

## PREFACE

This book contains the results of our efforts to establish and analyze the record of recent Mexican financial development. We have attempted not only to prepare an accurate and detailed chronicle of the course this development has taken but also (and more importantly) to establish relationships between the operation of the financial system and the stability and growth of the Mexican economy.

The study consists of four main parts. The first part contains a summary description of Mexican financial development prior to 1940, with emphasis on postrevolutionary experience and the factors accounting for changes in the country's financial structure during this period. The various institutions and instruments—as well as markets and policies—which characterized the Mexican financial system and its operation at the end of the 1930s are described in some detail in order to establish a bench mark against which subsequent development can be measured and appraised. The second part of the study consists of detailed accounts of the development of the various components of the financial system during the period 1940–1960. Separate sections describe the development of the money and capital market, the formulation and execution of monetary and financial policies, the nature of Mexican monetary and financial experience, and the outstanding characteristics of public and private finance during this period. In the third part of the study an attempt is made to formulate a satisfactory theoretical explanation of the record of Mexican experience as revealed in the first two parts of the study. Relationships between monetary policy, domestic stability, and external equilibrium are analyzed as well as factors governing the growth of domestic indebtedness, the development of financial intermediation, and the operation of the market for loanable funds. The fourth and final part of the study contains a review of experience since 1960 and speculation with respect to the future course of Mexican financial development. Specific proposals for future monetary and financial policies are offered.

In general, our procedure is to establish on the basis of empirical evidence the course of the Mexican financial development and then to analyze the course of this development with the aid of hypotheses suggested by recent theoretical literature. By means of this procedure we believe we have been able to identify the principal forces which account for the remarkable financial development which has occurred. Also, we believe that this procedure has enabled us to achieve a deeper understanding of some of the country's current financial problems and, perhaps, has afforded a sound basis for suggesting policies consistent with a future course of financial development appropriate to Mexico's requirements.

We are acutely aware of the limitations of our study, and believe the reader should be forewarned. Specifically, because of deficiencies in the available statistical data, we have not been able to develop a clear picture of financial processes in the private sector, particularly at the level of the individual household and business enterprise. Furthermore, we have not undertaken to explain Mexican financial markets and market instruments in terms which are likely to be of the greatest interest to those concerned with the mechanics of financial practice. Instead, we have focused on the process of financial change as viewed in aggregative and, at times, fairly abstract terms—in an effort to devise a satisfactory theoretical explanation of the phenomena under investigation and also to provide a basis for appraising the appropriateness of public policies.

Our empirical work has been greatly assisted by earlier path-breaking efforts of others. Of particular importance has been the pioneering statistical study covering the period 1939–1951 prepared by the Combined Mexican Working Party.<sup>1</sup> The historical studies prepared by various experts for publication in the volume commemorating the semicentennial of the Mexican revolution have also been very helpful.<sup>2</sup> We have been assisted also by O. Ernest Moore's historical study of Mexican financial institutions<sup>3</sup> and by access to an unpublished study of Mexican financial markets prepared by the staff of the Depart-

<sup>1</sup> Combined Mexican Working Party, *The Economic Development of Mexico*. International Bank for Reconstruction and Development (Baltimore: Johns Hopkins Press, 1953).

<sup>2</sup> *México: Cincuenta Años de Revolución*. Volume I: "La Economía" (México: Fondo de Cultura Económica, 1960).

<sup>3</sup> O. Ernest Moore, *Evolución de las Instituciones Financieras en México* (México: Centro de Estudios Monetarios Latinoamericanos, 1963).

mento de Estudios Económicos of Banco de México.<sup>4</sup> A recent study by Santillán López and Rosas Figueroa<sup>5</sup> has been a particularly valuable source of information, as has Robert Bennett's doctoral dissertation.<sup>6</sup> And finally, we have been assisted in our work by the statistical publications and other studies prepared by the International Monetary Fund,<sup>7</sup> the Economic Commission for Latin America,<sup>8</sup> and various agencies of the Mexican Government.<sup>9</sup>

Our understanding of specific financial institutions and processes has been assisted by the numerous detailed studies which have recently been made. The studies by Antonio Campos<sup>10</sup> and Gustavo Petricioli and Miguel de la Madrid<sup>11</sup> of the private financieras have been particularly valuable, as have Calvin Blair's study of Nacional Financiera<sup>12</sup> and Arturo García-Torres' study of insurance companies.<sup>13</sup>

<sup>4</sup> "El Mercado Dinero y Capitales en México." Prepared under the direction of Professor Frank M. Tamagna and Lic. Leopoldo Solís M., 1961.

<sup>5</sup> Roberto Santillán López and Aniceto Rosas Figueroa, *Teoría General de las Finanzas Públicas y el Caso de México* (México: Universidad Nacional Autónoma de México, 1962).

<sup>6</sup> Robert L. Bennett, *Financial Intermediaries in Mexican Economic Development, 1944-1960* (doctoral dissertation, University of Texas, 1963). Unfortunately, Bennett's book based on this work (*The Financial Sector and Economic Development: The Mexican Case* [Baltimore: Johns Hopkins Press, 1965]) was not available prior to the time our manuscript was completed and in the hands of our publisher.

<sup>7</sup> Especially International Monetary Fund, *International Financial Statistics*.

<sup>8</sup> Of the numerous ECLA studies, *External Disequilibrium in the Economic Development of Latin America: The Case of Mexico* (2 vols., 1957) and *La Inflación en México* (1962)—both in mimeograph form—are those we have found most useful.

<sup>9</sup> Principally those issued by Banco de México, Nacional Financiera, and the Secretaría de Industria y Comercio.

<sup>10</sup> Antonio Campos Andapia, *Las Sociedades Financieras Privadas en México* (México: Centro de Estudios Monetarios Latinoamericanos, 1963).

<sup>11</sup> Gustavo Petricioli and Miguel de la Madrid, *Evolución y Control de las Sociedades Financieras Privadas en México* (Brazil: VII Reuniao de Técnicos dos Bancos Centrais do Continente Americano, 1963).

<sup>12</sup> Calvin P. Blair, "Nacional Financiera: Entrepreneurship in a Mixed Economy," *Public Policy and Private Enterprise in Mexico*, ed. Raymond Vernon (Cambridge: Harvard University Press, 1964).

<sup>13</sup> Arturo García-Torres Hassey, *Las Instituciones de Seguros en México: Su Contribución al Ahorro y al Financiamiento del Desarrollo Económico* (México: Universidad Nacional Autónoma de México, Escuela Nacional de Economía, 1964).

We believe that a study of the sort we have attempted is especially appropriate at this time not only because of recent improvements in Mexican financial statistics but also because of recent advances in financial theory and techniques of financial analysis. In particular, our analytical framework is closely modeled, on the one hand, on Gurley and Shaw's important theoretical work<sup>14</sup> and, on the other hand, on the massive empirical studies of United States financial development made by Goldsmith,<sup>15</sup> Kuznets,<sup>16</sup> and Friedman,<sup>17</sup> among others.

In addition to the empirical and theoretical works already referred to, we have of course studied the accumulated literature which pertains in one way or another to the Mexican monetary and financial system. We have not borrowed heavily from this literature, however, largely because its relevance to our approach to the study of Mexican financial development is, in most instances, tangential at best. For this reason we have taken the liberty of writing without footnotes—except in the case of our statistical tables and charts, in which we attempt to provide the necessary documentation and explanation of procedures employed. A bibliography containing the major Spanish- and English-language works concerned with various aspects of Mexican financial development is appended as a guide to further reading.

Finally, a few words about the objectives of this study. Actually, we have two objectives in mind. First, we hope to contribute to understanding of Mexican financial development. We believe that better understanding of the past will permit a more accurate appraisal of contemporary problems and facilitate the choice of intelligent policies in the future. Second, we also are hopeful that our analysis of

<sup>14</sup> John G. Gurley and Edward S. Shaw, *Money in a Theory of Finance* (Washington: Brookings Institution, 1960); also numerous articles by the same authors in various professional journals.

<sup>15</sup> Raymond W. Goldsmith, *Financial Intermediaries in the American Economy since 1900* (Princeton: National Bureau of Economic Research, 1958). A preliminary draft of Goldsmith's forthcoming study of the financial development of Mexico was made available to us just at the time final revisions of our manuscript were being made. Consequently, while we were not able to build on Goldsmith's findings, we benefited from the opportunity to check our findings against his.

<sup>16</sup> Simon Kuznets, *Capital in the American Economy: Its Formation and Financing* (Princeton: National Bureau of Economic Research, 1961).

<sup>17</sup> Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States* (Princeton: National Bureau of Economic Research, 1963).

the record of Mexican experience might make some contribution to general understanding of the phenomenon of financial development and its relation to overall economic development. We believe that the Mexican record of financial development contains much that should be of interest to others engaged in related theoretical and empirical studies and, furthermore, that this record contains many lessons for those countries presently confronted with circumstances and problems not too unlike those encountered in Mexico.

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