

The experience of Banamex: French bankers and banking models in Mexico, 1884-1900*

Carlos Marichal
El Colegio de Mexico

While most historical research on the birth of banking in Latin America tends to emphasize the pioneering role of the British overseas banks, French banking influence and models usually get short shrift. In the present essay, which focuses on Mexico, the latter are placed at center stage through a brief case study of the largest bank in the country -*Banco Nacional de México* -during the period 1882 to 1910. It should be noted, however, that this was not the first bank established in Mexico. Another paper in this same session by Paolo Riguzzi focuses on the first commercial bank in Mexico City, the *Bank of London, Mexico and South America* that was set up in 1864 and remained the only institution of its kind in the nation's capital until the early 1880s. At that time a set of new banks were set up, the most important being the *Banco Nacional Mexicano* and the *Banco Mercantil Mexicano*.¹ These two later merged in 1884 to form what would be the largest banking institution, the *Banco Nacional de México* (Banamex), a firm financed heavily by French merchant bankers and investors and built largely on a French banking model, which combined public and private functions.

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¹ For a brief contrast of the late development of banking in Mexico in contrast to Argentina, Brazil, Chile and Peru see Marichal (1986).

Indeed, the Banco Nacional de Mexico (Banamex) cannot be characterized as either a free-standing company, a branch of a European bank or as a domestic bank. It was something different and, in fact, its originality was largely due to the influence of the French financiers who were so important to the firm. In this regard we wish to underline that the combination of public and private financial transactions carried on by the Banco Nacional de México reflected an experiment in what might be classified as a prevalent French model in overseas banking in the 1880s which became quite common in various countries in different world regions for some time.²

The model of many of these French-promoted banks in the 1880s was in part that of the Banque de France, but with numerous modifications. The idea was basically to promote the establishment of banks which would operate in a given country both as government bank and as commercial bank with regional branches.³ It may be recalled that there were several other banks promoted by French investment bankers in diverse countries during the 1880s and 1890s that displayed similar features to the organizational model of the Banco Nacional de Mexico, combining heavy participation in public finance with an extensive commercial business. Important parallel examples were the Banque Imperiale Ottomane, the Banco Nacional Brasileiro, the Banco FrancoEgyptienne, the Banque Russo-Asiatique, the Banque d'Indochine, the Banque Nationale de

² However, it should be noted that from 1900 to 1914, other French banking models became important, including numerous types of investment banks, mortgage banks and commercial banks which were not so linked to government finance nor based on the Banque de France model.

³ That this was not a new idea can be found in the early proposals for the formation of the Banque Imperiale Ottomane: as early as 1856 the Pereires and the their financial allies argued that their proposed bank to be set up in Istanbul (Constantinople) “doit réunir les caractères et les attributions de la Banque de France, du Comptior d’escompte et de la Socityté générale de credit mobilier.” Clay (200), p.32.

Bolivie and the Banque Nationale d'Haiti.⁴ This French-inspired banking model was quite distinct from both that of the British overseas banks, which were already in operation from the 1860s, or of the German system of commercial banks with international branches established in the late 19th century.

According to the recent comparative study by Stefano Battilosi on multinational banking in this first age of financial globalization, French *commercial banks* were less effective than their rivals in establishing branches abroad and in promoting trade finance than their rivals:

On the contrary, French banks seemed to lack a comparable dynamism and initiative, especially overseas. Their attitude was explicitly blamed as responsible for the stagnation of French international trade, *to the point that it* used to raise severe criticism among contemporary observers and politicians...

This traditional argument has been reiterated by well known French economic historians such as Hubert Bonin in his work on the history of French banks as well Albert Broder in his studies of French commercial banks in Latin America in the second half of the nineteenth century.⁵

In the present paper we argue that such a view does not take into account sufficiently the case of the French *investment banks* for whom internationalization was a strategic choice which they advanced quite effectively by investing heavily in a special brand of quasi-governmental banks that were

⁴ On the Imperial Ottoman Bank see Thobie (1997) and Clay (1990). On the Banque Nationale d' Haiti and Banco Nacional de Santo Domingo see the essay in this conference by Guy Pierre. In our research on Latin American government loans issued by Paribas we have found interesting materials on the key role of French bankers and Noetzelin as major stockholders of the Banco Nacional Brasileiro in 1900-1902 in the Paribas historical archives 11/Docofom.221/221. For additional comments on the French influence in Mexican banking see Marichal (2004).

⁵ See Broder (2006).

established in numerous nations, especially in the Mideast and Latin America. In this sense, the Mexican case is paradigmatic.

The second objective of this essay is to emphasize the mix of domestic and foreign investors that came together to create Banamex, the largest bank in Mexico in this period. We summarise recent research on the subject which demonstrates the cosmopolitan mix of capitals, at the same time that we emphasize how local merchant bankers quite soon took control over most domestic operations of the firm. Numerous historical interpretations of the globalization of banking in the late 19th century tend to put the emphasis on the role of European investors in overseas banks and to the special role of the role of free-standing European banking firms, particularly of the British overseas banks. It is our argument here that more attention should be directed to the association of domestic and foreign capital in a great number of banking enterprises in Latin America and, more particularly in Mexico.

A third purpose of this paper is to argue that the strategic role of the Banco Nacional de Mexico as *banker to the government* contributed to the financial modernization of the Mexican state. In other words, we suggest that - contrary to interpretations which place the emphasis on the government and the political elite in promoting modernization- the inverse argument may be made, namely that it was the private bankers that offered new models and methods of improving the management of public finance. The introduction of new banking technology, accounting methods and organization contributed to the transformation and strengthening of a traditionally weak public finance sector by helping the

government to restructure its own finance, including better management of tax revenues and of the public debt (internal and external).

Finally, the fourth argument advanced in this paper is that while the Banco Nacional de Mexico was the major banker to the government up to 1914, it was not a modern central bank. Nonetheless, we also claim that this bank fulfilled a number of the key functions that central banks are expected to exercise. We conclude with a brief and critical review of important aspects of recent research on Mexican financial history with regards to the role of the Banamex as well as the operation of the Mexican banking system prior to the outbreak of the Mexican revolution in 1910.

French financial interests, Eduoard Noetzlin and the origins of the Banco Nacional de Mexico

For European bankers and investors the establishment of the imperial government in Mexico headed by the Austrian archduke Maximilian (1863-1867) appeared to offer a singular opportunity to expand their interests in a country which had great mining riches but that had been ravaged by political instability and war since independence. The occupation of the port of Veracruz by British, French and Spanish naval forces in 1862 was followed by the invasion and occupation of the entire country by an army of over thirty thousand troops sent by Napoleon III. The incentives to invasion were considerable: Mexico was the greatest silver exporter in the world and could become a rich French colony, or so thought the French emperor who was bent on establishing an empire in the Americas. Moreover, after 1860, Napoleon III anticipated little

external military resistance to his grandiose plans because of the fact that the United States was submerged in civil war (1861-1865).

During the brief imperial regime of Maximilian a variety of competing French financial groups promoted schemes for the establishment of a national bank in Mexico.⁶ None of these, however, came to fruition, as the bankers haggled with Maximilian and his ministers over the concessions which they wished to obtain, each group pressing for a monopoly of banknote issue and a major share of government financial operations. Meanwhile, a less prominent and more modest proposal by a group of British investors led to the establishment of the first commercial bank in Mexico, the Bank of London and Mexico, established in 1864, which (as we have already noted) remained the sole commercial bank in the country for many years.

After the fall of the Empire of Maximilian in 1867, the new Mexican government led by president Benito Juárez declared an indefinite moratorium on foreign debts, and in particular on the *imperial* loans of 1864/65 which had served to cover the expenses of the occupation of Mexico by French troops and were considered spurious as having an explicitly colonial and exploitative character. As a result of the new suspension of payments on foreign debts, European investors remained extremely wary during the 1870s of any proposals by the Mexican government to invest more money in private enterprises or in

⁶ The first bank proposal was made by a syndicate of Parisian banks- Salomon Heine, Crédit Mobilier, Oppenheim et Cie, Fould et Cie., and several British financiers. The second was advanced by another Anglo/French consortium headed by the Société Internatinal Financiere and Glyn Mills. The third was promoted by members of the haute banque, Heine, Mallet, Hottinguer, Fould, as well the firm of Finlay,Hodgson of London. Finally, the fourth was promoted by the French branch of the Rothschilds. For details see Gille (1965) and particularly Ludlow (1997).

prospective loans. Nonetheless, by the early 1880s this situation began to change. This was a result, in the first place of the reestablishment of diplomatic relations between France and Great Britain and Mexico as of 1880, although the Paris Stock Exchange remained closed to new issues of Mexican government bonds.⁷

The creation of a new bank in Mexico closely linked to the government was, in fact, largely the result of the extraordinary activities of the Swiss/French banker, Edouard Noetzlin, a financier based in Paris with excellent connections to all European money markets.⁸ The proposal was of great interest to the Mexican government since it also appeared to offer perspectives for the restructuring of the Mexican debt, which was held in London, Amsterdam and Paris. In a recent study by Noel Maurer on the early history of Banamex, the author argues that it was the Mexican government which took the initiative. Maurer argues: "Mexico's weak federal government desperately needed resources in the 1880s. Therefore, in 1881, it created a bank." Such an interpretation, however, would seem unilateral and - as history often demonstrates - it is necessary to keep in mind the bilateral and multilateral forces at work. In this case, while Mexican politicians undoubtedly were considering the proposal of a national bank, it was the European bankers who designed the new firm and obtained the capital for it.

In the early 1880s Noetzlin was director of the *Banque Franco/Egyptienne* (a firm controlled by a cosmopolitan combination of merchant bankers), a position which allowed him to develop close ties with many leading, private financiers and

⁷ See Steven C. Topik (1993).

⁸ I wish to thank Peter Hertner for informative notes he provided on Noetzlin's career. The role of Noetzlin in Mexico in the early 1880s is briefly discussed in Ludlow and Marichal (1986), pp. 304-310.

investors throughout Europe and the United States.⁹ In relatively short order, in the years 1881 and 1882 Noetzlin was able to mobilize a singular alliance of European and Mexican investors and financiers to promote what would become the largest commercial bank in Mexico, which- in addition- would be granted a major role in the administration of the finances of the federal government. However, the European banker found that final approval by the Mexican government was more difficult than anticipated and could only be overcome by recourse to expensive bribes which were paid to the Mexican generals who played key political roles.¹⁰ Finally, in November 1881, the legislature approved the contract and in early December the new firm was registered in Paris as well as Mexico. The banking enterprise was launched with a majority of European capital (French, British and German financiers were heavily involved) while a minority of shares taken by merchants established in Mexico City and other cities throughout the republic

From the moment Noetzlin began negotiations with Mexican government representatives for the establishment of the Banco Nacional, one of his principal objectives consisted in obtaining concessions over public finance and over the issue of banknotes that would guarantee its future power and profitability. As a result, the Mexican government established a privileged relationship with the bank from its very inception. The latter opened a regular account for the Ministry of Finances which allowed the treasury to draw for large sums on the bank. In exchange, the bank was to take charge of the accounts of the national customs

⁹ For details on the Franco Egyptienne stockholders see Saul (1997), pp.43-50.

¹⁰ See details of the incredible negotiations of Noetzlin with the Mexican generals in the fascinating text by T. Passananti (2001), chapter 1. Passananti- who has worked the banking archives in Mexico and Europe- great detail is very clear on the key role of Noetzlin as the real founder of Banco Nacional Mexicano.

houses, including the sale of traditional customs certificates as well as of the accounts of the Stamp Tax offices in the nation's capital. In effect, the Banco Nacional thus became the government banker, and, in principle, only its bills were to be accepted at the fiscal offices.¹¹

A special feature which should be noted was the timing of the French-led investment in Mexican banking which took place before the crash of the Paris Bourse in 1882. A specific feature which needs to be explored is the specific strategy of the Banque Franco-Egyptienne, the leading actor at the start of this Mexican financial venture. The Franco-Egyptienne had been forced to restructure much of its extensive transactions as a result of the various financial crises in Egypt from the mid 1870s. As a result, this investment bank began to liquidate much business in Egypt and began rather to provide loans to the Turkish government (Ottoman Empire), loans in 1875 to the new Conservative government in Spain and a loan to the Cuban treasury in 1878.¹² These business operations indicated the interests of the Bischoffsheims and their investor allies (in the Franco Eguptienne) in government financial operations overseas because of their high profitability (and, inevitably, high risks). This powerful banking family and its many associates had fairly abundant resources available in 1880 as a result of the liquidation of investments in American railroads and this coincided with a moment of boom on the Paris stock exchange, which made it feasible to think about issuing new business.

¹¹ For details see Ludlow (1986).

¹² On the Cuban loan see Roldán de Montaud (2006).

But undoubtedly the key man in the establishment of the Banco Nacional Mexicano in 1881/82 was Noetzlin, manager of the Franco Egyptienne, who used his position and networks to form syndicates of merchant bankers across Europe to promote profitable ventures abroad, especially those linked to government loans and public works. Noetzlin would later become director of the Banque de Paris et Pays Bas and continued his active role in promoting new banking ventures on a world scale. His role in the case of Mexico has been documented in depth in the doctoral thesis of Thomas Passananti, a work which merits publication because of the extraordinary research of banking correspondence in both the Banamex historical archive and a variety of European banking archives. In addition, a review of the activities of Noetzlin in other international banking ventures at the turn of century can prove equally instructive, as is illustrated by the careful research of René Girault on Russia, particularly with regard to Noetzlin's role in the Banque Internationale de Saint Petersburg and later the Banque Russo-Asiatique, but also in many other banking firms.¹³

A quite ordinary custom: the alliance of domestic and foreign capital in banking ventures in Mexico

Our second objective in this brief essay is to suggest that the cosmopolitan mix of individuals and capitals – domestic and foreign- which led to the formation of the largest banking institution in Mexico was not exceptional.

¹³ On French investments and loans to Russia,- including much reference to the Noetzlin correspondence- see the extraordinary work by Girault (1999), *passim*; Bussiere (1992), pp. 46-51, provides information on other international ventures in which Noetzlin was involved, including the establishment of the Banca Commerciale Italiana at the end of the century.

The cosmopolitan nature of the stockowners of this financial *joint-venture* merits attention as it established a pattern of association between domestic and foreign capital which was to play a major role in numerous Mexican banking, commercial and industrial companies in the period under review.¹⁴

Among the largest stockholders of the newly-founded Banco Nacional Mexicano in late 1881 were several Parisian-based banks which held 26% of total capital, including the Banque Franco-Egyptienne with 16,500 shares and the Société Générale de Crédit Industrielle et Commerciale with 3,000 shares. Among individual French investors there were numerous important financial figures, including Frédéric Grueninger (2,000 shares) of the Comptoir d'Escompte, as well as the financiers Ernest May (1,425 shares) and Edouard Noetzelin, himself, (2,000). Several leading figures from the Banque de Paris et Pays Bas also invested including Henri Bamberger (200) and Antoine Joubert (500), as did the private banking firms of Seligman Frères et Cie. (500), and M.C. Sulzbach et Cie (250). This information, I should add, is derived from an excellent research article by Leonor Ludlow on the early stockholders of the Mexican bank.¹⁵

A significant investment was also made by several individuals and firms engaged in the financial syndicate behind the Panama Canal Company which had been recently launched (1880). These included the firm of Lévy Cremieux who bought 2,500 shares of the Banco Nacional Mexicano, Drexel, Harjes (200), the

¹⁴ For a review of the association of Mexican and French capitalists in commercial and industrial firms at the end of the nineteenth century see Pérez Siller (2004).

¹⁵ Ludlow provides a detailed analysis of the original foreign stockholders of the bank (who took 70% of the original issue) as well as the Mexican stockholders (who bought the remaining 30%). Noetzelin did not limit the promotion to France but also was able to interest British and German financiers. At the same time, the firm of Drexel and Morgan in New York took 1,000 shares. (Ludlow (1990): 1017-1020.

Halphen brothers (550), Camondo et Cie (500) , and the Parisian financial house of Heine (1000). Of the total of 133 French subscribers, 118 were residents of Paris, a fact which reflected the weight of the financial market of the capital and the nature of the networks of the promoters.

But Noetzlin and his colleagues also had connections outside France who similarly bought shares. In London, the famous private banker, Ernest Cassel, bought 200 shares in the Mexican bank and Stern Brothers took 500 shares, whilst investors in Amsterdam, Athens, Constantinople and Alexandria acquired smaller amounts. Rather surprisingly, the Philadelphia/New York firm of Drexel Morgan also picked up 1,000 shares and placed another 1800 among private bankers of both cities.

At the same time, a major effort was made to get Mexican investors directly involved in the new bank. Initially, the Franco Egyptienne bankers put forth a proposal to sell 20% of the stock in the enterprise to local investors, but eventually under pressure from the Mexican Congress, 30% of the shares were offered for sale in Mexico and were soon placed mainly among the financial aristocracy of the capital, including such wealthy individuals as Antonio Mier y Celis (4,000), José Maríá Bermejillo (1,000) the Escandon and Barron families (1,400), the Teresa de Mier family (2,000) and Felix Cuevas (1,000). Significantly the biggest shareholder was the opportunistic Ramón Guzmán, a financier with political skills so valuable that they were crucial for the obtaining of the bank concession by the Mexican generals and government authorities: as a result Noetzlin was forced to award him 6,500 shares for working his contacts !¹⁶ Finally, a considerable number of German origin merchants also invested in the Banco Nacional

¹⁶ Passaananti (2001), chapter 1, explains the role of Guzmán in vivid detail.

Mexicano , led by Gustavo Struck and Esteban Benecke, who would both later play important roles on the bank board.¹⁷

When news of the creation of this new bank began to circulate, a rival group of wealthy merchants of Spanish origin, who controlled much of the wholesale business in Mexico City in textiles, tobacco and food products, decided to create their own competing, financial institution, the *Banco Mercantil Mexicano*. They immediately began to activate their own personal and business networks and, as a result, the capital of the latter bank was subscribed in early 1882 by a total of 305 merchants and entrepreneurs all based in Mexico.¹⁸ According to the careful study of Leonor Ludlow, 156 of the investors were based in Mexico City, 82 in the port city of Veracruz, and smaller numbers scattered in the cities of Puebla, Guanajuato, Zacatecas, Queretaro and San Luis Potosí. The largest shareholders were leading Mexico City merchants, most of Spanish origin, as were many of the merchant firms in provincial capitals. Curiously some of the merchant bankers involved in the rival Banco Nacional Mexicano also bought shares in the Banco Mercantil: among these were José María Bermejillo, Esteban Benecke , the Barron Forbes family and the wealthy Escandons.¹⁹

The two new banks operated independently until 1884 when, as a result of a major fiscal and banking crisis, they merged thereby creating what would become the largest banking enterprise in the nation, the *Banco Nacional de Mexico* (BANAMEX), soon surpassing the *Banco de Londres y Mexico* in virtually all spheres of financial activity. The merger and consolidation of BANAMEX

¹⁷ Ibid.

¹⁸ Ludlow (1990): 1020-1025.

¹⁹ Ludlow (1990), 1021-1025.

reflected the convenience of a close association between foreign and domestic capitalists in a key economic institution and sector, establishing a pattern of transatlantic financial alliances which would later be followed by other banks and non financial enterprises in Mexico.

The association of domestic entrepreneurs and foreign investors suggests that it is worthwhile reconsidering the overly rigid view of much of the literature on foreign investments which projects an image of strict distinctions between foreign and domestic capitals. In the case of the Banamex it is quite clear that local merchants and merchant bankers were perfectly willing to establish firm alliances with international bankers and investors and to work together for decades. Evidently, each benefited from such an association: the local entrepreneurs could organize business locally in accord with their own interests but at the same counted upon the superior financial support and information of their European colleagues. For their part, the international investors relied upon their local allies for superior information on domestic business and politics, allowing for profitable business opportunities of many kinds. It may be noted that this was *also* true in a good number of the British overseas banks set up in Latin America from the 1860s which included local merchants, predominantly British as well as a fair number who were not of British origin.²⁰

It should be noted that subsequent to the crisis of 1884, while European investors retained their stakes in Banamex, they gradually lost control over daily operations. The special public/private character of what would rapidly

²⁰ In the case of the Banco de Londres y México, there was a gradual process of replacement of British stockholders by domestic as well as some French and Spanish investors. For details see Banco de México (1864).

became the nation's largest commercial bank was a fact which led the directors of this private firm to adopt a dual and sometimes contradictory view of the Mexican political economy as they attempted to combine their commercial operations with the more lucrative but riskier government loan transactions. The risks became particularly evident as a result of the crisis of 1884 which led to the aforementioned merger. In this regard, it should be noted that it was the impact of this banking and fiscal crisis (a kind of *internal shock*) which led to a notable process of banking restructuring and to a new role for European investors in the leading banking institution of the country, but at the same time to a loss of their direct control of day-to-day management operations. From 1884 the local board – composed of leading Mexico City merchant bankers – were able to balance public demands for financial support with their private interests.

A review of the bank correspondence between the Mexico City and Paris boards indicates that after 1884 the opinions of Noetzlin and the other foreign-based directors were requested by the Mexican managers only with respect to external financial operations such as the issue of international loans. In those cases the participation of the Paris-based directors was essential as they were charged with placing Mexican external gold bonds on many occasions from 1888 to 1913. But during most of the time, it was the Mexico board which took the key decisions on domestic business, a fact which reflects the advantages bank managers could have over the majority financial owners.

While Noetzlin was somewhat nonplussed to find that the Mexican merchant bankers had taken such quick took control of domestic business without paying overmuch attention to recommendations from Paris. Nonetheless, it is clear that European stockholders were not entirely displeased with this arrangement insofar as BANAMEX was able to post earnings which averaged well over 10% every year from 1884 to 1910, and its stock quotations in Paris tended to rise substantially over time. (See TABLE 1 and GRAPH I.) Not surprisingly, this profitability led various European banks to increase their participation in the capital of this Mexican financial firm, particularly after the turn of the century. In 1903, for instance, the bank documents indicate that the Banque de Paris et Pays Bas (Paribas) had only 975 shares in BANAMEX and the Banco HispanoAmericano of Madrid some 3,566 shares while the remaining shares were held by a large number of European and Mexican investors. On the other hand, by 1911 Paribas had increased its stake to 9,775 shares and the Banco HispanoAmericano to 9,436 shares, making them the single largest stockowners of BANAMEX.²¹

The bankers contribute to modernization of public finance: Banamex and management of the public debt

Inevitably a question which must be addressed to explain the public and private role of Banamex in the takeoff of banking in Mexico after 1884 is whether it was reasonable to believe at the time that private bankers could be good public bankers ? Mexican experience from the 1830s to the 1860s had demonstrated the contrary: during those three decades Mexican government finance had been subject to extraordinary mismanagement and became prey to

²¹ The information on stock ownership can be found in "Cartas de Juntas de París", 1903-1910" in AHBANAMEX.

a broad range of enterprising but unscrupulous merchant bankers. What happened to change this situation?

The explanation is linked to the double impact of gradual consolidation of a formal banking sector in Mexico from the early 1880s. In the first place, the establishment of the Banco Nacional Mexicano and the Banco Mercantil Mexicano in 1882 broadened the local banking market which had previously been limited basically to the Banco de Londres y México and a set of merchant banking firms. As a result of the increased confidence generated by the joint operation of a set of larger and more powerful banking institutions- in which virtually all domestic merchant bankers were involved- the local money market began to stabilize and, as a result, interest rates tended to fall. Characteristically in the 1870s, domestic interest rates had ranged between 12 and 14% for most commercial operations; from 1883 onwards they fell to an average of 6 to 9% in the 1880s. The decline in interest rates on public paper was even more marked.²²

In the second place, the creation of BANAMEX in 1884 represented a major change in Mexican finances as this institution now formally became the government's bank, although it remained privately owned and administered. BANAMEX opened a large account for the finance ministry on which it could draw for a total of 4 million pesos during the year. In exchange, the government allocated 15% of all customs revenues to the bank as well as the income from the National Lottery and the stamp tax, as had been standing practice from 1881. It also was granted a monopoly of banknote issue in the entire republic. This

²² On this subjects see Marichal (1997 and 2002).

monopoly was later broken in 1888 but for decades, the BANAMEX dominated bank note issue in the country. (See TABLE 2 and GRAPH 2.)

In exchange, the bank was expected to provide short-term loans to help cover the annual deficits of the Mexican government, which had great difficulties in setting up a fiscal system which could cover the two largest expenditures of the state in the 1880s: military expenses and the payment of subsidies to railroad companies and other firms engaged in the ambitious set of infrastructure development projects then underway.

From its inception, the predecessor of Banamex, the Banco Nacional Mexicano began providing loans to the federal government but also to various local government entities (the states of Veracruz, Zacatecas, Coahuila).²³ From the beginning of 1883, the federal government began to pressure the Banco Nacional to provide larger loans, including the contracting of a two million peso bond issue. The bank had previously refused to engage its own capital in such large loans, and did so once again, providing only an advance of 150,000 pesos in May. Nonetheless, falling customs revenues forced the Finance Ministry to keep pressing and in November, 1883 the Banco Nacional in conjunction with seven allied merchant houses in Mexico City and the Banque Franco-Egyptienne finally agreed to advance 700,000 silver pesos to the treasury in exchange for one million pesos in customs house certificates.²⁴

²³ The details can be found in the Archivo Histórico Banamex, (AHBAN) Libro de Actas-Acuerdos del Consejo de Administración (1881-1884).

²⁴ The Banque Franco-Egyptienne was still the leading foreign-based stockholder of the Banco Nacional. For the Mexico City merchant financiers concerned in this see "Contrato no.1, "Sindicato "Ordenes del Pacífico"", in AHBANANAMEX, Libro de Contratos Originales de Empréstitos, 1883-1914.

The increasingly difficult financial position of the government, however, could not be resolved merely with one loan. The deficits had already surpassed two million pesos in 1882-83 according to published figures, but were in fact much higher. The large exposure threatened the Banco Nacional with possible bankruptcy if there were a government default. The solution found to these problems lay in the fusion of the Banco Nacional with the Banco Mercantil into one large bank known from then as the Banco Nacional de Mexico (BANAMEX). Edouard Noetzlin, representative of the European stockholders, arrived in Mexico in February, 1884, precisely for the purpose of signing the final agreements for the fusion. He met with president Manuel González who suggested that an official commission be named for this purpose under the auspices and direction of general Porfirio Díaz. Noetzlin, who maintained good relations with Díaz, quickly drafted a draft of the contract for the merger of the two banks, and by May the fusion was ratified.

The merger and creation of BANAMEX in 1884 proved of great importance because it allowed the government to confront the increasingly grave fiscal situation with a marked degree of confidence. In 1885 the fiscal crisis finally broke and the new finance minister, Manuel Dublan took emergency action. On June 22 he declared that the government was faced with a potential deficit of 25 million pesos and announced a suspension of payments on all short-term government debts, a reduction of the salaries of all state employees by 10 to 50%, and the establishment of a new plan to convert the entire internal and

external debt .²⁵ Jointly, these measures constituted a financial revolution, the consequences of which have not been adequately underlined by historians despite their importance for the course of Mexican public finance.

The first and most dramatic measure was suspension of payments on short-term debt which included a huge backlog of credits due to the BANAMEX, to the three leading railway companies and to a wide array of public contractors and local creditors. The prestigious Mexico City newspaper, The Mexican Financier, described the measures as a coup d'etat ("golpe de estado"), suggesting that massive commercial bankruptcy would be the inevitable consequence. In fact, there initially was a bank panic, as long lines of clients of the BANAMEX formed to take their money out of the accounts of a bank which they believed would fail without government support. But the BANAMEX survived, paying out 150,000 pesos in cash in its offices in Puebla and over one million pesos in Mexico City in the course of a few days until, finally, wary depositors became convinced that the institution was solid and would not fall.²⁶

In this instance, it is clear that it was the bank that saved the state and not vice versa. In this sense, it seems advisable to question traditional arguments that put the emphasis on the role of the state in modernizing the economy and to consider to what degree it was modern enterprise (in the shape of banking firms) that helped consolidate the state in the fiscal and financial

²⁵ On paper, the new debt conversion plan reduced commission but was actually not so different from the old González/Noetzlin project; however, new political and economic circumstance changed its impact dramatically.

²⁶ Semana Mercantil, July 6 and 13 1885.

spheres. Despite opposition, therefore, the solidity of the bank contributed to the success of the fiscal/financial reforms of 1885 and laid the groundwork for the debt conversion operations of 1886-1888 as well as a string of foreign loans over the following two decades. In this regard, government policies helped stabilize national finances which had long been subject to extreme fluctuations and which had suffered the longest-lasting debt default in history.

Already in 1884 the Mexican president, Manuel González, had decided to provide Noetzlin with a virtual *carte blanche* and urged him to raise a foreign loan in Europe as soon as possible: he asked the banker arrange a foreign loan for six million pounds which would be accompanied by the conversion of the outstanding foreign debt. The interaction of public and private finances was thus to be not only institutionalized but also internationalized. When Noetzlin returned to Europe in the summer of 1884 he had little difficulty in putting together a financial package which quickly received the support of European bankers and bondholders. According to this plan, the bulk of the outstanding Mexican debt (dating from as far back as 1824) was to be converted into new bonds payable in gold. In order to carry out this plan, the Mexican government would negotiate with the foreign bankers the issue of six million pounds in bonds, the bulk of which would then be handed over to the bondholders. Noetzlin's proposal was not initially successful, but by 1886 debt conversion finally became a real possibility.

The outstanding foreign debt was composed of a variety of bond issues, the most important being derived from the old Mexican loans issued in London in

1824 and 1825 and the interest backlog on them. The previous conversion of 1851 had established that Mexico owed 10.2 million pounds sterling to the British bondholders, but since that time an additional debt had accumulated in the shape of interest unpaid between 1851 and 1861 (before the European invasion of Mexico) and the interest unpaid from 1867 to 1886. The decree of Dublan of June 22, 1885 had established that the conversion agreement of 1851 would be recognized in full (that is 10.2 million pounds) but that the greater part of the interest backlog from 1851 would be struck from the books. Thus a savings of 7.7 million pounds was established by the finance ministry and accepted by the British bondholders. The remaining foreign debts included a pot pourri of bonds, the value of which also was reduced substantially.²⁷ In all cases, the foreign bondholders were to receive new 3% bonds payable in gold.

It should be noted, however, that the Mexican government did not only conduct negotiations with the foreign bondholders. There was also a long list of local creditors who requested payment on their claims, some dating from as far back as 1850 but most stemming from financial advances made to the armies of Benito Juárez and to the administrations in power from 1867 to the 1880. In toto these claims were estimated at 57 million pesos and were converted to approximately 25 million pesos in 3% bonds, although it was stipulated they were only payable in silver. This internal debt consolidation-in combination with the foreign debt conversion-thus marked a substantial advance in the stabilization of

²⁷ On the labyrinthine negotiations related to these additional external bonds there is abundant contemporary literature, including the already cited works of Casasús, Bulnes, Ortiz de Montellano and Bazant. Additional information can be found in the annual reports of the Secretaría de Hacienda and in those of the Corporation of Foreign Bondholders. It should also be noted that there was a large block of outstanding "Mexican Imperial Bonds" held in France, which had been issued by the regime of Maximilian (1863-67) but which were subsequently repudiated by Mexico since they served mainly to finance the invasion and occupation of Mexico by French troops.

Mexican finances and projected a new image which modified the views of foreign bankers and investors with respect to the creditworthiness of the nation.

In order to guarantee the external debt conversion, Dublán made arrangements with the BANAMEX for the transfer from 1887 onwards of the bianual debt payments from Mexico to the London merchant bank of Glyn, Mills in order to pay the bondholders.²⁸ It was from this time that BANAMEX became the formal agent for the government for all its foreign debt operations and payments, a role it would continue to exercise until 1913. But this was not the only contribution of the bank to the restructuring of Mexican finance, for once again the ubiquitous Noetzlin, head of the BANAMEX board in Paris, was charged by the Mexican government with the negotiation of a foreign loan. In contrast to his previous disappointing experience of 1884, Noetzlin was now able to pull off a major financial coup by arranging the issue of the great 1888 conversion loan in London and Berlin.²⁹ This loan was instrumental in attracting a significant (although erratic) flow of foreign capital to Mexico which many contemporaries (and many historians) considered essential to the overall economic expansion of the nation.

Did Banamex operate as a central bank ?

Our discussion so far illustrates that BANAMEX certainly fulfilled the functions banker to the government from early on. A final issue to be explored and debated in this paper is whether Banamex learned gradually to operate as a

²⁸ See contracts 12-17, between November 27, 1886 and January 2, 1888 which relate to these debt service payments. Banco Nacional de México 1883-1914.

²⁹ For details see Marichal (2002).

virtual central bank. In his recent study, banking historian Noel Maurer has argued to the contrary. However, in this last section I wish to advance the argument that what we are dealing with is not a black and white banking story, and that there are many shades (and possible sides) to the discussion on the historical antecedents of central banking in Mexico. It is quite clear that from the mid 1880s down to 1914, BANAMEX operated simultaneously as the government bank and as the largest commercial bank in the republic. This meant that the bank directors in Mexico City (who were all Mexicans or resident merchants of foreign extraction) had extremely detailed information on both the future direction of public financial policy as well as on the overall evolution of the private sector economy. The relative advantages of having this information meant that the board in Mexico City generally took their own decisions on major domestic business transactions with only occasional requests to the Paris-based board of the bank for additional opinions or recommendations.³⁰

Evidently, the directors of BANAMEX acted fundamentally thinking in terms of their own interests and therefore cannot be seen as impartial. However, they were so heavily engaged in both government finance as well as in the business of the numerous regional banks (which began to develop from the late 1880s and particularly after the new banking law of 1897) that it may well be asked whether they did not act in such a way as to conciliate the particular interests of the bank with the general interests of the banking system as a whole. In other words, the argument we are proposing here is that while in its origins, BANAMEX was conceived as a combination of government bank (albeit remaining a private bank) and commercial bank, its key role in a rapidly growing banking sector

³⁰ The only exception is the brief stay of Joseph Simon from 1913 to 1915.

eventually led its directors over time to adopt policies which indicate that they were beginning to operate as *a kind* of central banker (in absence of a real central bank).

More specifically, we are interested in evaluating whether by the turn of the century, BANAMEX had not begun to exercise some of the functions of *lender of last resort* vis a vis other banks in the Mexican banking system. In a synthetic and brilliant essay by Pablo Martín Aceña has argued that “The functions of a central bank are essentially four: issuer of paper money; banker to the government; banker of banks and lender of last resort; and conductor of monetary policy.”³¹ BANAMEX evidently fulfilled some of these functions but not necessarily all.

With regard to the issue of lender of last resort, I would like to cite a most interesting report sent by the Mexican Board of Directors to the Paris Board (Comité de París) in response to a request for information with regard to the outstanding portfolio of Banamex. In the letter directed to M. Huard, president of the Parisian comité, the Mexican directors emphasized several aspects which are indicative of the regulatory functions which they themselves considered that that the largest bank in the republic should fulfill.

In the first place, they complained that they had lost their previous control over national exchange rates (“cambios de moneda”) as a result of the Monetary Reform of 1905 and the increasing competition of other banks.

³¹ Martín Aceña (1994), in Marichal and Tedde, eds. (1994), p. 121.

BANAMEX therefore no longer had the predominance which it had long exercised in this sphere. Nonetheless, the directors also insisted that BANAMEX was fulfilling a special role in the banking system:

*“siendo en el fondo un importante regulador del crédito nacional, público y privado; en su sentido más amplio, tiene altos deberes que cumplir, aunque sin sacrificar nunca a sus accionistas, y conservar para éstos, como siempre ha tenido y conservado, la ilustrada protección y el benévolo apoyo de los poderes públicos.”*³²

Furthermore, the directors underlined the fact that they had important interests and much influence over other banks in the republic. For example, they noted that they had substantial holdings of the stock of no less than fifteen of the principal regional banks (of a total of 24). Their links with the important Banco Mercantil de Veracruz were especially important and, in addition, they listed the large blocks of stock held in several other banks.³³

“Nuestro interés es de cierta consideración en el Banco del Estado de México (12,094 acciones), el de Morelos (3,050 acciones), el de Jalisco (4,350 acciones), el de Sonora (1,440 acciones) y el de Durango (1,170 acciones).”

They added that apart from the Banco de Morelos: “The other banks are among the best administered in the country; they are in the hands of strong local capitalists and our considerable interest in them allow us not only to avoid rivalries but to influence their business strategies.”³⁴

³² Carta del 6 de enero de 1906, en AHBANAMEX, Correspondencia con el Comité de París, Libro 4, folio 363 y ss.

³³ Banamex era accionista de la empresa veracruzana, cuyos dueños- los Zaldo- a su vez- eran los más fuertes accionistas del Banco Hispano Americano de Madrid, institución que, por su lado, era uno de los mayores accionistas del Banamex. Para detalles véase Marichal (1999).

³⁴ “Los demás bancos son de los mejor administrados (del país): están en manos de fuertes capitalistas locales y un interés considerable en ellos *nos permite no sólo evitar rivalidades, sino influir en su marcha.*” Ibid.

Finally, the BANAMEX directors commented the interest they held in the Banco Peninsular Mexicano, the largest bank in the Yucatan, an interest which had increased as a result of the financial crisis of 1907. The precipitous fall in the prices of henequen (the major local export) had obliged the Banco Nacional de México to intervene to impede the collapse of the regional banking system of Yucatan.³⁵ They pointed out that:

“our interest (3,734 shares and 30,787 stock certificates in the Banco Peninsular) have been accumulated as a result of the necessity in which we were obliged to intervene in the crisis in Yucatán which caused the bankruptcy of the merchant firms of Escalante and Peon. They added: “Without out direct intervention, this crisis would have been a true calamity that would have affected the entire Republic.”³⁶

As may be observed from these notes of the bank directors at the beginning of the twentieth century, they believed that this large firm was fulfilling a set of functions which today would probably be considered as something proximate to the functions of a central banker. The original model of BANAMEX had clearly evolved at the same time as the Mexican banking sector had grown and become much more complex over a period of thirty years (1880-1910).

³⁵ Barceló (1986), in Marichal and Ludlow (1986) pp.201-202.

³⁶“Nuestro interés (3,734 acciones y 30,787 certificados en el Banco Peninsular) ha sido por la necesidad en que nos vimos de intervenir seriamente en la crisis que en Yucatán determinó la quiebra de las casas de Escalante y Peón. *Sin nuestra intervención directa, dicha crisis hubiera sido una verdadera calamidad que habría alcanzado a la República entera.*” Letter to Paris Comité, January 6, 1906, in AHBANAMEX, Correspondencia con el Comité de París, Libro 4, folio 363 y ss.

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