903 the Law Regulating the Use of the Word “Bank” acknowledged the existence of these banks. The law reserved the specific use of the name “Bank” for institutions of credit operating under a federal concession. However, it established that limited liability companies, whether native or foreign, that existed in Mexico and used the word “Bank” or its equivalent in any foreign tongue, in their name, could continue using it provided they added to it the words “without concession” each time they used such designation. The branches of foreign limited liability companies established in Mexico were entitled to use the word “Bank” in their names, after having obtained a special permission from the Department of Finance.¹¹

Among these institutions of credit there were several important banking companies operating in Mexico such as the Compañía de Obras y Bienes Raíces, El Descuento Español and the Compañía Bancaria de Paris y México S.A. From 1886 to 1910, 54 companies were registered in Mexico City in the Office of the Public Registry that used the word bank in their names or described their business to be related to banking. In addition there were 23 companies that defined their main purpose as to provide loans and 11 savings houses (*Cajas de Ahorro*) (See Table 2). Many more could have registered in other cities of the country.¹²

¹⁰ Address of J. Y. Limantour, Minister of Finance to the Chamber of Deputies, November 15, 1897, in Directorio Oficial Bancario de México, pp. 16-17.

¹¹ The Law Regulating the Use of the Word “Bank” can be found in: Mexican Year Book Publishing Co., *The Mexican Year Book 1909-1910*, London, 1910 pp.283-284.

¹² Their importance has been acknowledged for the states of Sinaloa, Durango and Jalisco in Gustavo Aguilar Aguilar “Esl sistema banario en Sinaloa (1889-1926)”, María Guadalupe rodríguez López, “Paz y bancos en Durango durante el Porfiriato” and Jaime Olveda “Banca y banqueros en Guadalajara” in Mario Cerutti and Carlos Marichal, *La Banca Regional en México (1870-1930)*, 2003.

All together their capital added to \$164,427, 333 pesos which was not very different from the total capital of the chartered institutions \$176,600,000 pesos. Among them some registered a company address in Mexico while others registered a company address both in Mexico and abroad, these last companies are the ones that appear as foreign in Table 2. Among them, for example, were the Bank of Montreal and Wells Fargo and Co. According to the law no foreign institutions of credit, issuing notes to bearer were allowed to open agencies or branches in Mexico for the circulation or redemption of such notes (Art 13).

The banking system that developed during the Porfiriato has been considered one of the most concentrated in Latin America.¹³ If we would take into account only the chartered institutions by 1910 the two major banks would have held together about 75% of bank deposits, the Banco Nacional de México (Banamex) 42.7% and the Banco de Londres y México 34.9%.¹⁴ If deposits in unchartered banks were added to the total amount these percentages would be lower. Unfortunately there is scant information for banking houses since they were not legally bound to publish their statements and did it sporadically and in an incomplete way. However, if the information they published in advertisements in newspapers were reliable, then in December 1909 the deposits of only three unchartered banks (the United States Banking Co. S.A., the Federal Banking Co. S.A., and the Mexico City Banking Co.) would amount \$12,021,190 pesos, or 25% of Banamex deposits.¹⁵

¹³ However the studies that reach this conclusion have considered only chartered banks, perhaps when banks without charter are taken into account this conclusion could change. See Noel Maurer, *The Power and the Money*, pp.44-46.

¹⁴ Carlos Marichal, "El Nacimiento de la Banca Mexicana", pp.132-133.

¹⁵ Deposits in Banamex were \$49,785,268 on December 31,1909. Mexican Year Book 1909-10, p.240. Information on deposits in the United States Banking Co. S.A. (\$8,621,190) the Federal Banking Co. S.A. (\$362,471), and the Mexico City Banking Co (\$3,400,000). from *The Mexican Herald*, December 31, 1909, p.10.

Although Limantour considered that after the Banking Law of 1897 further regulation was going to be produced to encompass the rest of the banking system, this never happened. Thus, it seems that the main problem of the Porfirian banking system was not being over regulated but that a large part of it was under regulated. Although this free environment allowed for the establishment of many commercial banks, it was also a source of instability, since many of them were short lived (see Table A2). The failure of the United States Banking Co. in January 1910 is a good example of the problem. Although it was one of the most important banks without concession in Mexico City, the largest of the so-called “American Banks” on January 26, 1910 it failed to meet its clearing house requirements, was suspended from the Clearing House association and had to close its doors. Apparently the cause of the problem was that it extended a credit amounting some four million pesos to a single industrial establishment that was not able to liquidate it promptly.¹⁶ The annual statement of the bank showed that on January 1 it had deposits amounting to nearly nine million pesos but they were reduced about one-third before the active withdrawals began. The Bank’s President, the Canadian George I. Ham, became ill and had to be hospitalized, and a representative of the Bank of Montreal took charge of the bank, but this alarmed depositors and a three days bank run started, depositors withdrawing about three millions. The inability of the interested officials to give exact figures regarding the situation was accentuated by the poor shape in which the records and securities of the institution were found. At first it was believed that the Bank of Montreal would stand behind the United States Banking company but “owing to the size of the run and the withdrawal by depositors

¹⁶ “General Banking Situation is not affected by Ham’s troubles” *The Mexican Herald*, January 26, 1910, first page.

of more money than was anticipated the Bank of Montreal declined to put up more money and withdrew the notice that it was temporarily in charge” and did not guarantee deposits.¹⁷ The bank went broke and Mr. Ham was jailed on the charge of abuse of confidence.¹⁸ This was not an isolated case, since other concessions banks suffered similar although less scandalous situations due to the inadequate regulation on which they stood.¹⁹

II. Banks during the Revolution.

“Even a good banking system could not have come through the revolutionary disturbances unscathed, and the disasters were greater because of existing weaknesses.”²⁰ Mexico’s banking system was not able to survive the collapse of the Porfirian regime (1910) and the turbulence of the war. In fact it could easily be argued that banking was the sector most hardly hit by the Mexican Revolution.

As with the rest of the economy, business went almost as usual during the first two years of Francisco Madero’s presidency (1911-1913). However, as armed opposition to Madero began to appear he had to increase his military spending and public deficit. In 1912, of the forty-seven banks and banking companies in the country of which data was available, only eleven banks reported not to have been affected by the increasing political disorder.²¹ The Madero administration tried to ease the economic situation by authorizing the Caja de

¹⁷ “United States Bank Suspends” *The Mexican Herald*, January 27, 1910, first page.

¹⁸ “Starr Hunt in Lengthy Careo with G.I. Ham”, *The Mexican Herald*, May 17, 1910.

¹⁹ Something similar happened for example in 1904 to the Pan-American Bank. “Pan-American Bank Contract Drawn Up” *The Mexican Herald*, June 4, 1904, first page.

²⁰ Joseph Edmund Sterrett and Joseph Stancliffe Davis, *The Fiscal and Economic Condition of Mexico*. p.129.

²¹ Noel Maurer, *The Power and the Money*, p.139.

Préstamos para Obras de Irrigación,²² to rediscount loans and commercial paper presented to the banks, using the funds provided by the Comisión de Cambios y Moneda, that the government had obtained from foreign loans.²³

The relatively peaceful transition Mexico had experienced ran into shackles after Victoriano Huerta's coup-d'état in early 1913, civil war and political turmoil took new dimensions. Once Huerta came into power new rebellions sprang all over the country, loosely gathered around the Constitutionalist Army, led by Venustiano Carranza, in an effort to oust him from power. Huerta's government deficit began to accrue. Since the federal government was the principal debtor of the banking sector, it was seriously hit when in 1913 the Huerta government suspended its debt payments. Moreover, in order to obtain funds, Huerta's government began to ask, under threat, important loans from the banks, and decreed a 15% war tax to bank deposits, which generated a mass retirement of deposits from banks. The credibility of bank notes began to deteriorate, and the public started exchanging them for specie.²⁴ The peso started depreciating, in spite of the injection of specie carried out by the government's Comisión de Cambios y Monedas. In an attempt to curtail the growing capital flight, Huerta forbade the export of metallic coins, which meant the exit from the gold standard, that Mexico had adopted since 1905. With another decree, in November 5, 1913 Huerta ended the convertibility of bank notes to specie.²⁵

To complicate matters further, commanders in different cities were in need for cash and thus forced banks –at gun point- to lend them money for the Revolution. Under these

²² This bank was created by the government in 1908 in order to inject liquidity into the banking system after the Panic of 1907. See Maurer, *The Power and the Money*, p.170.

²³ Noel Maurer, *The Power and the Money*, p.139.

²⁴ Banco de Londres y México S.A., *Cien Años de Banca en México*, p.72.

²⁵ Antonio Manero, *La Reforma Bancaria en la Revolución Constitucionalista*, p.24

circumstances and to prevent “forced loans” banks began to close their offices around the country. The situation of the Banco Central Mexicano became precarious, since rumors on the conditions of the various State banks led the public seek to exchange their bank notes for those of the Banco Nacional de México or the Banco de Londres y México. The Banco Central announced that it could not exchange them but for 25% of their nominal value and a bank run started. The public took their deposits out of banks in order to hide them or get them out of the country. The two national banks of issue started printing more money in order to supply the huge demand for them that they were suddenly facing. The government had to declare a bank holiday from December 20 to 31, which was later prolonged until March 31, 1914.²⁶

In 1914 banks were coerced to make more substantial loans to the Huerta government. Since banks could not make those loans without printing more money than the General Banking Act of 1897 allowed, in January 1914 Huerta issued a decree to increase the percentage of paper money banks could issue from 33% to 50%.²⁷ The Huerta government borrowed heavily, via new banknotes, from several banks which included Banco Nacional de México (Banamex), Banco de Londres y México, some state banks and the Mexican branches of Banco Germánico de América del Sur and Banque de Paris et des Pays Bas.²⁸

While Huerta was managing to obtain money to fight the rebels, different revolutionary leaders emitted their own currency to finance their needs and refused to accept

²⁶ Banco de Londres y México S.A., *Cien Años de Banca en México*, pp.72-73.

²⁷ This meant that Huerta abrogated the 50 percent reserve requirement on banknote issues and reduced it to 33 percent.

²⁸ Maurer, “Finance and Oligarchy: Banks, Politics, and Economic Growth in Mexico, 1876-1928,” 231-32.

that of its rivals. This had a negative effect not only on the banking sector, since it led the country to a period of hyperinflation.²⁹ This inflationary process put banks in a precarious situation and as a result an important amount of them suspended their checking operations and money orders in this period thus affecting a vast number of businessmen in their daily transactions. This brought a commercial paralysis, which can be exemplified from

Banamex's annual report:

In effect, the custom has been generalized among the public of retaining in their power the documents, money orders, checks, etc. against the banks, especially against [Banamex], not presenting them for collection in even the most extreme circumstances, taking them as a means of investment guaranteed against the eventualities of the paper money. In order to contain this speculation, at least partially, [we have ordered] the suspension of money orders from the Central against the branches, and vice versa.³⁰

Once Huerta was ousted from power, Venustiano Carranza issued a decree –on September 1915- declaring that the government would liquidate those banks that had issued more banknotes than allowed under the law. After this decree went into effect only nine banks of issue remained operating. ³¹ During 1916 banks operated under a strict restriction of their operations, and the severe prohibition of diminishing their metallic reserves.

On September 15 1916, Carranza's government issued a new decree that declared unconstitutional all the banking concessions in place, and abrogated the laws that had authorized them. Banks of issue were given 70 days to increase their metallic reserves to

²⁹ By the end of 1913 the peso abandoned the gold standard and gold currency disappeared from circulation. From 1913 to 1914 the peso suffered a 54% devaluation, from 1914 to mid-1916 it amounted to 154% and at the end of 1916 it was 2009%. For a more detailed account of this problem see Edwin W. Kemmerer, "Inflación y Revolución: la experiencia mexicana de 1912 a 1917", *Problemas Agrícolas e Industriales de México, 1953*, 1-5.

³⁰ *Informe Annual del Banco Nacional de México*, June 7, 1916, quoted in Maurer, "Finance and Oligarchy: Banks, Politics, and Economic Growth in Mexico, 1876-1928," 262.

³¹ Maurer, "Finance and Oligarchy: Banks, Politics, and Economic Growth in Mexico, 1876-1928," 241.

cover the total of their banknotes in circulation. The Ministry of Finance was authorized to name a seizure board to assume the control of each bank.³² The boards of the Banco de Londres y México and the Banamex refused to obey the decree, so military forces were sent to the banks' offices and put their directors in prison until they accepted the government's conditions, and gave them the control of the banks' metallic reserves and the other bank assets.³³ Banks of issue were officially closed to the public, although some continued to provide services in a very reduced scale, to some of their most important customers. By October 1917 Banamex, the most important Porfirian bank of issue was bankrupt and according to Maurer "the entire financial system established during the Porfiriato had been shut down by the end of 1917."³⁴

From 1916, when banks were seized by the Carranza government and up to 1921 these institutions lived and operated in a vague legal environment since they were not officially liquidated nor had they been expropriated. They were allowed to work under close government supervision but this hindered their ability to provide regular services to their customers. Even when the banks were returned to their owners in 1921 it was not clear if the law of 1897 would still apply to them and thus they began to operate in a regulatory limbo. Although the General Law of Credit Institutions was proposed in 1924 it was not until 1926 when it was created.³⁵

Mexican historiography generally considers that a rapid reconstruction of the banking system took place after the reopening of the most important Porfirian banks in

³² Antonio Manero, *La Reforma Bancaria en la Revolución Constitucionalista*, pp.88-89.

³³ Banco de Londres y México, S.A., *Cien Años de Banca en México*, pp.83-85.

³⁴ Maurer, "Finance and Oligarchy: Banks, Politics, and Economic Growth in Mexico, 1876-1928," 250.

³⁵ Heliodoro Dueñas, *Los Bancos y la Revolución*, (Mexico, City, 1945),162-163.

1921, the creation in 1925 of Mexico's central bank, the Banco de México, and the passing of a new banking regulatory framework in 1926. However, a banking system that supplied the functions of at least the quality it did during the Porfiriato, was not so easily rebuilt. Whereas 26 banks were quoted in the Mexican stock exchange, only five continued to do so in 1925 (See Table 3). Moreover their stock value greatly diminished, as the figures on Banamex exemplify (see Figure 1. Throughout the 1920s banking services concentrated in a small number of banks. By the end of the 1930s only eight banks managed to reorganize themselves under the provisions of the new laws and were providing regular services to their customers.³⁶

III. Banks without Charter during the Mexican Revolution.

The Porfirian banking system was greatly damaged by the revolutionary war. Securities were depreciated, collections difficult, and mortgages frozen or rendered valueless. Banks were forced by the government to purchase government bonds and to expand their notes issues. Revolutionary armies seized cash and bank notes in the territories they controlled. Finally, they were declared in liquidation and the government seized the bulk of their cash reserves.

If only chartered banks had existed the Mexican economy would have been left without banking services for several years, and it is difficult to understand how commercial transactions and business in general could have been carried out during this period. But as we have seen Mexican banking companies without a charter and branches of foreign banks in Mexico offered an important part of the banking services during the Porfiriato, and

³⁶ The banks were: Banco de la Laguna, Banco de Londres y México, Banco de Nuevo León, Banco del Estado de México, Banco Mercantil de Monterrey, Banco Mercantil de Veracruz, Banco Nacional de México and Banco Occidental de México. Dueñes, *Los Bancos y la Revolución*, 170.

although they also suffered the consequences of the Revolution and operated under great difficulties, they were able to cope with them better than chartered banks and even take some of the business left by the former.³⁷ Walter Mc Caleb, the Managing Director of The Massachusetts Credit Union Association and a contemporary observer of the situation explained that, “After the decree of September 15, 1916, which placed the Mexican banks of emission in liquidation, private and foreign banks loomed in importance”.³⁸ According to him these banks were: The Compañía Bancaria de París y Mexico, the Deutsche Sudamerikanische, El Descuento Español, the Mexico City Banking Company, Lacaud & Son, the Bank of Montreal, The Canadian Bank of Commerce, and the Mercantile Banking Company. The Mexican Year Book of 1920-21 explained that “though materially injured by the Carranza policy, the foreign banks in Mexico escaped more easily than those operating under distinctly Mexican concessions.”³⁹ Besides the banks just mentioned, it explained that the National City Bank, the Equitable Trust Company, and Irving National Bank (all of New York) maintained representatives in Mexico City, and that there were two American Banks in Tampico and one or more in other cities. Many of them maintained branches, correspondents, or representatives in the important commercial and industrial centers of the republic.

Both Mc Caleb and the 1920-21 Mexican Year Book made the mistake of assuming that all banks without concession were foreign. However, although the banks’ names and the nationality of the bankers may induce us to believe so, most of them were established in Mexico under Mexican law (the Compañía Bancaria de París y Mexico, El Descuento

³⁷ Luis Anaya Merchant, *Colapso y Reforma*, p. 93.

³⁸ Walter Mc Caleb, *Present and Past Banking in Mexico*, p.246.

³⁹ Robert Glass Cleland (ed.) *The Mexican Year Book 1920-21*, Los Angeles: Mexican Year Book Publishing Co., 1922, pp.330-331.

Español, the Mexico City Banking Company, Lacaud & Son and the Mercantile Banking Company), and should be considered Mexican. In contrast, the Deutsche Sudamerikanische, the Bank of Montreal, and the Canadian Bank of Commerce, and the Equitable Trust Company were foreign banks with branches in Mexico. There were also some foreign banks such as El Paso Bank Trust and Co. or the Texas State Bank and Trust that were making business in Mexico but had no branches established in the country.

By looking at banks' advertisements and news published in newspapers and business journals we can get a broad view of their operation during these years. Unfortunately most newspapers and journals such as the Mexican Herald and the Economista Mexicano ceased to publish around 1915 making it more difficult to trace a full picture of their trajectories. Yet, by looking at other newspapers that ran through the following period, such as El Demócrata or El Boletín Financiero y Minero we can get a broad, although hazy, outlook of the whole period.

As we can see in Table A3 some institutions such as the Mexico City Banking Co., the Mercantile Banking Co., the Mortgage and Loan Banking Co. Ltd and El Descuento Español, founded during the Porfiriato, operated throughout the revolutionary years. Others, such as the Banque Francais du Mexique, the Canadian Bank of Commerce, and the Bank of Montreal were created or opened operations in Mexico during the revolutionary years.

According to Walter Mc Caleb the worst times took place from the end of 1916 to November 1919. As we can see in Table A3 this is the period with fewer advertisements. Mc Caleb explained that during that period banking institutions only carried the most perfunctory business and the functioning of banks was negligible, save in the department of exchange. As a result of hyperinflation foreign and private banks suffered heavy losses

through the enforced payment of their bills receivable in depreciated paper currencies so even foreign banks, almost without exception, were refusing to receive deposits, except on conditions carefully prescribed in each separate case and deposits and loan operations were of small volume. The only two active banks seemed to have been the Deutsche Sudamerijakische Bank and Lacaud & Son. The former, a branch of a German institution reported to be controlled by the Dresdner bank, took many new lines and received large deposits.⁴⁰ In the newspapers of the period we also find several advertisements of banks operating in Texas and New York. This reflects the increasing practice followed by Mexican companies and individuals during these years to send their deposits abroad and carry out their banking transactions through banks in the United States.⁴¹

Before the 1920s it was not very common that chartered banks advertised in newspapers with the exception of the Banco Central Mexicano, yet after 1922 several of them did so showing their new status, in which they had to compete with unchartered institutions in more equal grounds. Interestingly the Comisión Monetaria advertised from 1918 on offering services similar to those of any other commercial bank, and the Banco de México followed suit when it opened its doors in 1925.

A testimony of the greater importance that banks without charter acquired through the revolutionary period is the large amount of them that sent representatives to the Banking Convention of 1924 which almost equaled the number of representatives from chartered institutions (See Table 4).

⁴⁰ Walter Mc Caleb, *Present and Past Banking in Mexico*, , pp.246-248.

⁴¹ See Aurora Gómez Galvarriato and Gabriela Recio, "The Indispensable Service of Banks: Commercial Transactions, Industry and Banking in Revolutionary Mexico" *Enterprise and Society. The International Journal of Business History*, Vol 8, No.1, 68-105, March 2007.

IV. The Compañía Bancaria de Paris y México and the Banque Fraçais du Mexique.

In order to get a better understanding of the way unchartered banks operated during the revolutionary years we will focus our attention on two of them: The Compañía Bancaria de Paris y México and Lacaud e Hijo that later transformed into the Banque Francais du Mexique.

The Compañía Bancaria de Paris y México was founded in 1909 by a group of French immigrants from Barcelonnette. The board of the Compañía Bancaria was formed by Eugenio Roux from the Casa Ollivier y Cía, Clemente Jacques, from C. Jacques y Cía and León Signoret from M. Bellón y Cía. Sucs. However in 1911 these businessmen returned to France, and they were replaced by Federico Proal, Augustín Court and Enrique Monjardín, respectively. Along them were also two other important businessmen, Carlos Markassuza and José G. Escandón. Similarly to other companies with major French shareholders the Compañía Bancaria had a Board in Paris, where in 1911 sat Desiderio Signoret (as President), Ernest Herrman, Felix Hauser, León Honnorat and Albert Reynaud.⁴² The stated capital of the company was 10 million pesos, yet by 1913 only half had yet been exhibited by shareholders.

From the company's annual statements of 1911, 1912 and 1913 we know that the company faced problems as a result of the Mexican Revolution, and of the war in Europe, since as they informed to the general assembly, business had diminished in Mexico and they faced losses in their investments in stock as its value decreased in general. Yet they also experienced an important increase in the amounts deposited in the bank, that went from

⁴² *El Economista Mexicano*, April 27, 1912, pp.69-71.

3,628,360 in 1911 to 7,154,807.78 in 1912, and 4,893,803,88 in 1913. The bank gave loans for \$5.671.077,54 in 1911, \$3.125.163,17 in 1912 and \$3.621.524,18 in 1913, some of which went to the beer company Compañía Cervecera de Toluca y México and to the steel mill Compañía Fundidora de Fierro y Acero de Monterrey.⁴³ The Compañía Bancaria had profits over exhibited capital of 4.7% in 1911, 6.15% in 1912, and 9.42% in 1913. In 1913 the board reported that given the increase their business had experienced they had to expand their personnel and move the company to a larger premise located in one of the most important streets in Mexico City downtown. They stated that as soon as circumstances allowed it they would move to a new building that would offer all the necessary facilities.⁴⁴

Unfortunately there is not much information available of the Compañía Bancaria de Paris y México from 1914 to 1921. However we know that the Compañía Bancaria opened commercial agencies in Veracruz, and in Coahuila, where it got involved in granting loans to the trade and cotton business respectively. As other firms, the Compañía Bancaria gradually changed its business operations from banks to banking houses. In Veracruz it at first carried out numerous business transactions with the Banco Mercantil de Veracruz and later with the Casa Viya y Hermanos, in Coahuila it shifted them from the Banco de Coahuila to the Casa Purcell and in Mexico City from the Banco de Londres y México and the Banco Nacional de México to Lacaud e Hijo.⁴⁵

The diminished operations of chartered banks opened the way for new entrepreneurs to offer the services the public required. One of them was the French businessman Raoul Amilien Lacaud, who by 1905 advertised himself as stockbroker, selling and buying bank,

⁴³ Luis Anaya, *Colapso y Reforma*, p.108.

⁴⁴ *El Economista Mexicano*, May 2, 1914, p.55

⁴⁵ Luis Anaya, *Colapso y Reforma*, p.108.

industrial and mining stocks under the name of Bank, Industrial and Mining Stocks.⁴⁶

Adapting to the changes the Mexican Revolution brought about, he went from the trading of stock--a business very diminished as a result of the revolutionary war--into the flourishing business of trading drafts, a market left open by the former banks which state of disarray hindered them from satisfying. In October 1915, his company Lacaud e Hijo placed a two lines newspaper add offering the buy and sale of bank drafts or money orders (*giros*) placed in Veracruz.⁴⁷ In 1917 the business seems to have been going well since Lacaud e Hijo had moved from his former address in San Agustín 33 in Mexico City to Uruguay 53, a more important street in Mexico City downtown. In the first months of 1917 Lacaud e Hijo placed newspaper advertisements indicating that the company wanted to buy a coffer of big dimensions to keep metallic coins, and bars for windows, both items required for obvious security reasons.⁴⁸ In March Lacaud advertised that he wanted to rent “a good house with garden and garage”.⁴⁹

By 1917 Lacaud e Hijo had apparently gained the confidence of the public, in an environment where lack of trust in relation to money matters prevailed. An advertisement placed by the Compañía de Espectáculos Cultos S.A. for the Italian Opera Season of 1917, indicated that Mexico City council had agreed to place the season ticket’s funds in the banking house of Lacaud e Hijo. Devoting one quarter of the add to give this information must have been considered important in order give confidence to possible season ticket buyers that their money was not going to get lost.⁵⁰ A similar practice was carried out in

⁴⁶ Cía Directorio Oficial Bancario de México S.A., *Directorio Oficial Bancario de México*, p.228.

⁴⁷ *El Demócrata*, October 12, 1915, p.4.

⁴⁸ *El Demócrata*, January 13, 1917, p.5 and *El Demócrata* February 22, 1917, p.4.

⁴⁹ *El Demócrata*, March 26, 1917.

⁵⁰ *El Demócrata*, August 13, 1917, p.4.

September 1919 when the sale of season tickets for five operas where Caruso would sing were announced.⁵¹ On the following month an advertisement of a raffle organized by the Italian charitable organization (Beneficiencia Italiana) specified that Lacaud e Hijo would pay the prizes in metallic.⁵² On the same vein, the Society for the Protection of Children (Sociedad Protectora del Niño) announced in April 1919 that it had its income deposited in the house Lacaud e Hijo.⁵³ In April 1918 a newspaper article the opening of a gold mine by the company Placeres de Oro de Michoacán S.A. said that “given the critical circumstances that the financial market is going through in the Republic, the promoters of the company did not dare to issue the stock publicly” instead they decided to sell it privately, on which they had been successful. The article indicated that the promoters had decided to deposit the money from the sale of stock in “the well known banking house of Mr. Lacaud e Hijo”. It also provided the information necessary for those willing to buy stock of this company to be able to do so.⁵⁴

By 1918 Lacaud e Hijo was also rendering important financial services to the General Alvaro Obregón, who would become President two years later. In September 1918 Obregón used the services of Lacaud e Hijo to transfer funds from the First National Bank of Nogales in Arizona, to Mexico City, as well as to carry out a private business of building a hydroelectric power plant using the water of the river Pentatlán in Sinaloa.⁵⁵

A newspaper article of the assault of a man working as a debt collector for the company Express Constitucionalista, let us know that Lacaud e Hijo was also playing an

⁵¹ *El Demócrata*, September 12, 1919, p.5.

⁵² *El Demócrata*, October 21, 1919, p.8, and February 5, 1920, p.12.

⁵³ *El Demócrata*, April 15, 1919, p.3.

⁵⁴ *El Demócrata*, April 22, 1918, p.2

⁵⁵ Luis Anaya Merchant, *Colapso y Reforma*, pp.118-119

important role in the redemption of checks throughout the nation by April 1919. Before being stolen this man had gone to Lacaud e Hijo to cash a 200 pesos check from the Spada Mining Company from La Quebrada, Jalisco debited against the banking house.⁵⁶ Another two criminal acts reported in the newspaper let us know that by 1919 Lacaud e Hijo had a branch in Torreón, Coahuila, a city in an important cotton producing region, and another one in San Antonio, Texas.⁵⁷ Lacaud e Hijo appear to have taken advantage of their branch in Torreón to enter directly into the cotton business, since in October 21, 1919, the newspaper reported that Lacaud e Hijo had sent two railroad cars of cotton to Nonoalco.⁵⁸

The two criminal incidents reported also tell us that the payment system that came about to substitute that which banks had previously carried out worked less than perfectly. In the first case, two employees of the Department of Drafts of Lacaud e Hijo were accused of having stolen a bill of exchange from Lacaud e Hijo in Torreón Coahuila to Lacaud e Hijo in Mexico City, in charge of the Comisión Montetaria.⁵⁹ The second case was about the falsification of drafts from the Bank of Montreal, each of them of several thousand dollars, that a group of seven men, had been cashing all over the country and in the United States; among the banking houses that suffered from the fraud were the “Dwight Puernes Co.” in Guanajuato, the banking house “Dra. Brisco” in Tampico, the banking house of “Vizcaya y Sierra in Laredo”, and the Banco Refaccionario de Yucatán in Mérida. Lacaud e Hijo in Mexico City had ordered its branch in San Antonio the payment of the falsified draft from the Bank of Montreal. The fraud was uncovered when it was sent to be redeemed in New York, where it was addressed. According to the newspaper article, not only the drafts from

⁵⁶ *El Demócrata*, April 5, 1919, p.8

⁵⁷ *El Demócrata*, April 9, 1919, p.5, and July 4, 1919, p.6

⁵⁸ *El Demócrata*, October 21, 1919, p. 7.

⁵⁹ *El Demócrata*, April 9, 1919, p.5, and July 3, 1919, p.3.

the Bank of Montreal were falsified, but also the signatures and seals of respectable houses such as Villa Hnos. from Veracruz, the Light and Power Company of Mexico City, and the Compañía Harinera, among others. The drafts were endorsed by four of five of these companies, so those who received them, would not suspect of a fraud, given their respectability.⁶⁰ In both cases the judicial system proved inefficient to punish the criminals.

In December 1919 Mr. Lacaud was interviewed by the newspaper *El Demócrata*, on the situation of the financial business in Mexico. He complained about the scarcity of small coins available and indicated that his banking house could only obtain them by paying a 41% overprice for them. He considered that a private bank should be given the monopoly of issue, as was done in France or England, and that it was important that this bank established the official discount rate for smaller banks to operate with.

He explained that the services that his banking house had offered, had been extremely important to enable Mexico to import merchandises from the United States, once the European countries had gone into war. He said that American companies were unwilling to sell any merchandise to Mexico unless it had been previously fully paid, but that Mexican companies used to receive merchandise on credit, did not have the necessary liquidity to carry out those operations. Lacaud e Hijo, he explained, saved the situation by lending them money at a “reasonable interest rate”.⁶¹

By May 23, 1920, Lacaud e Hijo had become the Banque Francais du Mexique (Banco Francés de México). Its advertisement indicated that it was the successor of Lacaud e Hijo, and that it had a capital of 4 million pesos. In Mexico City it had the same

⁶⁰ *El Demócrata*, July 4, 1919, p.6. ⁶⁰

⁶¹ *El Demócrata*, December 29, 1919, pp. 1 and 3.

address in the street of Uruguay Lacaud e Hijo previously had, but now it also advertised an address in Paris at the Boulevard des Italiens. The advertisement indicated that it had branches in Monterrey, Tampico, Veracruz, Torreón, Mérida and Tuxpan, and that it offered the best conditions in the buying and selling of drafts inside Mexico.⁶²

In 1920 the Banque Francais du Mexique was rendering important services to the Mexican government. In May the government deposited the taxes paid by several oil companies in an account in that bank, and used its services to send drafts to pay its troops.⁶³ Lacaud had become President Alvaro Obregón's private banker, he held a "special account" in that bank.⁶⁴

Taking advantage of the relation he had built with President Alvaro Obregón Lacaud sent him a letter in August 1920 to express his worries on the way the banking system was operating in Mexico. He considered that the worst problem of the actual system was the lack of any financial mechanism that allowed carrying out rediscount operations. "It is necessary that the banks can rediscount their portfolio because otherwise they are exposed to need to suspend payments in the case of panics, even when their situation is solvent and prosperous."⁶⁵ As he had explained in the newspaper interview some months before, he wrote Obregón that it was necessary that the government allowed the establishment of a private Sole Bank of Emission that would receive the deposits of the banks and bankers and make rediscount operations.

⁶² *El Demócrata*, May 23, 1920.

⁶³ Luis Anaya Merchant, *Colapso y Reforma*, p.118.

⁶⁴ Luis Anaya Merchant, *Colapso y Reforma*, p.119.

⁶⁵ Letter from Lacaud to Obregón, August 24, 1920, Archive Calles Torreblanca, Fondo Alvaro Obregón, exp."21 Bis"-170 inv.458, quoted in Merchant, *Colapso y Reforma*, p.119.

It seems that Lacaud was very well aware of the great frailty of the system banks and banking houses were operating in. A year later his worst fears became true.

Between 1921 and 1922, two major bank panics broke about taking the Compañía Bancaria de Paris y México and the Banque Francais du Mexique, along with many other banks and banking houses, to bankruptcy. These institutions that had prospered enormously as a result of the collapse of the Porfirian banking system, which opened them great areas of business to prosper, suffered a major setback as a result of the frail institutional basis on which the new system was founded. The lack of any banking regulation left open a vast space for fraud and falsification, which the banks suffered but were able to cope with. Yet, it also implied the total inexistence of a bank or group of banks that played the role of a lender of last resort. Which as Lacaud had warned, put the system in a very precarious situation.

Although it has been argued that during the Porfiriato Banamex did not play very well the role of lender of last resort it was meant to have played. There is plenty of evidence that in several instances both Banamex and the Banco de Londres y México rescued banks on the verge of bankruptcy, at least until 1913. In 1921, as Lacaud had alerted, there was no bank that could carry out the role of lender of last resort.

During early 1920s both the Compañía Bancaria de Paris y México and the Banque Francais had been lending vastly to cotton producers in La Laguna. The Compañía Bancaria had given 4 millions in loans to cotton producers in that year. Their loans were considering a price of 20 dollars per pack, when prices reached the double of that amount. However prices dropped to their lowest levels in the decade, which was added to a year of bad crops as a result of the boll weevil.

Moreover the Revolutionary war had interrupted transit between Veracruz and Mexico City for more than four months carrying heavy losses to commercial business in the region, the other sector to which banks had been giving substantial credit. The Compañía Bancaria had been given loans for two million dollars companies in the import business. The event that unshackled the panic was the announcement of a default of the Compañía Bancaria Occidental de Almacenaje de Guadalajara of his loans to the Compañía Bancaria de Paris y México.⁶⁶ Rumors spread on the capacity of payment of the Compañía Bancaria and in the last three days of December 1920, two and a half million pesos were withdrawn from its deposit accounts.⁶⁷ This generated a bank panic that affected also the Banque Francaise du Mexique and the Mercantile Banking Co. Crowds gathered outside these banks offices of clients willing to withdraw their deposits. On January 3, 1921 the Compañía Bancaria de París y México and the Mercantile Banking Co. requested their judicial liquidation.⁶⁸ The three banks suspended payments and closed their doors.

Amilien Lacaud also considered requesting the judicial liquidation of the Banque Francaise, but he decided instead to send a letter to Mexico City's major newspapers telling about the "satisfactory" situation of the bank, and to take advantage of the good relationship he had built with President Alvaro Obregón to ask him for the aid necessary to rescue his bank. Obregón answered his pleas and Lacaud was offered a meeting with the Minister of Finance, Adolfo Huerta to negotiate a solution to his

⁶⁶ Merchant, *Colapso y Reforma*, pp. 110 and 117.

⁶⁷ Adolfo Lagunilla Iñarruti, *La Bolsa en el Mercado de valores de México y su ambiente empresarial*, p.119.

⁶⁸ *El Universal*, January 4, 1921.

bank's problems. The government resolved to support the Banque Francais through the Comisión Monetaria by rediscounting some of its credits and giving it substantial loans.⁶⁹ Newspapers announced that the bank would reopen its doors in the following days. One of the main shareholders of the Mercantile Banking Company of Mexico, Mr. J. Mac Carty, deplored that the government took such a discretionary policy, giving a preferential treatment to the Banque Francais and not attending the pleas that his bank had made.⁷⁰

De la Huerta tried to calm the panic declaring that the panic was ill founded and that in fifteen days the banking companies in trouble would most likely solve their problems and retire their judicial liquidation. The Banque Francais was able to survive a new run on January 6 thanks to the government's aid. On January 12 the newspapers announced that the Compañía Bancaria and the Mercantile Banking Co. would renounce to their judicial liquidation and would reopen in ten days, but only the Compañía Bancaria was able to do it. Both companies had assets larger than their debits but the Mercantile Banking Co. went definitely bankrupt.⁷¹

This banking panic alerted the government on the need to put Mexico's banking system over more solid grounds. On January 31 1921 President Alvaro Obregón decreed the end of the bank seizure that had decreed Carranza on December 16, 1916. Those banks that had assets 10% larger than their debits were returned to their legal representatives. The Banco Nacional de México and the Banco de Londres y México

⁶⁹ *Excelsior* and *El Universal*, January 7 to 11, 1921, quoted in Merchant, *Colapso y Reforma*, p.116.

⁷⁰ *Excelsior*, January 30, 1921, quoted in Merchant, *Colapso y Reforma*, p.117.

⁷¹ Merchant, *Colapso y Reforma*, p.113.

along with several other banks reopened their doors.⁷² Yet there were still many issues to be solved including the legal status of the banks, given that their former charters had been declared null, as well as the payment of government's loans to them.⁷³ It would still take several years so the conditions necessary for a sound banking system to exist were met.

On 15 November 1922 another banking panic broke out. Newspapers had been announcing a substantial decrease in the import business as well as in the oil production, but it is not clear what was the event that unleashed this crisis.⁷⁴ The first banking house to suspend payments was the Casa Bancaria Eulalio Román, from Veracruz, generating alarm in the public. In two days most deposits from the Banque Francais du Mexique were withdrawn and it had to declare its judicial liquidation. This time it appears that the government was in a dire fiscal situation and thus unable to help it as it had done a year before.⁷⁵

The collapse of the Banque Francais had wide effects all over the nation and carried out the suspension of payments of many other banks and banking houses such as the Petroleum Banking Trust Company S.A., Berea o Kelli Co, the Casa Bancaria Viya Hermanos Sucs., in Veracruz, and the Casa Alberto Stein, the Banco Milmo, and the Compañía Bancaria de Monterrey (former Sada Paz, Hermanos) in Monterrey.⁷⁶ In this city, in agreement with the Chamber of Commerce, Industry and Mining, and the local banks, the Governor decreed a suspension of banking activities on the following day in

⁷² Alfredo Lagunilla Iñarritu, *Historia de la Banca y Moneda en México*, p.69.

⁷³ Merchant, *Colapso y Reforma*, p.123.

⁷⁴ Merchant, *Colapso y Reforma*, p.125.

⁷⁵ *Excelsior*, December 13, 1922, quoted in Merchant, *Colapso y Reforma*, p.126.

⁷⁶ Merchant, *Colapso y Reforma*, p.125.

order to try to stop the massive withdrawal of deposits.⁷⁷ In Veracruz, the state congress, demanded the Federal Congress to hasten on the legislation of the Law of Credit Institutions, since it was urgent to dictate the laws necessary to guarantee the interests of the inhabitants of the state were suffering dearly from the recent bankruptcies of the banks and banking houses.⁷⁸ The Chambers of Commerce of Mexico City, Torreón, Querétaro, Puebla, Chihuahua, Colima, Toluca and Merida sent letters to President Alvaro Obregón demanding his intervention to expedite the liquidation of the Banque Francaise that had gotten involved in a cumbersome and slow judicial process.⁷⁹

In contrast with the situation during the banking crisis of 1921, this time the Banco Nacional de México had opened its doors, and as it had done during the Porfiriato it could carry some of the functions of lender of last resort it previously did. However it was not completely capable or willing to do so. In a letter to Obregón, Lacaud explained that in November 1922, a loan of 400, 000 pesos would have been enough to save his bank, since it was in general terms it enjoyed a prosperous financial situation, its assets were larger than its debits. He explained that the Banco Nacional de México had promised to give his bank such loan, taking as guarantee rediscounts from its portfolio. Yet at the last minute, when it was too late to ask other sources for such credit, Mr. Agustín Legorreta, director of the Banco Nacional de México announced that

⁷⁷ Merchant, *Colapso y Reforma*, p.131.

⁷⁸ Mercdant, *Colapso y Reforma*, p.132.

⁷⁹ Merchant, *Colapso y Reforma*, p.132.

it could not comply to give the loan, following orders of the Minister of Finance.⁸⁰ It is not clear whether the Minister of Finance actually gave this order or if it was only a pretext given by Agustín Legorreta not to give the loan. Yet it seems it was not in the interest of Banamex to grant that loan, since with the judicial liquidation of the Banque Francais it was able to take control of the institution, as well as many of its clients.⁸¹ At the end, however, many of the most important clients of the Banque Francais decided to found their own bank: the Banco de Comercio.⁸²

The Banco de Crédito Español, the Casa Bancaria Zambrano e Hijos, and the Casa Bancaria Viya Hermanos Sucs., on the verge of bankruptcy, also asked Banamex for credit. Banamex gave loans for 643,513 and 150,000 pesos respectively to the two first but not to the last until the judicial liquidation process had already started, as it did with the Banque Francais du Mexique.⁸³

The Compañía Bancaria de Paris y México and the Banque Francais du Mexique sent delegates to the Banking Convention that met in 1924 to settle the disputes between banks and the government and reorganize the banking system under a new law. The first was represented by the lawyer Antonio Gómez Palacio, and the second, in liquidation, by Fernando J. Salcido.

During the first meeting of the Banking Convention that took place in February 24, 1924 four commissions were established to study the project of reforms to the law of credit institutions: the first of promotion and mortgage banks, the second of banks

⁸⁰ Confidential letter from R. Aimilien Lacaud to Obregón, April 25, 1923 in Archivo General de la Nación, Fondo Obregón-Calles exp. 424-B-3. Quoted in Merchant, *Colapso y Reforma*, p.127.

⁸¹ Merchant, *Colapso y Reforma*, p.128.

⁸² *El Universal*, October 28, 1924, quoted in Merchant, *Colapso y Reforma*, p.128.

⁸³ Merchant, *Colapso y Reforma*, pp.129-130.

and banking houses, the third of foreign banks and the fourth of government representatives. Antonio Gómez Palacio was chosen to form part of the second one together with Aurelio Díaz (Crédito Español de México S.A.), Agustín Legorreta (Banco Nacional de México S.A., Banco Mercantil de Veracruz S.A., Banco de Tabasco, S.A.,) Alberto Zambrano (A. Zambrano e Hijos, Viguera Hnos. y Cía., Miguel Herrejón) and Carlos Schulze (Banco Germánico de la América del Sur). Interestingly three of them represented unchartered banking houses and only one, Agustín Legorreta, chartered emission banks.

The study of these two banking houses evidences how unchartered banks were able to survive and even prosper during the revolutionary years. Yet it also shows that the lack of a lender of last resort as well as an adequate legal framework for banking institutions hindered their development to the detriment of the whole economy.

Conclusions

In order to understand the evolution of the Mexican system through the Porfiriato and the Revolution it is necessary to include banking institutions without charter and foreign banks, since they carried a significant share (perhaps around 50%) of the banking business during the Porfiriato and their importance increased throughout the Revolution.

In this paper we have made a first step to assess the importance and evolution of unchartered and foreign banks during this period but more research is required in order to have a more precise assessment of it. This is no easy task since the information on these banks and in particular their balances are not as readily available and reliable as those from chartered banks. However as this paper shows it is possible

to reconstruct their histories through the study of sources such as newspapers and business journals, the Public Registry and notarial records. A more thorough research that included more newspapers and journals from Mexico City and also several states of Mexico as well as a thorough exploration of notarial records and judicial sources should be carried.

This paper shows that unchartered banking institutions were a substantial part of the Porfirian banking system. When we take them into account puts into question the generally accepted idea that the Porfirian banking system was extremely concentrated and poorly developed relative not only to the United States but also to some Latin American countries such as Brazil.⁸⁴ In addition the argument that the Porfirian regulation of the banking system was too rigid and meant to generate a concentrated system in order to render greater profits to those entrepreneurs allied with the political elite also needs to be nuanced.⁸⁵

Moreover the damage that the Revolution caused to the Mexican banking system would take greater dimensions, since until now the banking system of the late 1920s—including all types of banks—has been compared only to the chartered part of the Porfirian banking system and thus the size of its decrease between the two periods has been underestimated.⁸⁶

Finally it is clear from this study that the history of the banking system and economy in general through the revolutionary decade and the 1920s requires the

⁸⁴ Haber, Stephen. “Financial Markets and Industrial Development”, pp. 146-178.

⁸⁵ Noel Maurer, *The Power and the Money*; Stephen Haber, Armando Razo and Noel Maurer, *The Politics of Property Rights*, Cambridge.

⁸⁶ Stephen Haber, Armando Razo and Noel Maurer, *The Politics of Property Rights*.

inclusion of banking institutions without charter and foreign banks, since they carried an essential and increasing part of banking services during these years.

In this paper we have made a first step to assess the importance and evolution of unchartered and foreign banks during this period but more research is required in order to have a more precise assessment of it. This is no easy task since the information on these banks and in particular their balances are not as readily available and reliable as those from chartered banks. However as this paper shows it is possible to reconstruct their histories through the study of sources such as newspapers and business journals, the Public Registry and notarial records. A more thorough research that included more newspapers and journals from Mexico City and also several states of Mexico as well as a thorough exploration of notarial records and judicial sources should be carried out.

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Table 1. Chartered Banks During the Porfiriato in 1909

	FOUNDED	CAPITAL
BANKS OF ISSUE		
1 National Bank of Mexico	1881	\$32,000,000
2 Bank of London and Mexico	1864	\$21,500,000
3 Mining Bank of Chihuahua	1897	\$5,000,000
4 Bank of Durango	1891	\$2,000,000
5 Bank of Zacatecas	1891	\$1,000,000
6 Bank of Nuevo León	1892	\$2,000,000
7 Bank of the State of Mexico	1897	\$3,000,000
8 Bank of Coahuila	1897	\$1,600,000
9 Bank of San Luis Potosí	1897	\$1,100,000
10 Bank of Sonora	1898	\$1,500,000
11 Occidental Bank of Mexico	1898	\$1,500,000
12 Mercantile Bank of Veracruz	1898	\$3,000,000
13 Bank of Jalisco	1898	\$6,000,000
14 Mercantile Bank of Monterrey	1899	\$2,500,000
15 Oriental Bank of Mexico	1900	\$8,000,000
16 Bank of Guanajuato	1900	\$3,000,000
17 Bank of Tabasco	1901	\$1,000,000
18 Bank of Hidalgo	1902	\$1,000,000
19 Bank of Tamaulipas	1902	\$2,500,000
20 Bank of Aguascalientes	1902	\$600,000
21 Bank of Morelos	1903	\$1,000,000
22 Bank of Querétaro	1903	\$1,000,000
23 Bank of Guerrero	1906	\$500,000
24 Peninsular Bank of Mexico	1890	\$16,500,000
TOTAL		\$118,800,000
BANKS OF ENCOURAGEMENT (Bancos Refaccionarios)		
1 The Mexican Central Bank	1898	\$30,000,000
2 The Mexican Bank of Commerce and Industry	1906	\$10,000,000
3 Banco Refaccionario de Michoacán	1903	\$600,000
4 The Commercial Bank of Encouragement	1902	\$200,000
5 Bank of Campeche	1903	\$1,000,000
6 The Banco de la Laguna, Refaccionario	1908	\$6,000,000
TOTAL		\$47,800,000
MORTGAGE BANKS (Bancos Hipotecarios)		
1 The International and Mortgage Bank of Mexico	1882	\$5,000,000
2 The Mortgage Bank of Territorial Credit	1900	\$5,000,000
TOTAL		\$10,000,000
32 TOTAL		\$176,600,000

Source: Mexican Year Book Publishing Co., *The Mexican Year Book, 1909-1910*, London: McCordale & Company Limited, 1910, pp.224-268; José Antonio Bádiz V, "Trayectoria de la banca en México hasta 1910" en Leonor Ludlow y Carlos Marichal eds. *Banca y Poder en México (1800-1925)*, México: Grijalbo, 1985, Cuadro 1.

Table 2. Unchartered Banks in Mexico Established Between 1897 and 1910. (Pesos of 1909)

Type of Companies	Mexican		Foreign		Total	
	No.	Capital	No.	Capital	No.	Capital
Banking Companies	36	\$42,920,432	18	\$ 113,619,474	54	\$ 156,539,906
Loan Companies	21	\$ 634,884	2	\$ 6,498,722	23	\$ 7,133,606
Saving Houses	10	\$ 681,073	1	\$ 72,748	11	\$ 753,821
TOTAL	67	\$44,236,389	21	\$ 120,190,944	88	\$ 164,427,333

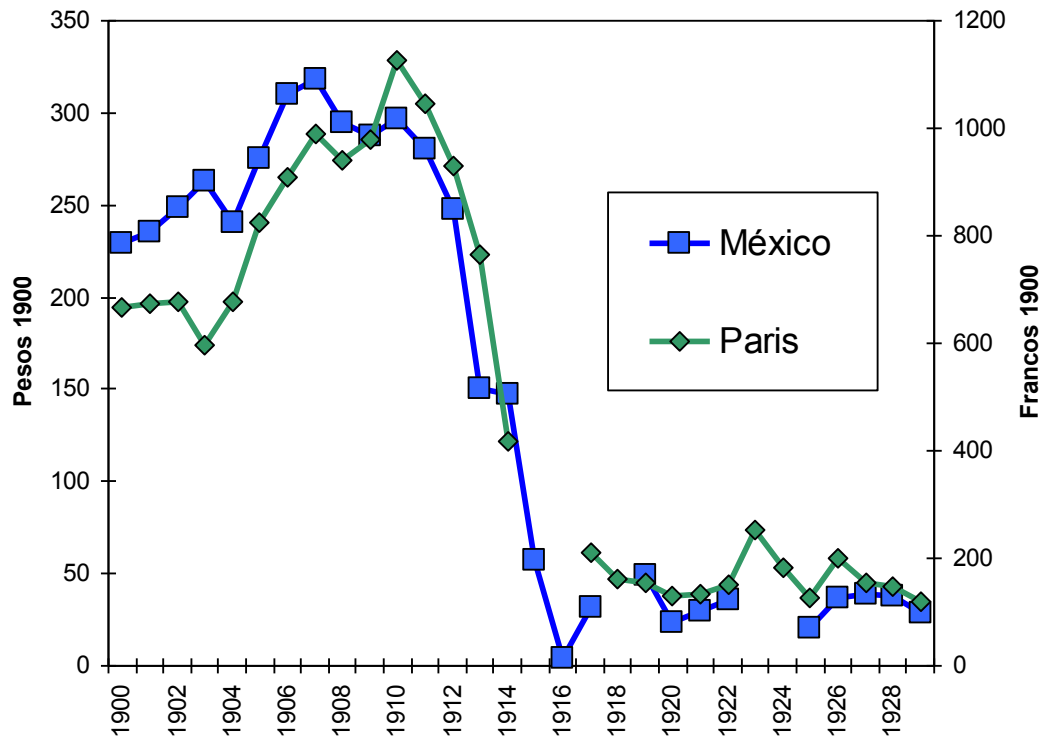
Source: Tables 1 and 2 in Appendix.

Tabla 3.Bancos que Cotizan en la Bolsa de Valores de México

1910	1925
<ol style="list-style-type: none">1. Cía Bancaria de Fomento y Bienes Raíces2. Banco Nacional de México3. Banco Central4. Banco de la Laguna5. Banco de Jalisco6. Banco Oriental7. Descuento Español8. Banco Internacional e Hipotecario9. Banco Hipotecario de Crédito Territorial10. Banco del Edo. de México11. Banco Peninsular12. Banco de Coahuila13. Banco Mercantil de Veracruz14. Banco de Michoacán15. Banco de Guanajuato16. Banco de San Luis Potosí17. Banco de Tamaulipas18. Banco de Querétaro19. Banco de Durango20. Banco de Sonora21. Banco de Hidalgo22. Banco de Aguascalientes23. Banco de Morelos24. Cía Bancaria de París y México25. Banco Minero26. Banco Occidental	<ol style="list-style-type: none">1. Crédito Español2. Banco Nacional de México3. Banco de Chihuahua4. Banco de Londres y México5. Banco de Querétaro

Source: The Mexican Herald and El Boletín Financiero y Minero.

Cotización en Bolsa Acciones de Banamex



Source: The Mexican Herald, El Demócrata and Boletín Financiero y Minero.

Table 4. Banking Institutions that sent Delegates to the Banking Convention of 1924

Chartered	Without Charter
1 Banco Central Mexicano S.A.	1 A. Zambrano e Hijos
2 Banco Occidental de México S.A.	2 Cia. Bancaria de Hipoecas y Préstamos S.C.L.
3 Banco de Sonora S.A.	3 Mexico City Banking Corp.
4 Banco de Zacatecas S.A.	4 Viguera Hnos. y Cía.
5 Banco Hipotecario y Agrícola del Pacífico S,A,	5 Banco Español Refaccionario S.A.
6 Banco Hipotecario de Crédito Territorial Mexicano S.A.	6 Miguel Herrejón
7 Banco Internacional e Hipotecario de México S.A.	7 Crédito Español de México S.A.
8 Banco de Guanajuato S.A.	8 Compañía Bancaria de París y México S.A.
9 Banco del Estado de México S.A.	9 Sociedad de Crédito Hipotecario Holandesa-Mexicana S.A.
10 Banco de Durango S.A.	10 Banco Germánico de la América del Sur
11 Banco de Londres y México S.A.	11 Mercantile Banking Company
12 Banco Minero de Chihuahua S.A.	12 Canadian Bank of Commerce
13 Banco de Hidalgo S.A.	13 Banco Francés de México S.A. en Liq.
14 Banco Peninsular Mexicano	14 Cia. Bancaria Peninsular S.A.
15 Banco de Guerrero S.A.	15 Anglo South American Bank Ltd.
16 Banco Nacinoal de México S.A.	16 Cía. Bancaria Mercantil y Agrícola de Sonora
17 Banco Mercantil de Veracruz S.A.	17 Banco de Montreal
18 Banco de Tabasco S.A.	
19 Banco de Nuevo León S.A.	
20 Banco Mexicano de Comercio e Industria Caja de Préstamos Comisión Monetaria	

Source: México, Secretaría de Hacienda y Crédito Público, *Convención Bancaria de 1924*, pp. 9-10

APPENDIX

Table A1. Unchartered Banking Companies Registered in Mexico City 1889-1910.

Name	Declared Purpose when Registered	Year	Nominal	CAPITAL	
					Pesos of 1909
BANKING COMPANIES					
Mexican Capital					
1 Cia. Bancaria de Obras y Bienes Raices/Compañía Bancaria	Banking transactions	1907	\$ 10,600,000	\$	10,600,000
2 Descuento Español	Comissions	1904	\$ 9,000,000	\$	10,199,642
3 Cia. Bancaria de París y México	Stock exchange transactions	1909	\$ 10,000,000	\$	10,000,000
4 United States Banking Co.	Banking business	1899	\$ 100,000	\$	2,000,000
5 Compañía Bancaria de Hipotecas y Préstamos S.C.L.	Mortgage transactions	1909	\$ 1,200,000	\$	1,200,000
6 Compañía Mexicana de Finanzas e Inversiones S.A.	Banking business	1905	\$ 1,000,000	\$	1,134,253
7 Cia. Comercial Banquera Londinense	Banking business	1907	\$ 1,000,000	\$	1,098,875
8 Mexico City Banking Co.	Banking transactions	1903	\$ 250,000	\$	1,000,000
9 Banco Mexicano de Ahorros, S.A.	Banking transactions	1910	\$ 1,000,000	\$	860,914
10 The Mercantil Banking Co. Limited S.A.	Banking business	1909	\$ 500,000	\$	500,000
11 Cia. Bancaria Mercantil	Banking business	1904	\$ 400,000	\$	453,317
12 American Surety Bank	Banking business	1897	\$ 250,000	\$	363,740
13 Read, Brier y Cia.	Banking business and comissions	1895	\$ 200,000	\$	292,344
14 Cia. Banquera y Fideicomisaria Mexicana de Préstamos	Banking transactions and Loans	1903	\$ 250,000	\$	282,001
15 Federal Banking Co.	Banking business	1907	\$ 250,000	\$	274,719
16 Cia. Banquera Mexicana	Banking transactions	1910	\$ 300,000	\$	258,274
17 Arturo J. Almeyda y Cia.	Banking transactions	1907	\$ 200,000	\$	219,775
18 Banco Mutualista y de Ahorros	Making loans	1899	\$ 150,000	\$	213,329
19 Cia. Hipotecaria Minera	Making loans	1895	\$ 140,000	\$	204,641
20 Gustavo Struck y Cia.	Banking business	1897	\$ 180,000	\$	197,797
21 Melber y Rohmer	Banking business	1899	\$ 120,000	\$	170,663
22 Melber y Cia.	Banking business	1894	\$ 150,000	\$	169,201
23 Prosperidad, Cia. Nacional de Ahorros	Savings House and Mutualist	1898	\$ 100,000	\$	149,082
24 Hugo Scherer y Cia.	Banking operations	1891	\$ 85,000	\$	141,815
25 Cia. Nacional de Refacción Agrícola	Making loans	1900	\$ 88,500	\$	118,198
26 Seuthe y Oetling	Banking transactions	1906	\$ 100,000	\$	115,521
27 W.B. Murray y Cia.	Banking and commercial business	1904	\$ 100,000	\$	113,329
28 Cia. Banquera de Seguridad	Savings bank	1903	\$ 100,000	\$	112,800
29 El Crédito Popular	Credit transactions	1903	\$ 100,000	\$	112,800
30 American Finance Co.	Banking transactions	1907	\$ 100,000	\$	109,887
31 Cambio Pan-Americano	Banking and interest transactions	1892	\$ 50,000	\$	73,587
32 Cia. Financiera Anglo-Alemana	Banking transactions	1904	\$ 50,000	\$	56,665
33 Southern Mexico Deve. Co. Ltd.	Banking business	1904	\$ 50,000	\$	56,665
34 Banco Mexicano del Trabajo	Banking transactions and Loans	1900	\$ 30,000	\$	40,067
35 Cia. Bancaria Comercial	Banking business	1909	\$ 20,000	\$	20,000
36 Banco de prestamos de la Honorable Sociedad Farmacia	Loans	1901	\$ 5,000	\$	6,528
<i>Total Mexican</i>			\$ 38,218,500.00	\$	42,920,432
Foreign					
1 Bank of Montreal	Banking transactions	1906	\$ 28,670,400	\$	33,120,408
2 Wells Fargo and Co.	Comissions	1901	\$ 16,912,000	\$	22,080,362
3 Deutsche Ueberseeische Bank	Banking transactions	1902	\$ 11,385,991	\$	12,862,759
4 International Bank & Trust Co.	Banking transactions and Loans	1902	\$ 10,000,000	\$	11,297,005
5 Deutsch Sud-Amerikanische Bank Actiengesellschaft	Banking business	1907	\$ 9,479,501	\$	10,416,787
6 Cia. Bancaria Católica de Mexico	Banking transactions	1903	\$ 6,000,000	\$	6,768,026
7 Mexican United States and Trusts Co.	Banking business	1905	\$ 5,045,000	\$	5,722,304
8 Banco de Comercio de Canadá	Banking transactions	1910	\$ 6,024,000	\$	5,186,145
9 Consolidated Copper Co.	Banking transactions	1902	\$ 1,160,509	\$	1,311,027
10 O'Kelle & Cia., S.A.	Banking business and navigation	1904	\$ 1,000,000	\$	1,133,294
11 Mercantile Trust Co.	Banking business	1903	\$ 1,000,000	\$	1,128,004
12 Maatschappij Hypothecair Credit Holland Mexico	Mortgage transactions	1909	\$ 1,075,200	\$	1,075,200
13 Mercantil Investment Co.	Banking business	1905	\$ 504,500	\$	572,230
14 Cia. Banquera Pan-Americana	Banking business	1904	\$ 500,000	\$	566,647
15 Finance Co. of Mexico	Banking transactions	1909	\$ 150,423	\$	150,423
16 Oro Trust Co.	Banking business	1903	\$ 100,000	\$	112,800
17 Rasst Head y Cia.	Banking transactions	1897	\$ 50,000	\$	72,748
18 Victor Grambach y Cia.	Banking and commercial transactions	1904	\$ 38,212	\$	43,305
<i>Total Foreign</i>			\$ 99,095,735	\$	113,619,474
54 TOTAL			\$ 137,314,235	\$	156,539,906

Source: México, Secretaría de Fomento, Dirección General de Estadística, *Noticia del Movimiento de Sociedades Mineras y Mercantiles, habido en la Oficina del Registro Público de la Propiedad y del Comercio durante los años de 1886 a 1910*, México: Imprenta y Fototipia de la Secretaría de Fomento, 1911.

Table A2. Unchartered Loan Companies and Savings Houses Registered in Mexico City 1889-1910.

Name	Declared Purpose when Registered	Year	CAPITAL		
			Nominal		Pesos of 1909
LOAN COMPANIES					
Mexican					
1 Porvenir, Cia. de Ahorros	Loans and real estate	1899	\$ 100,000	\$	142,220
2 Monte de Piedad de Monterrey	Loans	1895	\$ 70,000	\$	102,321
3 Loan and Deposit Co. of America	Loans and real estate	1898	\$ 50,000	\$	74,541
4 Benigno Quintana y Cia.	House of loans	1907	\$ 55,300	\$	60,768
5 Institucion de Empleados Ferrocarrileros	Loans and financial business	1909	\$ 50,000	\$	50,000
6 Sindicato Industrial Minero Mexicano	Loans	1910	\$ 50,000	\$	43,046
7 Etoussaint y Cia.	Loan transactions	1899	\$ 20,000	\$	28,444
8 Porrua Hermanos	House of loans	1902	\$ 20,000	\$	22,594
9 Manuel Garay y Cia.	Loans	1902	\$ 19,000	\$	21,464
10 Agencia de Préstamos	Loans to commercial businesses	1909	\$ 21,000	\$	21,000
11 Francisco Mendoza y Cia.	House of loans	1910	\$ 20,600	\$	17,735
12 L. Irastorza y Cia.	Loans	1905	\$ 15,000	\$	17,014
13 Anselmo de la Via y Cia.	House of loans	1905	\$ 12,000	\$	13,611
14 Ruiz y Costa	Loans	1903	\$ 4,000	\$	4,512
15 Jose Gonzalez y Cia.	Loans	1906	\$ 3,200	\$	3,697
16 Building and Loan Company of Mexico	Loans and real estate	1897	\$ 17,500	\$	3,637
17 F.J. Bixler y Cia.	Loans	1904	\$ 3,000	\$	3,400
18 Arturo Arce y Cia.	Loans	1906	\$ 1,500	\$	1,733
19 Cia. de Mejoras de San Andrés	Loan transactions	1907	\$ 1,200	\$	1,319
20 W.S. Curtis y Cia.	Loans	1902	\$ 1,000	\$	1,130
21 La Alianza	Loans	1909	\$ 700	\$	700
<i>Total Mexican</i>			\$ 535,000	\$	634,884
Foreign					
1 Trust Loan an Agency Co. of Mex. Ltd.	Loans and financial business	1891	\$ 3,094,649	\$	5,163,155
2 Cia. Mexicana de Fomento	Loans and real estate	1900	\$ 1,000,000	\$	1,335,567
<i>Total Foreign</i>			\$ 4,094,649	\$	6,498,722
23 TOTAL LOANS			\$ 4,629,649	\$	7,133,606
SAVINGS HOUSES					
Mexican					
1 Cia. de Construcciones y Caja de Ahorros	Provide funds to owners	1889	\$ 200,000	\$	296,515
2 La Caja de Ahorros con Inversiones	Loans and comissions	1896	\$ 100,000	\$	145,386
3 Cia. Nacional Cooperativa de Ahorros y Construcciones	Savings and Real Estate	1896	\$ 90,000	\$	130,848
4 La Protectora, Cia. de Ahorros.	Savings House and Loans	1902	\$ 50,000	\$	56,485
5 Sociedad Cooperativa de ahorros y prestamos de Tacubaya	Loan Transactions	1897	\$ 17,500	\$	25,462
6 Circulo Catolico Nacional	Savings House	1910	\$ 10,000	\$	8,609
7 Caja de Ahorros de la Direccion General de Correos	Loan Transactions	1904	\$ 6,000	\$	6,800
8 Caja de Ahorros .Empleados de Comercio	Loans and protect its members	1903	\$ 5,000	\$	5,640
9 Caja de Ahorros y Prestamos de los Empleados Federales de	Loans to employees	1895	\$ 3,250	\$	4,751
10 Caja de Ahorros y Préstamos de la Escuela de Comercio	Savings and loans	1906	\$ 500	\$	578
<i>Total Mexican</i>			\$ 482,250	\$	681,073
Foreign					
1 Louisiana Bond Co. Ltd.	Sanvings House	1897	\$ 50,000	\$	72,748
<i>Total Foreign</i>			\$ 50,000	\$	72,748
11 TOTAL SAVINGS HOUSES			\$ 532,250	\$	753,821

Source: See Table A1