

Lawyers' Contribution to Business Development in Early 20th Century Mexico

Gabriela Recio*

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This article explores how different firms adapted to new institutional arrangements at the end of the Mexican Revolution (1920) and how they constructed diverse organizational schemes to fit new rules set forward by new regimes. Lawyers were important agents in helping companies adjust to an economy where the State increasingly sought wider participation. Lawyers offered their clients invaluable services, such as lobbying and advice on corporate restructuring, in times of fast changing legislation, and they ultimately served as an important link between investors and entrepreneurs. An analysis of Manuel Gómez-Morin –important business lawyer- shows how some major firms used his services to create Mexico's first holding company (the case of VISA) and to successfully issue the first mortgage bonds in the country (for Cuauhtémoc Brewery).

* Gabriela Recio is currently a Visiting Fellow at the Center for U.S.-Mexican Studies, University of California, San Diego. Contact information: gabrielarecio@yahoo.com

1. Introduction

After the Mexican Revolution (1910-1920) ended entrepreneurs were faced with diverse challenges that had to be solved so that everyday business life could adapt to the new environment that was developing in the country. This meant that their enterprises had to adjust to new sets of rules and regulations that new governments began to implement from 1917 onwards. Additionally and more concretely, their companies were required to work in a market in which bank services had almost disappeared –due to the government’s seizure of all bank reserves- and where communications (railway and telegraph) had been seriously disrupted and in some places destroyed by the revolts.

By the 1930s the revolutionary ideals were still having a profound impact in the economy, nevertheless, in terms of business organization and development some innovations –that have profoundly shaped business groups and their evolution along the 20th century- made their debut on that decade.¹ For example, Mexico’s first holding company (*Visa*) was created in order to solve expansion as well as financial difficulties that the *Cuauhtémoc* Brewery was facing.² Furthermore, this company introduced a financial novelty at the time, by successfully issuing the first mortgage bonds in the Mexican market. Notwithstanding a time of increasing State intervention, the business

¹ For example, insurance companies were legally required to have a majority of Mexican citizens as investors and were forced to invest only in government bonds and in Mexican companies. Furthermore, the petroleum industry was expropriated from its mainly U.S. and British owners, and the electric industry was also nationalized years later.

² The *Cuauhtémoc* brewery (founded in 1890) along with the *Modelo* Brewery (founded in 1925) currently control the beer market in Mexico. *Modelo*, which produces “*Corona*”, has displaced “*Heineken*” in sales (in the imported beer segment) in the U.S. market. *Cuauhtémoc* has also made inroads in that market as well by using other strategies. For example, the brewery’s brand *Tecate* is currently the number one beer bought –within the imported can beer segment- in the United States.

arena witnessed the formation of the first joint venture between Mexican and U.S. companies (*Euzkadi Rubber Co.* and *Goodrich Rubber Co.*).

This paper explores how different firms adapted to new institutional arrangements once the Revolution ended and how they constructed diverse organizational schemes to fit the new rules of the game that were set forward by the new regimes. Business lawyers were important agents that helped different companies with the adjustment process in an economy where the State increasingly sought a wider participation. In doing so they offered their clients invaluable services such as lobbying and corporate restructuring. Further, in a country with scarce financial services, lawyers ultimately served as an important link between investors and entrepreneurs. In other words, these legal consultants were the agents that aided other economic participants in adapting to new institutional arrangements and to make that adjustment the less costly one. In this respect, the case of Manuel Gómez Morin³, important business lawyer, is employed to analyze how some important businessmen used his services to advance forward new financial schemes, to discuss new business deals like mergers and acquisitions, and in general to solve problems that continuously arose in an economy with poor institutional arrangements and badly enforced property rights.

³ It should be mentioned that the life of Manuel Gómez Morin (1897-1972) has been analyzed by several authors. For example: Enrique Krauze, *Caudillos culturales en la revolución mexicana* (México D.F., 1999), has focused on his contribution to Mexico's intellectual life; Soledad Loaeza, *El Partido Acción Nacional: la larga marcha, 1939-1994* (México, D.F., 1999), has studied him as the founder of the PAN party in 1939; Ma. Teresa Gómez Mont, *Manuel Gómez Morin: la lucha por la libertad de cátedra* (México D.F., 1996) has discussed his role as President of UNAM in 1933 (National University, 1996); *Setenta años del Banco de México* (México D.F., 1996), has examined his involvement in the Central Bank formation in the 1920s; and Javier Garciadiego, *Rudos contra científicos. La Universidad Nacional durante la Revolución Mexicana* (México D.F., 1996). Even though Gómez Morin worked as a business lawyer all his life, except in the years 1919-1921 and in 1933, there are no studies that analyze him in this capacity.

2. The impact of the Revolution

By 1920 Mexico began to recuperate from the effects of the Revolution. Even though, the economy had not collapsed, there were some adjustments that businessmen and industrialist had to do.⁴ From 1910 to 1920 the country had witnessed not only warfare but also a continuous change of revolutionary cadres. Additionally, there were years where parts of the country were controlled by different armies, thus complicating the organization and implementation of national programs since every commander designed and carried out policies in their own regions. One significant economic problem that resulted from the latter was that each faction emitted its own currency and did not accept that of its rivals which ultimately led the country to a period of hyperinflation.⁵

Agriculture, cattle, railways, and banking were the sectors that were most affected by the warfare. Agriculture suffered heavy losses, especially in the sugar, cotton and maize farms.⁶ But other regions were spared from the revolts and witnessed unprecedented booms in their agriculture; such was the case of Yucatán with its sisal export and production boom.⁷ Cattle ranching, on the other hand, was hard hit since the revolutionaries used livestock to feed their armies or simply exported it to the United

⁴ For a more detailed account of the Revolution see John Womack, "The Mexican Economy during the Revolution, 1910-1920: Historiography & Analysis", *Marxist Perspectives*, Winter 1978, and John Womack, "The Mexican revolution, 1910-1920" in Leslie Bethell, *Mexico since Independence* (Cambridge U.K., 1991).

⁵ By the end of 1913 the peso abandoned the gold standard and gold pesos disappeared from circulation. From 1913 to 1914 the peso suffered a 54% devaluation, from 1914 to mid-1916 it amounted to 154% and at the end of 1916 it was 2009%. For a more detailed account of this problem see Edwin W. Kemmerer, "Inflación y Revolución: la experiencia mexicana de 1912 a 1917", *Problemas Agrícolas e Industriales de México*, Number 1, Vol. 5, 1953.

⁶ John Womack, "The Mexican Revolution 1910-1920", p. 133. Maize (in the form of tortilla) was one of the most important ingredients in the Mexican diet.

States to obtain much needed resources, which meant that from 1910 to 1923 these ranches lost 67% of their animals.⁸

Railways were used from the onset to move revolutionary troops thus making it almost impossible for passengers and cargo to move around the country. Some lines were destroyed by warfare to prevent army and revolutionary mobilizations. In addition, railway lines were controlled by different factions, which charged bribes to those who needed to move cargo from one point to another.⁹ This led some companies to buy their own railway equipment or to rent from private companies that offered the service at a 75% higher price than those charged by the existing companies.¹⁰

By 1913 the federal government had suspended its debt payments. Since the government was the principal debtor of the banking sector this meant a heavy toll to the financial sector. Banks also suffered as commanders entered different cities and forced – at gun point- banks to lend them money for the Revolution. Under these circumstances and to prevent “forced loans” banks began to close their offices around the country. The *coup de grace* was given by President Carranza (1917-1920) when his government seized all reserves from the banking sector.¹¹ Although banks were officially returned to their

⁷ Gilbert M. Joseph, *Revolution from Without: Yucatan, Mexico and the United States, 1880-1924* (Chapel Hill, N.C., 1988)

⁸ The states that specialized in cattle ranching were those that bordered the U.S.. Manuel A. Machado Jr., *The North Mexican Cattle Industry, 1910-1975* (Texas, 1981), p. 89.

⁹ For example by 1914 the railway that covered the route from El Paso Texas to Mexico City was in the hands of two rival factions and at most there were two passenger cars and no cargo cars available. Washington National Archives and Records, Records of the Department of State relating to the internal affairs of Mexico 1910-1929 (hereafter cited as WNA), Consul Gaston Schmutz to the Secretary of State, November 5, 1914, 812.50/5.

¹⁰ WNA, Piedras Negras Consul to the Secretary of State, June 29, 1917, 812.50/35.

¹¹ Carranza's government asked banks to back completely all paper money that was in circulation in a short period of time. The banks were unable to perform such a task and thus were seized by the government. A good description of the sector in this period is given in Emilio Zebadúa, *Banqueros y revolucionarios: La soberanía financiera de México, 1914-1929* (México D.F, 1994).

owners in 1921, most of them were not able to recuperate their losses and rendered poor financial services in the following decades.

Even though heavy fighting ended in 1917 and different governments tried to create new institutions that would allow the country to peacefully find a new *modus operandi*; the fact is that in the 1920s presidents as well as state governors used their power to arbitrarily administer their own regions as their fiefdoms thus complicating the country's governance. In addition, formal rules were changed constantly and were weakly enforced; for example the Constitutional provision of no-reelection was changed when President Obregón (1920-1924) sought a second term in office. Even though the country was no longer immersed in a Revolution, politicians restored to violent means as a way to solve their differences. Proof of this is that several revolutionary leaders were killed in the 1920s (Emiliano Zapata -1919 and Pancho Villa -1923). Two presidents were assassinated (Carranza -1920 and Obregón -1928). There were also three failed military rebellions (1923, 1927 and 1929) and a church-government civil war (1926-1929). Thus, even though the Revolution had ended in 1917, the 1920s were a period of political and institutional unrest, which ultimately complicated business deals and transactions.

3. Business lawyers in Mexico

How did firms and their owners adapt to the new revolutionary environment?

While the study of individual firms before and after the Revolution has been important in

answering this question,¹² this paper suggests that an examination of the companies' business lawyers would also allow us to better understand how these enterprises adjusted and survived -and sometimes failed- in such an unpredictable political en economic environment.

An analysis of the services that business lawyers have offered their clients would allow us to comprehend how businessmen and their firms tried to adapt to different political groups and unstable economic conditions. These legal consultants have been responsible for designing contracts –given the legal restrictions of the moment- and for arranging business deals that have allowed enterprises to keep on functioning without major disruptions through time. In other words, the lawyer's task has been “to accommodate the desires of clients to the framework of legal ideas.”¹³

Likewise, these lawyers have handled specialized information regarding the legal and political framework and have had access to political, entrepreneurial, and financial networks which have given them important opportunities to expand, modify or diversify businesses on a short notice. Additionally, such contacts and knowledge has permitted them to improve the operational, administrative and financial structure of diverse companies in different periods. Nowadays, big firms seek advice from different sources in their business undertakings; this means that not only the services of *corporate lawyers* are sought but those of investment bankers and consultants as well.¹⁴ However, at the

¹² Gustavo Barrera Pagés, “Industrialización y revolución: el desempeño de la Cervecería Toluca y México, S.A. (1875-1926)” (BA Thesis, ITAM, 1999) and Aurora Gómez-Galvarriato Freer, “The Impact of Revolution: Business and Labor in the Mexican Textile Industry, Orizaba, Veracruz, 1900-1930” (Ph.D. Thesis, Harvard University, 2000).

¹³ Robert W. Gordon, “Legal Thought and Legal Practice in the Age of American Enterprise, 1870-1920” in Gerald L. Geison (ed.), *Professionals and Professional Ideologies in America* (Chapel Hill, N.C. 1983), p. 71.

¹⁴ They are now called corporate lawyers but at the beginning of the 20th century they were referred to as business lawyers or consultant lawyers. The change in definition reflects the evolution from small

beginning of the 20th century, all these functions were performed by business lawyers in Mexico.¹⁵

If lawyers may seem to have been important in the history of business development in Mexico, why haven't they received enough attention?¹⁶ Probably this has to do with the fact that lawyers are not as visible as businessmen and firms. And it might be that many people trained in law went into government.¹⁷ In addition, their low profile and discreet involvement –valued aspects in a lawyer-client relationship- are essential in conducting business dealings and arrangements. This might help explain why some important studies have ignored the legal system and the role that lawyers have played when studying the history of business development. As Lipartito points out “those following Alfred D. Chandler Jr.’s line of reasoning emphasize markets and technology, not the legal system, in the growth of big business. In their view, business followed its pattern of development in the United States and in other nations with far

businesses in the Mexican economy to larger corporations along the 20th century. For an excellent analysis of the evolution of the management consultant profession in the U.S., see Christopher D. McKenna, “The World’s Newest Profession: Management Consulting in the Twentieth Century” (Ph.D. Diss., Johns Hopkins University, 2000).

¹⁵ Which marks a big difference with the U.S. At the end of the 19th century big law firms were already handling the cases of most conglomerates in the U.S., while in Mexico big law firms began only to appear by the end of the 20th century. Before that time, this type of work was undertaken by “solo” lawyers exemplified in the case of Manuel Gómez Morin. It is interesting to mention that in Mexico notaries were the predecessors of the business lawyers and this probably changed when in 1901 notaries were legally required to hold a law degree. For a study on the role of notaries in aiding clients resolve asymmetric information see Philip T. Hoffman, Gilles Postel-Vinay and Jean-Laurent Rosenthal, “What do Notaries Do? The Case of Paris, 1751”, UCLA Department of Economics, Working Paper # 719, October, 1994.

¹⁶ This has not been the case in the U.S. where the evolution of big corporate law firms has been studied and where the services that these lawyers have offered their clients have been analyzed as well. See for example, Robert T. Swaine, *The Cravath Firm and its Predecessors. 1819-1948* (New York, 1948), Robert L. Nelson, *Partners with Power: The Social Transformations of the Large Law Firm* (California, 1988), Marc Galanter and Thomas Palay, *Tournament of Lawyers: The Transformation of the Big Law Firm* (Chicago, Illinois, 1991), Erwin O. Smigel, *The Wall Street Lawyer: Professional Organizational Man?* (Bloomington IN, 1964), Kenneth J. Lipartito and Joseph A. Pratt, *Baker and Botts in the Development of Modern Houston* (Texas, 1991).

¹⁷ This has been analyzed in Roderic Ai Camp, *Los Líderes Políticos de México* (México D.F., 1983), Roderic Ai Camp, *Reclutamiento Político en México* (México D.F., 1996), and Peter H. Smith, *Labyrinths of Power, Political Recruitment in Twentieth-Century Mexico*, (Princeton N.J, 1979).

different legal traditions regardless of the activities of lawyers and of changes in the law.”¹⁸ In addition, there is the issue of available sources, which in Mexico are quite scarce and the fact that the Revolutionary ideology –carefully implemented by the PRI party¹⁹ - has tended to minimize the private sector participation –and glorify the State’s- in the country’s economic development along the 20th century.²⁰

By 1910, the number of lawyers in the country was small and few of those specialized in business law.²¹ Not only did the country have a small number of legal professionals, in general, university students were scarce. For example, in Mexico City, which at the time had a population of 250,000, there were approximately 900 students attending the university level.²² The “Escuela Nacional de Jurisprudencia” (The National University Law School) had in total only 229 students of which a very small minority would undertake business law as a life-long endeavor since “the National University Law School was the principal provider of government cadres.”²³ In addition, at the time there were less than a thousand lawyers working in the country and of those approximately 20% were involved in business law.²⁴ By comparison, in 1904 there were

¹⁸ Kenneth Lipartito, “What Have Lawyers Done for American Business? The Case of Baker and Botts of Houston” *Business History Review*, Vol. 64, Number 3, 1990, p. 490.

¹⁹ Partido Revolucionario Institucional. This party governed Mexico from the 1930s to 2000.

²⁰ A much broader question that also emerges is if Latin Americans and Mexicans tend to specialize in law rather than in technical careers why have they been overlooked?

²¹ Lawyers organized their offices in “despachos” which meant that two or three lawyers shared office and secretarial space but each one brought and gave services to their own clients.

²² In total there were 935 students and they were attending Law, Medical and Architecture Schools at the National University. Javier Garciadiego, *Rudos contra científicos*, p. 121

²³ Javier Garciadiego, “Los orígenes de la Escuela Libre de Derecho”, *Revista de Investigaciones Jurídicas*, Año 17, Num. 17, 1993, p. 204, my translation. The number of law students comes from Garciadiego, *Rudos contra científicos*, p. 67.

²⁴ These numbers were estimated from ALV. F. Salazar, *El libro de referencias. Directorio de profesionistas y principales hombres de negocios de la República Mexicana* (privately printed, Mérida, 1912). It should be mentioned that in total there were 623 lawyers in all the country but since this source was printed in Mérida, Yucatán (Southeastern, Mexico), the information tends to underestimate important cities like Guadalajara, Monterrey and Mexico City. This is the reason I calculate the total number of lawyers around 1,000.

approximately one hundred corporate law firms in the United States, which gradually “evolved from two- to four- person partnerships into semibureaucratic organizations tailored specifically to the needs of big business clients.”²⁵

Even though the Revolution brought important legal changes on a national as well as on a state level, we have little knowledge on how these modifications affected the business world. Haber and Razo have suggested that the political instability and institutional changes that the Revolution brought did not have a negative impact on economic performance in the 1920s, since most of the big industries had already recuperated by that decade.²⁶ However, it is much harder to estimate other important costs that certainly affected the business world. These included a new ideological vision in which the State sought much wider participation in the private arena, and higher transaction, information and monitoring costs for the companies. In this regard it is quite possible that the Revolution reduced the economy’s natural rate of growth.

The Constitution of 1917 was the first body of law that foreshadowed for businessmen that their old *modus operandi* had come to an end and that new arrangements had to be sought with the new revolutionary leaders so that they could go on with “business and usual”. This piece of legislation certainly changed important things in several respects. It gave the State tremendous powers *vis a vis* the private sector by allowing it to expropriate any kind of industry or land in case it was deemed necessary; it awarded the State the rights to own subsoil minerals, petroleum and water; gave it the right to redistribute land and provided workers: a minimum wage, the right to

Comentario [F1]: Best to confine notes to ends of sentences, even if several references have to be grouped there.

²⁵ Lipartito, “What have lawyers”, p. 517.

²⁶ Stephen Haber and Armando Razo, “Political Instability and Economic Performance, Evidence from Revolutionary Mexico”, *World Politics*, 51 (October 1998).

unionize and gave them the eight-hour day and the six-day work week.²⁷ The new revolutionary ideology meant that businesses in general had to adapt to a new environment, which also implied that the lawyer-client relationship had to be attuned to the new rules of the game that the new leaders began to implement.

The legal profession was also affected by the turmoil that the Revolution brought. Most important business lawyers of the time had made crucial political and economic connections, and some had even worked with the government of Porfirio Díaz (1876-1910) and thus businessmen had always sought their counsel due to the proximity they had in important government and financial circles.²⁸ By the time the revolutionary regime of Carranza was in place (1917) these prominent lawyers had been forced into exile or had no longer the contacts that would allow different companies to face new political and economic institutions. More so, young law students like Manuel Gómez Morin, were asked to teach at the National University Law School due to the fact that most professors had to emigrate or did not agree with the new Revolutionary ideology.²⁹

This meant that the exclusion of these legal counselors from the business arena left plenty of companies without adequate legal representation in a time of fast changing legislation, economic recovery and political instability. Thus it is not surprising that once a new social order was in place, entrepreneurs sought lawyers with important networks in

²⁷ For example, from the 1930s onward the government began nationalizing different industries: parts of the railroads that were still in private hands, petroleum, electricity and telephone. In addition, while article 123 of the Constitution provided workers with these new rights it was not until the end of the 1920s that legislation was passed so that those provisions could be clearly enforced and administered. Meanwhile, the government –on an ad hoc basis- resolved the problems that arose in the absence of legislation.

²⁸ Some of these lawyers were Joaquín Casasús, Pablo Macedo and Jorge Vera Estañol. They advised foreign owned railways, banks and petroleum companies in their business deals in Mexico as well as some important Mexican firms. It is possible that these lawyers acted more as go-betweens and representatives of foreign investors than as legal counselors.

²⁹ Gómez Morin began teaching in 1918 at the age of 21 and had not yet obtained his law degree. Interview of Manuel Gómez Morin by James Wilkie, June 12, 1964. “Manuel Gómez Morin, Fundador del

Eliminado: –

the new regime. In other words, they needed counsel of those legal advisors that had the *know how* and *know whom*.

As a result, from the 1920s onward the services of Manuel Gómez Morin were increasingly employed by diverse Mexican businessmen due to the fact that he had worked in the Finance Ministry and had also participated in the writing of important laws that would prove to have an impact on the “business arena”.³⁰ In addition, he also had access to financial as well as entrepreneurial networks that allowed him to work in the business and political spheres. While Gómez Morin’s services were sought in several aspects, this paper will analyze those that arose with the expansion of firms in an economy with scarce financial instruments.³¹ Since Gómez Morin advised plenty of Mexican firms, the following sections will focus on the services and legal counsel he provided the *Cuauhtémoc* Brewery and its owners the Garza-Sada family.³²

4. The expansion of the Cuauhtémoc Brewery

Partido Acción Nacional” in James W. Wilkie and Edna Monzon de Wilkie, *México visto en el siglo XX. Entrevistas de Historia Oral* (México D.F., 1969), p. 146.

³⁰ For example, by 1925 Gómez Morin had already worked in different posts in the Finance Ministry. He had also participated in the elaboration of laws: that allowed expropriated bank owners to regain control of their banks (*Ley de Liquidación de Antiguos Bancos de Emisión*); which regulated Credit Institutions (*Ley de Instituciones de Crédito*); that created the Income Tax (*Ley del Impuesto sobre la Renta*) and the new regulations for the creation of a new Central Bank (*Ley del Banco de México*).

³¹ Gómez Morin’s lobbying strategies have been analyzed in Gabriela Recio, “Abogados y estrategias corporativas: las empresas mexicanas a principios del siglo veinte” Paper presented at Primer Congreso Nacional de Historia Económica, Mexico City, Mexico, October, 2001.

³² The Garza Sada family and its associates is one of the oldest and most important investment groups in Mexico. They inaugurated their first factory in Monterrey –the Cuauhtémoc brewery- in 1890. As the brewery’s needs grew, the group expanded into glass (*Vidriera*), steel (*Alfa*), and chemical (*Cydsa*) areas. For a more detailed analysis of the Garza Sada family see Alex Saragoza, *The Monterrey Elite and the Mexican State, 1880-1940* (Texas, 1988) and Nora Hamilton, *The Limits of State Autonomy. Post-Revolutionary Mexico* (Princeton N.J., 1982), specially Appendix B.

By the end of the 19th century most modern brewing factories in Mexico had already been established. While small plants were important in the conformation of the industry, big companies managed to gain an important share of the market from an early stage. Proof of this is that by 1899 there existed 72 breweries and five of them held 75% of national production.³³ By 1930 only 30 factories were producing beer and four companies –*Cervecería Cuauhtémoc*, *Cervecería Moctezuma*, *Cervecería Modelo*, and *Cervecería Sonora*- controlled 77% of production.³⁴ Nowadays, only two breweries control all the market: *Cervecería Cuauhtémoc-Moctezuma* and *Cervecería Modelo*. While these two breweries currently dominate the Mexican beer market, they have also been successful, along the 20th century, in introducing their products to foreign markets. For example, by 1993 *Modelo* already exported 55% of its total annual production and *Cuauhtémoc* was tallying behind as well.³⁵

While some breweries were already expanding and trying to control the national market before the Revolution (like *Cuauhtémoc*, *Moctezuma* and *Toluca*), small factories were struggling from a fierce competition from these three big companies. Since only one of the pre-revolutionary breweries is still currently in existence –*Cuauhtémoc Brewery*- it would be of interest to know how it adapted after the Revolution and what strategies it developed to grow and expand along the 20th century.³⁶

³³ Estimated from Secretaría de Fomento Colonización e Industria, *Anuario Estadístico de la República Mexicana a cargo del Dr. Antonio Peñafiel* (México, Año VII, Núm. 7, 1900) pp. IX, 70, 71. The breweries were: Compañía Cervecera de Chihuahua, S.A., Compañía Cervecera de Toluca y México, S.A., Cervecería Cuauhtémoc, S.A., Cervecería Sonora, S.A., and Cervecería Moctezuma, S.A.

³⁴ Estimated from Archivo Manuel Gómez Morin, Vol. 355, Exp. 1234. Hereafter cited AMGM with its respective number. It should be said that Cervecería Modelo had already bought Cervecería Toluca y México.

³⁵ Claire Poole “The resurrection of Don Eugenio”, *Forbes*, Vol. 149, No. 4, p. 106 and “Se asocia Modelo con Anheuser-Busch”, *Negocios, Epoca*, No. 35, March 29, 1993, p. 39.

The Revolution had not spared the brewing industry since several plants had been occupied by diverse armies and their owners driven into exile. Nevertheless, the breweries had not been destroyed, quite the contrary, they had been put into production by the revolutionaries so that money could be earned for ammunition and supplies for the troops. Even though factories remained intact, once the revolts subsided and the companies were returned to their proprietors, brewers were faced with empty stocks of supplies and with an inability –due mainly to interrupted railway service and to an absence of bank services- to restock their companies. This was the case of *Compañía Cervecera de Chihuahua* which had been occupied by Villa’s army for a period of four years and had losses for approximately half a million dollars.³⁷ While the *Chihuahua* brewery and others like the *Cervecería Toluca y México* had problems adjusting in the 1920s mainly as a result of the seizure they had suffered, other breweries like *Cuauhtémoc* continued to grow and expand in the 1920s and 1930s.³⁸

In fact, one might argue that this industry, once the Revolution ended, managed to recuperate quite well in the 1920s compared to others. External factors, like Alcohol Prohibition in the United States (1919-1933), had probably been in part responsible for the expansion.³⁹ This meant that Mexican brewers were left without their principal foreign competitor –U.S. manufactured beer- and allowed the *Cuauhtémoc* to begin

³⁶ Cervecería Modelo was inaugurated in 1925.

³⁷ The brewery was occupied from December 10, 1913 to November 8, 1917. Losses were obtained from Inventario General de la Cía. Cervecera de Chihuahua, S.A., Resumen de devolución y Nota de Refacciones No.1, 30 December, 1917, Vol. 355, Exp. 1234.

³⁸ For a study of Cervecería Toluca y México see Gustavo Barrera Pegés, “Industrialización y revolución”. The Cuauhtémoc Brewery was also occupied from 1914 to 1916 and their owners –the Garza-Sadas- went into exile to San Antonio, Texas in those years. Alex M. Saragoza, *The Monterrey Elite*, p. 105.

³⁹ Gabriela Recio “Drugs and Alcohol: U.S. Prohibition and the Origins of the Drug Trade in Mexico, 1910-1930”, *Journal of Latin American Studies*, Vol. 33, February 2002, p. 32.

exporting beer to other Latin American countries for the first time.⁴⁰ As a matter of fact, by 1933 once Prohibition was repealed this brewery was already exporting its product to California.⁴¹ As a result in 1923 the U.S. Consul in Mexico City considered it the second in importance in the manufacturing sector.⁴² In a period of political restructuring and in an economy with much needed resources, this industry was one of the few that was being relatively successful and could provide the government with fiscal resources in the form of taxes.⁴³ By 1925, brewers contributed roughly 27% of total taxes obtained from the manufacturing sector.⁴⁴ It was also a sector that organized its lobbying capacity quite early compared to other industries to fight back the government's continuous tax increases. In 1922, The National Association of Beer Manufacturers was formed, and hired the services of Gómez Morin.⁴⁵ In the years that followed he lobbied for tax reductions, increases in tariffs to protect nationally produced beer, and to lower tariffs for imported supplies among others.⁴⁶

It is quite possible that the owners of the *Cuauhtémoc* Brewery first knew of Gómez Morin's services through the National Association of Beer Manufacturers and thus in the years that followed he would be hired to restructure the company, to issue the company's first mortgage bonds and to form a new financial institution for the *Cuauhtémoc* group.

⁴⁰ AMGM, Memorándum de la Asociación Nacional de Fabricantes de Cerveza al Banco de México, n.d., and Algunos apuntes de la industria cervecera mexicana, February 26, 1925. Vol. 310, Exp. 1085.

⁴¹ AMGM, Carta de Robero Garza Sada a Manuel Gómez Morin, April 22, 1933. Vol. 234, Exp. 747.

⁴² WNA, 819.6586/7.

⁴³ The government of President Obregón (1920-1924) was not recognized by the U.S. until the end of 1923. Furthermore, the Mexican government was in the process of renegotiating its outstanding debt that had stopped paying since 1913.

⁴⁴ Estimated from AMGM, Memorándum respecto a los impuestos que gravan a la industria cervecera, 19 December, 1924, Vol. 309, Exp. 1084, and Enrique Cárdenas, *La hacienda pública y la política económica 1929-1958* (México D.F., 1994), Cuadro A.26.

5. Gómez Morin's Services

a. The issuing of the first mortgage bonds

By 1932 Mexico began to recuperate from the Depression that had seriously affected the economy. From 1929 to 1931, the country had witnessed a reduction in exports and imports. This had a negative effect in the economy since the government collected approximately 40% of its taxes from this source. Furthermore, monetary supply had been drastically reduced which led the population to use bartering as a means of doing business; banks had observed several runs on their deposits; commercial lending had dried up; interest rates had climbed 50%; the peso had left the gold standard; workers were laid off; and thousands of Mexican workers in the United States were sent back to Mexico.⁴⁷

As a result of the country's economic problems, several industries had difficulties adjusting to the new situation and the *Cuauhtémoc* brewery was no exception, since its production from 1929 to 1932 fell 38%.⁴⁸ This company was indebted at high interest

⁴⁵ Fourteen breweries joined the association. AMGM, Acta Constitutiva y Estatutos de la Asociación de Fabricantes de Cerveza, Vol. 310, Exp. 1085 bis.

⁴⁶ Gabriela Recio, "Abogados y estrategias", pp. 12-15.

⁴⁷ For a more detailed account of the effects of the Depression in the Mexican economy see Enrique Cárdenas, *La hacienda pública*, chapters 1 and 2.

⁴⁸ Estimated from Stephen Haber and Armando Razo, "Political Instability and Economic Performance", Table 5, p. 122.

rates to several banks –including the Bank of Montreal- and was looking for a way to renegotiate its financial obligations since interest rates began dropping in 1932.⁴⁹ It was not clear that the company would be able to renegotiate its debts at a lower rate thus making repayment of the loans extremely costly.

By 1932 Gómez Morin began to discuss with the *Cuauhtémoc* owners of new ways to reorganize their outstanding short-term loans, which at the beginning of 1933 amounted to a debt to equity ratio of approximately 34%.⁵⁰ Gómez Morin was searching for a financial instrument that would allow the company to reduce the debt costs and restructure the loan from short term to long-term payment.

Nowadays companies can obtain money from three different sources: sale of stock to investors, reinvest profits and loans provided by formal and informal markets. By the 1930s this was not so easy to accomplish since most companies' shares were not publicly traded and were mostly sold to members of the same family. Furthermore, loans could be obtained from a bank or from suppliers but they were short term (6 months) and were usually used for commercial purposes.⁵¹ This was further complicated by the fact that the Mexican stock market was quite underdeveloped and that some important banks like Banco de Londres y México were in the midst of important restructuring processes thus making it hard for them to offer loans.⁵²

⁴⁹ Interest rates dropped from 12% in 1931 to 8% in 1932. Enrique Cárdenas, *La hacienda pública*, p. 49.

⁵⁰ Calculated from Balance General Cervecería Cuauhtémoc, February 15, 1933, in *El Economista*, May 11, 1933, p. 467.

⁵¹ Bank, supplier, as well as personal loans were short term (6 months). Bank loans could be rolled over for more time but the company –ex ante- did not have the assurance that the loan would be extended.

⁵² For example, by 1937 only 16 mining companies, 17 manufacturing companies 16 banks and 8 insurance companies participated in the stock market. AMGM, Cotizaciones de la Bolsa de Valores de México, June 4, 1937. Vol. 350, Exp. 1212. Banco de Londres y México was founded in the 1860s and by 1910 was the second most important bank in Mexico. This bank suffered tremendous losses with the Revolution and was eventually reorganized in 1933. It should be said that in the new organization the

Nevertheless, Gómez Morin being one of several attorneys that participated in drafting the General Law of Titles and Credit Operations (1932) knew that it was time to offer the Garza-Sadas a new financial instrument for their needs. Thus he proposed his clients to use “mortgage bonds” and place them in the market so that they could achieve two purposes; first a decrease in interest rates and second, restructure the payment period.⁵³ However, this entailed a problem, it would be the first time that a manufacturing company would issue this type of debt in Mexico, thus making it difficult to place in the market.⁵⁴ Besides, there also existed the problem of convincing investors to put money in a new financial instrument when the country was still coming out from the effects of the Depression. Still Gómez Morin was well connected in the financial circles due to the fact that he had been offering legal counsel to Banco de Londres y México ever since the bank had been returned back to its owners at the beginning of the 1920s, and had good working relationship with other would-be-investors.⁵⁵

Comentario [F2]: Should explain who this is.

Thus by the beginning of 1933 Gómez Morin and the Garza-Sadas were discussing how to better place this new financial instrument in the market. Gómez Morin arranged with the Banco de Londres y México to act as the underwriter of the bonds. As such, the bank would place the bonds in the market and would also be responsible for paying the Bank of Montreal and other creditors the debts that the Brewery owed.⁵⁶ Furthermore, Banco de Londres, with Gómez Morin’s assistance, had arranged several

Garza Sada family –which owned the Cuauhtémoc Brewery- invested an important amount. This bank was later renamed Serfín and is now owned by the Spanish bank Santander.

⁵³ AMGM, several letters and memos, Vol. 356, Exp. 1235.

⁵⁴ Before the Revolution, foreign owned petroleum and railway companies had already issued bonds but in foreign markets as N.Y., Boston, London and Paris, but not in Mexico.

⁵⁵ AMGM, Poder conferido por el Banco de Londres y México, Sociedad Anónima a Manuel Gómez Morin, April 5, 1922, Vol. 320, Exp. 1123.

⁵⁶ AMGM, Memorandum de Agustín Garza Galindo, August 17, 1932 and Memorandum de Enrique Sada Muguera, August 29, 1932. Vol. 356, Exp. 1235

important tasks that would allow the bonds to have a better chance of being accepted in the market. First, it was agreed that other important banks would sell the bonds and that these financial institutions would also be willing to accept the bonds as collaterals when approving loans.⁵⁷ Second, it had convinced the Central Bank (and its associated banks) to accept –with discount of up to 5%- any document guaranteed with the brewery’s bonds. Lastly, if banks wanted to open a current account with the Central Bank they could present as collateral up to 80% of the bond’s value.⁵⁸

At the same time, Gómez Morin thought that would-be capitalists should be informed about the benefits of investing in mortgage bonds and contacted some business journalists from important newspapers so that they would write two or three editorials. These would explain more fully the need to have a good functioning stock market in Mexico; would entice them to use the stock market; and would explain why it would be convenient to invest in mortgage bonds as compared to other type of ventures.⁵⁹

The issuing of the Brewery’s bonds also brought important innovations within the services that the Banco de Londres offered its clients. The bank created a new service that would allow its customers to deposit their investments in shares and bonds in the bank and the institution would be responsible for collecting dividends and coupons and

⁵⁷ AMGM, Banco de Londres y México, Memorandum de Operaciones, n.d. Vol. 356, Exp. 1235. Banco de Londres was also negotiating that other banks would subscribe a specific amount of bonds at a determined price. The only bank that is mentioned by name in this memorandum is Crédito Industrial.

⁵⁸ Current accounts were mostly used as short term debt accounts. AMGM, Banco de Londres y México, Memorandum de Operaciones, n.d., Vol. 356, Exp. 1235.

⁵⁹ AMGM, Memorandum para el Sr. Lic. Palacios Macedo, February 1, 1933. Vol. 356, Exp. 1235. The newspapers were *Excelsior*, *Universal*, *Diario de Negocios* and *Boletín Financiero* which were read by Mexican businessmen and industrialists. At the time capitalists were reluctant to invest in the stock market and put their capital into real estate.

for depositing them on their accounts. The latter also included information to investors on the stock market and on the trading companies as well.⁶⁰

Finally, by May of 1933 the *Cuauhtémoc*'s bonds were placed in the market by an amount of roughly \$740,000 dollars and as collateral they offered the brewery's physical plant. This new debt that the company was issuing would be completely paid in a period of ten years and offered an annual interest rate of 8% payable in two semester coupons.⁶¹ It is not known who bought the brewery's bonds, but the correspondence between Gómez Morin and the Garza-Sadas suggests that they were carefully placed in the hands of family members and important business acquaintances. By 1935 Gómez Morin considered the 1933 debt issue as a complete success and was considering reconverting it to a lower interest rate of 6%.⁶² By 1936, the stock market was still quite underdeveloped and most people continued to invest in real estate, but mortgage bonds from other companies began to be quoted in the stock exchange and businessmen started to consider them a viable form of investment.⁶³ This meant that by 1937 thirteen companies had already issued this type of bonds and were listed in the exchange.⁶⁴ Furthermore, by 1956 the Garza-Sadas had used mortgage bond finance quite extensively for their different companies. This had allowed them to borrow approximately twelve million dollars on the market on a thirty-year period.⁶⁵

⁶⁰ AMGM, Banco de Londres y México, n.d., Vol. 356, Exp. 1235. The bank informed that this was the first bank in Mexico to offer such a service. The commission that the bank would charge was 1/8 of a percent of the money that the bank would obtain for its clients.

⁶¹ *El Economista*, May 11, 1933, p. 466.

⁶² AMGM, Carta de Manuel Gómez Morin a Roberto Garza Sada, March 15, 1935. Vol. 356, Exp. 1236.

⁶³ AMGM, Carta de Manuel Gómez Morin a Julio Traslosheros, May 19, 1936. Vol. 350, Exp. 1214. Gómez Morin mentioned that there were 7 or 8 industrial mortgage bonds already subscribed in the stock exchange.

⁶⁴ AMGM, Cotizaciones de la Bolsa de Valores en México, June 4, 1937. Vol. 350, Exp. 1212.

⁶⁵ AMGM, Memorandum de Manuel Gómez Morin, December 17, 1956. Vol. 545, Exp. 1726.

The issuing of *Cuahtémoc's* mortgage bonds illustrates how decisive were the ties that Gómez Morin had. Without them it is very unlikely that these new financial instruments would have appeared in Mexico's financial markets. Given the stage of underdevelopment in Mexico's capital markets it is quite possible that the *visible hand* of Gómez Morin was instrumental in orchestrating investors and capitalists and in improving financial markets.

b. Mergers and Acquisitions: Cuahtémoc attempts to buy its rivals

Before the Revolution, big brewing companies had already acquired an edge on their regional markets and were beginning to compete at a national level. For example, *Cuahtémoc* –located in Monterrey- had established a small brewery in Mexico City to challenge its rival -the *Toluca y México* brewery. In a similar fashion, *Moctezuma* – located in Orizaba- had opened a small factory in Monterrey.⁶⁶ After the Revolution, the lack of financial as well as rail services, induced these companies to retreat to their regional markets again; nevertheless, by the end of the 1920s some enterprises –like *Cuahtémoc*- were beginning to contend again on a national level and were trying to buy out their competitors. By 1927 four breweries -*Cervecería Cuahtémoc*, *Cervecería Moctezuma*, *Cervecería Modelo* and *Cervecería Toluca y México*- controlled 74% of the

⁶⁶ The strategy that breweries followed –before and after the Revolution- to penetrate their competitors' market was to establish new breweries in those regions or to buy existing factories. This was probably as a result of Mexico's high transportation costs. For example, to carry a ton of beer from Monterrey to Tampico (a distance of approximately 200 miles) was 44% costlier than from the port of Liverpool (U.K.) to Tampico. AMGM, Memorandum: Importación de Cerveza Extranjera en México, July 5, 1924. Vol. 310, Exp. 1085.

market. The companies share were 32%, 25%, 13% and 4% respectively.⁶⁷ In the years that followed, *Cuauhtémoc* –with Gómez Morin’s counsel- would attempt, by means of two strategies, to buy out its main competitors (*Modelo* and *Moctezuma*).

By 1928, after a period of price-cutting competition among these breweries, *Cuauhtémoc* approached the *Modelo*’s principal shareholders –Martín Oyamburu and Pablo Diez- to buy the company.⁶⁸ Conversations lingered and did not amount to a concrete understanding until 1931. Apparently, the company had important outstanding debts, which in the midst of the Depression had aggravated the firm’s financial standing. In the first place, *Modelo* owed the Mexico City Banking Co., the Anglo South American Bank, Mr. Diez and Mr. Oyamburu approximately \$930,000 dollars. Second, the company also had debts of roughly \$232,000 dollars with diverse suppliers; and *Modelo* had not finished paying the acquisition of the *Toluca y México* brewery that amounted to \$100,000 dollars.⁶⁹ These debts were quite a burden to the company since they amounted to approximately 47% of the value of the *Modelo* brewery.⁷⁰

Preliminary contracts and memos between the two breweries show that in the event that *Cuauhtémoc* acquired *Modelo*, the former would promise to pay the latter’s outstanding debts. As part of the deal, *Cuauhtémoc* –under a new society- would issue new shares and would try to obtain a loan for approximately one million dollars.⁷¹ Even though both companies had made tremendous progress in the negotiations, Mexico’s

⁶⁷ AMGM, Cantidad de cerveza elaborada en litros. First semester, 1927. Vol. 355, Exp. 1234. It is not clear when *Modelo* bought *Toluca y México* but by 1931 they had already been merged.

⁶⁸ AMGM, Carta de Manuel Gómez Morin a Francisco G. Sada, April 24, 1928. Sección: Personal, Serie: Correspondencia Particular, Francisco G. Sada.

⁶⁹ AMGM, Anexo 5: Nota de Pasivo Bancario; Anexo 6: Nota del Pasivo Comercial; Anexo E-3, 1931. Vol. 595, Exp. 2023.

⁷⁰ Estimated from AMGM, Anexo 1: Inventario, Anexo 5, Anexo 6 and Anexo E-3, 1931. Vol. 595, Exp. 2023.

⁷¹ AMGM, Memorandum and Proyecto de Contrato Preliminar, July 19, 1931. Vol. 595, Exp. 2023.

economic situation prevented the deal from taking place. By June 1931, the country's international reserves roughly amounted to the value of one month of imports; there were runs on several banks; the peso suffered constant devaluations and the peso left the gold standard by the end of July.⁷² Since prior agreements and plant valuation had been established in gold pesos more negotiations were required. However, given the bad economic situation of banks, the *Cuauhtémoc* brewery was unable to obtain the needed loan. The deal, as a result, was postponed and later canceled.⁷³

These problems did not deter the Garza-Sadas in their attempts to buy out other rivals since years later they also tried to purchase the *Moctezuma* brewery as well. This new venture would require a more detailed orchestration from Gómez Morin since it involved more participants and interests in other countries.

By 1935 *Cuauhtémoc* and *Modelo* had reached an understanding to avoid price competition. While these two companies wanted *Moctezuma* to be part of their agreement, the former had been reluctant in joining.⁷⁴ This was not the first time that the industry tried to form a cartel to curb competition among firms, increase their prices, and augment their profits. When the National Association of Beer Manufacturers was formed in 1922, Gómez Morin was instrumental in organizing a beer cartel that had functioned with good results for some years.⁷⁵ Gómez Morin thought that an arrangement among brewers would be more feasible if Mexican investors owned the *Moctezuma*. In addition,

⁷² Enrique Cárdenas, *La hacienda pública*, p. 31.

⁷³ The date was extended to December 19, 1931. AMGM, Memorandum, August 7, 1931. Vol. 595, Exp. 2023.

⁷⁴ AMGM, Carta de Manuel Gómez Morin a Dr. Ignazio Hornik, May 21, 1935. Vol. 482, Exp. 1549bis.

⁷⁵ AMGM, Several documents in Vol. 309, Exp. 1084.

he was convinced that this company was not cooperating with Mexican groups in the creation of better-organized and efficient financial markets.⁷⁶

The *Moctezuma* brewery was foreign owned. The majority of its shares (approximately 55%) were controlled by the *Société Financière pour l'Industrie au Mexique* that was legally organized in Switzerland and with offices in Paris.⁷⁷ The *Financière* was controlled by the *Banque de Paris et des Pays Bas* and the *Pictet House* (a financial institution). By 1935 the *Financière* also controlled shares of the *Malt Factory* (part of the *Moctezuma* brewery), an important paper company (*Compañía de Papel San Rafael y Anexas*) and a major textile factory (*Compañía Industrial de Orizaba*).⁷⁸

The Garza-Sadas were quite interested in acquiring the *Moctezuma* brewery and for that purpose were willing to forge an alliance with other business groups such as those headed by Angel Urraza –important stockholder of a major tire manufacturing plant-, Maximino Michel –influential share holder of a major department store-, and Esteban Castorena –owner of a big match factory.⁷⁹ Since these business groups were located in Mexico City and the Garza-Sadas were in Monterrey, Gómez Morin arranged different preliminary contracts in case the *Moctezuma* were bought by these investors. In

⁷⁶ AMGM, Carta de Manuel Gómez Morin a Gastón Descombes, October 21, 1936. Vol. 453, Exp. 1475.

⁷⁷ The *Société Financière pour l'Industrie au Mexique* was first organized in 1900 so that French as well as Swiss capitalists could invest in Mexico. With the Revolution investors began to withdraw their money from the *Société*.

⁷⁸ AMGM, Several letters and memos in Vol. 482, Exp. 1589bis.

⁷⁹ The tire factory was “Hulera Euzkadi, S.A.”; the department store was “El Puerto de Liverpool, S.A.”; and the match factory was “Cerillera La Central, S.A.”. Hulera Euzkadi formed a joint venture with the U.S. tire manufacturing company “Goodrich”. Goodrich-Euzkadi, Liverpool and La Central are companies that still exist today and are quite important within their sectors.

these contracts, the Garza-Sadas would own 38% of all the shares, and the other three would have each a roughly a 20.5% of the company's stock.⁸⁰

Negotiations were complicated by the fact that the buyers would need a loan to buy the Moctezuma brewery. Gómez Morin had already approached the National City Bank and also thought that the newly formed Banco de Comercio (1932) or the Chase and Irving Trust in the United States could also be of help.⁸¹ In addition to the financing hurdles, there was an added difficulty since the Moctezuma's owners were in Europe, which meant that Gómez Morin would have to arrange a deal among different parties in Mexico City, Monterrey, Paris and Geneva.

Gómez Morin was reluctant to deal directly with the brewery's French local management in Mexico since he felt that they had been unwilling to cooperate with the other Mexican brewers when they had tried to fix prices. The attorney thought that one alternative to deal with this problem was for a Mexican group to buy the "uncooperative" brewery. As a result Gómez Morin presented a proposal to his close friend –Dr. Ignazio Hornik.⁸² The purpose of the latter was to advance several ideas by which a group of Mexican investors could buy, even though the owners were not selling, the *Moctezuma* brewery. Gómez Morin offered four different ways in which this could be achieved. First, he proposed that a group of Mexican entrepreneurs could buy the *Moctezuma*

⁸⁰ AMGM, Carta de Roberto Garza Sada a Manuel Gómez Morin, July 9, 1936. Vol. 356, Exp. 1235.

⁸¹ AMGM, Carta de F.G. Sada a Manuel Gómez Morin, July 14, 1936. Vol. 356, Exp. 1235, and Carta de Manuel Gómez Morin a Roberto Garza Sada, July 27, 1936. Gómez Morin as well as Maximino Michel had bought shares in the Banco de Comercio.

⁸² Dr. Ignazio Hornik was from Trieste, Italy and worked for Assicurazioni Generali (an important insurance company) in Italy. He was Vice President of The General Insurance Company Ltd. of Trieste and Venice in New York and had also connections with the French-Italian Bank and with the Banque de Paris et des Pays Bas. In Mexico he was associated with the French shareholders of Banamex bank (the most important bank in Mexico). He was a shareholder in "América" an insurance company, belonging to Banamex; in Sofimex (an investment bank) and through the latter he had also invested in Banco de Londres y México.

shares that the *Financiere* had in its hands; or instead, if a group of European investors headed by Hornik could buy the shares and Mexican investors would commit themselves to buy them at a specific date. A second possibility entailed Dr Hornik's group buying all the *Financiere's* Mexican investments and Gómez Morin would organize Mexican investors to purchase them in the future. Third, if the *Financiere* did not want to sell any of its shares, Gómez Morin asked Hornik if he -or his group- could influence the *Financiere* so that the Moctezuma would cooperate in building a beer cartel in Mexico.⁸³

Lastly, Gómez Morin indicated Hornik that this business deal could be undertaken if a new type of financial institution were built in Mexico. Since Mexican law prohibited banks to provide investment bank services, a new type of organization was needed to provide such services.⁸⁴ Both Hornik and Gómez Morin had already been discussing the formation of such an institution for the development of Mexican manufacturing firms. The attorney thought if the former were formed, it could, as the *Financiere* did in Switzerland, obtain national and foreign resources to invest in diverse companies.⁸⁵

Hornik informed Gómez Morin that his group would not be able to participate in such a deal since economic and political problems in Europe prevented them from considering such a transaction, but he was willing to help the Mexicans by acting as an intermediary. Hornik had already contacted Pictet in Geneva (owner of the Pictet House) and a shareholder in the *Financiere*. This shareholder was interested in selling his participation because it had been a long time since it had paid dividends. However, he

⁸³ AMGM, Carta de Manuel Gómez Morin a Ignacio Hornik, May 21, 1935. Vol. 482, Exp. 1549bis.

⁸⁴ In 1937 this financial institution –called *financiera*- was formed and was called Sociedad Financiera Mexicana, S.A. (Sofimex). The Garza-Sadas, Maximino Michel, and Gómez Morin among others invested in this company.

⁸⁵ AMGM, Carta de Manuel Gómez Morin a Ignacio Hornik, May 21, 1935 and Memorandum, May 11, 1935. Vol. 482, Exp. 1549bis.

stated that he had no influence over the administration in view of the fact that it was the *Banque de Paris et des Pays Bas* that had absolute control over the *Financiere*. But approaching the *Banque de Paris* on this matter was quite complicated, considering that the bank's general administration had vague news from the *Financiere* and a distant interest in its management.⁸⁶ Consequently, Hornik and Gómez Morin contacted another friend with connections in the *Banque de Paris* –Gaston Descombes⁸⁷ - to help them reach those at the highest levels within the *Banque*.⁸⁸

As a result of different inquiries with members of the *Financiere*, Gómez Morin learned that the *Financiere* was only willing to sell its *Moctezuma* shares. He also found that the *Financiere* owned 60,000 *Moctezuma* shares, out of a total 108,000.⁸⁹ Thus, after a careful analysis of the brewery's balance sheets, the Mexican group –with Gómez Morin counsel- made an offer to the *Financiere* –which entailed a price of forty pesos per share for 60,000 shares with an option to buy 15,000 more. The *Financiere* was offended by the price and informed that they would not accept anything less than \$62.50 for 60,000 shares with an option for 20,000 more. They further insisted that they also wanted an administrative seat for the Swiss shareholders that would not sell their stock.⁹⁰

By 1937 negotiations had not progressed since the *Financiere* and the group of Mexican investors could not agree on a price. Besides, the *Cuauhtémoc* was considering using the money that they had set aside for the possible *Moctezuma* purchase to buy a

⁸⁶ AMGM, Memorandum, September 27, 1935. Vol. 482, Exp. 1549bis.

⁸⁷ Gaston Descombes had been director of Banamex in Mexico and had the connections with the French that managed the Moctezuma factory in Mexico as with those in the *Financiere* and in the *Banque de Paris*.

⁸⁸ AMGM, Memorandum, September 27, 1935. Vol. 482, Exp. 1549bis.

⁸⁹ AMGM, Carta de Gaston Descombes a Ignacio Hornik, June 24, 1936. Vol. 482, Exp. 1549bis.

⁹⁰ AMGM, Several letters in Vol. 482. Exp. 1549bis, Carta de Manuel Gómez Morin a Gastón Descombes, October 21, 1936. Vol. 453, Exp. 1475, Carta de Manuel Gómez Morin a Roberto Garza Sada, November 12, 1936, and Carta de Roberto Garza Sada a Manuel Gómez Morin November 26, 1936. Vol. 356, Exp. 1235.

paper factory so that they could stop importing paper to produce cardboard boxes for beer packaging.⁹¹ Additionally, by the end of 1936 the Angel Urraza group was having heavy losses in its investments in Spain and was withdrawing from the negotiations. At the same time, Maximino Michel was becoming hesitant in investing in such a deal and informed that he was no longer interested.⁹² Although, in early 1937, the Garza-Sadas continued negotiating on their own, they were never able to reach an understanding with the *Financiere* in Paris.

Even though the Garza-Sadas were not able to purchase the *Moctezuma* brewery, by 1941 it was finally bought by another group of Mexican investors, which had closer ties and connections with the *Financiere*, due in part to their French descent.⁹³ Nevertheless, by 1985, as a response of the 1982 Mexican economic crisis the Bailleres family (principal shareholder of the brewery) had to sell the company. This time the Garza-Sadas, after almost fifty years of first attempting to buy one of its competitors, were able to purchase the *Moctezuma* brewery.

While *Cuauhtémoc's* attempts to buy out its rivals along the 1930s were unsuccessful, they provide us a glimpse of Gómez Morin's access to both, domestic and international financial institutions. The services here described show that legal counsel was advanced to formulate merger contracts with Mexican as well as foreign investors and that advice was rendered to coordinate all parties involved. Even though the international acquisition was not accomplished it exemplifies how this attorney aided

⁹¹ AMGM, Carta de Manuel Gómez Morin a Ignacio Hornik, June 14, 1937. Vol. 482, Exp. 1549bis. This paper factory called "Fábricas de Cartón Titán" was eventually purchased.

⁹² AMGM, Carta de Manuel Gómez Morin a Roberto Garza Sada, October 7, 1936. Vol. 356, Exp. 1236.

⁹³ The Moctezuma was bought by the BUDA group which included Alberto Bailleres who was of French descent and was well connected with the Moctezuma's local management as well as with the *Financiere* in Paris.

Mexican businessmen in a first attempt to take over a foreign owned company. Lastly, they illustrate how this lawyer had in his mind the creation of a new type of financial organization in Mexico. By the end of the 1930s this institution –that took the name of *Sofimex*- was created, being Gomez Morin the financial architect, and has provided financial services since then.⁹⁴

c. The construction of Mexico's first holding company: Visa

From the end of the 1920s the Garza-Sadas divided the company's affairs into two different companies: the *Cuauhtémoc* Brewery and the *Vidriera*⁹⁵ (glass factory). Within these companies several departments had been established as a result of needed supplies that domestic and international markets were supplying haphazardly and expensively.

As a result, *Cuauhtémoc* and *Vidriera* had been able to substitute quite an important amount of imports in their production. This meant that in the late 1920s the brewery and the glass factory had been opening new departments and companies to produce malt, cardboard boxes, bottles, crown caps and labels. At the beginning, the financial and administrative organization of these new departments was organized under the umbrella of the *Cuauhtémoc* and the *Vidriera* since they were small in nature but as the brewery –and also the departments within the firm- expanded production and sales, these arrangements were not sufficient for these growing companies. Furthermore, several divisions within the brewery began to have markets of their own and started to

⁹⁴ Sofimex as well as other “financieras” that were created in the 1930s and 1940s were eventually absorbed by commercial banks. For a more detailed discussion about the development of these institutions in Mexico see Gustavo del Angel-Mobarak, “Paradoxes of Financial Development: The Construction of the Mexican Financial System. 1941-1982” (Ph.D. Diss., Stanford University, 2002).

sell supplies to other industries that were not part of the Garza-Sada group. As such they were in need of more independence and maneuvering space since they were being transformed from small departments that only supplied the brewery, to companies with new markets in Mexico.

In addition to the need for more independence within the brewery and the glass factory departments, the *Cuauhtémoc* and the *Vidriera* organization was facing supplementary problems that deserved careful restructuring. Since the branches were financially dependent upon these companies and had no resources of their own, whenever the latter ran into financial difficulties the former suffered from an absence of funding. Thus, the lack of financial independence was becoming a deterrence for growth for those divisions that were expanding into markets of their own.

Further, the extent and expansion of the Garza-Sada family holdings was quite visible and in the Cárdenas government (1934-1940) they had led to accusations of concentration and monopoly.⁹⁶ Lastly, *Cuauhtémoc* and *Vidriera* wanted to avoid problems in one company from spreading to another. Such was the case of *Vidriera's* labor conflicts in which company workers wanted to unionize under the government's sponsored unions. As a result the company's owners refused to accept the worker's demands and led to a one-day lockout by the Garza-Sadas and other important Monterrey businessmen, which ultimately led to an important confrontation with the President.

As a result of these problems Gómez Morin thought that it would be prudent to reorganize –legally, administratively and financially- the *Cuauhtémoc* and the *Vidriera*

⁹⁵ The *Vidriera* group is now called *Vitro* and is the fourth most important glass producer in the world.

⁹⁶ Nora Hamilton, *The Limits of State Autonomy*, p. 312. Under President Lázaro Cárdenas labor unions received government backing, companies were accused of monopoly power, the foreign owned petroleum industry was nationalized, and there was an important attempt to “socialize” private and public education”.

groups so that the brewery and their branches would be independent in every way.⁹⁷

Even though company autonomy was sought, the Garza-Sadas wanted a strict control of the various businesses they managed and also wanted some sort of screen that would cover the extension of their expansion. Thus, the Garza-Sadas sought the advice from their business lawyer to first solve the difficulties they were facing within *Cuauhtémoc*. Hence Gómez Morin recommended several steps that the group should carry out to give their different companies self-sufficiency.

First, *Cuauhtémoc*'s branches would legally and financially have to be established as companies in their own right. This led to the creation of new companies: *Fábricas Monterrey, S.A. (Famosa)*, *Empaques de Cartón Titán, S.A.*, *Malta S.A.*, and *Compañía Comercial Distribuidora*.⁹⁸ Second, the breweries that *Cuauhtémoc* had bought would no longer be dependent on it and would be legally constituted as autonomous companies.⁹⁹ Thirdly, a new company called *Valores Industriales, S.A. (Visa)* would be created. This company would act as a holding company of all the group's businesses and as such would be an entity that would coordinate and support all the activities; would subscribe shares and bonds that the companies would emit; and would act as a financial intermediary for the firms.¹⁰⁰

Fourthly, *Cuauhtémoc* would be legally and financially reorganized. This would entail that the brewery would transfer all the shares that it possessed to *Visa* and would

⁹⁷ Several letters and memos in Vol. 609, Exp. 2103 and Vol. 468, Exp. 1520.

⁹⁸ *Fábricas de Monterrey (Famosa)* elaborated tin, crown-caps, tin lids, laminated metal. It was also in charge of acquiring carbonated gas. *Empaques de Cartón Titán* fabricated cardboard boxes, and *Malta* was in charge of elaborating malt. *Compañía Comercial Distribuidora* was in charge of distributing and marketing. AMGM, *Escritura Constitutiva de la nueva Famosa*, 1937 and *Acta de la Junta del Consejo, Famosa*, January 8, 1936. Vol. 469, Exp. 1523.

⁹⁹ *Cuauhtémoc* had bought *Cervecería Central, S.A.* in Mexico City in 1928 (although it had some control over it since 1902), *Cervecería del Oeste, S.A.*, in Guadalajara in 1936 and *Cervecería Veracruzana, S.A.*.

¹⁰⁰ AMGM, *Esquema de Holding General*, n.d., Vol. 468, Exp. 1520.

make a swap with the brewery's owners: *Cuauhtémoc*'s shares for new *Visa* stock.¹⁰¹

This new financial organization would also include the issuing of common and preferred stock in *Cuauhtémoc* and in the other independent companies as well, except in *Visa*. As a result common shares –the majority of the capital and owned by the Garza-Sada family– would be controlled by *Visa* and preferred stock could be bought by investors in general.¹⁰²

Finally, in terms of organizing and coordinating the companies with the holding company, Gómez Morin thought that a new company should be created, *Técnica Industrial, S.A. (Tisa)*. This company would offer different services to the group's companies like: legal counsel, accounting services and treasury.¹⁰³

In a country where no holding companies had been created before, this new type of organization allowed different branches to become financially independent since they would be –under this new organization– able to: issue shares and bonds of their own; request bank loans since they were legally constituted companies; and to obtain cheaper financing since they had the backing of *Visa*. While this new structure would give the new companies more autonomy, it also permitted the Garza-Sadas to control them quite effectively through *Visa*'s acquisition of all the companies' common stock.

Notwithstanding the family's control over the company, the holding's design would also permit the group's companies to participate in the stock exchange by placing the companies' preferred stock in the market. Thus three important aspects would be achieved in a period of increasing State intervention: complete power over the group's

¹⁰¹ AMGM, Varios esquemas, n.d., Vol. 468, Exp. 1520.

¹⁰² AMGM, Several letters and memos in Vol. 609, Exp. 2103 and Vol. 468, Exp. 1520.

companies; increasing participation and competition from different firms in the market; and a suitable disguise for the group's level of expansion.

By January 1936 after some fine-tuning with Gómez Morin, the Garza-Sadas approved the company reorganization and created *Visa* as the group's holding company.¹⁰⁴ Some months later *Vidriera* also organized a holding company (*Fomento de Industria y Comercio, FIC*) that used the same guidelines as those recommended by Gómez Morin in the creation of *Visa*. By 1937 *Visa* not only invested in the group's companies but in banks and financial institutions –as *Banco de Londres y México, Crédito Industrial de Monterrey, Inversiones Mercantiles, Inversiones Monterrey, Sociedad General de Crédito, Sofimex-* and other Mexican companies.

Visa's creation entailed a legal, administrative and financial innovation within Mexico's business organization. It allowed –with Gómez Morin's counsel- a major group to reorganize an expanding business emporium with a healthier financial organization; it permitted them to enlarge and increase their economic control and wealth in a period where the government sought continuously to reduce the private sector's participation in economic development; and as years passed it enabled them to organize new companies in a less expensive manner since no major group rearrangements were necessary within this framework. Lastly, it should be said that the innovation that *Visa* and *FIC* brought within the Garza-Sada group spread throughout the business community in the years that followed. Other major groups decided to organize their business organizations following the guidelines that Gómez Morin had established for

¹⁰³ AMGM, Memorandum, n.d., Vol. 468, Exp. 1520. A couple of years later the group organized a financial institution under *Visa's* control (*Compañía General de Aceptaciones*) to provide the group financial services that Mexican banks were unable to supply.

¹⁰⁴ AMGM, Carta de Roberto Garza Sada a Manuel Gómez Morin, January, 1936. Vol. 358, Exp. 1238.

Cuauhtémoc and *Vidriera*. In fact, economic groups in Mexico continue to get legally, financially and administratively organized as this lawyer envisioned it in the 1930s.¹⁰⁵

6. Conclusions

While business lawyers in Mexico have not been studied at all, this paper suggests that the services they have offered their clients have been important in understanding how entrepreneurs and their companies adapted in difficult times. As this paper has showed, once the Revolution ended, businessmen were faced with difficult legal, economic and political problems that business lawyers –exemplified in the case of Manuel Gómez Morin- helped them get resolved. As a result, this lawyer's *know how* and *know whom* helped the *Cuauhtémoc* brewery issue the first mortgage bonds in the country; aided in its attempts to acquire their major competitors; and allowed it to form the first holding company in Mexico.

In a country with poor capital markets it is surprising that a company could have successfully managed to issue debt bonds in the market. As this paper has shown, Gómez Morin's connections with financial, political and business circles were important in the issuing of *Cuauhtémoc's* mortgage bonds. Further it suggests that this type of lawyers were instrumental in bringing together investors and would-be capitalists and in improving financial markets.

Even though *Cuauhtémoc's* attempts to buy its major competitors did not amount to an acquisition they have showed us that Gómez Morin was not only well connected on

¹⁰⁵ It should be said that Gómez Morin was deeply influenced by the French and Italian laws regarding company holdings.

the domestic market, but also on the international arena as well. The possible buy-out also suggests that companies, as *Cuauhtémoc*, were willing to buy its rivals when they were not willing to cooperate or collude and that they used the services of Gómez Morin to pursue such an endeavor, even if it implied purchasing a foreign owned company.

Lastly, the formation of *Visa* was not only an innovation for *Cuauhtémoc*'s organization. It was a legal, financial and administrative novelty that other important groups were quick to adopt and continue to employ nowadays.

Comentario [F3]: Good, solid paper. Note that it is not only in countries with poor financial and other business institutions that lawyers do these things. Another way of framing it is to remind us that personal connections are present even in the creation of very large organizations.

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