The Revolution, the State, and Economic Development in Mexico

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Abstract
The legacy of the Mexican Revolution is still controversial today. This article reviews some of the transformations historians attribute to the Revolution: economic development, nationalism, an interventionist state, and a broader social policy and challenges the extent to which they can be attributed to the Revolution. It concludes that the state under Porfirio Diaz (1876–1911) was already making substantial advances in these areas. Far from being an ancien regime, backward, neo-feudal regime as is often asserted, the Porfiriato underwent great changes in spreading and monetarizing the market, building transportation and communications infrastructure, modernizing the banking and currency systems, and protecting industry. Far from being a laissez-faire regime, the state under Diaz followed policies of interventionist corporate liberalism. Despite great success at attracting foreign investment, the pre-revolutionary state also undertook nationalist policies by regulating and nationalizing foreign companies and asserting an independent foreign policy. Injustice was rampant, but rather than reflecting backwardness, it was the product of a primitive accumulation phase of modernization. The post-Revolution Mexican state is also compared with another regime that underwent no revolution, Brazil, to ascertain how much of the changes in Mexican policies were the responsibility of Mexico’s revolution. It turns out that Brazil also came to follow nationalist and interventionist policies without the need of a social revolution. Changes in the world economy, particularly the Depression, and the new corporatist ideologies it inspired were most important for explaining the change in state policy. The Mexican Revolution’s main legacy was land reform, not economic modernization or nationalism.

Introduction
Revolutions are today under attack.¹ In Europe, the French revolution has been reappraised in terms of its continuities rather than its sudden ruptures. And the timing, length, and qualitative nature of the industrial revolution as well as the rise of the industrial bourgeoisie are being reconsidered.² In particular, the interrelationship between the socio-economic infrastructure of civil society and the political superstructure of the state is being questioned.
In Latin America, interpretations of the Mexican Revolution, once viewed as the first great modern social revolution, have been revised over the last two decades. Most of the dispute focuses on the origins, participation, leadership, and goals of the Revolution. It has been characterized as everything from an atavistic mindless bloodbath to an incipient socialist revolution. It has also been seen as an agrarian populist revolt; a war of national liberation; a backward looking peasant jacquerie; a bourgeois revolution against a feudal past; an ideological move to reclaim the aims of the 1857 Constitution; and a modern capitalist move to amend an aged personalistic proto-capitalism.3

Today few scholars endorse the official view of the revolution: that it was a true social revolution that represented a sharp break with the corrupt backward ancien regime of the Porfiriato and the emerging and on-going victory of social justice, democracy, and economic development.4 As John Womack has eloquently observed: “The crisis did not go nearly deep enough to break capitalist domination of production. The great issues were issues of state.”5 But while not a social revolution, the Revolution generally is credited with an essential historical legacy which had three major components, all turning of issues of state: the state greatly expanded its social role after 1917 in areas ranging from education to health to land reform; the state became politically restructured with the creation of inclusive corporate representation in the strongly centralized Partido Revolucionario Institucional; and the state, after consolidating itself in the 1915–1940 period, modernized, becoming economically interventionist, developmental, and nationalistic. Ironically these accomplishments, particularly political centralization and economic development, were much the same sought by the Diaz regime and quite different from the goals of most of the participants who fought in the Revolution.6

The three supposed achievements of the Mexican Revolution are intertwined and had interactive dynamics. The greater social role of the state increased its legitimacy and relative autonomy which permitted increased centralization; that, in turn, afforded the state enhanced resources and authority in directing the economy. There is no doubt that the state changed in these three fundamental ways and that Mexico in 1940 or 1945 was quite different from Mexico of 1910.

The object of this essay, however, is to question whether the change in the economic role was really a legacy of the revolution. James Cockcroft expresses the conventional view well: “In Mexico the 1910–1920 Revolution and the changes it made possible in the 1930s ushered in the post-1940 era of industrial transformation which has produced today’s system of dependent state monopoly-capitalism.”7 John Womack describes the conventional wisdom this way: “In this interpretation the Revolution amounted to the historic overthrow of an internationally dependent, semifeeudal, semi-comprador oligarchy, its replacement by an authentic bourgeoisie and the shift from a neocolonial dictatorship to the rule of a nationalist party that evoked broad popular consent.”8
Mexico’s post-1920 history is usually sewn together with the thread of the Revolution using post hoc ergo propter hoc reasoning; phenomena such as the advent of an interventionist, developmentalist state, which only appeared in an appreciable way some two decades after the end of revolutionary violence, are nonetheless seen as a legacy of the Revolution. Due to the Revolution, the emphasis in Mexican historiography is placed on national uniqueness rather than trans-national currents. Of course there is some truth to this view. The Revolution naturally did affect material conditions, the distribution of power and the mentalities of the population. But to say that the Revolution caused the developmental state is to suggest that without the violent overthrow of the Porfiriato, the developmental state would not have occurred or would have occurred much later or much differently. Moreover, the comparisons generally assume that the Diaz regime was static and that it would not have evolved had it not been overthrown.9

I think that the argument that the Revolution was necessary to pave the way for a modern, developmental state capitalism is flawed. My contention is that even had Mexico not undergone the cataclysmic revolution, by say 1940 the state’s developmental role in the economy (though probably not its redistributinal role) would have been pretty much the same. The Porfirián regime was already making strides in the direction of interventionism; given the demands of World War I and the depression of the 1930s as well as the likely new leadership of científico types (for even without a Revolution Diaz did eventually have to die), the regime would have strayed even further from laissez-faire principles than it already was doing. After all, throughout the rest of Latin America during the same period liberal regimes became interventionist without the vehicle of a social revolution.

This is, of course, a counter-factual argument. As such, it is impossible to actually prove what might have been or that the Porfirián system was not, in Juan Felipe Leal’s words “incapaz de ofrecer una salida a la crisis [el colapso del modelo capitalista dependiente, agro-minero-exportador].”10 We can’t know what would have been were there no Revolution, but we can obtain a good idea of likely outcomes.

This is not a question of intellectual hair splitting. Instead it relates to essential theoretical and political issues. First is a fundamental political issue: the historical legacy of the revolution. If a developmental, interventionist state was one of the revolutions achievements, then continued developmentalism is, as the PRI maintains, the fulfillment of the revolution’s promise. On the other hand, if the only distinct product of the revolution was the state’s greater egalitarian social role, then only in continuing that is the regime embodying the Revolution. The second, related issue, is how unique are national histories and particularly Mexico’s history? How far can they be abstracted from their concrete international context? And within that context, how much freedom of movement do state’s enjoy? Do they not
develop bureaucratic momentum that moves them along as much from their own internal logic as from changing social demands? In other words, the second issue is how different was the development of the Mexican state in the twentieth century from the transformation of other capitalist states?

To address these problems, first this article will give an overview of the Porfirian state’s economic role and its evolution (there is not space for a detailed study here though I am working on a more extensive treatment). Then I will point out the continuities after the Revolution and the reasons for the supposed break in 1934–40. Finally, I will briefly compare the Mexican experience with that of another dependent state that did not experience a revolution, Brazil.

The nature of the Diaz regime

The nature of the Diaz regime was strongly debated already during Porfirio’s reign. North American Socialists in *Appeal to Reason* attacked it as a feudal state with an autocratic ruler and local lords (caciques and caudillos) who were tied to Mexico City by loyalty and mutual obligations. Muckrakers such as John Turner, Carlos de Fornoro, and Carleton Beals also stressed the personalistic, pre-capitalistic, even slavocratic, nature of the regime. Political power predominated over economic power. According to this view, although substantial primitive accumulation had taken place, a wage-earning proletariat had barely emerged nor had much of a monetarized market, or a modern enterprising bourgeoisie appeared.

Most historians today disagree with that position. They tend to see the Porfiriato as a progressive step toward the building of a modern capitalist state, though one with tremendous social costs for the population and for national sovereignty. They see Mexico becoming well integrated into the capitalist world economy, making the transition from the corporate mercantilist colonial order to the individualistic, laissez-faire, national capitalist order. The country surpassed the primitive accumulation stage to one of extended reproduction of capital.

Within this interpretation there is disagreement on the extent to which the Porfiriato brought development as well as growth and whether it had the potential to sustain that development. The standard view is that the Diaz regime represented a necessary step that fulfilled its historical role by fashioning a capitalist export economy but was incapable of forging the modern developmental state to foment industrialization. It is commonly held that Diaz’s government was unable to lead the march into the twentieth century because it was too weak and fractured, too beholden to foreign investors, reactionary hacendados, and an inflexible and inappropriate liberalism as well as too tied to personalistic political alliances, awarding friends rather than good entrepreneurs. As one historian of the state’s role in mining puts it:
La citada crisis [1906–1907] evidenció la fragilidad del modelo de desarrollo impulsado por la élite porfiriana: desarrollo del comercio para el extranjero, controlado desde el extranjero y con base en inversiones también extranjeras. . . . Se puede decir que el poder de esos capitales foraneos imposibilitó al gobierno para controlar o dirigir el proceso economico . . . Al optar por la irrestricta apertura al capital extranjero, el gobierno se vio enfrentado paulatinamente a una sociedad civil cada vez más numerosa y politizada.\textsuperscript{15}

I will argue that this view exaggerates the Porfiriato’s fragility, dependence, and doctrinaire inflexibility.

\textit{The accomplishments of the Diaz regime}

The Diaz regime’s most universally recognized and appreciated accomplishment, which was most responsible for Mexican economic growth, was bringing political and social peace as well as international confidence. The civil wars and local revolts of the nineteenth century were ruinous to the national economy. Capital fled, hid, or was consumed by marauding forces. Machinery and fields were burnt or abandoned. Workers became scarce as they were impressed by passing armies, died in or around the fighting (an upward estimate of just the independence movement puts the death toll at 600,000) or fled to avoid conscription. Moreover, population growth stagnated so that while in 1800 Mexico had a larger population than the United States, by 1900 the US population was six times Mexico’s. Perhaps more tellingly, in 1800 Mexico had almost twice the population of Brazil and by 1880, despite the existence in Brazil of slavery with its terrible mortality rates, Brazil had almost one-fifth more inhabitants. Public services virtually halted and public utilities fell into disrepair as national, provincial, and local treasuries emptied. The disruption of a fairly organized national economy left narrow compartmentalized local markets.\textsuperscript{16} Bandits set the terms of trade since they greatly increased the risk and expense of transporting goods. The exodus of capital and decline of silver production reduced severely the amount of money in circulation. Matias Romero estimated in 1876 that two-thirds of Mexico’s population lived in a natural economy with no use of money. In many places soap, cacao, and wood and even ice cream, punch and turkeys as well as privately minted coins and the currencies of other countries replaced the peso even in the supposedly monetarized economy (though there is no evidence of rotten eggs becoming currency as they did in even poorer El Salvador).\textsuperscript{17} At the same time, the diminished demand for goods because of the fall off in purchasing power and the narrowness of markets meant that there was probably less interest in the productive capacity of land and other resources.\textsuperscript{18} The major actors in the stuttering economy were the agiotistas, merchants who became financiers and traded on their influence with the state. Due to the terrible uncertainties and the lack of attractive options in the economy, political guarantees were vital. As David Walker remarks:
“it was easier to extract silver from the state than from the ground.”

Broadly put, the first part of the nineteenth century, with its flight of capital, decline in monetarized markets, disorganization of wage labor force, and destruction of capital improvements saw a withdrawal from an incipient capitalism.

The post independence decades also saw four foreign invasions and many smaller filibuster efforts that cost the nation half of its territory and the lives of tens of thousands of people. Mexico, long the object of envy by Spain’s European rivals, was far more damaged by European and Yankee colonialism than any other country in Latin America. Mexico suffered greatly from the loss of lives, territory and the expenses of self-defense as well as foreign inducements to internecine conflicts within Mexico. It also lost access to European credit markets as foreign capital proved extremely reluctant to invest in Mexico after the first euphoric days after independence.

Given these disastrous economic consequences of the political turmoil of the post-independence decades, Diaz’s consolidation and centralization of the national state had enormously positive economic consequences for bourgeois development. After the definitive defeat of the Conservatives in 1872 and the military defeat of major contending caudillos and the co-optation of others by 1884, Diaz centralized national power. Banditry was greatly reduced by the Rurales and more importantly the co-optation of bandits through government employment or the new possibility of greater profit through “legal” activities in the expanding economy. Internationally, Diaz resumed relations with the major powers and re-established national credit by negotiating settlements of past debts and war claims and the steady repayment of loans by the middle of the 1890s. The most important investments were in railroads which lowered transportation costs, widened labor and commodity markets, heightened integration, helped financial markets, and facilitated state repression of dissent. Peace, stability and the railroad, together with an international conjuncture of abundant capital markets and thriving trade brought about a booming economy and the deepening of capitalist relations.

The spread of the rule of money and the market can be indicated by proxy data since no data on national production, the gross national product, or total sales were taken. One good indicator of the growth of wealth and market relationships was foreign trade which nearly tripled in real per capita terms and grew seven-fold in current pesos. GNP estimates also show a doubling in real per capita income between 1877 and 1910. The intensification of monetarized relation was also demonstrated by foreign investment which grew dramatically from under US$100 million in 1876 to around US$1.7 or 2 billion in 1910. This made Mexico the second largest recipient of foreign investment in Latin America and, indeed, in the Third World, placing it ahead of India and China.

The growth of the money supply is another indicator of the expansion of capitalist relations. The minting of silver, the main currency, grew steadily
until silver was demonetarized in 1905 and gold replaced it. Probably an increasing percentage of the pesos minted remained in Mexico and peso imports also probably mounted around the turn of the century. This was enhanced by the printing of banknotes that began in the 1880s and grew rapidly. Combined, they saw the per capita money supply grow some 800 percent from 2.5 pesos per Mexican in 1880 to 20.6 pesos in 1910. In addition, most large foreign companies, which came in great numbers beginning in the 1880s, used checks rather than banknotes or silver (or gold) coins to add further to the money supply. Moreover, the velocity of money accelerated greatly with the advent of a commercial banking network, the railroad, and the telegraph. Clearly, the Mexican economy was becoming monetarized.

The transformation of natural resources and community holdings into individual private property advanced considerably. As much as one-fifth of the national territory that had been public or communal lands were distributed or sold (at ridiculously low prices) as “terrenos baldios” although it seems that the concentration of land was not as great as Tannenbaum had pictured. According to Meyer and Guerra, much communal land remained but went unrecorded in the records and the censuses have been misread. Nonetheless, a large share of the national territory, mostly in the less populated Northern and far Southern states, was taken from subsistence producers and given or sold to commodity producers. For the first time in her history, Mexico was exporting agricultural and pastoral products on a substantial scale. Domestic cotton and sugar also thrived. Even traditional subsistence crops such as maize and wheat became oriented increasingly to the market. Production was sufficient to feed an urban population that grew by more than 50 percent without prices rising appreciably in normal years. When food prices began to rise after 1899, this was probably as much a reflection of Mexico’s successful integration into the world economy and international prices as production failure. The United States also saw a sharp growth in food prices in those years, despite the most technologically sophisticated agrarian sector in the world as food began to win back some of the loss in the real price that had occurred since the depression of the 1870s.

Natural resources also became private property. The state ceded its monopoly over mineral rights, including petroleum, to private individuals and facilitated claims. A private investor could now claim large areas, pay low taxes, and retain control without working mines on the property.

The composition of the labor force also reflected the shift towards capitalism. While debt peonage did grow in some areas of the country as John Turner vividly reported, in most areas of the country it did not exist. Even when it did, as in Chiapas or Puebla, it seems to have signaled worker ability to secure an advance as much as owner control of labor. Although the agrarian sectors’ percentage of the work force remained unchanged, rural workers entered, at least part-time, into the labor market either for
wages or working commercially-oriented land for shares or rent. Already in 1896, the owner of the Batopilas mine complained that because of the industrial progress of Chihuahua which offered workers many other opportunities, the mine had to abandon the “peon system of labor.” He noted “now the scarcity of workmen is so great that nearly everything is produced on shares, and it is almost impossible to raise a crop unless the workmen are interested in it.” Indeed, if the censuses are to be believed, a substantially greater percentage of the population was economically active during the Porfiriato than would be after the Revolution and women’s percent-wise participation in the work force was only surpassed in 1960. Similarly, manufacturing and mining occupied a greater share of the labor force in 1895 than in 1930 and virtually equalled 1950 statistics.

Commodity markets also widened (though they probably did not deepen much for the great bulk of the population). The railroad tied together many areas of the country around regional hubs such as Monterrey, Torreon, Merida, and Mexico City. A true national economy did not yet emerge but larger blocks formed. Also a substantially greater portion of the population purchased imports now that long-distance discounts vastly reduced transport prices from the United States. The great growth of the domestic cigarette, textile, beer, and paper industries reflects the expansion of the market.

The market not only spread quantitatively, but also qualitatively during the Porfiriato’s third of a century. Technology improved markedly, particularly in the areas involving exports or foreign capital. The railroad and electric power permitted the importation of advanced capital goods and the employment of fairly large-scale plants in mining and some industrial lines such as iron and steel, paper, and glassware. The productivity gains in the countryside were less notable and depended more on improved transport and finance than mechanization of production.

As this list of the accomplishments of the Porfiriato demonstrates, the major contribution of the state is usually claimed to be the removal of barriers to private accumulation. The liberal regime operated in good gendarme fashion protecting private property and expanding its scope; assuring a strong currency and foreign credit; guaranteeing worker quiescence; keeping down taxes; providing a coherent legal system that protected private property; and stimulating the expansion of the transportation and communications infrastructure. The state encouraged national integration through the railroads, and the growth of the telegraph system. Regional barriers were reduced by ending the alcabala, and reducing the tax extracting and law-making ability of the provinces and municipalities. The federal government’s share of total revenues expanded. More importantly, provincial officials and even local ones were often chosen by Díaz or other federal officials. Owing to the importance of the central government, differences in local law became less important.
While these achievements are generally recognized, the Porfiriato is often criticized for succumbing totally to the allure of laissez-faire liberalism. By doing so, the regime is said to have exaggerated the importance of the export economy and foreign investment which concentrated wealth and therefore inhibited the growth of the domestic market. Some students of the period argue that Diaz did little more than strengthen the hand of the backward landed class and subject Mexico to the neocolonial domination of foreign capital. Although capitalist relations were coming into place, the economy was far from healthy; supposedly it was incapable of self-sustained growth on a broad front without serious structural reforms. The Porfirian regime could not transcend its liberal ideology and backwards-looking personalist political support to forge a developmental, interventionist state. The socio-economic transformations were incomplete and the political transformation had barely begun. By 1910, goes this argument, the Diaz regime had fulfilled its role in initiating the process of capitalist development, but the logic of capital accumulation demanded a modern state capitalist regime to forge industrialization. Many scholars assert that the Revolution was necessary to “modernize” the state’s economic role.

This argument employs ex post facto reasoning. In fact, contemporary critics of the regime were for the most part not seeking intensified capitalist relations or a more centralized modern state. The revolution was more provoked by people opposed to the “modernization of the state” that was already under way. They rebelled against such actions as the state’s centralization of power and encroachment on municipal privileges or the conservative banking policies of 1907 and 1908 meant to secure the country’s currency and foreign credit. More broadly, they rebelled against intensified capitalist relations, with its appropriation of peasant land and labor and concentration of wealth in corporate hands. They also resented the closer ties to the world economy, with greater vulnerability to world business cycles, that economic “modernization” brought about. Thus historians of Mexico today are tending to take a position similar to Tocqueville’s view of the French Revolution: the revolution caused centralization and modernization almost despite the intentions of most of the revolution’s participants.

The members of Mexican society most interested in furthering capitalist development at the time, the leading members of the most progressive sector of the bourgeoisie, supported Diaz and were quite happy with Limantour; the Monterrey elite, the Maderos, the Terrazas, Yucatecan planters, and most foreign investors continued to side with Diaz, sometimes well after the fighting broke out. Even Francisco Madero approved of the Porfirián economic policies; indeed he probably would have supported a Limantour candidacy for the presidency and once himself president wanted Limantour for his secretary of finance. The foreign investors who may have financed the revolution such as the Rockefellers and Harriman wanted a political change to install a more friendly leader, not a transformation of the regime.
The reason the bourgeoisie continued to support Diaz and Limantour is that the Porfirian state evolved along with the economy. The regime passed through three stages, altering its means and objectives according to the political and economic climate. Most of the criticisms of Porfirian policy are based on the actions in the first two stages when survival was the primary concern. Most critics have failed to recognize that there were important innovations and a change in direction in the third stage, beginning in the late 1890s, that moved the regime toward a coherent developmental program.

In the political consolidation phase, roughly 1876 to 1888, internal political alliances were forged and international diplomatic relations were improved. With an ailing economy, empty treasury, and tenuous political support, political survival was the foremost goal and the Mexican elite the principal object of flattery. Concessions were granted freely and land distributed amply. Even in this period, however, as Guerra points out: “Le liberalisme du ‘laissez-faire’ et du ‘laissez-passer’ est plus un but que l’Etat doit conquérir qu’une politique a pratiquer au present.” The state had to actively dismantle corporatist institutions and laws and subject society to the market and capital. It also had to buy itself support by awarding economic benefits to the politically influential such as Liberal caudillos and caciques.

In the second phase, from 1888 to about 1897, the goal was to reconcile conservatives at home and, more importantly, make Mexico attractive to the large-scale European and North American capital seeking foreign investments on an unprecedented scale. Walter McCaleb noted the extent to which foreign finance capital was reluctant to invest in Mexico in the Porfiriato’s first decade when discussing the floating of the 1888 loan:

There was no sound business excuse for bankers to undertake the flotation of a Mexican credit under any circumstances. For sixty years Mexico had been a constant defaulter in meeting her obligations and the conditions at the moment were not rosete and gave small promise of a change for the better. Diaz was still, so far as Europe knew, an experiment.

This period witnessed the Mexican state’s assertion of financial stability as the budget was balanced and the foreign debt consolidated. There was an effort to create coherent national framework for capitalist development by, for example, drafting a commercial and banking code, abolishing the alcabala to widen domestic markets, regaining in federal hands the silver mints, and authorizing state banks of issue. The effort was to create a national bourgeoisie and a dynamic, competitive capitalism. By 1897, the Frankfurter Journal recognized that Mexican prosperity could not be denied, but still cautioned that continued healthy conditions depended on continual peace.

The third phase, 1897–1910, represented the beginning of a more interventionist, nationalistic policy as Mexico solidified its internal support
and diversified foreign dependence. After 1897, European and North American capital markets were abundant. The *Mexican Herald* noted in its September 5, 1897 headline that “Vast Amount of Capital in the U.S. Money Lying Idle Awaiting a Favorable Opportunity for Investment.” British, French and German investors also placed their money in international markets at an unprecedented rate. A large part of the now available funds, especially from the United States, flooded Mexico. Unlike earlier foreign investment which were often portfolio and by relatively small investors, the new funds were placed mostly by large corporations in direct investments. Foreign capital in Mexico was an extension of the mergers and cartels that came to dominate in the United States and Germany. Until the depression of 1907, Mexico became a major battleground for international finance capital, receiving half of all US foreign portfolio investment and trailing only Argentina as the largest recipient of foreign investment in the Third World. Nowhere else in this period did such prominent members of the haute bourgeoisie as the French and British Rothschilds, the Gugenheims, the Speyers, J. P. Morgan, Bleichroeder, and John D. and William Rockefeller invest risk capital on a large scale. Now, state policy privileged national and international haute bourgeois financiers and large-scale corporations rather than bourgeois entrepreneurs as formerly and sought, at the same time, to increase central control of the economy.

*Corporate liberalism*

Although still populated predominantly by a vast undernourished peasantry, Mexico had reached the monopoly capital stage in dynamic sectors. As the *New York Times* informed its readers in December of 1902, “nearly all the principal branches of industry” were controlled by trusts and combines. It listed lead and silver smelting, cotton mills, soap, sugar, and tobacco but could have included glass, paper, steel, dynamite, cigarettes, railroads, banking, and henequen exports. The magnates competed with each other for control of such major enterprises as the Central, Nacional, and Internacional railroads, and the Banco Nacional. They eventually began to form consortia and joint enterprises such as the Banco de Comércio y Indústria. The most successful investors were North Americans who placed almost half of all US foreign investment in Mexico. Indeed, it was Mexico, much more than China, which witnessed the success of the North American strategy to compete with European colonialism: the Open Door. Indeed so successful were North Americans that other European powers feared that Yankees would take over completely. A German commercial mission reported back to the German Minister of Finance in 1902 that “American speculators were creating a state within a state.” European fears were heightened when Mexico borrowed US$40 million two years later. The *Mexican Herald* noted that “this in a way marks an
epoch in international finance” and the Monthly Bulletin of the International Bureau of the American Republics noted that “for the first time an important foreign loan is made payable in dollars.” Both European capitalists and members of the Mexican elite demanded greater state interference to regulate markets and prevent an American take-over.

Monopoly capitalism brought “state capitalism,” or perhaps more appropriate to Mexico, “corporate liberalism.” The basic belief was that corporations were progressive because they were more efficient and the result of a natural evolution. Thus the group, not the individual, and coordination not competition became the primary values. As Martin Sklar explains corporate liberalism in the context of the United States: “It assigned to the corporation, including investment banking and central banking, and to a lesser degree to other private entities, the primary task of managing the market, and to the state the secondary task of regulating the corporations and the lesser entities in the private sector.” Thus under corporate liberalism, the state and the corporate bourgeoisie cooperated to reform and centralize the economy and public oversight. The state was to regulate and coordinate, not direct and plan. Its role was to maintain social peace nationally and protect the corporations from ruining each other in price cutting struggles and buyouts.

A form of corporate liberalism took place in Mexico as well. Corporatism found deeper roots in Mexico than did liberalism individualism anyway. Andres Molina Enriquez remarked in 1909: “Desde el momento en que nuestra poblacion esta compuesta dentro de los grandes elementos en que la hemos dividido y a los que agregamos el elemento extranjero de unidades, tribus, pueblos y grupos . . . es impossible que todos ellos sean regidos por una sola ley.” This predilection was expanded by the appeal of positivism. As Charles Hale has observed, liberalism by the 1870s abandoned the notion of the autonomous individual for “theories construing the individual as an integral part of the social organism. . . .” They sought “secularism and state control”; their ideal was “a hierarchically organized and non–competitive collectivism in which state and society were one.”

The Mexican government had begun reasserting its national position already in the 1880s. In the early Republic, many government services such as roads, the postal service, port facilities, even provisioning of the armed forces were undertaken by agiotistas. These were assumed by the federal government already under Juarez. Silver mints, which had been leased to private individuals in exchange for loans, were also slowly taken over by the federal government as their contracts lapsed. Then in the last years of the nineteenth century, the state accelerated its retaking of control of the economy.

Public land policy changed beginning in 1902 when foreigners were no longer allowed to survey and receive public lands. All public lands were to be surveyed by public companies and remain in state hands. State lands
no longer were given out as subsidies either and some important concessions were revoked such as that of the Sud Oriental railroad in the Yucatan. When the federal government distributed land after 1902 as in Quintana Roo, it was rented, not sold. In 1907, the regime began canceling earlier concessions for occupation of public lands whose terms had not been complied with. Two years later all distributions of terrenos baldíos ended. New laws to sell federal lands to small farmers and to prevent the alienation of ejido land were considered in the Porfiriato’s last two years.

In addition to reclaiming control over public lands, the state began overseeing private land use. In 1903, Diaz revived the Sociedad Agrícola to disseminate agricultural techniques. Five years later Limantour announced a government irrigation policy and signed a contract with S. Pearson and Son to study irrigation and hydroelectric dam on the Rio Nazas. This “was to be the first irrigation work of scale that Mexico’s government had ever projected.” At the same time, the federal government widened its jurisdiction over waterways. Part of this increased state activity was manifested in Diaz’s attempts to limit the water rights conceded to the North American Tlahualilo Company in the Laguna. Movement in this direction was tentative because of the vested interests already existing and the intervention of foreign powers. The central government also created the Caja de Préstamos para Obras de Irrigación y Fomento de Agricultura to lend to irrigation projects and set out to create a Dirección General de Agricultura and Camaras Agrícolas Nacionales to promote agriculture.

Díaz and Limantour also sought ways to reclaim state control of subsoil rights. In 1901, they contemplated resuming the state monopoly of minerals but feared hostile US and Mexican reactions. Given the US response to the 1917 Constitution and the bellicose nature of the “Policeman of the Caribbean” in this era, this was a reasonable concern. Instead of public ownership, Limantour decided in good corporate liberal fashion to use the British firm of S. Pearson and Son to head off Standard Oil and develop the national petroleum industry. Pearson created the El Aguila oil company, which was authorized to drill on national lands in Veracruz, Puebla, San Luis Potosi, and Tamaulipas and granted generous tax exemptions. The petroleum was to be refined in Mexico and sold mostly in Mexico. Many of the most important members of the “government circle” were on the company’s board of directors.

In 1908, a new mining code was passed that increased government inspection over mining. Draft legislation also required special executive permission for foreigners to purchase mines in border states and demanded that all mine companies become Mexican corporations but foreign pressure prevented the promulgation of these provisions.

In the third phase of the Porfiriato, the state began intervening more directly in labor matters as well as in land and natural resources. The growth of a mobile, politicized, wage-earning laboring class led the government to intervene to prevent labor unrest and rising wages. In 1903, according
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to the *New York Times*, the government “advised the larger mining companies which are operating in Western Mexico that they must not pay higher wages than are paid in other parts of the country.”56 The government was trying to create a uniform industrial wage scale throughout the country and assure than foreigners receive no more pay than nationals for the same work. When the railroads were nationalized, many American workers were replaced with Mexicans for just such a reason.

The Díaz administration also sought to deepen monetary relations. Part of the 1905 monetary reform was the abolition of all payment in script such as in the “tiendas del rayas” and in foreign currency. In Chiapas employers had paid in Guatemalan currency rather than Mexican because it was worth 25 percent less. After the reform, most of the Guatemalan currency was replaced with pesos. There was also a substantial expansion of subsidiary coins worth less than a peso to facilitate payments.57

The best known aspect of the labor interventionism was anti-union repression. As Paul Vanderwood noted, increasingly the Rurales turned their attention from bandits to labor organizers. The secret police was also employed for similar purposes. Indeed Díaz reached an accord with the United States in which each hunted down and imprisoned radicals.58 Occasionally the army was brought out to squash strikes as at Cananea and Rio Blanco. Thus increasingly the army and police instead of defending the nation’s sovereignty and the state’s authority were turned to defending capital. (This created something of a dilemma for the Díaz regime, for while the United States was perceived as a threat to sovereignty, it was an ally of capital in the struggle against labor.)

The Porfirian state played a considerable role in commodity markets as well as in labor markets. The policy was somewhat complex. It attempted to encourage trade within the domestic market while regulating international trade and encourage large-scale efficient producer combinations while opposing commodity corners on essential goods. To free the internal market, the alcabala was removed by 1896 in all states. Eight years later, the free zone on the northern border ceased so that all Mexico was subject to the same national indirect taxes.59

While most domestic sales taxes fell, taxes on foreign goods rose after 1902. Import duties as a share of total imports had fallen steadily from 1883 to 1902 because they were levied on imports at a 1:1 ratio between the gold dollar and the silver peso. Since the peso had in fact fallen to half that, duties also fell despite the fact that rates were raised for many manufactured goods in 1892, 1893, and 1896. In 1902, imports began to be appraised in their silver currency value; that together with another customs revision in 1906 caused the protection level to rise by one-third. By 1909, a US Congressional investigator reported that the Mexican tariff on cotton goods was one of the highest in the entire world.60

Concern with the home market was also manifested in the state’s opposition to corners on necessary commodities. When a bad harvest

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drove up corn prices in 1901, the Mexican state intervened by removing duties on imported corn and importing large amounts itself. The state sold at cost or even sometimes at a loss and encouraged stores to sell at the normal pre-drought price through tax exemptions. Díaz explained that he had acted because corn was the only food of the indigenous classes and that he would “emplear el mismo arbitrio cuantas vezes sea necesario para contrarestar los efectos perniciosos de combinaciones artificiales, inspirado por exagerados propósitos de lucro.” The *New York Times* saw this as part of a broader policy: “when any commercial movement is organized which seems to be contrary to public policy the President does not hesitate to take a hand.”

Díaz was by no means a trust-buster however. On the contrary, he favored combinations that were seen as natural and efficient rather than “artificial” and price-gouging as the corn monopoly. As mentioned earlier, the first decade of this century is precisely when combinations were forming in many industrial, transportation, and banking lines. Most of these were allowed or even encouraged. The most prominent to receive state aid was the dynamite monopoly. In order to promote national production of this input vital to the mining industry, two firms, which later merged, were given concessions that essentially reserved the market for them. A sugar combination was also formed to encourage exports.

The most aggressive commercial effort by the Mexican state under Díaz concerned silver. Silver’s price had been falling since the 1870s and a series of international conferences failed to find a solution. In one last attempt in 1903, Mexico asked the United States and China to join in a diplomatic effort to stabilize prices. The plan was for all major European countries to agree to periodic purchases at a fixed price. This was clearly, as the French economist Viollet pointed out at the time, an attempt to “artificially sustain the price of silver.” While the diplomatic initiative failed, silver prices were driven up by an international cartel headed by the Guggenheims who were much favored by Díaz despite being Americans. This was another example of corporate liberalism; the state worked with and through the large corporations.

The most striking aspect of the state’s growing presence in the economy was in the area that had initially touched off the Porfirián economic boom: railroads. Beginning in 1898, Limantour began bringing order to the country’s poorly planned and uncoordinated railroad network. He set about reducing subsidies and preventing redundant lines while encouraging the linking up of isolated areas. In April of 1899, he established six priority lines that would be encouraged; no other new lines would be authorized. These six were important for national integration much more than for exports.

Part of the plan involved the Isthmus of Tehuantepec. Díaz long had been eager to have a railroad built across it and ports built on each side to make Mexico a transit point for Atlantic–Pacific trade as well as open up the country’s south. When private concessions to Americans failed, the
state financed the building of the railroad and ports by the Englishmen Weetman Pearson who ran it for the government. The choice of an English company without much previous railroad building or operating experience demonstrated the desire to diversify dependence away from North American railroad barons.65

Beginning in 1903, the Harriman-Rockefeller and Speyer groups vied for control of Mexico’s main rail lines at the same time that they were consolidating control over the US railroad network. In response, the Mexican treasury purchased control of the Interoceanic railroad connecting Mexico City with Veracruz and finally purchased controlling interests in the Central and National railroads. It is true that part of the impetus behind the purchases was to bail out ailing companies so that they would not go under and scare away other investors. But the purpose was also to mold the railroads to Mexico’s needs. Limantour hoped to resurrect the Central and National so they could connect with the Pacific. Limantour also feared major US capitalists dictating Mexico’s network. He denied Harriman’s Southern Pacific a concession to continue all the way down the Pacific into Guatemala for such nationalist reasons. By 1910, the Mexican state owned a majority share in most of the country’s most important railways and regulated closely the private lines.66

Less active in shipping, the Mexican state did begin substantial investments in ports after the turn of the century. Veracruz, Salinas Cruz, Coatza, and Manzanillo all received substantial federal funding for improvements. Tampico and Topolobampo were also expanded. This reflected the transformation of state finances.

State spending also grew markedly and its composition changed. By its height in 1907, real per capita income was twice what it had been at the Porfiriato’s outset. Government spending grew faster than the economy and, as a percentage of GDP, reached the level of the United States and the United Kingdom. It also shifted away from military expenditures and administrative overhead to investments, transfer payments and debt repayment. Real federal investment stated in the budget was four to six times greater after 1900 than it was in the 1880s and much additional investment was financed through extraordinary expenditures taken from budget surpluses. Moreover, much of the transfer payments, which fell sharply as direct federal capital investments grew with the new interventionist policy, were made to foreign railroad companies for their lines and thus were capital investments of a sort. In addition, increasingly after 1890 foreign loans were contracted not just to refinance former debt but to finance building projects such as the Tehuantepec railroad and port, the port at Veracruz, and the draining of Mexico City. Thus while they are not listed as capital investments, in good part they really were also.67

Growing state control of the banking system also testifies to the modernization of the state. At the outset of the Porfiriato, there were only two authorized banks in the country. Most lending was done informally
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The state had virtually no control over the money supply as well; it was composed overwhelmingly of silver which was freely minted, exported, and imported.

Over time the state increased its regulation of banking and money. It first authorized two banks of issue in the capital. Then the 1897, banking law provided for one bank of issue in each state. The limited number of banks authorized would create, Limantour acknowledged, “a sort of banking oligarchy”, but would facilitate state oversight. Unfortunately, many of these banks followed shoddy practices and by 1905 were on the verge of bankruptcy.

With the 1905 monetary reform, the federal government placed a much firmer hand on banks and centralized banking. It prevented the creation of further banks of issue for four years, reduced the capacity of existing banks to issue currency, and convinced state banks to close branches outside of their authorized state. The semi-official Banco Nacional regained its former prominence becoming something of a rediscount bank as well as the primary bank of issue. This led to the banking system with the greatest concentration and the strongest ties to foreign finance capital in Latin America. These links, rather than a disadvantage, however, facilitated foreign borrowing. The Banco Nacional de Mexico was the only Latin American bank that could successfully float bonds in Europe. Thus this semi-official bank that served the state while belonging to foreign and national financiers was an appropriate tool for corporate liberalism.

The monetary reform also created and funded the Comisión de Cambios y Monedas which was charged with stabilizing the exchange rate by overseeing the amount of coins minted and by directly entering the exchange market. It also wound up lending a substantial amount of its reserves to strapped banks during the 1907 recession serving thereby as something of a banker’s bank. Also as a result of bank troubles in 1907, the Caja de Prestamos y Obras Agrícolas was founded by Limantour with a capital of 10 million pesos, a government subsidy of 25 million pesos more and government guarantee for the issue of an additional 50 million pesos in mortgage bonds. This federally controlled bank was supposed to extend long-term loans for irrigation projects and commercial agriculture. Thus the Caja constituted recognition by Díaz, Limantour, and Congress of the need for a federally financed and controlled development bank. In fact, the funds went to refinance the debts of failing hacendados. While this was criticized by Francisco Bulnes as a backward looking move to help the precapitalist sector, in fact the intended beneficiaries were the banks whose loans to the hacendados were in jeopardy.

Through the monetary reform, the Comisión de Cambios, and the Caja de Préstamos, the federal government gained control of the money supply and strengthened the national banking system. It established institutions that fulfilled many of the functions of a central bank. This was far from a laissez-faire monetary system.
The monetary reform of 1905 has often been cited as an example of a backwards-looking measure that hurt Mexico’s international competitive position of Mexican exports and reducing protection for domestic production by raising the peso’s value. This also is seen as a sop to capital to encourage the entry of foreign investment, particularly finance capital. This criticism is exaggerated and completely ignores the economic climate of the day. Mexico resisted gold for a very long time. It was one of the last countries in the world to maintain essentially a silver standard. Even with the reform Mexico did not fully adopt the gold standard. When Mexico went to gold, the idea was to retain silver pesos which would have a fixed convertible gold value above their inherent silver value. This appreciation of about 10 percent was not enough to make much difference in international capital and commodity flows nor in the internal distribution of wealth and wages in the short run, but it did signal an attempt to convert Mexican currency from species value to fiduciary. That is, the value of the currency would depend on trust in the state’s guarantee of its value rather than in the market value of the coin’s metallic content. Moreover, the gold standard was not perceived as a victory of capital by many workers at the time. On the contrary, many of the most prominent European socialists preferred the gold standard because the silver standard had allowed employers to reduce real wages by paying in deflating currency. In fact, the first European country to return to the gold standard after World War I was the Bolshevik controlled Soviet Union.

The foreign borrowing policy reflected the growing independence of the Mexican government. The regime carefully diversified its borrowing between Europe and the United States. Unlike say Argentina or Brazil which borrowed almost entirely in the London market usually through the same couple of houses such as the Barings and Rothschilds, Mexico borrowed also in Germany, France, and the United States. By the turn of the century, the various nationalities often bid against each other for the privilege of lending to Mexico which by then had an excellent credit rating affording it the lowest interest rates and minimal discounts. In 1907, German Consul Wagenheim reported:

The cosmopolitans [científicos] see, as paradoxical as it may seem, the guarantee for political autonomy precisely in economic dependency in so far as they assume that the large European financial interests that have invested here will serve as a counterweight against American annexation desires and will lead to the internationalization and neutralization of Mexico.

So far I have argued that the Porfirian state was making impressive strides toward overseeing and integrating the export economy. It had a substantial role in banking, export markets, the money supply and type, and transportation. But what of industry? One of the major criticisms leveled against the liberal state was that it accentuated international commerce and capital at the expense of domestic autonomy through industrialization.
While it is true that the percentage of the work force employed in industry did not grow much and that the export sector and imports mounted more rapidly than did industry, Mexico experienced a notable growth in manufacturing. Its textile, cigarette, and beer industries ranked among the largest in Latin America and, indeed, among the largest and best capitalized in the non-European world. Mexican industry developed not only in the consumer durables with high divisibilities and low capital requirements, but also spawned the most advanced capital goods industry in the Third World. Monterrey’s Fundidora provided much of the country’s iron and steel needs, refining domestic iron and increasingly using domestic coke. The Guggenheims and Rothschilds established very large copper and silver smelting plants as well. Mexico’s silver mints for centuries were the leading silver coin producers and exporters in the world. Under Díaz, Mexico was the only country outside of the United States and Europe to refine petroleum on any scale, rapidly becoming one of the world’s leaders.74 The glass, paper, and cement industries provided the country’s needs well before they were established in say Brazil.

The expansion of industry was mostly a by-product of general economic growth in Mexico and prosperity in the world economy. It was not directly stimulated by the state. There were no public development banks or industrial enterprises. On the other hand, there were some important ways in which the state did foment industrialization already under Díaz. The import tariff was quite high on many goods produced within Mexico and tax exemptions were granted for necessary machinery and inputs for factories. Porfirian social and labor policies kept wages low. The silver standard also protected manufacturers in the sense that it facilitated lower domestic wages and production costs compared to imports where wages were paid in gold. The gold standard conversion in 1905 withdrew some of this protection by increasing the value of wages, but the 1907–08 recession forced domestic wages down in many sectors. Generous concessions provided the necessary transportation infrastructure and electrical energy.

The Porfirian state, then, was changing its economic policy on many fronts beginning at the end of the nineteenth century. It became more aggressive, interventionist, nationalistic, and developmental. This is not to ignore the great injustices and inequalities that remained or were created. On the contrary, modern capitalist states generally do stimulate or perpetuate inequalities at the same time that they are deepening capitalist relations and instituting state capitalism. The question is not whether the Díaz regime was just, but rather whether it was a modern capitalist state. While encouraging exports and foreign capital, it also protected the domestic market, stimulated import substitution in such important areas as petroleum, steel, cement, glass, and dynamite, and strengthened national integration. It followed neither a feudal nor a classical laissez-faire policy. Rather, the regime, influenced by the científicos, forged a policy of corporate liberalism.
The political victory of the científicos after the turn of the century should be seen as a corollary to the enactment of corporate liberalism. The state gave preference to the most advanced capitalist sectors, especially international and national finance capital rather than to the traditional hacendados. While traditional landholding families such as the Peones of Yucatan prospered under Díaz, the new commercial-financial families with international ties such as the Molinas, Terrazas, and Maderos and the immigrant-financiers such as Hugo Scherer and Thomas Braniff were much more successful. Although these groups certainly benefited from political influence, their economic success largely preceded their political influence. The Terrazas and Maderos, for example, were out of power when they first became wealthy. When Díaz began in 1902 placing científico-allied men in the governorship of important states, promoting, as François Guerra says the “aristocratization of Caesar”, this was a recognition of the victory of the financial-commercial elite over the traditional landed families. Caciques’s local political influence and long-standing friendships with Díaz gave way to the power of capital. This was, in fact, a political modernization of the state to complement the economic transformation well under way. Unfortunately, the Porfiriato suffered, as Alan Knight has observed, from an “overdeveloped economic muscle and an underdeveloped political brain.” It was conjunctural economic problems such as the 1907–08 Depression, which reverberated particularly strongly in Mexico because of the success of her integration into the world economy, and political ineptitude that brought down the Porfirian system, not the structure of the economic program.

After the deluge

In fact, there was little change in economic policy for more than two decades after the Revolution’s outbreak. In most of the most important areas, the post-1911 administrations continued with the liberal policies of the Diaz years: fiscal policy continued to be conservative. Regimes attempted to balance the budget and government spending reached, even under Cardenas only as estimated 8 percent of GDP, an amount Diaz had already spent. Monetary policy continued to seek the gold standard until 1932 and only then abandoned it because, according to Enrique Cardenas, “fue forzada por el bajisimo nivel de reservas internacionales.” The revolutionary regimes followed pro-cyclical policies that restricted the money supply and expenditures when the economy declined in order to prop up the peso, rather than Keynesian pump-priming. Even Lazaro Cardenas was slow to change this in fact though in principal some of this advisors came to see the necessity of Keynesian policies. Relatively little was spent on the infrastructure. Despite the advent of the automobile, the
decline in railroad building and the rise of a well-educated engineering
cadre, Mexico in 1930 had only 1,400 kilometers of paved roads, probably
less than Los Angeles at the time. There were still very few state enter-
prises. Despite the creation of a central bank in name, a true central bank
had to wait until 1932. For more than twenty years after Diaz’s fall, fiscal,
monetary, and industrial policy remained much the same.

Indeed, the enormous toll in lives and economic destruction that the
revolution took probably slowed down the evolution of the state’s eco-
nomic role. The “revolutionary state” enjoyed less material and intellectual
resources, less international support, less luxury of long-term planning
than it would have had without the Revolution. The economic leaders
continued by and large to be the same people who had prospered under
Díaz. For them, the Revolution created a crisis of confidence which led
to substantial industrial disinvestment. Until the late 1930s, the major
industries in the country continued to be the same as had arisen under the
Porfiriato and they continued to exert great influence. As Haber observes:
“the Revolution, rather than tearing down the industrial structure of the
Porfiriato, reinforced it.”

When the modern developmental state began following Keynesian
policies in the 1930s, it was not because a new social class had come to power
with the Revolution or because the state was now sufficiently politically
strong to exercise its will. The Revolution and a strong state well preceded
the emergence of new state policy. Rather, the international conjuncture
forced new economic directions which were nonetheless adopted hesitantly. Although favoring a redistributionist state, Cardenas was reluctant
to greatly increase state spending or to create large state enterprises. He
also faced substantial limits on the state’s autonomy imposed by the
national bourgeoisie, foreign investors, and foreign states.

The Depression, with its disruption of international trade and investment,
caus early states all over the world to intervene in their economies. Right
wing governments such as Ibanez in Chile and pro-capitalist leaders such
as Franklin Delano Roosevelt in the United States found themselves forced
to undertake unprecedented state initiatives. Certainly a social revolution
was not necessary to induce the abandonment of laissez-faire.

Mexico and Brazil compared

It is also true that while the depression made state activism much more
commonplace, many states such as Argentina withdrew from a greater
state role in the face of the world crisis. How can we know if the liberal
Mexican regime had the seeds of the interventionist state within it and if
it would have born fruit without the hothouse of the revolution?

One suggestive comparison is with Brazil. Brazil is famous for
avoiding social revolutions through compromise. The liberal regime of the
First Republic (1889–1930) gave way to the Vargas regime in 1930 which
maintained most of the previous economic policies even while adopting new language.

Brazil, much more than Argentina, resembled Mexico in 1910. Both had been rich colonies and, in fact, centers of colonial systems. They had a tradition of a strong state role in the economy, though in Mexico’s case it was the colonial state which had been assertive while in Brazil’s case it was the nineteenth-century state. Both were rural, raw material exporters who controlled a large share of the world market in their main commodity. Brazil received almost as much foreign capital as Mexico and foreign investment may well have surpassed domestic investment in the 1900–1910 period. Per capita income was similar. Each was governed by a liberal oligarchic state with limited popular legitimacy which strayed from laissez faire principles. Brazil was on the gold standard, sought to balance its budget, and decentralized revenue. The Brazilian state owned half of the railroads in the country but had leased most of them to foreign capitalists. It had also undertaken the first coffee “valorization” to prop up international coffee prices but it was a timid, ad hoc project directed by the state of Sao Paulo rather than the central government.83

There were some important differences, to be sure. The Brazilian state spent a good deal more, and invested more than the Mexican state. Most importantly, almost half of Brazil’s foreign investment was in loans which comprised only one-fifth of the investment in Mexico. Consequently, foreign investors owned less of Brazil and were less involved in the most dynamic sectors of the economy. Because of the importance of coffee, Brazil had a larger and more dynamic national bourgeoisie than did Mexico.84 North Americans had a small stake in Brazil so the US exerted little diplomatic pressure. This difference, however, was one which would have probably diminished over time even without the Mexican Revolution.

The 1880–1914 period was unprecedented for world capital flows. British capital in Latin America actually declined after World War I as did French and German investment. After a spurt in the 1920s, US investment worldwide also stagnated for more than two decades.85 Combined, British and US investment in Latin America remained the same between 1914 and 1949 while Latin American populations doubled and economies grew at an annual per capita rate of about one percent.86 It was inevitable that foreigners’ relative economic position would decline between 1914 and the 1950s, even if Mexico continued to attempt to attract capital from abroad. Thus foreign investment in Mexico as a share of all investment was about to decline for reasons exogenous to Mexico. Moreover, investment turned away from transportation and raw materials such as minerals (which together constituted 80 percent of US investment in Mexico in 1910) to production for the domestic market and much later export industry. These later interests created greater concern with developing the internal economy and acceptance of populist labor policies that enlarged the domestic market. The US greatly increased investments in Brazil in
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precisely these areas. In Mexico in particular, mineral production became less attractive because of rich petroleum finds in Venezuela and copper in Chile and Peru.87

Finally, Mexico differed from Brazil in the degree of diplomatic pressure imperialism, that is, for Mexico, the United States, could exert. US influence in Mexico in this period was greater than perhaps anywhere in the world.88 Díaz and Limantour were constantly constrained in economic policy by the threats of the United States. Indeed, partly to offset this Mexico invited in so much European capital. And in the last decade of the Porfiriato, Mexico distanced itself from the US by supporting Santos Celaya of Nicaragua and giving him refuge after the US overthrew him; refusing the US navy use of the Bay of Magdalena; disagreeing over the border with the US because of the changing course of the Río Grande; and diplomatic reception of a Japanese official delegation.89 But US aggressiveness was bound to decline independent of the Mexican Revolution. After Woodrow Wilson, Republican presidents began to edge away from the US efforts to join the colonial powers. The Age of Empire ended with a disastrous world war. After 1918, isolationism re-emerged. The US disengaged in Latin America with the Good Neighbor Policy prompted by greater preoccupation with domestic problems, the threat of German diplomacy, and a new world view. US influence declined everywhere, even in neo-colonies such as Nicaragua, Haiti, Cuba, and the Dominican Republic. Thus any Mexican government would have been freer than the Porfirian regime to undertake the sort of initiatives that Limantour had in mind.

The liberal Brazilian regime responded to these changes in the world and new domestic demands by transforming the state. It became interventionist already before 1930, without any dramatic political rupture. It came to own state commercial, savings, and mortgage banks, railroads, and shipping lines, virtually control the world coffee trade, and regain authority over water rights. After 1930, its interventions accelerated. Until the oil bonanza the Brazilian state’s economic presence and ability to extract taxes from the private sector was greater than the Mexican state’s. In 1980, foreign multinational corporations in revolutionary Mexico controlled half of the assets of the largest 300 manufacturing firms just as they did in Brazil, controlled by a right-wing military. The one major difference was in redistributionist policies such as land reform and labor relations. It is only here that Mexico appeared much different and the Mexican Revolution made itself felt. But even in this area, the distribution of wealth is heavily and similarly concentrated in both countries.90

Conclusion

The Mexican Revolution was an important event in the reformulation of the Mexican state. Caciques were eliminated and political power was centralized. Peasants and workers retained for a while somewhat more
voice in public affairs. It was a populist revolution. But it did not really signal the creation of a modern capitalist state. Developmental interventionism was already under way in the Porfiriato. In the third phase of the Díaz regime, 1897–1910, the científicos forged a policy of corporate liberalism to accommodate the influx of large-scale foreign finance and industrial capital and the creation of domestic finance capital. The state began to regulate the economy much more closely and undertake some nationalistic measures. State interventionism accelerated markedly not with the Revolution but with the Depression. Comparison with Brazil suggests that even without a social upheaval a developmental interventionist state would have been born in Mexico because of the unsettled international economy and the weakening of foreign pressure during the 1930s, changing patterns of international investment, and the growth of the home market. The aspects of state policy that are more directly attributable to the Revolution are land reform and greater interest in social justice. Thus the historical legacy of the Revolution is the redistributionist welfare state and its concern with the masses, not the developmental state and concern with the balance sheet.

Notes

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6 A. Knight observes in D. A. Brading, *Caudillos y campesinos en la Revolucion Mexicana*, trans. C. Valdes (Mexico, Fondo de Cultura Economica, 1985), p. 85 that the new forms of authority in the Revolutionary state allowed it to “continuar la obra de Diaz de desarrollo economico y de centralizacion politica con mas seguridad y eficacia que las que el viejo dictador hubiera sonado.” Jean Meyer echoes this in *La Cristiada, Vol. III* (Mexico, Siglo Veintiuno Editores, 1974), p. 319 when he sees the Revolution as “el climax del proceso de la modernizacion iniciada a finales del siglo XIX, fue el perfeccionamiento, y no la destruccion, de la obra de Porfirio Diaz.”
9 Nancy Farriss in *Maya Society Under Spanish Rule* (Princeton NJ, Princeton University Press, 1984), pp. 7, 8 makes the cogent point in another context when she argues that studies of the impact of the conquest on the Maya also assume that they were static and would have remained unchanged when the only thing that was really constant was change.
14 M. del Refugio González, in “La intervencion del Estado en la economia y en la sociedad en México. Sus orígenes y desarrollo. Una propuesta de interpretacion,” *Mexican Studies/Estudios Mexicanos*, 5 (1), 1989, p. 37, succinctly states the transformation of the state that Liberals sought after Independence: “a partir de 1821 en Mexico comenzaron a darse los pasos para transitar de una sociedad corporativa y estamental a una igualitaria; de un regimen de acumulacion de funciones a la division de poderes; de un sistema corporativo de administracion de justicia al que proclamaba y se basaba en la unidad de jurisdiccion; de unas estructuras fiscales casuisticas y pragmaticas a un sistema tributario que habia de servir de sustento al nuevo orden de cosas; y sobre todo a el lugar que habia ocupado el soberano tenia que estar, a partir de entonces, la nacion.”
15 Cuauhtémoc Velasco Avila in *Estado y Minería en México (1767–1910)* (Mexico, Fundo de Cultura Economica, 1988), p. 423. John Hart in *Revolutionary Mexico* (pp. 184, 185) blames the Revolution on “the destabilizing results of foreign penetration of the Mexican political economy . . .” He argues that “The public blames the state for Mexico’s subordinate role in the world marketplace and the predominant position of foreigners in the domestic economy.”


The extent to which Mexico was already capitalist on the eve of independence is debated. Jaime Rodriguez and Colin Maclachlen in The Forging of the Cosmic Race (Berkeley, University of California Press, 1980) argue that it was well on its way, while Richard Salvucci recently demonstrated in Textiles and Capitalism in Mexico, an Economic History of the Obrajes, 1539–1840 (Princeton, Princeton University Press, 1987) the fragile and inefficient nature of technology, labor, and markets for the major manufacturing sector: the obrajes.

Mexico before Diaz was mainly disorganized from a bourgeois point of view of course. Many peasants probably benefited from the disorganization because it reduced the ability and the incentive of the state and landlords to extract surplus value from them. Most peasants were left pretty much in peace. There were instances, however, of peasants joining the Liberal movement. But they did so in order to reduce the power of landlords and the Church, not to forge a capitalist nation. See F. Mallon, “Peasants and state formation in nineteenth-century Mexico: Morelos, 1848–1858,” Political Power and Social Theory, 7, 1988, pp. 1–54.


Guerra, Le Mexique, vol. 1, p. 304.


The normal argument is that subsistence crops were sacrificed in favor of export crops. This happened in some areas such as Northwestern Yucatan and Morelos. In many other areas, such as coffee and tobacco producing regions, workers were often given land to work in lieu of pay. The fact that the population grew 50 percent between 1880 and 1910 without immigration and without any medical breakthroughs and that most urban and rural silver salaries remained flat throughout the period despite the peso’s 50 percent depreciation vis-à-vis gold and, as a traveler noted in the Mexican Herald, May 8, 1896, p. 7, consumer prices had remained unchanged for the previous ten to fifteen years suggests strongly that market-oriented subsistence crops expanded significantly. On the other hand, the tens of thousands of people who starved in drought years and the failure of life expectancy to increase appreciably demonstrate that per capita subsistence production probably did not increase and productivity showed at most small gains with transportation economies perhaps outweighing the costs of using more
marginal land. Productivity may well have declined in the center while rising in the North. John Coatsworth in “Anotaciones sobre la produccion de alimentos durante el Porfiriato,” Historia Mexicana, 26 (2), 1976, pp. 168, 186, supports this conclusion.


S. Haber, Industry and Underdevelopment, The Industrialization of Mexico, 1890–1940 (Stanford, Stanford University Press, 1989), pp. 49, 54, 124 shows cigarette production almost doubling 1898–1910, cotton textile production growing almost two-thirds between 1895 and 1910, and beer production swelled much more. Real per capita imports more than doubled between 1892 and 1907 despite a dramatic fall in the peso’s international purchasing power. However the fact that wages and prices remained fairly stable in most of Mexico despite the peso’s 50 percent depreciation implies that the economy was dual with the vast majority still outside the reach of imports.

Ibid., p. 44–62.

R. Ruiz, in The People of Sonora and Yankee Capitalists, 1882–1910 (Tucson AR, University of Arizona Press, 1988), p. 1, recognizes economic change but sees this as negative, saying that the people of Sonora were less free in 1910 than in 1810 because “Mexico had fallen under the control of a foreign master more formidable than the hated Spaniard. He was the Yankee, the neighbor to the North, and the ‘unfree’ status of Mexico came to be known as ‘dependency.’”

For an example see: Vernon, Dilemma of Mexico’s Development, p. 78.


For the attitudes of arguably Mexico’s most progressive bourgeoisie, that of Monterrey, see A. Saragoza, The Monterey Elite and the Mexican State, 18801–1940 (Austin, University of Texas Press, 1988), pp. 96–9. For the Puebla industrial elite see: L. G. Ojeda, Los empresarios de ayer (Puebla, Editorial Universidad Autónomo de Puebla, 1985).
Reichsamt des Innern archive, Potsdam, DDR, file 4384 Bruchhausen to von Hintze, Mexico, 4 June 1911 says “the Maderistas offered everything to convince Limantour to remain in his position.” See also H. W. Tobler, Die Mexikanische Revolution; Gesellschaftlicher Wandel und Politischer Umbau, 1876–1940 (Frankfurt, Suhrkamp Verlag, 1984), p. 127.

37 Guerra, Le Mexique, vol. 1, p. 274. The fragile political support for Díaz as late as 1890 is exemplified in a letter from Díaz to Alejandro Vasquez del Mercado, Aguascalientes, Mexico City June 21, 1890, Porfirio Díaz archive, Universidad Iberoamericana, copiador 17 in which the General laments the great rise in demand for military help in the states which claim to have insufficient force on their own and fears a filibuster expedition in Baja California supposedly backed by Americans and Englishmen. Díaz wanted jefe politicos to help in drafting troops to meet these challenges.


39 Mexican Herald, February 16, 1897, p. 5.


41 New York Times, December 13, 1902, p. 1. Also see Haber, Industry and Underdevelopment, p. 44; A. Wells, Yucatan’s Gilded Age, Henequin, Haciendas and International Harvester (New Mexico, University of New Mexico Press, 1984), shows that one export house and twenty planters dominated henequin production.


44 Cited in Auslandische Amt, 1740.


46 For some studies of this episode in US history see: S. Hays, The Response to Industrialism, 1885–1914 (Chicago, University of Chicago Press, 1957); J. Weinstein, The Corporate Ideal in the Liberal State, 1900–1918 (Boston, Beacon, 1968); R. J. Lustig, Corporate Liberalism (Berkeley, University of California Press, 1982).


49 See Walker, Martinez del Rio and Tenenbaum, Politics of Penury.

50 Wells, Yucatan's Gilded Age, pp. 106–9.


The federal government established a public trading company to sell Mexican silver abroad for a low commission though it proved unsuccessful: Sec. de Hacienda, Memoria 1904, p. xv; Limantour to Rothschild, Mexico 19 May 1905, N. M. Rothschilds and Sons archive, London, VII/36/0–78.

65 There were bids by prominent American railroadmen such as Collis P. Huntington for the Tehuantepec project but they were rejected in favor of the joint venture with Pearson. Diaz wrote to Huntington, August 3, 1895 (Porfirio Diaz archive Universidad Iberoamericana legajo 14, copiador 18) that he could not sell him the Tehuantepec railroad because “constuiria un monopolio contrario á los preceptos constitucionales relativas y privaria al Gobierno de una
de sus facultades más importantes.” Brody wrote to Pearson from Mexico October 3, 1902 (Pearson archive A–4) that the US government had objected to the Tehuantepec contract and inquired why “the US and its citizens should be so odiously excluded.”


67 Calculated from El Colegio de Mexico, Seminario de Historia Moderna de Mexico Estadísticos económicos del Porfiriato, fuerza de trabajo y actividad económica por sectores (Mexico, 1965), passim. Wagenheim to von Buelow, Mexico 19 December 1907, reichsamt des Innern 4384 reported that since 1895 38.5 million pesos of the total budget surplus of 111.5 million had been used for extraordinary expenditures and most of it for capital investments. This was a significant sum when one realizes that the total capital investment in the ordinary budget in those years was around 60 million pesos.


71 A sudden rise in silver prices above par allowed the state to replace silver pesos with gold ones at a considerable profit and stymied the effort to implant fiduciary currency.


73 Quoted in Tobler, Die Mexikanische Revolution, p. 116. Brestlaw to von Buelow, Mexico 27 June 1906 in Ausländische Amt 1746 complains that the US Speyer banking house had forced Bleichroeder out of government financing and was now threatening to squeeze Germans out of private finance as well.

74 Third World countries barely participated in the production of industrial inputs such as iron, coal, and petroleum in this period. According to P. Bairoch, The Economic Development of the Third World since 1900, trans. C. Postan (Berkeley, University of California Press, 1977), p. 55, the Third World produced only 3 percent of the world’s iron ore and 15 percent of its petroleum in 1913.

75 A. Wells, “The Peones and Molinas,” Hispanic American Historical Review, 62 (2), May 1982, pp. 224–53; M. Cerruti, Burguesía y capitalismo en Monterrey, 1850–1910 (Mexico City, Claves Latinoamericanas, 1963), M. del Carmen Collado, La burguesía mexicana: El emporto Braniff y su participación política, 1865–1920 (Mexico, Siglo Veintiuno, 1987). Haber in Industry and Under-development, p. 69 points out the importance of the “financier-industrialists”: “In fact, it was not so much a case of the state representing the interests of these financiers as it was that these financiers were the state.”

76 J. Meyer, in La Revolución Mexicana (Barcelona, DOPESA, 1973), p. 263, observes also that “que tal vez hubiera podido hallar [the Diaz regime] una solución dinámica, si no hubiesen surgido una serie de problemas conjunturales, como la crises financiera y monetaria, la sucesión y la hostilidad americana.”

77 E. Cardenas, La industrialización mexicana durante la gran depresión (Mexico, El Colegio de Mexico, 1987), pp. 55, 49, 71, 87, 95.

78 R. de Gortari Rabiela, “Los ingenieros civiles y las políticas de obras publicas despues de la Revolución: La Comision Nacional de Caminos,” presented at the Coloquio de Historia Economica of the Centro de Estudios Historicos, Colegio de Mexico, March 30, 1989. Gortari shows the rise of far-sighted engineers who believed that the state should be more active in road building, but material conditions prevented much building.
V. M. Bett, *Central Banking in Mexico and Monetary Policies and Financial Crises, 1864–1940* (Ann Arbor, Bureau of Business Research, School of Business Administration, University of Michigan, 1957), p. 117 observes, “The development of the Bank of Mexico was largely determined by forces outside itself and often outside of Mexico; forces over which it had little or no control.” There were some efforts to create state-directed cartels to protect sugar and henequen after the Revolution. These were not too different from the failed Porfirian silver scheme. See for sugar: H. Crespo, S. R. Retana et al (eds.), *Historia del Azucar en Mexico* (Mexico DF, Fondo de Cultura Economica, 1988–1990), pp. 310–15; for henequin see: G. Joseph, *Revolution from Without* (Cambridge, Cambridge University Press, 1982), ch. 8. Kerig in “Yankee Enclave,” shows the continuity of land policy relative to a large US land developers until the Cardenas administration.


E. Cardenas argues, p. 85, that the state abandoned laissez-faire for greater flexibility of action “casi independiente”; it was not forced by economic or social conditions. He shows that government spending as a percentage of GDP increased from 6.34 percent in 1930 to 6.87 percent in 1933 and 7.85 percent in 1940, a very minor change in the middle of a terrible depression. N. Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton, Princeton University Press, 1982) demonstrates the constraints Cardenas faced. J. Wilkie, in *The Mexican Revolution: Federal Expenditure and Social Change* (Berkeley, University of California Press, 1970) shows that the distribution of spending did change, moving much more toward social concerns.

Leal in *La burguesia e el Estado Mexicano* recognized some time ago that the Mexican experience in some ways resembled late developing countries such as Germany, Italy, and Japan but differed in being a dependent agro-mineral exporter. Comparison with other agro-mineral exporters will help capture Mexico’s uniqueness.


J. F. Rippy, *British Investments in Latin America, 1822–1949* (Hamden CN, Archon Books, 1966 [1959]), pp. 67, 75, 85 shows nominal British capital in Latin America more than doubling in the twenty three years between 1890 when it was £425 million to almost £1.0 billion in 1913 in the next fifteen years it rose to a high in 1928 of £1.211 billion and then down to £360 million by 1949. US investment in Latin America grew even faster between 1890 and 1910, increasing more than five fold. According to the US Department of Commerce, *Historical Statistics of the United States from Colonial Times to 1957* (Washington DC, Government Printing Office, 1960), pp. 565, 566, where US foreign investment grew five fold in the seventeen years between 1897 and 1914, it grew four fold in the thirteen years between 1914 and 1927 and then fell through in 1940. Substantial gains began only after 1946. In Latin America, US investment it took the 27 years between 1929 and 1956 to double, something which only took five or seven years at the turn of the century.


After all filipinos fought for two years at the cost of perhaps hundreds of thousands of lives against a US army of 100,000 men to assert their autonomy after the Spanish-American war.
Certainly nowhere did US influence in independent countries surpass that of Mexico (Panama being a de facto US colony).

\(^{89}\) To bler, *Die Mexikanische Revolution*, p. 115.


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