

Central Banking Committee

A Central Banking Committee, comprised of the Secretary of the Treasury, a representative named by the Board of Directors of the Bank of Mexico and five members elected by a majority of the banking institutions of the country, shall be created and empowered to authorize the Bank of Mexico to issue bills for rediscount purposes, to administer the Monetary Reserve, to determine the legal reserves of banking institutions and in general to carry out the provisions of the present law.

The same day on which the Monetary Law of July 25, 1931 was enacted, there was also promulgated a law reforming the original law of August 28, 1925 which created the Bank of Mexico. In general, the purpose of this law was to make such temporary modifications and alterations in the law of August 28, 1925 as to permit the Bank of Mexico to function under the changed conditions inaugurated under the new monetary regime. Since the law in question remained in force only a few months and was admittedly a temporary expedient pending the framing of more comprehensive legislation governing the activities of the Bank of Mexico, consideration of its provisions will be postponed for the moment and reviewed later in connection with the discussion of the law of April 12, 1932. (See below p. 46).

Analysis of the Law

A summary review, such as the one just made, of the provisions of the Monetary Law of July 1931, immediately raises certain questions with respect to the meaning of the law and the intentions of its framers. The following paragraphs represent an attempt to answer these questions and at the same time to call at-

tention to some of the more unusual features of the law.

Monetary Standard

The first and most important question to be dealt with is: What is the monetary standard established in Mexico under the new Law?

The gold standard, as this term is ordinarily understood,³¹ involves the following characteristic features:

- (1) the monetary unit is defined as a given weight of fine gold;
- (2) the government maintaining the gold standard is under obligation to buy at a fixed price all gold bullion brought to it; likewise, the government is under obligation to sell at the same price all gold that is demanded;
- (3) no restrictions must be placed upon the free coinage of gold presented to the mint nor upon the right of the government to melt gold coins whenever it sees fit;
- (4) the government must be ready at all times to redeem all other money of the country in gold coins;
- (5) no restrictions must be placed upon the free import or export of gold coins or bullion.

It is immediately apparent that Mexico is not on the gold standard; for under the provisions of the law only two of the requirements for the maintenance of that standard are complied with. The law sets up a theoretical gold unit as the basis of the monetary regime and it allows the free import and export of gold coins and bullion, but all other elements of the gold standard system are absent.

It is equally obvious that the bimetallic system has not been established; for only one type of currency is recognized as full

legal tender.

Is Mexico, then, on the silver standard? No, because, aside from the fact that the legal unit is a gold coin of a certain weight and fineness, the free coinage of silver is strictly prohibited as is also the importation of silver coins.

If the standard is neither "fish nor fowl nor good red herring", then, what is it? About the best answer the present writer can give to this question is: Mexico has a "free" standard or a "managed" system of currency with aspirations to return to the "gold exchange" or "gold bullion standard".

As a matter of fact, as has already been shown in the preceding pages, Mexico has not in actual practice been on the gold standard since the crisis of 1920-21. This fact was clearly realized by the Mexican authorities who drafted the new Monetary Law. They also realized that under the existing circumstances it was absolutely impossible for Mexico to reestablish the theoretically existing gold standard. The announced "retention of the gold standard" in the law represents, therefore, the "substance of things hoped for", an aspiration rather than an accomplished fact. But the law does not stop with the mere expression of a pious hope.

The Government recognized that in order to return to the gold standard ("exchange" or "bullion") it will be necessary:

(1) to increase production and exports and to decrease imports;
 (2) to prevent the emigration of capital; and (3) to obtain, when it is possible to do so, credits abroad for use in the economic reconstruction of the country and for building up the monetary reserve.³³

In the second place, provision is made and the machinery is set up for an immediate start on the constitution of the all important monetary reserve with which it is hoped in time to bridge the gap between the

present (temporary) system and the full and complete gold standard.

In the meantime, and pending the return to the gold standard, the monetary system is frankly based on the quantity theory of money. The system is a managed system in the sense that the Government undertakes to maintain the stability of the peso by manipulating the amount of currency in circulation with "strict and sole reference to the actual needs of business."

System of Control over Currency and Credit

The Monetary Law provides three important ways by which the Government is to exercise control over currency and credit. In the first place there is decreed a strict limitation of the number of silver pesos in circulation. New coinage, as has already been noted, is categorically prohibited. This measure plus the withdrawal of all gold coins from circulation is relied upon to produce the necessary "scarcity" in the market.

In the second place the law provides that the issue of bills shall take place only in response to legitimate business demands as these are made evident by the presentation of commercial paper for rediscount at the Bank of Mexico. Moreover, as a further safeguard, the law envisages a metallic reserve of not less than 50% of the value of the bank notes issued. Another point worthy of emphasis in this connection is the section of the law which states that the acceptance of bank notes (except in government offices) is purely voluntary.

A third way in which the Government is to control the volume of currency and credit available is through the raising or

lowering of the legal percentage which the banks are required to hold as reserves against deposits. By this method plus the raising or lowering of the rediscount rate, the Government can, according to the authors of the law, intervene directly in the market and tighten or loosen up credit as the occasion demands.

Bank of Mexico

Not by any means the least important feature of the Monetary Law is the frank recognition therein of the necessity for a complete reorganization and reorientation of the central government bank. The reform of the monetary system, it was clearly implied, was simply the first logical move in a program of thorough-going financial house-cleaning. The next institution in need of being swept, dusted and redecorated was obviously the Bank of Mexico. But before taking a look at how the lawmakers went about the business of rejuvenating the Bank of Mexico, it will be necessary to make a short summary of the first amendment to the Monetary Law.

Decree of March 10, 1932 Amending the Monetary Law

Some seven months after the Monetary Law of July 25, 1931 went into effect a Presidential decree was issued amending and modifying the law in several important respects as follows:

Article 12 of the Monetary Law forbidding the coinage of silver pesos is stricken out and in its place is put an article granting to the Bank of Mexico the right (when so authorized by a majority of seven votes of the Board of Directors of the Bank of Mexico and upon the receipt of the approval of the Ministry of the Treasury) "to order the coining of money when it may be called for by the monetary requirements of the Republic."

Any seigniorage profit derived from coining operations must be held by the Bank of Mexico "with the exclusive object of increasing as far as may be necessary, the legal reserves of the issue of bills, pending its definite application, by law to the Monetary Reserve." Fractional silver or copper currency may be coined only by the retirement of silver pesos of equal value.

"For this single occasion the Ministry of the Treasury shall order the minting of silver money in one peso units of legal coinage to the amount which in the opinion of the Board of Directors of the Bank of Mexico is absolutely indispensable to remedy the present insufficiency of currency. The total net proceeds of such coinage shall be handed to the Bank of Mexico to be kept and applied to the increasing of the legal reserves of the issue of bills and for the formation of the Monetary Reserve."

The Central Banking Board established by the Monetary Law of July 25, 1931 is hereby dissolved. Its functions (in re the authorization of the issue of bills by re-discount operations) are to be taken over by the Board of Directors of the Bank of Mexico; its other functions (in re the vigilance of the funds in the Monetary reserve) shall be assumed by the National Banking Commission.

Official Explanation of Reform of Monetary Law

It is obvious that the action taken by the Government in the above summarized law only a few short months after the repeated protestations in the preamble to the Monetary Law that never, never (well, at any rate - "hardly ever") again would the Government coin any more silver pesos, called for some sort of an explanation. Was the Government by granting the Bank of Mexico the power to order

the coinage of new silver pesos "when it may be called for by the Monetary requirements of the Republic" pulling the teeth of the Monetary Law and opening the door to inflation? And what was the meaning of giving the Ministry of the Treasury the right to order "for this single occasion" coinage to an amount "absolutely indispensable to remedy the present insufficiency of currency"? How long was a "single occasion" supposed to last? And just how many new pesos would be considered indispensable? And why were silver pesos necessary at all when the Government could much more easily and cheaply issue bank notes?

A fairly satisfactory answer to some of these questions was presented to the public by the new Minister of the Treasury, Sr. Alberto J. Pani, in a statement dated the same day (March 10)
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as the law under discussion.

In the first place, (said the Minister, in effect) things are in a very bad shape. There is a "notoriously insufficient" amount of metallic money available and, to make matters worse, a large part of what there is, due to the lack of confidence induced by the continued depreciation of the peso, is being hoarded. Trade and industry are "suffering from a progressive paralysis."

The only way to remedy this situation is to follow a simple formula: "Stop deflation without falling into inflation." It is proposed to accomplish this by a supplementary coinage of silver pesos. But, be it understood, "this new coinage is not to be destined to cover a budgetary deficit, but exclusively to bring about the reestablishment of the equilibrium - at present upset - between the volume of the said stock [of money] and the total amount of production and interchangeable wealth and services." By

incorporating the profits from the new coinage into the legal reserves of the Bank of Mexico, not only will the stock of money be augmented by the new coins minted, but the Bank of Mexico will be able to issue additional bills against its increased metallic reserves. In this fashion the present deficiency in exchange tokens will be remedied and perhaps, also, the money now being hoarded will be forced into circulation.

The present coinage to be ordered by the Treasury is, therefore, an emergency measure. To guard against the recurrence of the present situation, however, and to insure in the future the elasticity which our monetary system now lacks, the Bank of Mexico is granted the power of regulating the monetary circulation by ordering new coins to be issued strictly within the limits of the monetary necessities.. "There is no doubt that once the program proposed here is in operation... the international quotations of our money will be reduced progressively."

REORGANIZATION OF THE BANK OF MEXICO

"Failure" of the Bank of Mexico

On several occasions in the foregoing pages reference has been made to the failure of the Bank of Mexico to function in the role for which it was primarily designed: that of a central state bank of rediscount and issue. By way of an introduction to a consideration of the law of April 12, 1932 and the decree of May 19, 1932 which amended and reformed the law of August 25, 1925 under which the Bank of Mexico was originally established, it is appropriate at this point to review in some detail the shortcomings and backslidings of the Bank of Mexico during the first half dozen years

of its existence.

Fortunately, the present Minister of the Treasury, Sr. Alberto J. Pani, has made an excellent statement of the reasons for the long standing dissatisfaction with the Bank of Mexico and the present writer can do no better than to summarize a part of Sr. Pani's statement of April 12, 1932.³⁶

The Bank of Mexico has failed to carry out the purposes for which it was originally established on a number of counts:

(a) It has not made use of the power which has been granted it "to regulate the circulation and organization of national credit" and thus to "counteract, or at least to lessen, the repercussion on our economy produced by frequent national political disturbances and by the world-wide economic crisis."

(b) The original law establishing the Bank of Mexico in granting the Bank the power "to make direct loan and discount transactions provided that they were guaranteed by sufficient collateral or by the signature of three notoriously solvent persons" gave the Bank the right to operate in a manner "clearly outside the orbit of governmental jurisdiction". Moreover, "once outside of this orbit, the desire to supplement the deficiencies of the existing commercial banks and to lower the onerous rate of interest imposed by the usurious banking practice of the period", even led the Bank to make loans on two-name paper.

(c) Under these circumstances, it is not surprising in a bank controlled by the State, that the door was left open to "the employment of political influence" in the making of loans, "a practice which is ruinous (or, at least, gives undue preference to individuals)" and which inevitably undermines the prestige of the

institution.

(d) In a word, "the circumstances under which the Bank of Mexico was born, obliged it to start its career by following sidepaths, i.e. by methods opposed to its character and original purpose. If it is true that these methods earned dividends for the Government and rendered a service to the country (especially to the users of credit with whom direct authorized operations were transacted), it is also true that "by following this road [the Bank] was naturally brought into the field as an open and unequal competitor of similar private banks, which did not enjoy the same privileges as the Bank of Mexico. As the Bank of Mexico drew apart from the other banks as a result of this competition, the principal outlet for the issue of bills was closed - namely, rediscount operations with its supposedly associated banks. Thus the Bank has come to mean merely . the addition of one more bank to the small number of those already existing, and, by no means, the existence of an effective force for cohesion between chaotically dispersed banking activities or for the improvement of a defective monetary system and a languishing economic situation..."

As has already been intimated, the shortcomings of the Bank of Mexico had long been apparent to everyone concerned. When Mexico cut the gordian knot of her monetary problem in July 1931, it was announced, therefore, ³⁷ that legislation would soon be forthcoming designed to reorganize and reorientate the Bank of Mexico. As a temporary expedient certain reforms in the Bank were made at once, but it was not until almost nine months after the enactment of the Monetary Law that the definitive reform of the Bank of Mexico

was promulgated.

Law of April 12, 1932

The principal provisions of the "Law of April 12, 1932 Reforming the Law of August 25, 1925 which created the Bank of Mexico" may be summarized as follows:

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Objects of the Bank of Mexico and its Capital

The objects of the corporation shall be:

- (1) to issue bills, regulate monetary circulation, the interest rate and foreign exchange;
- (2) to rediscount paper of a genuinely mercantile character;
- (3) to centralize banking reserves and to function as a clearing house;
- (4) to act as financial agent for the Federal Treasury;
- (5) to engage in banking operations compatible with its nature as a central bank, within the limits of this law.

The capital of the corporation shall be 50 million pesos, issued in shares of 100 pesos each. Fifty-one percent of the shares ("A" shares) shall be subscribed by the Federal Government and shall be non-transferable. The rest of the stock ("B" shares) may be subscribed by institutions of credit and by the public.

Administration

The administration of the corporation shall be entrusted to a Board of Directors composed of five directors nominated by the holders of "A" shares, and four directors nominated by the holders of "B" shares. The holders of "A" shares shall have the right to reject the nominations of three directors proposed by the holders of "B" shares and the holders of "B" shares to reject the nominations of four directors proposed by the holders of "A" shares. No public functionaries or employees may be direc-

tors, nor persons who during their term as directors may be elected to public office, even though for any reason they may not take possession of the said office or perform the duties of it.

The duties of the directors which may not be delegated to other persons shall be: to pass on all matters pertaining to the issuing and circulating of money; to fix the rediscount rate; to pass on the requisites of rediscount operations and other authorized transactions with associate banks; and to pass upon operations which, separately or jointly, involve the responsibility of the same person or concern for an amount in excess of ten thousand pesos.

The Minister of the Treasury, however, shall have the right to veto resolutions of the Board of Directors, if in his judgment they may affect the economic equilibrium of the Republic, when they refer to: investments in foreign securities or to deposits made abroad; to new issues of money; to operations of the Bank in its role of regulator of monetary circulation; and to operations related to the public debt.

Issuance of Bills and Regulation of Monetary Circulation

The Bank may issue bills only:

- (1) by virtue of operations of rediscount effected with associate banks on a basis of paper payable in national money;
- (2) in exchange for gold, or as the result of the purchase of drafts or other first-class documents payable at sight outside of Mexico, when these operations can be effected at legal parity.

These same rules apply to the reissue of bills received by the Bank in payment of rediscounted paper or in exchange for cash.

In its rediscount operations the Bank may not issue bills

in excess of twice the amount of the cash reserve (silver pesos) on hand after the following items have been deducted therefrom: the funds in the Monetary Reserve; deposits of associate banks (see above) held by the Bank of Mexico; and cash reserves held against deposits of less than thirty days.

Acceptance of bills issued by the Bank shall be purely voluntary on the part of the general public; these bills must, however, be received in unlimited quantities by Government offices and shall be redeemed in national money (silver pesos) upon demand of the bearer at the Bank or any of its branches. (Branch banks have the option of redeeming bills not issued under their seal either in silver or in drafts upon the central office.)

The Federal Government shall at all times guarantee the bills in circulation.

The Bank of Mexico shall perform the functions necessary for the regulation of monetary circulation including: the purchase and sale of gold; the purchase of metals and the determination of the amount and character of money to be coined; the placing of money in circulation and the retirement thereof; and the collection and safeguarding of the funds of the Monetary Reserve and the administration of that reserve in such a manner as to insure the stability of the national currency.

Operations with the Federal Government

The Bank of Mexico shall be the depository of all the

funds of the Federal Government for which the Government has no immediate use. It shall handle for the Government all funds related to the service of the foreign and domestic debts and act as the agent of the Government for all payments and collections abroad, etc., etc.

In the general account which the Bank shall open for the Government, the debits against the Federal Government shall never exceed five percent of the receipts of the Government during the preceeding fiscal year. The general account with the Government shall be liquidated in July and December each year.

Rediscounts and Operations with Federal Government

The institutions which under the general law relating to institutions of credit may be obliged to associate themselves with the Bank of Mexico (see below p. 53) shall subscribe to "B" shares to an amount not less than six percent of the capital and reserves of each institution.

Institutions which by law may be authorized to receive deposits of less than thirty days must keep in cash in the Bank of Mexico a deposit, without interest, equal to five percent of the said deposits.

Rediscount operations shall be subject to the following regulations:

(1) Only paper which is payable in national money, which proceeds from genuinely commercial operations and which

matures not more than ninety days from the date of rediscounting may be rediscounted.

(2) Rediscounts cannot be made with an associate bank while operations are pending which involve the direct responsibility of a single person or concern for an amount greater than five percent of the capital, reserves and deposits of the associate bank, or, in the case of unendorsed operations or those guaranteed by collateral, for more than ten percent of the said capital, reserves and deposits. These limitations, however, shall not apply to paper actually proceeding from operations of production, warehousing or distribution of merchandise, even when the same person or concern appears as responsible, either as endorser or drawer.

(3) Mortgages or credits based on real estate may not be rediscounted.

The Bank of Mexico may also effect with associate banks the following operations:

(1) Discount acceptances when the endorsement is by a person other than the drawer.

(2) Open with associate banks credits on current accounts, guaranteed with shares, commercial effects, or bonds. The value

of the collateral must be at least twenty percent greater than the obligation.

(3) Make advances on letters of exchange endorsed for collection by the associate bank in question.

(4) Make advances on cashier's certificates issued by associate banks and upon certificates of bonded warehouses associated with the Bank.

General Dispositions

The Bank of Mexico is prohibited from engaging in the following operations:

(1) Making loans to the Federal government (except as noted above p.48a).

(2) Making loans to State and municipal governments.

(3) Making direct loans and discounts. (This does not mean that the Bank may not buy and sell drafts and letters of exchange in the open market and make advances on securities which are immediately realizable, always providing these transactions shall not exceed five days sight. Moreover, the Bank may also make loans or advances upon shares of corporations formed for establishing new associate banks up to fifty percent of the value of said shares.)

(4) Accepting or paying uncovered drafts or certifying checks of the same nature.

(5) Purchasing or investing in any sort of shares, excepting those of national credit institutions, in amounts in excess of ten percent of the amount of their capital. The combined amount of these investments shall not exceed ten percent of the paid in capital of the Bank.

(6) Purchasing or investing in loans or securities which are not quoted on official stock exchanges and which have not paid dividends annually for five years before the date of their purchase. Such transactions shall in no case exceed ten percent of the paid in capital of the Bank. The Bank may not invest in the bonds and securities which it issues on behalf of the Republic, but it may buy or sell them in transactions in the open market.

(7) Investing in office equipment or real estate for its own use in an amount in excess of six percent of its capital.

(8) Paying interest on deposits made for less than thirty days.

(9) Pledging its receivable credits, or its bills, or contracting obligations with them as security.

(10) Mortgaging its properties.

Comments on Law of April 12, 1932

So far as can be judged at the present time, it would appear that the new statute governing the organization and functioning of the Bank of Mexico has been admirably designed to force that institution back into line with what is generally regarded as the proper sphere of action for a central state bank. The Bank has been forbidden to engage in direct loan and discount operations with the public; ample powers have been granted it and the proper machinery set up (principally the Monetary Reserve) for the eventual regulation and control of the monetary affairs of the country and provision has been made for the enforced association with the Bank of all of the principal banking and credit institutions throughout the nation. All this seems to be very clearly stated in the law

itself and perhaps the only point on which further comment is needed is the matter of the reduction of the Bank's capital.

(Compare p. 3.).

As explained by the Minister of the Treasury in his public statement concerning the law, ³⁹ "the reduction of the Bank's capital from 100 million to 50 million pesos is more apparent than real" for the following reasons: (1) Only a little more than half of the original capital of 100 million pesos was ever actually paid up. (2) The reduction in capital will "only be made at the expense of that part of it which has been lost or 'frozen' in the natural course of the previous legal activities of the Bank". (3) The capital of 50 million pesos will immediately be increased by the profits from the coinage operations recently authorized (see above p. 41) in that by law these profits by increasing the legal reserve will permit the Bank to increase its rediscount operations. (4) And, finally, the elimination of the obstacles which have heretofore prevented the development of the Bank's rediscount functions will greatly extend the use of the Bank's capital in credit operations.

Amendment of May 19, 1932 to Law of April 12, 1932

In order to put into effect at the earliest possible moment the new regulations governing the Bank of Mexico and to begin to reap the full benefits of the rediscount operations of that institution, the Government decided to anticipate somewhat the final step (i.e. the proposed new General Law of Credit Institutions) in its program of monetary and banking reform. Accordingly, on May 19, 1932, a Presidential decree was signed amending the law of

April 12, 1932. This amendment dealt with two principal topics.

First, it provided that "institutions of credit which receive from the public deposits for a term of thirty days or less and branches of foreign banks or banking institutions must associate themselves with the Bank of Mexico" under the conditions stated in the law of April 12, 1932, within a period of thirty days. (It will be recalled the law of April 12 held that all credit institutions of the type here indicated must purchase "B" shares in the Bank of Mexico to an amount not less than 6% of the capital and reserves of each institution in question.)

In the second place, the decree of May 19 undertook to clarify still further the position of foreign branch banks in Mexico by setting certain limitations on their activities. Chief among these were:

(1) "Branches of foreign banks or banking institutions are prohibited from accepting savings accounts, acting as institutions of trusteeship, or issuing treasury or mortgage bonds, obligations, certificates of deposit or security bonds."

(2) Foreign branch banks may use the money (not held in cash reserves etc.) received as deposits in national currency from the general public only in the extension of credits which "shall be payable in Mexico and conceded to persons or concerns domiciled in the Republic or doing business therein."

(3) The capital of branches of foreign banks "must be fully represented by cash in national money, by credits payable within the country, by Mexican securities or by equipment and real property required for the installation of such branches." Moreover, these branches must "at all times maintain available within the Republic

all of the securities etc. which may represent any part of their capital, their reserve funds or the investment of their deposits."

GENERAL LAW OF CREDIT INSTITUTIONS

In the field of money and banking the truth implicit in the popular saying - "one thing leads to another" - immediately becomes evident when a government undertakes to reform or otherwise tamper with any part of the traditional financial structure. The legislative ball which Mexico started rolling with the Monetary Law of July 1931, as the numerous laws, decrees and dispositions already reviewed in this monograph bear eloquent witness, has been rolling ever since. Or, to change the figure, once having undertaken to remodel the foundations of the country's economic system, Mexico has inevitably had to complete the job by rebuilding the whole financial and banking structure. The last step in this process to be taken up to date is the new General Law of Credit Institutions promulgated on June 28, 1932. One more law - the General Law of Titles and Credit Operations - is promised in the near future. When this law is duly placed on the statute books, the Government will be able, for the time being at least, to write "finis" to the program of financial reform started in July a year ago.

Principal Features of Law

As stated in the preamble, the two major purposes of the General Law of Credit Institutions were: ⁴¹ (1) to complete the process of integrating the whole banking system of the country along the lines dictated by the law reorganizing the Bank of Mexico and to make possible the operation of credit institutions under the

conditions of stability and elasticity demanded by the special necessities of the Republic; and (2) to correct the "faults and grave deficiencies" in the existing legislation concerning credit institutions.

The new law, accordingly, in some 239 articles, sets forth in detail the regulations governing the organization and functions of all types of credit institutions including commercial banks, branches of foreign banks, trust banks, bonded warehouses, stock exchanges, general financial societies, and credit unions. In addition, the law states the rules for the operation of clearing houses and the duties and powers of the National Banking Commission. A complete review of the entire law will not be possible or necessary in this report. In order to complete ^{the} major outlines of the new structure of public and business finance in Mexico it will be sufficient to call attention to a few of its outstanding features.

In General

By way of explaining the general point of view of the law, it is pointed out in the preamble that the specialization of credit institutions into commercial banks, mortgage banks, trust banks, etc., upon which previous banking legislation in Mexico has been based assumes a system which in actual practice "has been almost purely nominal." As a matter of fact, "the Mexican banking system is made up of deposit and discount institutions which habitually engage in operations quite distinct from those properly pertaining to commercial loans and discounts."

This practice, according to the framers of the law, "has

been one of the gravest legal and practical deficiencies of the Mexican banking system. In spite of the fact that the character of our economic organization... has always demanded long term credit operations with conditions and guarantees quite different from those proper for normal discount operations suitable for the investment of sight deposits, the banks of Mexico have not ... been able to canalize the savings of the public in any other form than that of deposits in checking accounts. Because of this fundamental lack of adjustment between the origin of banking resources and the manner of their investment, extraordinarily defective banking practices have become firmly established... In reality, the vast majority of credit operations dressed up in the form of discounts or 90 day commercial loans, are long term loans which often do not fulfill the requirements of a mercantile loan and end by creating a state of banking insecurity and the 'freezing' of a considerable part of the resources of the banks."

In order to remedy this state of affairs the new Law of Credit Institutions undertakes to "make the juridical form correspond to the economic necessity" by admitting the desirability of opening the way for the banks to invest their funds in a number of different types of credit operations, each type to be frankly recognized for what it is and dealt with accordingly. Proceeding on this principle, the law does two things: (1) it abandons the old system of attempting to organize the banking system on the basis of separate specialized banking institutions and instead introduces the idea of specialized functions; any bank if it wishes, by establishing the proper departments, may carry on any or all of the credit operations allowed by law; and (2) it extends the field

of banking operations by defining and regularizing the legal dispositions referring to mortgage bonds and certificates of deposit, by regulating the credit operations of bonded warehouses, stock exchanges, credit unions, etc; and by affirming the power given to the Bank of Mexico to grant new and diverse types of credit to its associated banks.

Trust Banks and Credit Unions

The juridical institution of trusteeship (fideicomismo) was first introduced into Mexican banking practice in the Law of Credit Institutions enacted in November 1926. Due, however, to the "great vagueness" of the institution's conception in that law it has never developed as it should. The new Law of Credit Institutions seeks to redefine the functions of this important type of financial organization and to insure it a "more ample field of action.

No satisfactory solution has been devised in Mexico for the credit needs of large groups in the population, and more especially the small tradesman and businessman whose operations and resources taken individually are too small to interest the regular banks. The new Law of Credit Institutions attempts to provide for such individuals and groups by setting up the legal machinery for the organization of credit societies or credit unions.

In a word, the law in its provision dealing with trust banks and credit unions has added two new types of credit institutions to the banking system, both of which conceivably may in the future play very important roles in helping to organize and stabilize the credit and monetary structure.