

Foreign Branch Banks

In addition to reaffirming the regulations governing foreign branch banks which were issued in the already noted (p.52) Presidential decree of May 19, 1932, the General Law of Credit Institutions lays down one other important disposition which may be translated as follows:

"In the case of branches [of foreign banks] the properly accredited representatives of the parent bank... shall expressly obligate the institutions which they represent to guarantee unlimitedly with all of their reserves (i.e. in addition to those maintained within Mexican territory) operations engaged in in the Republic; and to submit themselves to Mexican laws and to Mexican courts in all business carried on within the national territory."

National Banking Commission

Undoubtedly one of the most important steps taken in the Law of Credit Institutions was that amplifying the powers of the National Banking Commission. Before the new law, for all practical purposes the Commission was restricted in its activities to "ascertaining in purely formal manner" whether or not the banks were complying with the law. Under the new dispensation the Commission is charged with the duty of "judging the state of solvency of the banks and of taking adequate measure [including, when necessary, placing a representative of the Commission in charge of any given bank] to prevent or lessen the consequences of liquidation."

The Commission is also given the power to determine (subject to the approval of the Ministry of the Treasury) the

amount which the banks at any given time may be required to hold as legal reserves against deposits with the understanding, however, that these reserves will not be more than 30% against deposits subject to withdrawal in thirty-one days or less, or more than 10% for savings and long term deposits. (This last item is significant in view of the important part which the manipulation of bank reserves is expected to play in the maintenance of monetary stability. See above p. 39).

THE OUTLOOK

In the preceding pages, an effort has been made to answer three questions: What were the main features of the banking and monetary system in Mexico before July 25, 1932 ? What were the events in the development of the economic and political life of the country in the post-revolutionary period which made it necessary to change the monetary and banking system? And, finally, what changes were made? Two questions now present themselves for discussion: What has been the course of events since the program of reform was inaugurated - i.e. what reactions in the economic life of the nation have followed in the train of the reform ? And, what is the outlook for the future ? Before seeking an answer to these two questions, however, it may clarify matters somewhat to summarize briefly the Government's accomplishment up to the present date.

Summary of Monetary and Banking Reform

On the formal and legal side the basic principles of the Mexican monetary and banking system have been reconsidered and re-

stated in three new laws and two amendments to these laws, to wit: (1) the Monetary Law of July 25, 1931 (amended March 10, 1932); (2) the Law Reorganizing the Bank of Mexico of April 12, 1932 (amended May 19, 1932); and (3) the General Law of Credit Institutions of June 29, 1932. These three laws with their amendments have, in turn, brought to pass three major reforms in the monetary and banking structure: (1) the monetary system has been changed from a nominal gold standard to what has been described as a "free standard" or a "managed system" of currency in which the gold peso is the theoretical standard of value and the silver peso the actual basis of monetary procedure; (2) the Bank of Mexico has been reorganized to function primarily as a central bank of issue and rediscount; and (3) the basic principles governing the organization and functioning of all banking and credit institutions have been redefined and "adjusted to economic reality and the needs of the country" and the whole banking system has been brought in relation with and to some extent under the control of the Bank of Mexico and the National Banking Commission.

On the side of practice, as opposed to the paper set-up represented by laws and decrees, it should be noted, first, that many of the reforms of organization dictated by the various laws have already been carried out. The Bank of Mexico has ceased to carry on direct loan and discount operations with the public and on June 28, 1932 all but ten of the important banking institutions in the country had completed the necessary arrangements for "association" with the Bank.

In the second place, on the basis of rediscount operations with its associate banks, the Bank of Mexico has proceeded with the

business of issuing bills. The issue of bank notes, partly out of caution and fear that such action would "in view of certain past occurrences in Mexico produce alarm and displeasure" in the public at large, and partly because of certain difficulties attendant to getting the rediscount machinery in working order, did not begin to take place for several months after the enactment of the Monetary Law of July 1931. Finally, however, on December 2, 1931, in response to bitter complaints on all sides over the "scarcity of money", announcement was made of the first issue of bills to the amount of a half million pesos.⁴⁴ Contrary to the expectations of many "experts", the bills were well received on the part of everyone. Indeed, so anxious was the public to get hold of the new paper money, for a time the bills carried a 10% premium in the open market.

Once the ice had been broken, the issue of bills proceeded as rapidly as the terms of the law permitted - i.e. as rapidly as commercial paper was presented to the Bank of Mexico for rediscount.

By the end of March, 1932 over 7 million pesos of bills⁴⁵ were in circulation and a month later the total had risen to some 12 million.⁴⁶ The latest report by the National Banking Commission on the issue of bills by the Bank of Mexico as of June 23, 1932, is as follows:⁴⁷

| | <u>Pesos</u> |
|---|----------------------|
| Total rediscount operations..... | 27,203,808.79 |
| | <hr/> |
| Total bills issued | 21,747,670.00 |
| Less bills returned to Bank of Mexico.. | <u>1,698,930.00</u> |
| Bills in circulation | 20,048,740.00 |
| | <hr/> |
| Cash on hand in National Currency (silver) | 31,384,680.00 |
| Less: | |
| Deposits of Associated Banks | 1,450,000.00 |
| 30% of Deposits of less than thirty days.... | 14,901,109.98 |
| | <u>16,351,109.98</u> |
| | 15,033,570.02 |

In addition to the issue of bills it will be recalled that under the law of March 10, 1932 the Bank of Mexico was granted the power to coin silver pesos in an amount "absolutely indispensable to remedy the present insufficiency of currency" with the understanding that the seigniorage profits would be devoted solely to increasing the legal reserves for the issue of bills and for the building up of the Monetary Reserve. No official report has been published on the subject of exactly how many silver pesos have been coined under the law of March 10. It is known, however, that the Bank of Mexico purchased between March 10 and July 1, 1932 some 12.3 million ounces of silver. This would permit a coinage of around 29 million pesos of 12 grams each of pure silver. Not all of this silver, however, has been coined. A rough estimate of how much has been coined may be obtained by multiplying the number of working days from March 12 (when it is reported that minting operations began) to July 1, by the daily capacity of the mint -

i.e. 110 days (the mint works seven days a week) X 200 thousand (the daily capacity); hence a total possible amount coined of around 22 million pesos .

On March 31, the reserves of silver coins (presumably for the most part coined before the decree of 1927 prohibited further issue) in the Bank of Mexico were given in round numbers as 18 million pesos . If to this amount is added the estimated 22 million pesos coined since March 1932, there results a total of 40 million pesos . But, as noted on page 62, on June 23, the Bank of Mexico reported its cash (silver pesos) reserves to be only 31 million pesos . This would seem to indicate that around 9 million silver pesos have been put in circulation since March 1932 . If to this figure is added the 20 million pesos in bank notes which were issued up to June 23, 1932, it would appear that in all a total of about 29 million pesos has been added to the circulating currency of the country since the new monetary regime was inaugurated . The withdrawal of gold from circulation by the Monetary Law of July 1931 left the country with a monetary stock of probably not more than 197 million pesos .⁴⁹ In other words, during the course of a little less than a year, the monetary stock has been increased by some 14.7% . Question: does this represent an undue amount of inflation? No categorical answer can be given to this question . It would appear, however, in view of the restricted credit market since the enactment of the Monetary Law and in view of the fact that the demonetizing of gold by that law withdrew a large (if undetermined) number of coins from the total stock of money in circulation, that up to the present time (July 1) there has been no undue amount of inflation .

So much for a summary of the reform and the way it has been put into practice up to June 1932. Now let us turn to a review of the events which have transpired in the Mexican economic and financial world since the beginning and during the course of the reform.

Course of Events Since July 1931

Leaving aside for the moment any detailed consideration of the question of casual factors, the following facts are presented for what they are worth as the best indication of what has happened to the economic life of Mexico since July 25, 1931.

Silver Exchange

The average of the month's selling and buying rates quoted for the silver peso in July 1931 was \$0.3926. The new Monetary Law went into effect on July 25. Immediately thereafter the market was completely disorganized and for a time silver pesos were selling for around \$0.25. After the first panic and confusion had passed, however, the peso recovered somewhat and the average selling and buying rates for the first month after the enactment of the new law was \$0.3033. (Table 2 and Chart 1.) Apparently this figure represented "rock bottom"; for in the succeeding months the silver peso climbed rapidly and for a time (in November 1931) quotations were as good or better than before the introduction of the new monetary regime. Thereafter, however, at first slowly and then with increasing rapidity the peso began once more to slide toward the abyss and in June 1932 a new low record was established with an average quotation for the month of \$0.2702.

In a word, since the inauguration of the banking and mon-

etary reform the silver peso has, on the average, lost about 15.7% of its value - i.e. the average of the monthly quotations for the eleven months preceeding the law (September 1930-July 1931) was \$0.4091; for the first eleven months (August 1931-June 1932) after the law, \$0.3445. As compared with its par value in U.S.cy. the silver peso during the last eleven months has stood on the average at a discount of over 30% whereas in the eleven months preceeding the Monetary Law the average discount from par was something over 17%.

What Happened to Gold

In the period of a little less than a year since the enactment of the Monetary Law two things have happened to gold. First, although gold coins were legally demonetized they ^{have} continued to circulate to some extent and to be quoted in the open market. And, as may be seen in Table 3 and Chart 2, the quotations, generally speaking, ^{have} followed a course exactly opposite to those for silver. The discount of silver from gold rose from an average of 31% in the open market (26% in the "official" bank market) in June to over 62% in August. Then as the silver peso began to recover, the discount rate also dropped, reaching a low of 25.8% in January 1932. Thereafter, again following the silver peso, the rate began to rise and in April, 1932 (the last month for which figures are available) the average for the month was 47.7%.

In the second place, with the removal of export restrictions both gold coins and gold bullion began to flow out of the country at a rapid rate. The total net export of gold coins, Mexican and foreign, according to the official statistics, for 1931 was 33,759,035 pesos. Presumably, most, if not all of this gold

left the country after the Monetary Law went into effect. Figures for the movements of gold since January 1932 are not available. The known sharp decrease in imports, and the fact that the stock of gold coins in Mexico was rapidly being depleted before the export prohibitions were removed, give some weight to the assumption that the outward flow of gold has begun to slow up during the last few months.

Business and Trade Reactions

As is usual in such situations the first institutions to feel the effects of the drastic changes introduced into Mexican economic affairs by the Monetary Law were the banks. Indeed, the banks were already being hard pressed even before the law was passed. Banking transactions began dropping off rapidly beginning with the first part of 1931. Clearing house operations (Table 5) in Mexico City for all important banks except the Bank of Mexico decreased from 85.6 million pesos in March to 51.9 million pesos in June. Deposits for all banks throughout the country (except the Bank of Mexico) which at the end of January totalled 174.3 million pesos by the end of June had decreased to 142.9 millions. Ordinary loans and discounts and loans against collateral dropped from 169.2 million pesos in March to 152.9 millions in June (Table 6).

As the rumors of the impending change in the monetary system became more and more insistent something very near a run on the banks in Mexico City took place. More than 20 million pesos ⁵⁰ were withdrawn by frightened depositors in the week which preceeded the enactment of the Monetary Law.

In view of their weakened condition it is rather surprising that the banks held up as well as they did in the panic which

followed the announcement of the new monetary regime. As a matter of fact, however, only one bank in the Capital had to shut its doors, although, be it said, several other banks had to perform hazardous feats of financial acrobatics to keep from following suit. Even after the first excitement had passed, such was the general feeling of instability and uneasiness, that the banks found it most difficult (not to say dangerous) to carry on their business. Clearing house movements in Mexico City continued to decrease and by November 1931 had reached a new low of 35.2 million pesos as compared with 65.2 million in July. Deposits in all banks exhibited a low of 90 million pesos in October, and although there was some recovery thereafter the year closed with the banks showing total deposits of 95.1 million pesos as compared with 142.9 million in June. The curve of ordinary loans and discounts and loans against collateral moved downward to a total of 96.9 million pesos at the end of December as compared with 152.9 millions in June.

With these figures in mind it is not surprising that credit facilities in Mexico which before the Monetary Law were not abundant, after the passage of the Law almost ceased to exist. The banks not only had suffered from heavy withdrawals of deposits as has been noted, but it must be remembered that the accounts which were lost were practically all gold accounts. Before July 25 the banks had to pay out peso for peso in gold, checks drawn by depositors against gold accounts. After the enactment of the Monetary Law the banks were still required to pay 30% of all gold accounts in gold. However, and this is where the banks were left holding the bag, all debtors were, under the new regime, allowed to pay the full amount of their previously contracted gold debts

in silver.

But even after the banks had recovered somewhat from having had their fingers burnt and had had a chance to readjust themselves to the changed conditions, credit continued to be conspicuous by its absence and banking operations remained in a depressed state. In March 1932 (the latest date for which the figures are available) ordinary loans and discounts and loans against collateral were still some 79 million pesos, or around 46%, below what they were in, for example, the corresponding month in 1931. Deposits also, although by March 1932 they had increased somewhat over the low of October 1931, still lagged about 35% behind the total for March, 1931. Similarly, clearing house statistics in 1932 were slow to recover and the average monthly clearings for all banks in Mexico City (except the Bank of Mexico) for the first five months in 1932 was only 46.1 million pesos as compared with 75.5 million for the first five months of 1931.

Perhaps the most important reason for the comparative inactivity on the part of the banks and the acuteness of what one Mexican writer has called the "credit famine" since the inauguration of the monetary and banking reform is to be found in the behavior of the peso on the exchange market. With the value of the peso fluctuating as much as ten and twenty points within a single day, the primary condition for credit operations - a stable unit of measurement - has been lacking. Under these conditions when even a very high interest rate (profit) might be wiped out in a few hours, no bank can afford to make loans. On the other hand, no business man in his right mind is willing to undertake to meet future obligations to a bank in a currency the value of which in

sixty or ninety days, or for that matter even two days, no one can predict.

All business has of course been seriously affected by the lack of credit facilities, but for some businesses this has been a minor matter compared with certain other ills which have followed in the train of the Monetary Law. Department stores, automobile agencies, phonograph shops, drugstores - in short, all the agencies whose business has mainly been the distribution and sale of imported products have found themselves with their backs to the wall since July of last year. Obviously, importers and merchants who have to buy dollar bills of exchange to pay for imports have got to charge sufficiently high prices in pesos not only to reimburse themselves for the dollars which they have spent, but also prices high enough to leave a margin over and above profits to take care of possible further depreciation in the peso. But if prices are put too high people (who receive their salaries in pesos) cannot or will not buy. And this is one of the very good reasons why Mexican imports in 1931 decreased over 38% as compared with 1930 and why imports continued to drop on the average of about 64% per month during January and February of 1932 as compared with the same period in 1931.

The very important railroad industry in Mexico offers a good illustration of the kind of hardships to which many industries have been subjected by the depreciation in the peso. The National Railroads consume large quantities of fuel oil and lubricants and although these supplies are purchased within the country the prices thereof are fixed in the contracts which the oil companies have with the railroads on the basis of dollar quotations. Also, all the

equipment and supplies for the repair shops, the maintenance of way etc., a certain amount of which even under the strictest programs of economy must be purchased abroad, are paid for in gold or dollars. At the same time, it has been impossible for the National Railroads which, of course, receive their income in pesos to raise either freight or passenger rates to any appreciable degree. In view of these facts, it is obvious that every point which the peso drops in value increases by just that much the difficulties under which the railroads are operating.⁵¹

It might appear at first glance that the decrease in the value of the peso by, in effect, placing a very high tariff on imports will have the desirable result of stimulating the development of industries within Mexico. To a certain degree such development may take place. However, it must be remembered that to the extent that this development depends upon the import of new machinery, equipment or additional raw material the advantages of the protected market are definitely offset by the fact that these imports must be paid for in gold.

Certain industries, such as the great extractive industries of oil and mining and other industries whose products are primarily for export, have undoubtedly benefited by the decrease in the value of the peso. These industries are obviously in the advantageous position of being able to undersell the market due to the fact that the returns (in gold) from the sales in foreign markets have increased to a very considerable extent measured in terms of pesos, whereas at the same time their fixed charges - taxes, wages, etc - in Mexico have remained the same or decreased. It is this fact which has prevented Mexico's exports from falling

off more than they have in the face of disorganized world markets for most of the products which the country has to sell.

The Man in the Street

How the man in the street has been affected by the condition prevailing since July 1931, is very difficult to say and depends somewhat in which street the man in question happens to be living. If he is living in the street of a little rural community where about 75% of Mexico lives, he probably hasn't been affected much in one way or the other. In such streets the wants of the inhabitants are few and simple and the traditional prices of the few articles which have to be bought are slow to vary. On the other hand, if the man happens to live on a street in Mexico City or one of the other larger urban centers he has probably lost more than he has gained; for his initial gains derived from being able to pay his previously contracted gold debts in silver have been offset by the rise in prices. Many things (imported) are now out of his reach altogether and others are costing more than they did. Just how much to cost of living has risen in Mexico since July 1931, it is impossible to state due to the lack of statistics in this field, but that prices in general have risen there seems to be no doubt.⁵² At the same time wages and salaries have at most held their own or, as in the case in a number of industries, have been cut.

Monetary and Banking Reform and Economic Recovery

The picture of economic conditions which has just been sketched in the preceeding pages offers little indeed in support

of the thesis that the monetary and banking reform has been an unqualified success. It may be contended, of course, that is much too early to draw any valid conclusions about the experiment which the Government is making and that as soon as the new system really begins to function properly conditions are bound to improve. This may be true. Certainly it is possible to point out that a number of more or less extraneous factors have been at work in the general economic complex in Mexico to distort the picture which might have been presented had, as the economists say, "other things remained equal." Each of these various complicating factors mitigating against the results which it was hoped the monetary and banking reform would produce, will be briefly considered in the following pages.

Federal Budget and Taxes

The state of the public finances in Mexico, as already indicated in this study (p. 19), have been far from satisfactory. Not only has the budget never been balanced during the post-revolutionary period in the sense of making adequate provision for all government obligations, but public revenues have been steadily declining and in a number of years the Government has fallen short of maintaining even a quasi-balance in the sense of keeping its current expenditures within the limits of its current receipts. From 1925 to 1931, the Federal reserves decreased from 318.9 million pesos to 224.6 million pesos, a decrease of almost 30%.

Beginning with December 1930 when it was revealed that actual receipts were 22.4 million pesos less than the estimated revenues for the year (293.2 million pesos) conditions began to

grow steadily worse. Although the estimated income for 1931 was reduced by 29.5 million pesos over the estimate for 1930, by the middle of 1931 receipts had fallen so far behind estimated income that the Government was threatened with a deficit of 80 million pesos. In a frantic effort to make up part of this deficit, a few days after the enactment of the Monetary Law of July 25, the Government dealt another body blow to the economic life of the country by slapping an extraordinary tax of 1% on the preceding year's gross income of all commercial, industrial and agricultural establishments and a tax of 2% for the remaining months of the current year on certain other types of income. Figures are not available to show whether this extra burden on business achieved its purpose or not. In any case, the year closed with a nominal deficit in the Federal budget of some 39.1 million pesos and with business houses under the burden of the new taxes (especially those engaged in the distribution and sale of imported products) closing right and left, or at the most hanging on by the skin of their teeth.

Conditions with reference to public finances have shown no tendency to improve in 1932. Although the total estimated receipts for 1932 were only 222.5 million pesos (41.3 million less than in 1931), for the first four months of the year income was 17.3 million pesos less than estimated revenue. What this may portend in the way of additional tax burdens remains to be seen. What may be seen at the present time, however, is that the generally unsatisfactory state of the public finances and the imposition of extraordinary taxes has been one of the most important factors in undermining public confidence and making it difficult

for the monetary and banking reforms to achieve the ends for which they were designed.

Expropriation Laws

Another large monkey-wrench was thrown into the machinery set up by the new financial laws in Mexico by the Governors of several of the Mexican states (Hidalgo, Vera Cruz and Michoacán) when those estimable gentlemen in the spring of 1932 signed what have come to be known as the expropriation laws. The Hidalgo law, for example, provides that whenever the welfare of the public or of the workers is threatened, the Governor is empowered to expropriate any business, industry or plantation by the simple process of paying down 4% of the declared capital and the balance over a period of 20 years. At the end of a year, however, if the enterprise proves to be unprofitable, it may be returned to the original owners with a 4% refund but no payment for the trial period.

No argument is needed to show, as no less a person than the Minister of the Treasury has pointed out,⁵⁴ that the effect of these laws on an unstable economic situation was about as bad as could well be imagined. Business operations in the states in question as well as in other states were further curtailed. There was a rush to convert pesos into dollars with the inevitable result that the peso dropped in value. Banks sought to call in their loans and in general business received another set-back.

Speculation

A factor which is constantly operating in Mexico to upset the best laid plans of the Government's financial experts is the incessant constant speculation on the part of the general public, and to some

extent on the part of the banks, in foreign exchange, notably the dollar. Due to the fact that the money market is not organized and to the fact that the market is for all practical purposes limited to Mexico City, operations with even limited amounts of money produce effects all out of proportion to the amount of money involved. It is generally stated that with even as little as fifty thousand dollars it is possible at any time to run exchange rates up or down, by selling or buying pesos, as much as ten points in a single day. Obviously, the state of affairs greatly accentuates the instability of the peso and serves to embarrass banking, credit and business operations of all types.

Antiquated Banking and Commercial Practices

Perhaps the most serious obstacle in the way of the successful working of the new methods and procedures which have been introduced into the financial system is the stubborn persistence in Mexico of traditional banking and commercial practices and the general ignorance (or disregard) on the part of the public of what constitutes a legitimate business operation. The President of one Mexican bank has stated the matter as follows: 55

"It is the general public which must bear the greatest responsibility for our vicious practices in banking, for without exaggeration I can assure you that there is not a single individual who presents himself to a bank seeking a loan or some other banking service who does not think solely in terms of the necessity which has brought him to the bank. He never gives the remotest thought to whether or not it is within the legal possibilities of the institution to satisfy his request, or to whether or not he can

offer the proper security, or whether or not he will be able to meet the obligation which he proposes to assume..."

In many ways the banking system which has recently been introduced in Mexico is of the most modern and up-to-date type, but all of this will be of no avail if the rest of the economic system does not fall into line. At the present time, according to the Mexican economists, Sr. Sánchez de Tagle and Sr. Espinosa de los Monteros, Mexico ⁵⁶ "is absolutely lacking in technical and commercial organization. We need markets; there is not a single market in the whole country except one badly organized stock market where the amount of business transacted is so small as to be scarcely worth mentioning. We need produce exchanges where it is possible to obtain rationally established prices. We do not have negotiable paper because our commerce is characterized by vicious practices which impede the development of credit. Our financial procedures are equally defective and primitive... In a word, ... our business system is mired down in customs outmoded a hundred years ago."

As long as this state of affairs continues to exist, as long as Mexican business men adopt the attitude that their notes should not be disposed of by persons with whom the original credit obligation is contracted because they "do not wish to suffer the ignominy of having their signature passed from hand to hand", ⁵⁷ it is obvious that Mexico will encounter the greatest difficulty in building up a system of credit founded on the principle of negotiable paper and rediscount operations.

Intelligent Direction and Control

It is stating a truism to say that the success of a "man-

aged system" of currency and credit will depend in very large part on the efficiency and good sense with which the system is managed. So far as the present writer is able to judge, the legal framework in the field of money and banking which Mexico has recently erected compares very favorably with that of any other nation. But it must be remembered that this is nothing more than the structure setting the limits within which banking and credit operations may be transacted; what actually takes place within these limits will inevitably depend upon the wisdom and sincerity of those placed in positions of responsibility. Shall the Bank of Mexico expand or restrict the number of silver pesos in circulation? raise or lower the rediscount rate? increase or decrease the bank reserves? By the answers given from time to time to these and other similar questions the new system must inevitably stand or fall. But to give wise and statesmanlike answers to these questions requires something more than good laws and good intentions: it requires intelligence based upon accurate factual knowledge of the internal economic conditions and the external economic relations of the whole country.

The sad truth at the present time is that knowledge of the type just referred to is unobtainable in Mexico for the simple reason that there are no adequate agencies, government or private, dedicated to the study of prices, wages, the international balance of payments, production - and the whole host of other economic and social problems upon an understanding of which successful banking practice must inevitably be based. Even the simplest types of banking statistics are often difficult if not impossible to obtain. The present writer, for example, spent something over a week trying to find the statistics on exchange rates used in making the two

charts in this study - and in the end had to be content with patching together figures obtained from a number of different sources.

No, ^{the} regrettable fact - and a fact which undoubtedly explains some of the difficulties which have been encountered in putting the new monetary and banking laws into operation - is that in economic matters Mexican authorities at the present time must perforce work in the dark, or at best with only a vague and shadowy apprehension of the forces with which they are called upon to deal. 58

Prospects of Economic Recovery

It is possible to argue with a very good show of reason that, when all is said and done, monetary and banking laws, however well they may be framed, are simply "permissive means" in the economic life of a country and not "impelling motives". Even a bad legal system of finance will work if conditions are prosperous. The final question, according to this logic, is then: what are the chances for economic recovery and a return of prosperity to Mexico?

To give an adequate and well documented answer to this question would require nothing less than a complete analysis of the whole social, political and economic complex which is Mexico. Such an undertaking cannot be attempted in the limits of this monograph.

This much may be said, however: prosperity in Mexico means increased production and increased exports of such raw materials as oil and minerals and such agricultural products as henequen, bananas, coffee, cotton, fresh vegetables, cattle, etc.; increased production and exports partly depend upon the prices offered in the world market and partly upon new capital investment;

new capital investment whether in old industries (i.e. oil and mining) or new industries (e.g. the tourist trade or the development of new tropical products) in very large part turns upon the restoration of public confidence both within and without the country; and, finally, public confidence is based upon political stability and economic certainty.

Or, to put the matter in the words of the preamble to
 the Monetary Law of July 25, 1931:⁵⁹

"Not all things should be expected from a monetary reform. The lack of balance in our imports and exports will be permanently remedied whenever, as the result of better economic conditions, our exportable commodities will find ready markets and reasonable prices; and whenever the new forms of political and economic organization which have been in the process of creation for the last twenty years in our country are stabilized, thereby strengthening and developing domestic production, increasing the public wealth, and making possible a better and more equitable distribution of that wealth. Also when [this new stability is achieved] the emigration of capital will cease and give place to a contrary movement of immigration...

"The monetary reform and in general all similar financial reforms, important as they are ... will be absolutely fruitless if they are not accompanied by a serious and resolute effort to achieve true political and economic stability in the country, in such fashion as to restore public confidence; and to maintain in equilibrium an organization based on a just distribution of the burdens and the profits of our national economy."

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NOTES AND
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16. Source confidential.
17. Espinosa de los Monteros, Antonio - op.cit., pp. 21-25.
18. Monetary Law of the Mexican States, op. cit., pp. 23-24
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28. El Excelsior, January 1, 1931.
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32. See also: Espinosa de los Monteros, Antonio - Nuestra Moneda, El Economista, Jan. 16, 1931, p. 8.
33. Monetary Law of the United Mexican States, op.cit., p. 31.
34. Diario Oficial, March 10, 1932.
35. El Universal, March 10, 1932.
36. El Excelsior, April 12, 1932.
37. Monetary Law of the United Mexican States, op.cit., p. 36
38. Diario Oficial, April 12, 1932.

39. El Excelsior, April 12, 1932.
40. El Excelsior, May 20, 1932.
41. Diario Oficial, June 29, 1932.
42. Ibid
43. Statement by the Minister of the Treasury, El Universal, June 28, 1932.
44. El Economista, December 16, 1931, p. 17.
45. El Excelsior, March 29, 1932.
46. El Excelsior, March 28, 1932.
47. El Universal, June 26, 1932.
48. El Economista, June 16, 1932, p. 8.
49. Statement of the Minister of the Treasury, El Universal, March 10, 1932.
50. Boletín Financiero y Minero, August 10, 1931.
51. El Economista, July 1, 1932, p. 24.
52. El Economista, June 1932, p. 7; also, Morelos Zaragoza, Ignacio - Los Peligros de la Moneda Baja, El Excelsior, June 24, 1932.
53. For all figures on public finance see the monthly Boletín de Informaciones, Secretaría de Hacienda y Crédito Público.
54. Statement in El Universal, June 28, 1932.
55. Manero, Antonio - Nuestras Viciosas Practicas Bancarias, El Economista, March 16, 1931, p. 8.
56. Sanchez de Tagle, Miguel and Espinosa de los Monteros, Antonio - La Reforma Monetaria, El Universal, Aug. 14, 1931.
57. El Economista, April 1, 1932, p. 7.
58. See: El Economista, June 16, 1932, p. 8; and Espinosa de los Monteros, Antonio - Control de la Circulación Monetaria, El Economista, May 16, 1932, p. 8.
59. Monetary Law of the United Mexican States, op. cit. p.49-50.

STATISTICAL APPENDIX

CHART 1

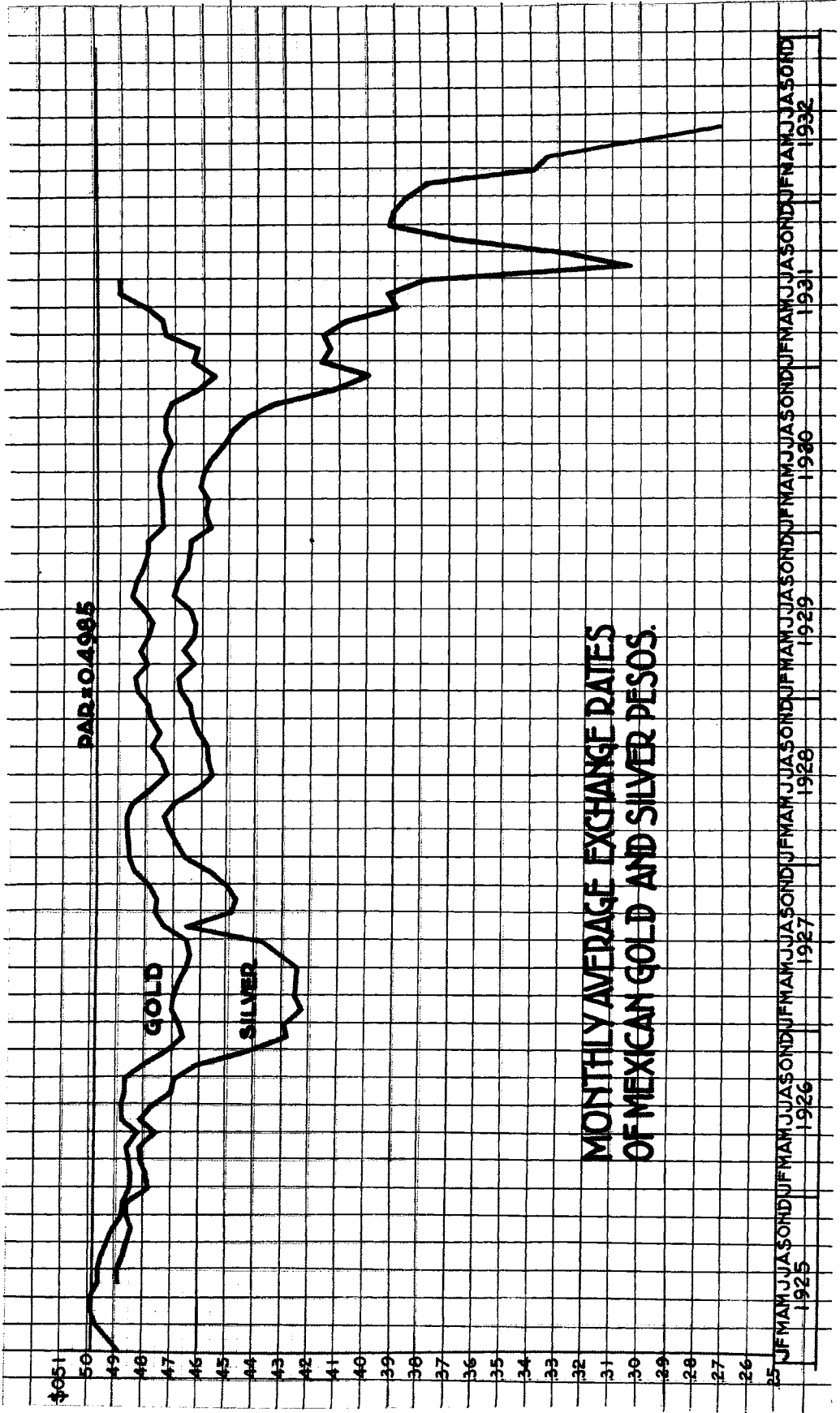


TABLE 1

MONTHLY AVERAGE EXCHANGE RATES OF THE MEXICAN
PESO QUOTED IN UNITED STATES DOLLARS 1925-1932 (1)

| | <u>1925</u> | <u>1926</u> | <u>1927</u> | <u>1928</u> | <u>1929</u> | <u>1930</u> | <u>1931</u> | <u>1932</u> |
|--------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Jan. | \$0.4888 | \$0.4850 | \$0.4685 | \$0.4869 | \$0.4837 | \$0.4744 | \$0.4636 | \$0.5933 |
| Feb. | .4927 | .4850 | .4707 | .4867 | .4846 | .4748 | .4620 | .3787 |
| March | .4974 | .4856 | .4701 | .4874 | .4805 | .4749 | .4735 | .5368 |
| April | .4987 | .4866 | .4687 | .4874 | .4824 | .4754 | .4748 | .5337 |
| May | .4990 | .4828 | .4659 | .4856 | .4797 | .4754 | .4802 | .5025 |
| June | .4966 | .4885 | .4642 | .4783 | .4785 | .4741 | .4903 | |
| July | .4968 | .4887 | .4654 | .4729 | .4809 | .4713 | .4901 | |
| August | .4958 | .4878 | .4739 | .4749 | .4857 | .4734 | .3003(2) | |
| Sept. | .4935 | .4873 | .4772 | .4785 | .4843 | .4737 | .5341 | |
| Oct. | .4917 | .4805 | .4767 | .4757 | .4816 | .4717 | .5659 | |
| Nov. | .4879 | .4720 | .4791 | .4789 | .4801 | .4610 | .5914 | |
| Dec. | .4875 | .4667 | .4845 | .4798 | .4801 | .4555 | .5901 | |

1 Reports of the U.S. Federal Reserve bank. Statistics based on the monthly averages of daily quotations of noon buying rates for cable transfers to New York.

2 Quotations up to July 1931 are for gold pesos; after that they are for silver pesos.

TABLE 2

MONTHLY AVERAGE EXCHANGE RATES OF THE MEXICAN SILVER PESO
QUOTED IN U.S. DOLLARS 1925-1932 (1)

| | <u>1925</u> | <u>1926</u> | <u>1927</u> | <u>1928</u> | <u>1929</u> | <u>1930</u> | <u>1931</u> | <u>1932</u> |
|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Jan. | \$0. | \$0.4783 | \$0.4297 | \$0.4663 | \$0.4682 | \$0.4575 | \$0.4164 | \$0.3858 |
| Feb. | (2) | .4795 | .4235 | .4695 | .4688 | .4591 | .4131 | .3782 |
| Mar. | (2) | .4813 | .4258 | .4724 | .4630 | .4586 | .4155 | .3387 |
| Apr. | (2) | .4821 | .4258 | .4740 | .4671 | .4604 | .4074 | .3339 |
| May | (2) | .4762 | .4251 | .4701 | .4630 | .4597 | .3896 | .3029 |
| June | .4894 | .4819 | .4318 | .4611 | .4628 | .4568 | .3926 | .2702 |
| July | .4897 | .4774 | .4386 | .4565 | .4647 | .4526 | .3788 | |
| Aug. | .4878 | .4702 | .4662 | .4580 | .4705 | .4493 | .3033 | |
| Sept. | .4863 | .4692 | .4493 | .4580 | .4692 | .4437 | .3272 | |
| Oct. | .4851 | .4612 | .4478 | .4613 | .4658 | .4327 | .3674 | |
| Nov. | .4865 | .4432 | .4512 | .4638 | .4650 | .4117 | .3917 | |
| Dec. | .4866 | .4287 | .4572 | .4646 | .4646 | .3995 | .3901 | |

1 Figures supplied by the Banco de México and represent the monthly averages of the daily buying and selling rates of that bank.

2 No data available.

TABLE 3
PERCENTAGE OF DISCOUNT OF THE MEXICAN SILVER PESO FROM
THE MEXICAN GOLD PESO
MONTHLY AVERAGES 1925-1932 (1)

| | <u>1925</u> | <u>1926</u> | <u>1927</u> | <u>1928</u> | <u>1929</u> | <u>1930</u> | <u>1931</u> | <u>1932</u> |
|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Jan. | 0.75 | 1.55 | 9.82(2) | 4.73 | 3.69 | 3.86 | 11.32 | 25.82 |
| Feb. | 0.77 | 1.46 | 11.61(2) | 3.94 | 3.64 | 3.71 | 12.17 | 30.32 |
| Mar. | 1.73 | 1.17 | 10.00(2) | 3.34 | 4.11 | 3.71 | 13.99 | 44.10 |
| April | 1.09 | 1.17 | 10.63(2) | 3.07 | 3.46 | 3.50 | 17.07 | 47.70 |
| May | 1.52 | 1.49 | 10.15(2) | 3.31 | 3.69 | 3.63 | 24.62 | |
| June | 1.35 | 1.95 | 7.26 | 3.48 | 3.63 | 3.96 | 26.00(3) | |
| July | 1.65 | 2.72 | 6.37 | 3.64 | 3.65 | 4.30 | 26.00(3) | |
| Aug. | 1.87 | 4.04 | 5.92 | 3.99 | 3.43 | 5.25 | 62.60 | |
| Sept. | 1.01 | 4.03 | 6.40 | 3.68 | 3.49 | 7.14 | 47.31 | |
| Oct. | 1.48 | 4.37 | 6.86 | 3.62 | 3.60 | 8.97 | 37.26 | |
| Nov. | 1.51 | 6.18 | 7.00 | 3.69 | 3.65 | 12.00 | 25.77 | |
| Dec. | 1.56 | 8.95(2) | 6.25 | 3.68 | 3.63 | 13.96 | 26.07 | |

1 Figures supplied by Banco de México and represent the monthly averages of the daily selling and buying rates of that bank.

2 Selling rates only.

3 This was an official rate agreed upon by the banks; the actual rates in these months in the open market were considerably higher, i.e. according to the figures of the Comisión Bancaria 31.14 for June and 54.00 for July.

TABLE 4

1
MEXICAN FOREIGN TRADE
 (000's of Pesos)

| <u>Year</u> | <u>Imports</u> | <u>Exports</u> | <u>Balance in favor Mexico</u> |
|-------------|----------------|----------------|--------------------------------|
| 1920 | 396,682 | 855,094 | 458,412 |
| 1921 | 493,162 | 756,824 | 263,662 |
| 1922 | 308,500 | 643,550 | 335,050 |
| 1923 | 315,109 | 568,471 | 253,363 |
| 1924 | 321,318 | 614,713 | 293,395 |
| 1925 | 390,996 | 682,170 | 291,174 |
| 1926 | 381,264 | 691,754 | 310,490 |
| 1927 | 346,387 | 627,485 | 281,098 |
| 1928 | 357,762 | 592,444 | 234,682 |
| 1929 | 382,843 | 590,633 | 207,790 |
| 1930 | 350,178 (2) | 458,674 (2) | 107,496 (2) |
| 1931 | 216,585 | 399,711 | 183.126 |

1 Annual publications of the "Departamento de Estadística Nacional".

2 Five year average 1926-30 was: imports 363,686; exports 592,198; balance in favor of Mexico 228,311.

TABLE 5CLEARING HOUSE FIGURES MEXICO CITY 1930-32¹

(000's of Pesos)

| | <u>1930(2)</u> | <u>1931(3)</u> | <u>1932(3)</u> |
|-------|----------------|----------------|----------------|
| Jan. | 91,529 | 85,836 | 42,945 |
| Feb. | 80,791 | 79,400 | 44,135 |
| March | 100,011 | 85,588 | 48,597 |
| April | 81,573 | 64,223 | 46,114 |
| May | 84,242 | 62,701 | 48,918 |
| June | 79,677 | 51,951 | |
| July | 89,547 | 65,227 | |
| Aug. | 83,074 | 44,058 | |
| Sept. | 84,000 | 43,296 | |
| Oct. | 88,489 | 45,034 | |
| Nov. | 84,929 | 35,252 | |
| Dec. | 80,971 | 37,491 | |

¹ Boletín Estadística de la Comisión Nacional Bancaria. Statistics cover all important banks in Mexico City except the Banco de México.

² Total movement of gold and silver checks.

³ Total movement of gold and silver checks January to July; August to December and for 1932 silver checks only, because of withdrawal of gold from circulation by Monetary Law of July 1931.

TABLE 6BANK DEPOSITS, LOANS AND DISCOUNTS 1931-1932¹

(000's of Pesos)

| | <u>1931</u> | | <u>1932</u> | |
|--------|---|--|---|--|
| | Sight Deposits or not more than 30 days | Ordinary Loans & Discounts & Loans Against Collateral | Sight Deposits or not more than 30 days | Ordinary Loans & Discounts & Loans Against Collateral |
| Jan. | 174,354 | 168,451 | 93,516 | 90,222 |
| Feb. | 169,375 | 163,937 | 99,792 | 81,510 |
| March | 162,975 | 169,268 | 105,620 | 90,157 |
| April | 161,559 | 160,878 | | |
| May | 144,844 | 160,755 | | |
| June | 142,959 | 152,989 | | |
| July | 115,245 | 141,614 | | |
| August | 95,976 | 126,475 | | |
| Sept. | 95,201 | 123,591 | | |
| Oct. | 90,076 | 112,404 | | |
| Nov. | 91,795 | 100,487 | | |
| Dec. | 95,157 | 96,913 | | |

¹

Quarterly reports: Boletín Estadística de la Comisión
Nacional Bancaria.