MEXICAN GOVERNMENT

AND INDUSTRIAL DEVELOPMENT

IN THE EARLY REPUBLIC

THE BANCO DE AVIO

ROBERT A. POTASH

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TARIFFS AND TAXES, 1821 – 1828

The achievement of Mexico's independence in 1821 promised a new era in the economic life of the former colony. Coincident with the establishment of the new government was its assumption of responsibility for national economic policy. The extent to which official agencies might intervene in the economy, the direction such intervention might take, and the means that might be employed were now matters to be determined within the country and not in distant Spain. It could no longer be charged that selfish interests in the peninsula were obstructing the progress of the Mexican people. The development of their resources, to the extent that this could be influenced by government action, was at last in the hands of their own authorities. It is the purpose of the present chapter to inquire how that power was exercised, in as far as manufacturing industries, and especially textiles, were concerned in the periods of the regency and the empire of Iturbide, of the triumvirate that followed, and of the federal administration of Guadalupe Victoria.

An examination of the legislation enacted during the eight months when a regency ruled the newly created empire (September 1821 – May 1822) reveals that a primary concern of the men in authority was to revive the mining industry from the decadence into which it had been thrust by the recent war. The attitude taken toward this industry by the temporary legislative committee appointed in September 1821, the so-called *Soberana junta provisional,* is reflected in the laws they adopted to relieve it of much of the tax burden weighing upon it. "From the first moments of its installation," reads the preamble to one of their decrees, "the Soberana junta provisional . . . took into consideration the deplorable and decadent state of mining and the necessity of granting this activity the means within its power to contribute to its greatest prosperity upon which the prosperity of the empire depends. . . ."[1] The means re-

sorted to consisted of the elimination of all the taxes imposed on the precious metals during the revolution, the reduction to a single 3-percent duty of the long-standing exactions known as the *diezmo, uno por ciento,* and *real de señoraje,* and the freeing of much-needed mercury, regardless of origin, foreign or domestic, from the duties formerly imposed on its sale or production.[2]

This preoccupation with the precious metals is understandable in view of the industry's traditional importance as a source of government revenue; it is also explicable because of the view dogmatically advanced in the latter years of the colony by men like Fausto de Elhuyar, late director-general of the mining guild, that this industry was the principal agent of economic progress in Mexico, and that the population depended on its development for support and growth.[3] The sublime confidence in the future of Mexico that characterized many of its leaders at the time of independence was in a great part founded on the belief that mineral wealth would become the basis for general prosperity and power.

Despite the emphasis given to the development of the mines, the governing authorities during the regency could not be completely indifferent to the desirability of promoting, or at least protecting, other sectors of the economy. A formal manifestation of their interest was the creation of a patriotic society devoted to the advancement of the general welfare. This society, patterned after those established in Spain in the eighteenth century, and called after them the *Sociedad económica mexicana de amigos del país,* had special committees named to promote manufacturing, agriculture, commerce, and mining, as well as various cultural activities.[4]

Far more important than this *sociedad* as an indication of the attitude of the authorities was the tariff law adopted by the government on December 15, 1821. The first law to regulate the foreign trade of the new Mexican empire, it opened the ports to the ships of all nations, thus fulfilling the long-held desire for direct trade with the world at large. A simple ad valorem of 25 percent was imposed on all imports, regardless of their nature, while small lists of prohibited items and of those to be admitted duty-free were also established.[5]

Of the nine articles, or groups of articles, on the duty-free list, four were of purely cultural or educational value.[6] The others, however, did include one of potentially great significance to artisan industries. This provided for the unrestricted entry of every kind of useful machine for manufacturing and farming as well as for mining. It seems reasonable to infer from this that the officials were anxious to eliminate whatever obstruction import taxes might offer to the improvement of productive processes in all branches of the economy, and not merely in mining.[7]

That the prohibitory list contained only nine classifications is evidence of the new government's reluctance to resort to the wholesale exclusions that had characterized commercial regulations of the colonial era. In fact, when the provisions of the tariff were up for debate in the Soberana junta, there was some sentiment for doing away with prohibitions altogether, and the final result was thus in the nature of a compromise.[8]

Of the nine categories of excluded items, three, it should be noted, were related to the growth or manufacture of cotton.[9] Raw cotton, cotton yarn up to weight number sixty, and cotton ribbon were barred from importation. At first glance, the presence of these three in the limited prohibitory list would seem to suggest that the government had decided to give the cotton industry the benefit of a closed market. But it should be realized that ribbon making was relatively unimportant in the total textile picture, and that the protection of domestic cotton and yarn was of limited significance unless the finished goods into which they were converted could survive the competition of foreign cloth still allowed to enter on payment of duties.

Perhaps it was expected that these duties would serve to protect the coarse fabrics woven on domestic looms. Foreign cloth, as other merchandise, paid the 25-percent duty on valuations stipulated in the tariff act, or determined by customs appraisers at the ports of entry. These valuations frequently exceeded the actual cost of the goods, and in the case of fabrics resembling domestic manta, they were two to three times the delivered cost at Veracruz.[10] Nevertheless, the original cost of such cloth was so low as to enable it to be sold there at from twenty-two to twenty-five centavos per vara (thirty-three inches) even after payment of nine centavos in duties.[11] Domestic manta, which was only twenty-two inches wide compared to the thirty-six inches of the imported varieties, cost at least twenty-five centavos, and sometimes sold for much more.[12]

The tariff act thus fell far short of guaranteeing the domestic market to locally made cloth. Such cloth continued to be sold, but apparently not in the volume enjoyed before independence. From the results of the tariff act, it would almost appear that the provisions affecting cotton textiles were designed more to increase government revenues than to protect the domestic industry.

What was true of cotton manufacturing appears equally applicable to

other artisan industries. Despite what seemed to foreign eyes as artificial valuations and excessively high duties,[13] the tariff law was not a protective one in the light of Mexican realities. It is not surprising, then, that it became the object of immediate and bitter attack from interested groups. One writer who hailed from Guadalajara, a leading cotton-weaving center in the prerevolutionary years, likened the tariff to an order prohibiting the sale of all domestic manufactures. This law, he asserted, was the root cause of the unemployment of 2 million people, and the only remedy lay in imposing duties on foreign merchandise of from 400 to 1,000 percent.[14] Other suggestions submitted to the government by other groups or individuals varied from prohibiting specific items to completely excluding everything of foreign manufacture that competed with something made in Mexico.[15]

Neither the temporary Soberana junta nor the elected Constituent Congress which replaced it in February 1822 was disposed to accept any of these radical proposals. Still, the authorities could not be wholly indifferent to the plight of their artisan countrymen. Accordingly, when it was decided to raise the rate of the alcabala from 8 to 12 percent, domestic cotton and woolen textiles were specifically exempted from the 4-percent increase, thus gaining that much of an advantage in competition with imported goods.[16]

The policy of minimizing the use of prohibitions that characterized both the Soberana junta and the elected Constituent Congress was abruptly, if temporarily, reversed early in 1823. This change was one of the by-products of the coup d'état by which the newly proclaimed emperor, Iturbide, sought to impose his will against the wishes of a hostile congressional majority. As is well known, he dissolved that elected assembly by force, and created in its place a smaller legislative body hand-picked from among his adherents in each province. It was this select body, known as the *Junta nacional instituyente*, that voted for the absolute exclusion of all foreign textiles similar to domestic cotton and woolen fabrics, and to the prohibition of a variety of other foreign manufactures.[17]

The passage of this measure raises the intriguing question of whether the partisans of Iturbide had economic as well as political interests in common. It seems more than a coincidence that an important measure like the prohibition of textiles failed to be adopted in both the Soberana junta and the Constituent Congress—where Iturbide's adherents were a minority[18]—yet was approved by the Junta nacional, which his partisans dominated. Still, one must not make the mistake of identifying all the followers of the creole emperor as proponents of the use of tariff prohibitions to protect domestic industry. The measure was adopted in the junta only over the opposition of an articulate minority well versed in the reasoning of the free-trade school of European economists.[19]

The final victory, as it developed, rested with this minority, for it was shortly thereafter that armed uprisings forced Iturbide first to recall the Constituent Congress, and then to abdicate his throne. With the fall of the empire, the prohibitory measure, together with others adopted by the Junta nacional, was deprived of legal force.[20] Once again, the importation of merchandise was governed by the provisions of the original tariff act of 1821.

The overthrow of Iturbide in March 1823 inaugurated a period of political transition for Mexico. For the next eighteen months the executive power was exercised provisionally by a triumvirate, while the Constituent Congress debated the establishment of a federal republic, and took steps to draw up an appropriate constitution. In this period the government gave even more explicit recognition than in the past to the thesis that the prosperity of the mines was the cornerstone of general wealth. To encourage foreign capital to invest in them, the legal restrictions incorporated in the Laws of the Indies, which had traditionally forbidden non-Catholic foreigners from owning mining properties, were eliminated by legislative action.[21] This sharp break with the past was followed by other measures designed to facilitate the revival of mining. Internal taxes on the circulation of money, for example, were waived for monies sent to the mines. Moreover, the importation of Spanish mercury, so essential to the refining of silver, was continued even when, as a result of the bombardment of Veracruz, an embargo was placed on all other imports from the former mother country.[22]

The individual chiefly responsible for these measures was the minister of *relaciones,* Lucas Alamán. It was he who had helped organize an Anglo-Mexican mining company during his travels in Europe and who, on his entry into the cabinet, had taken the initiative in recommending to Congress the suspension of the laws against foreign ownership.[23] It was Alamán, moreover, who set forth most cogently the philosophy that underlay official policy:

> The mines are the source of the true wealth of this nation and everything that speculative economists have said against this principle has been victoriously refuted by experience. We have seen agriculture, trade, and industry constantly follow the course of the mines, flourishing and declining with them in the same proportion. The reason for the close connection among these economic activities essential to national prosperity is the nature of the majority of our mines—poor in quality but exceedingly abundant in quantity. From this has followed the necessity of utilizing great numbers of workers, machines, and animals in both the extracting and the refining phases. This has given rise to an immense demand for goods which is equivalent to a considerable exportation and which in turn promotes all industries and especially agriculture. Thus it is that the encouragement given to mining is given also to the others; the recovery and prosperity of all, and consequently of the nation, is simultaneous.[24]

Committed though he was, both as a private individual and as a government official, to the goal of developing the mines, Alamán, unlike some of his contemporaries, was not doctrinaire to the point of completely excluding manufacturing from a place in the national economy. In his view, the basic need was to mechanize existing manufacturing processes. To this end, his official recommendations were for the use of tax exemptions to encourage the import of machinery, already a part of existing tariff laws, and for the enactment not of prohibitions, but of protective duties that would bridge the gap in price between imported and domestic merchandise until the time when the latter, produced by mechanical means, could be sold more cheaply.[25]

The importance of reducing manufacturing costs was also recognized by Alamán's colleague in the cabinet, the finance minister, Francisco Arrillaga. As a resident of Veracruz, the latter was especially concerned with lowering the cost of cotton textiles by eliminating the wasteful practice described in the previous chapter—that of transporting unginned cotton from the coastal farms to the highland manufacturing centers. The obvious solution was to use mechanical gins; but Arrillaga was convinced that the species of cotton raised in Mexico were less suited to such devices than those grown in the United States. Accordingly, to encourage farmers to acquire and plant foreign cotton seed, he persuaded Congress to vote a ten-year exemption of all domestic taxes, including the oppressive tithe and alcabala, on cotton that was raised from improved foreign seed. At the same time, similar exemptions were voted to encourage the production of a variety of other staples including wool, flax, hemp, and silk.[26]

As measures to effect the mechanization of manufacturing procedures, thus enabling domestic industries to survive, the proposals of Alamán and Arrillaga suffered from at least one serious weakness. Their success depended on the willingness and the ability of private individuals to take advantage of the tax incentives. But under the conditions that existed in the early twenties, it was hardly to be expected that private capital would interest itself in the acquisition of machinery for manufacturing, or even in obtaining cotton gins and new types of seed.

The economy as a whole was still staggering from the effects of the recent war, especially from the withdrawal of merchant capital. The exodus of Old Spaniards, first begun in 1810, renewed itself once independence became a reality, and, from 1821 on, the extraction of capital continued with paralyzing effects on every branch of trade. The loss of what a contemporary British observer estimated in 1824 to be 20 millions sterling in the previous three years[27] left the Church and foreigners as the principal nongovernment sources of investment capital. But in view of the known preference of religious corporations for mortgages on real property, and of the superior attractions that mining and commerce offered to the foreigner, the prospect of private investment in manufacturing industry on the scale necessary to mechanize production procedures was small indeed.

While the cabinet of the triumvirate seemed satisfied to limit the assistance given to manufacturing to the measures described above, pressure for stronger restrictions on foreign trade continued unabated in the manufacturing centers. The reason is not hard to find. Two years of independence had done nothing to dispel the depression that had befallen the handicraft industries. The value of manufactures, according to an American diplomatic agent, was only half of what it had been at the turn of the century,[28] and in the textile field, the decline was even more catastrophic. In these circumstances, it is quite understandable that artisans identified the relative prosperity of the prerevolutionary days with the prohibitions that had existed then, and that they believed, somewhat naively to be sure, that the "good old days" could be restored merely by imposing similar tariff restrictions. That the distress of the artisans was also due to the very factors underlying the general economic paralysis did not deter them from single-minded concentration on the tariff as the panacea for their ills. Through their provincial representatives in the national Congress they called the government's attention to their plight, and demanded action against the flow of foreign merchandise.[29]

Partially as a response to this pressure and to kindred demands made by agricultural groups, but also out of awareness that the existing tariff law needed revision, the finance minister early in 1824 recommended

to the Congress the adoption of extensive reforms. To reduce the opportunity for inconsistency and arbitrariness in the valuations given to foreign merchandise, Arrillaga proposed that a number of items formerly appraised at the individual ports of entry should be given fixed valuations. He also suggested that valuations already established in the act of 1821 be revised in a number of cases; he justified increases for some of these on the grounds that they would promote domestic production, but defended reductions in others with the argument that the articles in question were not being produced in Mexico, and that high duties merely encouraged smuggling.[30]

More important than either of these recommendations was his proposal of a substantial list of products, agricultural and manufactured, which were to be banned completely from importation. The list included a wide variety of foodstuffs, leather goods, articles of clothing, and even cheap-quality woolen cloth. But no mention was made of cotton textiles, whose exclusion was the overriding concern of the artisans in the cotton centers. The argument presented by the finance minister to justify his selection of items for exclusion was that these were the ones that were abundantly produced within the country. This condition, he insisted, was not met in the case of cotton cloth, and its exclusion "would only do grave injury to consumers who came from the neediest class and therefore deserve consideration, and [also] it would be an incentive to smuggling because of the high price of [domestic cloth]."[31]

The anxiety voiced by Arrillaga over the harm done to the unfortunate classes of Mexico by excluding cotton textiles was probably matched by an unstated concern for its effects on the public treasury. The revenues of the government had already proved inadequate to sustain the burden of expenditures and, as minister of finance, Arrillaga could hardly have been indifferent to a sharp reduction in those revenues. Cotton textiles had become an increasingly important source of customs duties in the two years since independence, constituting in 1823 almost 30 percent of the value of all merchandise imported through the principal port of Veracruz.[32] That Arrillaga for purely fiscal reasons would not have been prepared to yield to artisan pressure for the exclusion of the *tejidos ordinarios* is readily understood.

The Congress reacted to Arrillaga's proposed list of prohibitions by adopting it almost without change. On May 20, 1824, the 1821 tariff act was officially amended to raise from the original 9 to the formidable number of 116 the articles whose entry into Mexico was forbidden.[33]

This step, however, should not be taken as evidence that the government was now fully committed to a policy of promoting manufacturing industry. Of the items excluded, over one-third were in the category of foodstuffs. With the exception of cheap-quality woolen cloth, no textiles as such were on the list. It was the tailoring professions, rather than the basic cloth producers, that saw their products protected.

If further proof were needed that the attitude of the government toward manufacturing industry had not undergone a basic change, it can be found in the words of the congressional committee that recommended the adoption of the prohibition measure. The members of this committee expressed the hope that the bill, while preventing those already occupied in craft industries from perishing, would discourage further capital and labor from entering the field of manufacturing.[34] Certainly the enactment of May 20, 1824, offered no incentive to invest in the country's most important manufacturing industry, that of the cotton textiles. Neither did it offer any assurance that this industry could be preserved from further deterioration or even complete collapse.

The provisional executive, who had governed since the fall of Iturbide, was succeeded in October 1824 by General Guadalupe Victoria, the first constitutional president of a federated Mexico. Before examining the economic policies of the Victoria administration, note should be taken of the changes made by the Constituent Congress in the internal duty system, changes that were of some benefit to domestic industries. As far as can be told, these steps did not originate in a conscious effort to foster industry, but were concomitant to the fiscal reorganization necessitated by the establishment of a federal system.

The chief innovation in the duty system was the transfer of the alcabala from the control of the central government to that of individual states. Foreign merchandise, which had been subject to this duty since 1822 at the rate of 12 percent, was now wholly exempted from it; but in its place, a new federal impost known as the *derecho de internación* was established. Nominally 15 percent, but actually 18 3/4 percent of the value of imported articles, this duty was levied when they left the port of entry for any interior destination.[35] However, if such goods were consumed within the limits of the port city, they were not subject to the duty, a provision that hardly seems equitable to the purchasers elsewhere, who had to sustain not only this duty, but also additional freight costs. Nevertheless, from the viewpoint of farmers and artisans trying to compete with imported products, the new tax gave them an added measure of protection in all but a few parts of the country.

This was not the only tax change that redounded to the benefit of domestic producers. In the allocation of revenues between federal and state governments, the Constituent Congress allowed the latter to impose a 3-percent consumer tax *(derecho de consumo)* on foreign goods sold within their respective jurisdictions.[36] Imported merchandise thus paid a series of duties, state and federal, which totaled 51 3/8 percent of their appraised value.[37] Domestic textiles, in contrast, were subject only to the state alcabala of 8 percent.[38] Even so, the producers of cotton goods did not regard these tax advantages as an adequate substitute for the complete embargo on foreign textiles, the enactment of which they now hoped to obtain from the Victoria administration.

The inauguration of Guadalupe Victoria as Mexico's first constitutional president did little to alter the basic direction of government economic policy that had been followed since independence. Open concern over the development of the silver mines, coupled with considerable reluctance to take active measures in behalf of manufacturing industries, continued to characterize the outlook of both executive and legislative branches of government.

This negative attitude toward the development of manufacturing was, in part at least, a reflection of the influence that the works of recent European economists, especially Jean Baptiste Say, were exercising over the Mexican mind. The years since 1810 had seen the rapid dissemination of liberal economic theories, and it became highly fashionable in the halls of Congress, in the press, and in the schools to cite them against the use of tariff prohibitions and against government intervention in economic life.[39] Under President Victoria, it became official doctrine that the proper role of the state was to limit itself to the construction of public works, and to the elimination of hindrances that stood in the way of private enterprise. As the president himself phrased it at the closing session of the first bicameral legislature elected under the federal Constitution:

> The spirit of regulation, the desire for minute control . . . is the best means to diminish or destroy abundance and wealth perhaps forever; on the other hand, to create and foster them, an enlightened and well-meaning government need only remove the great obstacles, leaving the rest to the action and interest of private individuals.[40]

The actual steps taken to promote industry during the four years of Victoria's administration were fully consistent with this concept of restricted government activity. The chief executive, in his periodic messages, laid principal stress on road building as the most practical way of aiding industry, agriculture, and commerce; and when Congress finally adopted a measure authorizing the executive to make contracts for the opening of roads, Victoria lauded the action as a "step which ought to have eternal influence on the promotion of the wealth and prosperity of the Republic,"[41] a prediction that time did little to sustain.

The Victoria administration, to be sure, did give some assistance to Mexican industries, but this was done in ways that did not violate the principle of nonintervention. The purchase, for example, of quantities of woolen cloth to equip the military gave a powerful stimulant to the Querétaro woolen industry.[42] But the effects were only temporary, for a permanent expansion of production depended on private demand, which still preferred imported cloth to the high-cost domestic fabrics. As in the cotton industry, the wool weavers suffered from archaic methods and were at a disadvantage in competition with Europe's machine industry.

Another gesture of the Victoria government in the direction of assisting agriculture and industry was its acquisition from France of a breeding herd of merino sheep and Kashmir goats. The introduction of such animals by private parties was already encouraged by the duty-free status given animals in the 1821 tariff act; but even liberal writers had urged the government to assume responsibility for importing useful species.[43] In bringing these animals into the country, the government was able to demonstrate that they could sustain the vicissitudes of the Mexican climate,[44] but as far as obtaining any practical advantage from the finer wools, the experiment was less successful. Mexican weavers, accustomed to making coarse fabrics on their crude looms, had no need for the merino fibers, and there were as yet no factories with machinery that could process them.[45]

The clearest instance in which the Victoria government offered encouragement to industry involved the paper manufacturing industry, but here, too, public action was restricted to removing obstacles to private initiative. The manufacture of paper had been unknown before independence, but in 1823 the retiring minister to the United States, José Manuel Zozaya, had brought with him on his return to Mexico a full complement of paper-making equipment. Zozaya and his associates sought to erect their mill in San Angel, a suburb of the capital, but the temporary exhaustion of their own funds, and their unsuccessful attempt to obtain a direct loan from the Treasury in 1824, delayed until the following year the production of their first paper.[46]

This achievement of private enterprise was recognized by the Victoria administration in their ordering the government ministries to print their *memorias* on the paper of the San Angel plant.[47] But the entrepreneurs wanted something more substantial in the way of public assistance, and appealed to Congress for a specific exemption from all internal duties on the sale of their paper, and at the same time, a waiver of import and alcabala duties on the rags they used as raw materials.[48] It was this request that underlay the action of Congress in granting, not just to Zozaya but to all who within the next two years engaged in paper manufacturing, a seven-year exemption from the alcabala on their paper, and a permanent exemption from such duties on their rags.[49]

The enactment of this measure constituted the first instance in which a Mexican government took steps to encourage directly the development of a specific manufacturing industry. The concessions of tariff protection or tax relief given in the past had been aimed primarily at aiding those already engaged in existing and often outmoded crafts, not at promoting the establishment of new industries, nor at introducing new techniques of production. The measure granting tax exemptions to paper manufacturers was thus a new departure, but one, it should be observed, that did not conflict with Victoria's concept of the proper role of government in economic life. However, as a device to encourage private investment in paper production, the law remained largely without effect, for, aside from the already constructed San Angel mill, no new plants came into existence to take advantage of its provisions.

It is interesting to note that at the very time the federal government was acting to foster paper manufacturing, the authorities of two important states were engaged in a similar task, though with means that differed sharply from those adopted by the federal administration. The legislatures of Jalisco and Puebla, apparently uninhibited by notions of nonintervention, voted to loan or invest public funds in private enterprises that would erect paper mills within their respective borders.[50] For reasons that are not clear, these undertakings failed to materialize. But the attempts themselves are significant in indicating the belief of these officials that private initiative without public financing would be inadequate to do the job; that private investors would be unwilling to shoulder alone the heavy expense of purchasing, transporting, and installing the necessary machinery to set up paper mills. The plans of these state officials miscarried, but the day was not too far distant when men of similar views would control the federal government and would seek to devote its funds to a more ambitious program of industrial change.

The reluctance of the Victoria administration to take energetic measures to develop manufacturing industry is well revealed in its tariff policies. Revenue, not protection, is the first concern of a finance minister, and each of the eight men who assumed the burdens of that position during Victoria's four-year term had to face the fact that the duties collected on the import and sale of foreign merchandise constituted the principal financial support of the government. Protecting the income obtained from this source was, accordingly, the constant preoccupation of these ministers. It was only natural, then, that they should oppose those measures that threatened to reduce their funds, especially the ever-recurring demand to cut down the import of cotton textiles. Cotton-goods imports were far too important a source of income to be treated so casually, for by 1826 they constituted 32 percent of the value of all imports, and more than 46 percent the following year.[51]

Measures that offered a prospect of raising existing revenue did, however, win the support of Victoria's finance ministers. From the first days of his administration, attempts were made to have the various duties affecting imported merchandise reduced, in the conviction that lower rates would inhibit smuggling and consequently increase income. But the legislative process was slow. Not until 1827 did both chambers of Congress agree on a single measure to replace the tariff act of 1821 and other laws affecting foreign trade that had been adopted since that time.[52]

The underlying objectives of the tariff legislation of 1827 may be seen by examining the recommendations drawn up by the Chamber of Deputies' Committee on Finance, recommendations that were the basis of the measure as finally adopted. For this committee, the primary goal was to set a level of duties high enough to produce sufficient revenue, but low enough to discourage smuggling. Because the existing duties collected by the federal government under the three categories, importation, *internación,* and *avería,* exceeded 48 percent, the committee proposed as a single substitute an ad valorem of 40 percent.[53]

In regard to the protection of domestic products, the committee expressed itself as preferring, at least in theory, absolute freedom of trade. But bowing to the necessity of protecting certain industries, it urged that reliance be placed on duties, and that outright prohibitions

be kept to a minimum. It suggested specifically that the existing list of 116 excluded articles be cut down to a mere 15. More significant than the actual number is the fact that its proposed list did not include textiles of any sort, nor the earthenware, metal, or leather goods previously prohibited.[54]

As finally enacted, the tariff act of November 16, 1827, did not quite correspond to the committee's intentions. The proposed ad valorem of 40 percent was indeed adopted, together with various technical provisions suggested by that body for enforcing payment.[55] But instead of accepting the committee's brief exclusion list, the Chamber of Deputies adopted the procedure of debating each of the more than five score articles currently under ban, and of voting then on members' proposals for new exclusions.[56] The result was the approval of a list of fifty-six items, less extensive to be sure than the existing one, but still much larger than the committee recommended. Nevertheless, it must be noted that, despite the well-organized efforts of a determined minority to place cotton textiles of ordinary quality on the excluded list, the Chamber of Deputies, by a small margin, refused to do so and was subsequently upheld by the Senate in this critical decision.[57]

Viewed in its entirety, and against the background of the protectionist demands of various interest groups, especially the cotton industry, the tariff reform of 1827 was far from constituting a concession to such demands. Quite the reverse, the law represented a step toward freer trade in textiles as well as other products. Not only could cheap cotton fabrics continue to enter Mexican markets, but even cotton yarns above weight number twenty, and raw cotton—both articles that had been consistently excluded before—now were allowed in the country. The law, moreover, failed to yield to an alternate demand of the cotton industry, which was that if cotton fabrics were not prohibited, they should at least be charged a substantially higher duty. Under previous regulations, imported goods similar to manta paid importation, internación, and avería duties amounting to 48 3/8 percent. On a valuation generally fixed at 37.5 centavos per vara,[58] such goods bore a levy of 18.14 centavos. Now under the tariff act of 1827, it was stipulated that these goods would pay a specific duty of 18.5 centavos, a difference so little as to be meaningless.

It was possibly because it had failed to meet the major demands of the domestic cotton industry that the Congress that adopted the tariff act of 1827 agreed the following year to exempt the principal products of that industry from the internal taxes usually collected in federal territories. A proposal to exempt domestic cotton, wool, and silk textiles from such duties had been made during the tariff debates, but it was not until February 1828 that the proposal became law.[59] Unlike the tax exemption granted previously to paper products, this one applied only in the federal district and territories. However, the governments of several states had already taken similar steps, and others were soon to follow.[60]

The notable feature of much of this state legislation was its discriminatory character. Only the textiles produced within the borders of the legislating state were to enjoy the tax exemption, not those that came from other parts of the country.[61] The underlying intention of such measures obviously was to assist local artisans, not only in meeting foreign competition, but also in withstanding that of artisans in other parts of the federation.

The use of tax concessions in such a manner sheds some light on the economic outlook of state leaders, and incidentally on their concept of federalism. As was natural in a country of poor communications and one with a tradition of internal tariff barriers, the interests of the local community were viewed as the supreme goal, and those of the nation as secondary. Attempts were made periodically to identify the national interest with that of the state or region—one will be described in the following chapter—but economic localism remained the fundamental characteristic of the country throughout the period under study. And, as we shall see before the final chapter, from the relatively harmless use of tax exemptions as a means of favoring local craftsmen, it was an easy and natural step to engage in the more dangerous practice of discriminatory tax impositions to protect factory industries. Economic warfare between the states was an unfortunate accompaniment of the rise of mechanical industries, but it was not, as Pablo Macedo would have us believe, a consequence of their creation;[62] it had its roots before their establishment, and was already resorted to, as shown above, when manual labor alone was utilized.

The close of Victoria's administration found Mexico's manufacturing industries in much the same state that they had been at the beginning of the independent empire seven years before. This interval had witnessed no fundamental transformation of the traditional handicrafts, no extensive introduction of new industries. The basic processes of manufacture were still those that had been followed in the colonial era, and with the exception of a few cotton gins, a paper mill, and apparently some spinning jennies, the utilization of machinery in common use

abroad was unknown.[63] The Mexican government, both imperial and republican, had refrained from active intervention in support of industrial change, partially because of the influence of doctrines of laissez-faire, but also because of the practical consideration of cost. The granting of exemptions from internal taxes was the full measure of the assistance given to manufacturing industry by the government.

Official favor shown to the mining industry, to be sure, had involved little more than the waiving of taxes, but here the expectation of huge profits, stimulated by the writings of Baron von Humboldt, had led foreign investors to shoulder willingly the heavy expense of reviving production and modernizing operation.[64] Manufacturing in Mexico, however, offered no such incentive to foreign capital, and what remained of domestic capital after the Spanish exodus preferred to invest in landed property, as in the case of church funds, or sought, through speculation in government paper, a rate of return that untried manufacturing enterprises could not promise.[65]

The tariff measures of the first seven years, despite their protectionist overtones, had not been designed primarily to encourage the flow of new capital and labor into manufacturing enterprises. Their goal had been rather that of protecting agricultural producers, and of preserving the practitioners of outmoded handicrafts from utter destruction. Moreover, where protection meant imposing heavy sacrifices both on the Treasury and on the public, as in the case of the cotton textiles, the policy makers in this period consistently drew a line beyond which they refused to go.

In view of the conflict in interest between consumer and Treasury on the one hand, and producers of cotton goods on the other, the decision not to exclude foreign textiles was certainly logical. But its logic was no substitute for positive measures to alleviate distress in those areas where cotton growing or its fabrication had long constituted the chief occupation. Of the serious effects on such areas of the importation of foreign textiles there can be little doubt. In the capital of Oaxaca, where once 500 looms had clattered in the production of cotton cloth, a mere 50 were working in 1827.[66] In the state of Mexico, the governor reported in 1828 that entire towns had been affected, "especially Texcoco, Tulancingo, and Sultepec, and the first to such a degree that we have all seen a city deserted and ruined by the emigration of families who went to seek a living in more fortunate places."[67] Similar situations existed in other states. Certainly in Jalisco the artisans never ceased to complain of the poverty, idleness, and misery which was their lot. Moreover, some of them warned the authorities that unless something were done, they might well attribute their misery to the system of government.[68]

Such a threat issued in the spring of 1828 suggests an economic basis for the restlessness that accompanied the critical presidential election held in the fall. The role that artisans' discontent played in the electoral victory of the Yorkinos, and in the uprising that put General Guerrero into the presidency, at the cost of violating the Constitution in its first real test, is a subject worthy of detailed study.

Here it can only be suggested that the failure of the government to offer a tangible remedy to the conditions that had generated the recurring demand for prohibitions must have played a significant part. At any rate, the pressure on the government to adopt such extreme tariff measures continued unabated, and the victory of General Guerrero's partisans meant, as shall be shown in the next chapter, that government had fallen into the hands of proponents of an unrestrained protectionist policy.[69]

3

THE YEAR OF TRANSITION, 1829

The twelve-month period that began with December 1828 constituted a particularly violent time for Mexico. The riot of the *Acordada*, which assured General Vicente Guerrero the presidency, the Spanish invasion that followed seven months later, and the rebellion that finally expelled the revolutionary hero from office all make of this period one of the most hectic in the young republic's existence. Yet, amid the violence and confusion, events were taking place in the field of economic policy which in the long run were to exercise more influence than military maneuvers. For in the brief administration of General Guerrero, the decision was made to utilize the power of the government to foster the development of domestic industries; in other words, it was decided to abandon the policy of restraint, if not of indifference, that had characterized previous regimes.

Once made, this decision proved surprisingly permanent. At least it became part of the avowed policy of succeeding governments. To be sure, the specific methods for aiding manufacturing varied in nature and effectiveness. In Guerrero's presidency, as will be shown, tariff measures were relied upon exclusively. But whatever the means, the idea that government shared responsibility with private individuals for promoting industry persisted through changing administrations.

The man who assumed the Mexican presidency on April 1, 1829, had already given evidence of a personal interest in industrial development. Only a year before, Vicente Guerrero had agreed to become chairman of the board of directors of a stock company launched by a group of French and native entrepreneurs for the purpose of establishing various manufacturing and agricultural enterprises. The organizers of the company had hoped to raise a capital of $300,000 by selling shares, but