

## Chapter 6

# The Origins of Economic Orthodoxy in Mexico<sup>1</sup>

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### *1. Introduction*

This article supports the hypothesis that the formation of an economically orthodox current in Mexico was a conscious act by a sector of Mexico's élite, intended to create an alternative to what has been called economic nationalism, which emerged with the Mexican Revolution of 1910 and was consolidated by the economic and social reforms promoted by President Lázaro Cárdenas (1934-1940)<sup>2</sup>. In the

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<sup>2</sup> This article is the result of my research visit to the Instituto de Estudios Latinoamericanos (IELAT) at the Universidad de Alcalá, as part of the Short-Stay Post-Doctoral Research Programme organised by Fundación Carolina and the Department of Academic Staff at the Universidad Nacional Autónoma de México (UNAM). My gratitude to all three institutions. I would like to extend particular thanks to: Pedro Pérez Herrero, Director of IELAT, for his commitment to my research programme; to my colleagues and friends Leonor Ludlow, Carlos Tello, Enrique Rajchenberg, Juan Pablo Arroyo, Emilio Caballero and Rogelio Huerta, for the time and effort they were willing to put in to reading this article, and for their intelligent and thought-provoking comments; and to Samuel Luna Millán, for his support in carrying out this research. Finally, I would like to mention that this work is part of a line of research developed by the project PAPIIT IN307408

word of the researchers: the Revolutionary movement set Mexico on the road toward the economic doctrine that would prevail in Western economies in the post-War period, and it was during Cárdenas's administration that the biggest steps were taken<sup>3</sup>.

In December of 1934, General Lázaro Cárdenas was sworn in as President of the Republic, and he undertook a series of wide-ranging structural reforms intended to resolve social problems and encourage growth and economic development in Mexico. Within this programme, the State played the pivotal role as promoter of development. The plan was a turning point in Mexican economic thought, as it broke with the liberal-style economic policy that had been dominant in Mexico since the Revolution in 1910, even during periods such as the crisis of 1929. From that moment on, two different ways of approaching and resolving the problems of the Mexican economy would remain in tension with one another for the rest of the twentieth century.

The Cardenist economic policy of growth with distribution of wealth was not looked favourably upon by a particular class of business owners. The State played a very active role in the economy in its quest for independent, nationalistic economic development, and all of this implied: a renewed impetus for agrarian reform (a wide-reaching redistribution of land), and consequently the redistribution of the nation's wealth; and support for workers' interests through the formation of trade unions and respect for the right to strike. The policy encouraged economic activity via a broad programme of public investment, which in turn was responsible for the construction of large public infrastructure projects. To this end, a group of public institutions was created to manage and guide the economy, including the development bank Nacional Financiera and the agricultural lending institution Banco de Crédito Ejidal. In 1938, Cárdenas national-

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"Philosophy, Figures and Institutions in Mexican Economic Policy, 1880-2005".

<sup>3</sup> See Loyola & Martínez, 2010, p. 27.

ised the oil industry and created the state-owned oil company *Petróleos Mexicanos* (Pemex)<sup>4</sup>.

The economic philosophy that emerged from this era constitutes the basis of Mexican “developmentalism”, characterised by State intervention to ensure high growth rates, the distribution of revenues and job creation<sup>5</sup>. The approach was most closely identified, at that time, with Eduardo Suárez, the Finance Minister under Presidents Lázaro Cárdenas and Manuel Ávila Camacho, and this school of thought, with varying interpretations, dominated and permeated Mexican economic policy for much of the twentieth century until the beginning of the nineteen-eighties.

This policy upset economic interests and gave rise to the deliberate construction of an alternative to Cárdenas’s approach, consisting of the reconstitution of the liberal movement that had dominated the country’s economy from the end of the nineteenth century to the end of the nineteen-thirties. Throughout the time that ‘developmentalist’ thought was being formed and evolving, orthodox economic thinking was also present, and it laid down tenets at the same time that it was establishing institutions within the country. This eventually created the conditions for neo-liberalism to come to the fore in the nineteen-eighties. This paper will attempt to answer the following questions: How did orthodox economic thinking come

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<sup>4</sup> “From 1934, he undertook considerable structural reforms. Beginning during his campaign, he adopted a model of economic planning, expressed in the First Six-Year Plan, that was inspired by Soviet planning. President Cárdenas also created institutions and a legal framework to sustain his economic policy: in 1935, he established the Department of Hunting and Fishing, the Forestry Department and the Department of Indigenous Affairs, followed by the National Deposit Stores in 1936; in 1937, the National Bank of Foreign Trade and the National Workers’ Industrial Development Bank were founded, and the New Insurance Law was passed. In 1939, the National Housing Commission was created, among other institutions.” Loyola & Martínez, “Guerra”, 2010, p. 23.

<sup>5</sup> For a full description of Mexican “developmentalism” (*desarrollismo*), see Suárez, “Dos visiones”, 2005, p. 229. For an overview of the economic theories of Lázaro Cárdenas, see Guerrero, “Pensamiento”, 2005, p. 189.

about in Mexico? And how was orthodox thinking able to develop in Mexico, with Cardenist-Keynesian philosophy so dominant on the economic political scene?

Orthodox liberal thinking, in the opinion of Francisco Suárez, began to develop in the decades of the nineteen-twenties and thirties<sup>6</sup>. My personal view is that this school of thought is a continuation of the liberalism that prevailed during the reign of Porfirio Díaz at the end of the nineteenth century, updated with new developments from the liberal school of the nineteen-twenties, in particular the Austrian School, put forward by Friedrich von Hayek and Ludwig von Mises. This approach was adopted and promoted in Mexico by Luís Montes de Oca<sup>7</sup> and Miguel Palacios Macedo, who believed that price stability should be the foremost objective of economic policy. The intellectual talents of these two figures were complemented by the pragmatic approach of businessmen such as Raúl Baillères

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<sup>6</sup> For a description of Mexican orthodox thinking, see Suárez, “Dos visiones”, 2005, pp. 228-229.

<sup>7</sup> Luís Montes de Oca was Minister of Finance and Public Credit from the 16th of February 1927 to the 20th of January 1932. He occupied the post during the administrations of three Presidents: for a year and two months under Plutarco Elías Calles; for a year and two months under Emilio Portes Gil; and for eleven months under Pascual Ortiz Rubio. Eduardo Villaseñor describes him as a classical liberal and staunch opponent of any official intervention to influence the national economy. He also had strong links to two of the representatives of the liberal orthodox current of the moment, with whom he maintained a correspondence: Ludwig Von Mises and Friedrich Von Hayek. Aníbal de Iturbide describes him as “an extraordinarily cultured man, and one with good relations with other talented men”. He was a natural leader and his opinions held a great deal of influence in intellectual and business circles in the country. He created and developed an ideology for these groups. He was Minister of Finance in the midst of the depression in the nineteen-thirties, in response to which he defended a balanced budget and “healthy finances”. He was also Director General of the Bank of Mexico, and in this position he refused to provide support for the financial deficits required by Minister of Finance Eduardo Suárez to expand the economy during the administration of Lázaro Cárdenas. *Ibid.*, p. 227.

and Aníbal de Iturbide. These figures are fundamental to an understanding of the roots of orthodox thinking in Mexico, as well as its development and the consolidation of its power during the last century.

Together, they began the task of establishing institutions that would counteract Cardenist principles in the economy and in politics. In academia, they founded higher-education institutes that provided an alternative to the leftist ideology in state universities, specifically the ideology of the School of Economics of the UNAM, founded in 1929 by a group of nationalist intellectuals.

During this process of the formation of the school of orthodox economic thought in Mexico, Ludwig von Mises and Friedrich von Hayek had considerable intellectual influence. Both belonged to the so-called Austrian School, and the two professors were firmly opposed to any kind of planned economy, associating freedom with the market. They gained their position of influence in Mexico as a result of the fact that they helped to reinforce the approach and the rhetoric of the groups of business leaders and intellectuals who rejected the trend of economic nationalism. The question that arises is: How did the Austrian School and the resistance against Cardenism work together? Within the group of Mexican intellectuals, the leading role was played by Luís Montes de Oca. He studied the work of Mises and Friedrich von Hayek, established a relationship with them, and they encouraged his ideas from an intellectual standpoint. Raúl Baillères, one of the group of pragmatic business leaders, provided financial support for the project. Together, these individuals constructed and breathed political life into the school of liberalism in this country.

## *2. An Alternative to Cardenism: Von Mises and Von Hayek*

The rallying point in the intellectual debate between Luís Montes de Oca and the two professors from the Austrian School was the criticism of a planned economy that entailed very active intervention on the part of the State in the country's economic affairs. This

was condemned by all parties from the standpoints of both theory and policy. In Mexico, with the economics of Cárdenas, the notion had been established of planning with State intervention (the Six-Year Plan), and this gained currency in many so-called Third-World countries in the period following the Second World War. The opinions of Montes de Oca and his familiarity with the two representatives of the Austrian School are made clear in an article, "State Intervention in Economic Activity", published in the year 1943<sup>8</sup>.

Montes de Oca and Von Mises met in New York in the winter of 1941. The former then invited Mises to visit Mexico for a series of conferences at the Universidad de México, and offered him excellent conditions if he were to extend his sojourn. In her memoirs, Margit von Mises, wife of Ludwig, recounts:

He offered Lu a lifetime position, a house with garden, a car and chauffeur, and tremendously high salary if Lu would accept his proposition. But Lu refused. He was happy to come as a guest, but he remained firm in his decision to make his home in the United States<sup>9</sup>.

Despite such an attractive offer, Mises declined the proposal of the former Finance Minister. A year later, at an encounter in Manhattan, Montes de Oca again invited him for a period of two months and they discussed the possibility of having his book *Socialism* translated into Spanish. This would eventually be published in Mexico in 1961, two years after Montes de Oca's death.

While war raged on the international stage, on the 11th of January 1942, Von Mises arrived in Mexico in the company of his wife Margit and remained in the country until the 25th of February of that year.

The couple was received by a group of university professors and lodged at the Ritz Hotel in Mexico City. Mrs. Mises gives a description of the reception they received at the hotel and her impressions of the following weeks:

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<sup>8</sup> Montes de Oca, 1943, pp. 225-264.

<sup>9</sup> Von Mises, 1976, p. 75. Margit referred to her husband Ludwig Von Mises as "Lu".

Our suit... was so full of roses, gardenias, and white callas I thought I was back on the stage.

The subsequent seven weeks... were perhaps the greatest surprise of my life. Not only because Lu, for the first time since we had left Europe, got the recognition he deserved, but because the high intellectual standard of Mexican elite, whom we had the privilege of meeting during our stay, was absolutely overwhelming to me<sup>10</sup>.

A group within the Mexican élite much admired the contributions that Von Mises had made to economic theory. In Mexico the Viennese professor seemed to have achieved a level of recognition that he did not yet enjoy in the United States. Mises's wife comments that Montes de Oca was already familiar with Mises's work when they met, as we have already mentioned. It is possible that Montes de Oca introduced other members of the Mexican élite to the theories of the Austrian School.

Mises began his series of conferences on the 14th of January, at the school of economics of the UNAM and at the Escuela Libre de Derecho. Between 8 and 14 students attended the lectures, which were given in English. Montes de Oca himself acted as translator.

During his stay in Mexico City, Mises would meet Montes de Oca at the latter's house at night. During these gatherings, Mises expressed again and again his pessimism about the future of society. Montes de Oca, on the other hand, insisted on his optimism. He believed that it was not too late to fight for freedom and was firmly convinced that Mexico was the ideal place to start.

The Association of Mexican Bankers, which was presided over by Raúl Baillères, also convened two conferences that were given by Von Mises. The first of them was on the topic of "Banking and Economic Policy in Our Time"; the second was "Planning and

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<sup>10</sup> Ibid.

Banking”. These conferences were held in the auditorium of the Confederation of Chambers of Commerce in Mexico City<sup>11</sup>.

Two of the most prominent associations of Mexican business leaders, the Association of Mexican Bankers and the Mining Industry Confederation, asked Von Mises to extend his stay and offered him employment as an economic adviser. He asked for more information about the duties he would be expected to perform. Six months later, Montes de Oca made him the following proposal:

According to his proposition, Mises would become the head of the economics departments of the two business associations, with sufficient personnel to assist him and at a comfortable monthly salary of 1,000 Mexican pesos (a lunch for one person at the Ritz costs three or four pesos). He would also be teaching courses and seminars at any department he wished at the National University of Mexico and at the Colegio de Mexico, and he would be free to take up other (paid) teaching assignments. The offer was for three years and could become effective any time – Mises would not even have to return to the United States after his upcoming visit<sup>12</sup>.

Once this offer had been received, Mises became interested in knowing more about the situation of the Mexican economy. In a letter to his friend Hayek, he describes the opinion of Mexico that he formed during his trip:

Mexico is a country without industry and very short of capital. The soil is in the greater part of the country very poor. The result... is that they have to import wheat and mais [Mises meant what Americans call “corn”], but the rulers – generals, trade union leaders and pink intellectuals – intend to start industrialization by ruthless confiscation of capital. Neither this attitude nor its effects differ from conditions in other countries. But really amazing is the fact that there are some people – of course

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<sup>11</sup> El Nacional, 16th, 20th, 21st of February 1942. The Association of Mexican Bankers was founded in 1928.

<sup>12</sup> Hülsmann, 2007, pp. 813-814.



a small elite only – who have a very keen insight into the problems involved and try to educate the intellectuals<sup>13</sup>.

Two things are immediately notable in this letter to his friend: first, the description that Mises makes of the Mexican economy (poor and without industry), combined with infertile farmland and the existence of an industrialisation scheme sponsored by trade-union leaders and intellectuals based on what he refers to as the “confiscation of capital”. Secondly, Mises is intrigued and surprised to note that there is an élite in Mexico that is opposed to the Mexican government’s policy and that is attempting to create an intellectual movement in favour of its own arguments. In this latter aspect, both Mises and Hayek went on to play a fundamental role.

Following this first visit, Mises and Montes de Oca maintained an intense and fruitful correspondence.

In the month of June 1942, Montes de Oca proposed to Mises the establishment of the Instituto Internacional de Ciencias Sociales, which would be under his direction, and in 1943 he informed Mises that considerable progress had been made on the project. In the same letter, he also asked for suggestions as to what teachers might be willing to work for the institute, and the salaries that they would command:

Mises replied that Walter Sulzbach, Alfred Schütz, Louis Rougier, Jacques Rueff and he himself – all European expatriates living in New York without American citizenship – would be available for permanent employment in Mexico City for an annual compensation of some \$ 6,000 per head. This was a fairly generous salary, and proved to be a major stumbling block for the establishment of the Institute. But in early 1943 everything seemed possible: a group of first-rate intellectuals with classical-liberal pedigree was at least potentially available and another group of men was interested in financing the venture. Moreover, there was a plan: Louis Rougier would be invited to the University of Mexico City for a series of lectures; Mises was to prepare a study on Mexican politico-economic condi-

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<sup>13</sup> *Ibid.*, pp. 814-815.

tions (which Montes de Oca had commissioned for his Banco Internacional); and Montes de Oca continued to work on a translation of Socialism<sup>14</sup>.

The subjects they would teach were: economics; history and critical analysis of the economic doctrines of the last two centuries; constitutional history since 1776; economic and social history since 1750; and modern public finance.

Mises began to take on a role as intellectual adviser to the Mexican élite with Montes de Oca as his intermediary, which he makes reference to in his letter to Hayek. He was consulted in connection with the formation and development of what was later to become the movement's most important educational project: the Instituto Tecnológico de México.

### *3. An Economic Policy for the Post-War Period: Von Mises*

At the end of the month of February 1942, Mises left Mexico with a promise to write an article for the magazine *Cuadernos Americanos*<sup>15</sup>. He was true to his word, and "Ideas on Post-War Policy" was published in the July-August edition (number 4) of the magazine in that same year. In the article, Mises reflects on the economic policy guidelines that in his opinion different nations should follow to rebuild their economies in the post-War period.

The war did not put a stop to intellectual endeavour; on the contrary, many intellectuals poured their energies into reflections on what the respective virtues and defects were of the different political regimes at large in the world, and which had clashed in the Second World War: socialism, fascism, communism, liberalism. Among these thinkers were Joseph Schumpeter, Karl Mannheim, and Karl Pop-

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<sup>14</sup> Ibid., p. 827.

<sup>15</sup> A magazine of social sciences and philosophy, founded and edited by Jesús Silva Herzog.

per; Friedrich von Hayek and Mises also took part in this collective meditation<sup>16</sup>.

In his article, Von Mises maintains that to rebuild their economies, nations should follow a policy that was radically different from the one used before the start of the war. He was specifically referring to economic nationalism, which he believed detrimental to economic development. He describes it as:

...An economic policy based on the belief that it is possible to promote the wellbeing of all the subjects of a nation, or at least a specific group, by putting into practice measures that are disadvantageous to foreigners. It was believed that a service was being rendered to one's country by obstructing or completely prohibiting imports of foreign products, restricting foreign immigration or expropriating, in part or in full, the capital belonging to foreigners. This is not the place to undertake an investigation of whether measures such as these were in fact ideal for the purposes of achieving the desired outcome. Classical free-trade theory has now provided irrefutable proof that the end result of restrictions on foreign commerce is none other than a generalised decrease in the productivity of labour and, therefore, of the standard of living. Thus, production ceases in places where it could create large yields, and is transposed to other locations where, with a minimum of effort on the part of both capital and labour, far lower returns are obtained. The classical theory of free trade espoused by Hume, Smith and Ricardo has never been refuted. Every postulation made against it has subsequently proved to be unfounded<sup>17</sup>.

Mises maintained that the elimination of economic nationalism was a precondition for nations to achieve peace and wellbeing in the post-War period. He believed that the essential problem of the post-War economy was a shortage of capital, and for him the only way to alleviate this ill was:

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<sup>16</sup> Watson, 2003, pp. 405-406

<sup>17</sup> Von Mises, 1942, p. 88.

...to produce more than is consumed, that is, to save and thereby to create new capital. The more is produced, and the more of what is produced is invested and the less consumed, the faster will the difficult times of lack of capital pass. Anyone who advises a different solution to the one that we have just explained is deluding himself, or is trying to delude others<sup>18</sup>.

He goes on:

There are no magical financial procedures to ease the lack of capital. The expansion of credit cannot alleviate it, much less eliminate it. On the contrary, a boom artificially created by an expansion of credit may lead to a lack of focus, and therefore a squandering of capital, by immediately favouring overconsumption, that is, the consumption of capital. Inflationary experiments will do nothing but worsen the crisis. What is needed in this case is, precisely, a monetary and credit policy that ensures the stability of monetary value<sup>19</sup>.

Mises was of the opinion that governments should abandon their confiscatory policies and radically change their taxation policies. He proposes that:

...the part of revenue that is not consumed, but is saved and invested, should be free from all taxes, since it is in the public interest that as much new capital be formed as possible<sup>20</sup>.

To conclude, Von Mises's proposal for the policy for reconstruction following the Second World War was to bring to an end the economic nationalism that had entailed a policy of protectionism, as well as a taxation policy that, in his opinion, did not allow an increase in savings and the formation of capital. Economic reconstruc-

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<sup>18</sup> Ibid., p. 93.

<sup>19</sup> Ibid., p. 93.

<sup>20</sup> Ibid., p. 94.

tion, in his opinion, had to be lit by the glow of the free-trade paradigm.

#### *4. Von Mises and the Economic Problems of Mexico*

Also resulting from his trip to Mexico was the essay *Economic Problems in Mexico*, written in 1943, in which Von Mises put forward a critique of Mexican State economic policy since the Revolution of 1910. The essay was published by the Instituto Cultural Ludwig Von Mises in 1998, with an introduction by Carolina R. de Bolívar. In the year of publication, she was the Academic Director of the Instituto Josefina Vázquez Mota and a notable member of the Partido Acción Nacional political party.

Bettina Bien Greaves, a distinguished student of Von Mises, presented the institute with the text of this publication as a gift, after inheriting from Ludwig and Margit von Mises all the documents that they left behind in their New York apartment when they died. Margit von Mises describes the role that Greaves played in their lives as follows:

...She first came to the seminar in 1951 and attended it to the last session, not missing a single meeting. She is one of those rare individuals who combine intelligence and mental curiosity with warmth and understanding of human nature. With the passing of the years, she became a household ward with Lu and me. If there was any information Lu needed, any refreshing of his memory, he would say, "Call Bettina" and surely enough she had the answer<sup>21</sup>.

After four or five years in the seminar, Bettina took her seat next to Lu, taking notes in shorthand – and no one would have dared to contest for that seat. I spoke first to Bettina in 1952 during a seminar in California. At the time she was still rather quiet, hardly asking any questions, but later, working with

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<sup>21</sup> Von Mises, 1976, p. 140.

tremendous zeal, studying Lu's books from beginning to end, reading them again and again, her inner security grew in relation to her knowledge. She wrote an excellent bibliography of Lu's work, and for his ninetieth birthday she catalogued – with my permission and without Lu's knowledge – his whole library of about 6,000 volumes, to Lu's greatest surprise and delight<sup>22</sup>.

Bettina Bien Greaves was very familiar with the Mises library, which she also inherited when the couple passed away. This explains her finding the documents where Mises analysed the Mexican economy, and which make up the content of Mises's previously unpublished article on Mexico.

In "Economic Problems in Mexico", Ludwig von Mises challenges the economic policy measures implemented by President Lázaro Cárdenas during his administration. His criticism centres on: State intervention, inflation, protectionism and economic nationalism<sup>23</sup>.

Before turning to an analysis of Mises's arguments, it is important to note that when Mises visited Mexico, the country was under the administration of President Manuel Ávila Camacho (1940-1946) and the Second World War was being played out internationally. The war created favourable conditions for the industrialisation of the country, by increasing demand for Mexican manufactured goods on the international market. The most salient features of the industrialisation project then under way were: a very active role for the State in the economy, protectionism, the granting of tax incentives and the creation of infrastructures.

In his essay, the author takes as his starting point the argument that Mexico is a backward country and that industrialisation is the key to solving the problems of economic underdevelopment, although he states his opposition to the industrialisation policies of the Mexican State, which are based on considerable State intervention

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<sup>22</sup> Ibidem.

<sup>23</sup> Von Mises, 1998.

and protectionism. With reference to the period of nationalization under Lázaro Cárdenas, he comments that Mexico needed capital for development and that these nationalisations scared it away:

What Mexico needs more than anything else is capital, either of its own or from overseas. The default on the national debt and the expropriation of foreign investments discourage the external capitalist, and the methods of taxation obstruct the accumulation of internal capital. Complete renunciation of these practices is the first requirement for the economic regeneration of the country.

There is no hope of building prosperous industry in a country that considers every businessman as exploitative and tries at every turn to punish his success. The policy of shortening the working day and driving up costs, by forcing the entrepreneur to provide housing for his workers and establishing minimum wages, either due to the direct interference of the government or by failing to reign in the demands of the unions, is foolhardy in a country whose industrial base has yet to be created.

It is an unfortunate reality that a country that has less favourable natural conditions for production than others, and that suffers from a comparative lack of capital, has just one way in which to compete with countries that have been more blessed by nature and are richer in capital: a cheaper workforce. In a world with no barriers to immigration, there is a tendency to put salaries in different countries on a par with one another. If there is no freedom of movement for workers, however, salaries must necessarily be lower where natural resources are scarcer and capital less abundant. There is no way to change this fact. If the government or the trade unions are unwilling to accept this reality, not only will they fail to improve conditions for the masses, but they will make them worse. They will hinder the development of manufacturing industries, condemning workers to persist as agricultural labourers in extreme poverty, when they could have better-paid employment in factories.

The only way to improve the economic situation of Mexico is through economic liberalism: that is, a policy of *laissez-faire*... to envy the success of one's more fortunate countryman is a common weakness among men. But an honourable patriot

should not look upon the fortunes of efficient entrepreneurs with distaste. He must understand that, in a capitalist society, the only way to accumulate wealth is by supplying consumers with the goods that they demand, at the lowest possible cost. He who serves the public best, is best rewarded. What Mexico needs is economic freedom<sup>24</sup>.

In general, then, the developmental policy of the Mexican State was disparaged by Mises: the specific targets of his criticism were the protection of the internal market, wage and union policies, and the intervention of the State in the economy.

### *5. The Institutions: the Asociación Mexicana de Cultura*

A group of businessmen, headed by Raúl Baillères, was interested in providing an alternative to the economic policy that had prevailed in Mexico since the administration of Cárdenas<sup>25</sup>. In 1946, the institution that would become the standard-bearer for this alternative project was founded: the Asociación Mexicana de Cultura. Formally, it was created with the aim of: initiating, promoting, stimulating, sponsoring, or directly administering and directing educational and

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<sup>24</sup> Von Mises, 1998, pp. 12-13.

<sup>25</sup> At a later date, both the old-guard industrialists and bankers would play a role in the establishment of higher-education institutions that provided an alternative to what they perceived as the leftist ideology prevalent in State-regulated universities. The Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), founded by local industrialists in 1943, placed emphasis on technical fields of study, such as engineering and business administration. Inspired by the institutes of technology of Massachusetts and California, the “Tec de Monterrey” would not have an economics department until 1954. Another private university, the Universidad Iberoamericana, was also founded in the nineteenforties with a conservative, Catholic ethos, and did not open an economy department until the nineteen-sixties. Babb, Proyecto, 2003, pp. 98-99.



cultural activities of all kinds<sup>26</sup>. Its founding statement explains that, in order to comply with its fundamental purpose of promoting education in Mexico, the Asociación Mexicana de Cultura undertook to:

...establish a system of higher-education campuses that are free to exist with no obligations other than to the laws of learning, and with complete academic liberty; with no purpose other than the discovery of the truth and the education of young people; removed from any dependence on militancy or group politics; free from the vicissitudes of financial hardship; capable of providing, within a strict framework of order and discipline, new opportunities for the youth of Mexico in efficient cultural education, scientific instruction, technical training and research; that guarantees for its faculty members an honourable life and their enthusiastic and exclusive dedication to teaching; and which encourages equally the complete education of the young person in aspects cultural, scientific, technical, sporting and, essentially, moral and patriotic<sup>27</sup>.

Among the founders of the Asociación Mexicana de Cultura we find seven of the country's largest banks and several businesses based in Monterrey, including the brewery Compañía Cervecera Moctezuma and the iron and steel producer Compañía Fundidora de Fierro y Acero de Monterrey<sup>28</sup>.

The prominent individuals that took part in the formation of the Association include: Mario Domínguez, Luís Montes de Oca, Ernesto Amescua, Aarón Sáenz, Evaristo Araiza, Federico T. de Lachica, Julio Lacaud, Manuel Senderos, Pedro Maus, José de la Mora, Emilio Souberville, Hipólito Signoret, Guillermo Barroso, Carlos Gómez y Gómez, Manuel Ulloa, Carlos Trouyet, Rogelio Azcárraga, Aníbal de Iturbide, Enrique González Rubio, Carlos Novoa, Antonio Díaz Lombardo, Salvador Ugarte, Noé Graham Gurría, Fernando A. González, Bernabé A. del Valle, Manuel Sand-

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<sup>26</sup> Negrete, 1988, pp. 9-11.

<sup>27</sup> El Universal, 26th May 1946, p. 10.

<sup>28</sup> Ibid.

oval Vallarta, Eduardo García Máynez, Antonio Martínez Báez, Fernando Orozco, Gustavo R. Velasco, Mariano Alcocer and Virgilio Domínguez. The Association's first board of directors was comprised of businessmen, bankers and individuals who had pursued careers in both the public and private sectors<sup>29</sup>.

The Association's founders considered that their most pressing task was to cultivate institutions that would promote technical training with a human touch among young people wishing to go into professions in the banking, industrial and commercial sectors<sup>30</sup>. For this reason, they chose to establish:

- a) The School of Industrial Engineering, which offered courses in mechanical, electrical, chemical and administrative engineering.
- b) The Mexican Institute of Economics, where students could study bachelor's and doctorate degrees in economics, or to become statisticians or actuaries.
- c) The School of Administration, which trained students to become accountants and business administrators in the banking, industrial and commercial sectors.

The Association also offered short specialisation courses for executives and employees in banking, industry and commerce, with the aim of promoting technical innovation and cultural development<sup>31</sup>.

The educational institutions that were created on the basis of this platform would be administered by a Technical Advisory Commission made up of university academics, including: Dr. Manuel Sandoval Vallarta, Dr. Fernando Orozco, Virgilio Domínguez, Antonio García Báez, Gustavo R. Velasco and Mariano Alcocer. Eduardo García Máynez was appointed Director General<sup>32</sup>.

The creation of the different schools was seen as, or was portrayed as, "...the first major step by private enterprise in favour of

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<sup>29</sup> Ibid.

<sup>30</sup> Universal, 12th January 1947, p. 11.

<sup>31</sup> Opción, 1988, p. 5.

<sup>32</sup> "La Asociación Mexicana de Cultura va en auxilio de la Universidad", El Nacional, 24th June 1946, p. 6.

cultural refinement, in a spirit of cooperation with the National University of Mexico and with the aim of solving problems of overcrowding in classrooms”<sup>33</sup>. This account was contested by Gilberto Loyo, then the Dean of the National School of Economics at the Universidad Nacional Autónoma de México, who claimed that his school in fact had a shortage of students<sup>34</sup>.

### 6. *Creation of the Instituto Tecnológico de México*

The Asociación Mexicana de Cultura eventually achieved its objective and created the Instituto Tecnológico de México (ITM), later known as ITAM, whose core programme was the study of economics and which was organised as an alternative to the programme of studies at the UNAM’s School of Economics. In 1946, the Asociación Mexicana de Cultura opened its rival School of Economics, which followed the study plans and programmes that were in use at the National University with some minor adjustments in the order of the various subjects, but without eliminating any of them<sup>35</sup>.

It might be considered curious that the School of Economics at the ITM chose to follow the curriculum and programmes of the School of Economics at the Universidad Nacional Autónoma de México, if it had been created as an alternative to the latter. When the news broke, some people espresse doubts about the new educational institution: *Why would the country’s bankers want to create another school of economics? Would it not be better for them to provide financial support for economic culture through the institutions that already existed*<sup>36</sup>? The answers to these questions would later on be provided by the founders themselves of the institution in question.

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<sup>33</sup> Ibid..

<sup>34</sup> “Economistas”, *El Tiempo*, 15th March 1946, pp. 29-30.

<sup>35</sup> *El Universal*, 6th January 1948, p. 7.

<sup>36</sup> *Revista de Economía Continental*, vol. 1, no. 1, 15th August 1946.

Dr. Josué Sáenz, a lecturer at the School of Economics and the Director of Statistics at the Ministry of the Economy, was the first person that the bankers asked to be Director of the Mexican Institute of Economics. He turned down the position. The appointment was then conferred on Daniel Kuri Breña, a close collaborator with the Partido Acción Nacional and someone, therefore, perhaps much more ideologically aligned with the founders' plans<sup>37</sup>.

In an interview in 1988, one of the founding partners, the banker Aníbal de Iturbide, gave some insight on the set of circumstances that persuaded the group to create the Asociación Mexicana de Cultura and the Instituto Tecnológico de México. In his words:

[In 1946] at the end of the presidency of Manuel Ávila Camacho... there was a Cardenist ideology that was still very much in vogue, which was, in our opinion, misguided. The notions of governance of General Cárdenas were still exerting a great deal of influence on the ideological development of politics and the Mexican way of life, which we believed was not the best way to go about seeking the balanced development of the nation.

So a group of us, those of us that organised the Asociación Mexicana de Cultura, were of the opinion that if we were to promote industrial development in Mexico, we would have to try to change the mentality of the people, because with a mindset that was predominantly socialist and left-leaning in nature, which was the most dominant ideology in politics, we did not believe that industrial development was possible. It was not possible for the existing climate to be conducive to capital investment, either Mexican or foreign, to allow Mexico to begin a new predominantly industrial stage in its development.

That was essentially the reason why we decided to found the Instituto Tecnológico de México, with the aim of creating a school of economics to educate the men who would in the future administer the private and public finances of Mexico...<sup>38</sup>

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<sup>37</sup> "Economistas", *El Tiempo*, 15th March 1946, pp. 29-30.

<sup>38</sup> Negrete, 1988, p. 9.

According to de Iturbide's account, the idea began to form during the administration of General Lázaro Cárdenas, when the group of businessmen in question began to realise that Cardenist policy was at odds with their way of thinking. He says:

We believed that with Cardenist ideology in full force, there was insufficient incentive for the large-scale capital investments that were needed to begin the process of transforming the country from one that relied on agriculture, fisheries and mining to one that was industrialised.

We decided not to go ahead with the School of Engineering because we came to the conclusion that we would not be effective if we tried to include too many branches. Instead we chose to focus on three or four schools, with preference always for the School of Economics, because it was our belief that this would be the base on which the future of Mexico would be built<sup>39</sup>.

The chief proponents of the ideology of State intervention espoused by Cardenism, which was so criticised by Iturbide and his partners at the *Asociación Mexicana de Cultura*, were the National School of Economics at the UNAM and its academics. Many of the latter belonged to the economic nationalist movement, and had the objective of implementing the programme that was fought for during the Mexican Revolution, which would later evolve into a policy for economic development. Some of them were: Jesús Silva Herzog, one of the founders of the National School of Economics; Enrique González Aparicio, Ricardo Torres Gaytán, Horacio Flores de la Peña and Emilio Mugica. They were all deans of the School, held high-level positions in the public sector, and played important roles in the public sphere. At the National School of Economics, these professors recruited students for the public sector, while simultaneously creating the professionals that the 'developmentalist' State needed for

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<sup>39</sup> *Ibid.* p. 10.

administrative purposes<sup>40</sup>. According to research carried out by Roderic Camp:

Graduates of the National School of Economics have tended to concentrate heavily in two government agencies: The Secretariat of Industry and Commerce, and the Secretariat of the Treasury. There are several reasons for this concentration. As is evident ... leadership of those agencies has been dominated by professors or graduates of the National School of Economics from 1929 to 1951<sup>41</sup>.

An interesting case is that of Gilberto Loyola:

...who became dean of the School of Economics in 1944, gave a great impetus to the career of being an economist by encouraging the employment of economists in the Secretariat of Industry and Commerce, which he headed in 1952 after leaving the deanship. Control of this agency by National School of Economics graduates has continued until 1974. The establishment of a federal Income Tax Department in the secretary of the treasury, which almost exclusively employed economists... was soon directed consecutively by National Economic School graduates. Lastly, when costudents and professors recruited students, it was often into their own agencies<sup>42</sup>.

It was in opposition to this school of thought that the liberal project headed by the group of businessmen in question began to create alternative institutions. In an article published in the magazine *Tiempo* on the 15th March 1946, a quote was printed from one of the founders of the ITM – who was not identified, but who was part of the so-called BUDA group (the cabal formed by bankers Raúl Baillères, Salvador Ugarte, Mario Domínguez and Ernesto J. Amezcua) – which said: “We need liberal economists uncontaminat-

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<sup>40</sup> Camp, 1975.

<sup>41</sup> Ibid., p. 147.

<sup>42</sup> Ibid.

ed by interventionism, who defend our interests in opposition to the State”<sup>43</sup>.

The unnamed source went on to criticise the National School of Economics:

...the National University and its School of Economics [are] in a permanent state of disorder, and as for the latter, which is possessed by statist ideology, it is incapable of guaranteeing the creation of well-educated, technical economists that may be entrusted with positions in banking and private enterprise without raising concerns<sup>44</sup>.

Gilberto Loyo, Dean of the National School of Economics at that time and a professor of statistics and demographics at the same institution, responded to this statement from a purely academic viewpoint:

It is false to claim that at this institution we provide an ideologically doctrinaire professional education. The academic freedom enjoyed by teaching staff at the UNAM allows for the National School of Economics to be exposed to all schools of thought, and this is in fact the case. However, what we do aspire to is for graduates of our institution to be capable of serving the nation and not just a specific social class. We have also made sure that our study plans are standardised, so that students can apply their know-how effectively, independently of whether or not they nuance them with their own purely personal opinions<sup>45</sup>.

The statement issued by the businessmen could not be clearer in relation to their motives for establishing the ITM: in their opinion, only a liberal economic policy was capable of representing the interests of private enterprise. Despite their criticism of the administration

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<sup>43</sup> El Tiempo, 9th August 1946, pp. 33-34.

<sup>44</sup> “Economistas”, El Tiempo, 15th March 1946, pp. 29-30.

<sup>45</sup> Ibid.

of Manuel Ávila Camacho for being under the sway of Cardenist ideology, they recognise that the government – and de Iturbide himself mentions this in the interview referred to above – never put up the slightest resistance to their development of the educational project of the Asociación Mexicana de Cultura.

### *7. Some of the Leaders of the Project*

The president of the Asociación Mexicana de Cultura, from its establishment and up until his death in 1967, was Raúl Baillères, a banker who in 1934 founded Crédito Minero, S.A. (later Banca Cremi), the first Mexican bank specialising in the financing of mining concerns. He later founded the financial institutions Crédito Hipotecario, S.A., and Crédito Afianzador, S.A.; and from 1941 to 1942 he was the president of the Association of Mexican Bankers. In 1941, Baillères was also the leader of a group of investors with controlling stakes in the brewery Compañía Cervecera Moctezuma based in Monterrey, and in the chain of department stores El Palacio de Hierro<sup>46</sup>.

Baillères pursued many of these business interests in the nineteen-thirties as part of the BUDA financial group, made up of himself, Salvador Ugarte, Mario Domínguez and Ernesto J. Amezcua; the four were also founders of the Asociación Mexicana de Cultura and together they established and expanded several large business ventures<sup>47</sup>.

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<sup>46</sup> Baillères, 1988, p. 6.

<sup>47</sup> In 1932, on the initiative of Salvador Ugarte, the financial institution Banco de Comercio was formed (later Bancomer and now BBVA). Raúl Baillèr esplayed a leading role in this project, and the bank's institutional organisation was entrusted to Aníbal de Iturbide. Collaborators on this project included Mario Domínguez, Ernesto Amezcua and Liberto Senderos. A short time later, they would go on to establish Crédito Hipotecario, S.A. and Crédito Afianzador, S.A. together. They would also play a part in the creation of Banco General de Capitalización, founded in 1934. In 1956, disagreements over the control of Banco de Comercio caused the departure of



Raúl Baillères, the project leader, was opposed to the government's statist strategy, which in his opinion had seized control of a large number of companies and had thereby limited the scope of action for private enterprise:

He was intuitively convinced that the system could not work and that Mexico needed a free society with private enterprise as its engine of economic development<sup>48</sup>.

Aníbal de Iturbide introduced Raúl Baillères to Luís Montes de Oca, and of this encounter he says:

I was the one who brought them together. Luís was the ideas man, and Raúl the one who provided financial support<sup>49</sup>.

De Iturbide goes on: "the two of them and a group of distinguished friends, now all departed, created the Asociación Mexicana de Cultura and the Instituto Tecnológico Autónomo de México (ITAM)."<sup>50</sup>

Baillères declared at the time:

We are going to educate young men so that, in 30 or 40 years, they can carry out the transformation from a statist country to a liberal capitalist country<sup>51</sup>.

Luís Montes de Oca was a certified public accountant. He played an important role in directing the country's finances during the period of economic reconstruction: President Plutarco Elías

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Raúl Baillères and several board members from the bank. Later on, de Iturbide (who had resigned from the bank in 1955) and Baillères were invited to work for Banco Comercial Mexicano (Comermex) as CEO and board member, respectively.

<sup>48</sup> Baillères, 1994, p. 36.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

Calles appointed him as Auditor General of the Nation in 1924, and he remained in the post until 1927, when he was named Minister of Public Finance (1927—1932). During the administration of Lázaro Cárdenas, between 1935 and 1940, he was Director of the Bank of Mexico, and he subsequently retired from politics to make a career for himself as a private banker. In 1941, he brought together a group of businessmen to form Banco Internacional. Montes de Oca was the founding partner of the Asociación Mexicana de Cultura who had the strongest links with Mexican intellectuals, and it was through him that the ITM was able to recruit Miguel Palacios Macedo, a lecturer at the National School of Economics, to teach History of Economic Thought and Economic Theory at the newly founded Institute<sup>52</sup>. In interview, de Iturbide stated:

Within the Asociación Mexicana de Cultura, we had the fortune to have a man of exceptional intellectual capabilities: don Luís Montes de Oca, who had been the Minister of Finance and Director of the Bank of Mexico. At the time he was retired from politics. He was an extraordinarily cultured man, and one with good relations with other talented men. He was the vehicle that allowed us to contact and attract to the ITM people... who were very influential, such as Miguel Palacios Macedo, the most important person in the development of the School of Economics<sup>53</sup>.

Carlos Novoa was a private banker who also held a series of top-level positions: President of the National Banking Commission, 1933; President of the Association of Mexican Bankers, 1945—1946; and Director of the Bank of Mexico from 1946 to 1952. Carlos Novoa was the son of Eduardo Novoa, who was Porfirio Díaz's Deputy Justice Minister. His career, like that of Montes de Oca, was in public and private finance. At the same time that he held a promi-

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<sup>52</sup> Negrete, 1988, p. 10.

<sup>53</sup> Ibid.

ment government position, he was providing support for a project that was at cross purposes with the prevailing economic policy<sup>54</sup>.

Scholar Nora Hamilton maintains that the post-revolutionary government, as well as creating the conditions for the accumulation of capital, forged a new political class. Once the armed struggle was over, revolutionary generals continued to control several regions within the country. The government appeased and controlled these military men by providing them with financial dispensations and channelling their political ambitions into business activities. Hamilton asserts that a classic example of this process was Aarón Sáenz<sup>55</sup>. At 26 he was the head of General Álvaro Obregón's presidential guard, the *Estado Mayor Presidencial*, and he maintained a close friendship with the President; in 1924, Obregón appointed him Minister for Foreign Relations; from 1927 to 1930, he was governor of his home state, Nuevo León<sup>56</sup>; and he was Minister for Industry and Trade from 1930 to 1931. Aarón Sáenz then went from his role in the military and in the government to being a businessman. He became a sugar magnate, who made a fortune on the strength of the political connections he had acquired during the Revolution and then in the public offices he held. Sáenz had close links to conservative business groups in Monterrey, and he was also president of *Banco Azucarero*, a bank that specialised in investments in the sugar industry, which would later become *Banco de Industria y Comercio*<sup>57</sup>. He was one of the main founding partners of *Banco Internacional*, together with *Montes de Oca*:

Sáenz's wealth apparently originated during his government career with the establishment of a construction firm (in association with President Calles) which benefited from government contracts. He and Calles,...were also associated in the construction of a major

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<sup>54</sup> Camp, 1992, pp. 410-411.

<sup>55</sup> Hamilton, 1982, pp. 40-41.

<sup>56</sup> See also: Tapia Fabián, AarónSaénz. [http://www.sre.gob.mx/acervo/can2\\_3.pdf](http://www.sre.gob.mx/acervo/can2_3.pdf).

<sup>57</sup> Hamilton, 1982, pp. 40-41.

sugar refinery at El Mante, in the state of Tamaulipas. Sáenz, Calles and other government officials obtained the lands after a dam and irrigation system had been constructed at government expense, and a modern sugar refinery was built with the assistance of a substantial loan from the Banco de México<sup>58</sup>.

Another important member of the Association was Aníbal de Iturbide, Director of Banco Nacional de México in 1945 and of Banco Comercial Mexicano in 1955. For two terms, he was president of the Association of Mexican Bankers. He was a key figure in the creation of the liberal school of thought, and was one of the most prominent bankers of the twentieth century in Mexico. He was professional, efficient and competent, and he did not just have a technical interest in banking; he was also knowledgeable about the monetary and banking theory of the time, and played an active role in building up the country's banking and credit institutions. He stood out as a leader and intellectual guide in the sector. He participated in economic debate, and tried to influence the government's 'developmentalist' economic policy by insisting on stability as a prerequisite for development<sup>59</sup>. He was particularly active in debates on credit and currency.

Aníbal de Iturbide was a man that expressed and made public his ideas and opinions in a range of different documents. Several of his works are anthologised in the book *Visión científica y retrospectiva del crédito en México*. In April of 1954, at the XX Bankers' Convention held in Acapulco, Guerrero, he gave a talk entitled "The Real Importance of Public Spending for the Economy"<sup>60</sup>. One work in

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<sup>58</sup> Ibid., p, 41.

<sup>59</sup> See: *Visión Crítica Retrospectiva del Crédito en México* published in 1963, volume 11 of the SELA Collection (Selección de Estudios Latinoamericanos), which contains several works by Aníbal de Iturbide from the period between 1947 and 1960.

<sup>60</sup> "La importancia real del gasto público en la economía", talk given by Aníbal de Iturbide, General Manager of Banco de Comercio S.A. at the XX Bankers' Convention held in Acapulco, Guerrero, on 26th April 1954.

particular that summarises his thoughts on currency and credit was the conference “Monetary and Credit Policy”, which he presented in his capacity as Director of the Bank of Mexico at the Instituto Tecnológico de México in April of 1959<sup>61</sup>.

At this conference, he maintains that the country’s fundamental problems are dependent on monetary stability, and he goes on to add:

Thus the need to re-examine our monetary policy and practice is a task that must be carried out without delay. The lack of stability in the value of our peso is today the most urgent problem, and the one with the most wide-ranging consequences, for the wellbeing of our nation; for this reason, I firmly believe that all other aims of economic policy should immediately be subordinated to the fundamental objective of keeping our currency stable<sup>62</sup>.

In his speech, de Iturbide also took the Mexican monetary and banking authorities to task over the role of the Bank of Mexico, as a central bank whose job it was to promote economic development in the country, and railed against the use of the public deficit as an instrument for development<sup>63</sup>.

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<sup>61</sup> The conference was held on Wednesday 15th April 1959 in the auditorium of the Instituto Tecnológico de México, with Ernesto Fernández Hurtado, Deputy Director of the Bank of Mexico, Josué Sáenz and Víctor L. Urquidí as speakers. See: Iturbide, *Política*, 1959.

<sup>62</sup> Iturbide, 1959, p. 2.

<sup>63</sup> Aníbal de Iturbide held a wide range of positions throughout his career: General Manager of Banco de Comercio, S.A.; Chief Executive Officer of Banco Comercial Mexicano S.A. (1956); board member of the Asociación de Banqueros de México; board member of Tubos de Acero de México; board member of the Confederation of National Chambers of Commerce; board member of 24 separate banks affiliated to Banco de Comercio, S.A.; board member of La Comercial, Compañía de Seguros, S.A.; board member of La Almacenadora, S.A.; board member of Nacional de Drogas, S.A.; board member of Manantial Peñafiel; and alternate board member of Crédito Hipotecario S.A. He was also the Mexican delegate at the Interna-

*8. The Austrian School in Mexico: Von Mises and Von Hayek*

In the same year of 1946, a few months after the creation of the Asociación Mexicana de Cultura, this Association and the Bankers' Association extended an invitation to Mexico to two of the foremost representatives of the Austrian School: the teacher and his pupil, Ludwig von Mises and Friedrich von Hayek. They were both tireless fighters for economic and political freedom, who opposed fascism as much as they did socialism or F. D. Roosevelt's New Deal. Luis Montes de Oca once again assumed the role of their promoter and presenter at conferences.

*9. No Economic Freedom Without Political Liberty*

On the 22nd of July 1946, Professor Friedrich von Hayek of the London School of Economics arrived in Mexico City, at the invitation of the Association of Mexican Bankers and the Asociación Mexicana de Cultura. Hayek was an eminent disciple of Ludwig von Mises and author of the famous book published in 1944 *The Road to Serfdom*, in which he argued in favour of the free market and upheld the notion that a planned economy can never have enough information about individual preferences to allow the consumer to make an appropriate choice.

He gave three conferences at the Mexican Institute of Economics and the Confederation of Chambers of Commerce on the 24th, 25th and 29th of July<sup>64</sup>. The first two, on the 24th and 25th,

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tional Credit Conference in Rome; a member of the Commission for Review of the Credit Institutions Law; a member of the Economic and Fiscal Policy Council; and a member of the National Commission on the Economy organized by President Ávila Camacho during his final year of government. See: Romero, Aníbal de Iturbide, 2010, p. 157-162.

<sup>64</sup> Doctor Hayek was born in Vienna on the 8th of May 1899 and studied at the university in that city, where he obtained a doctorate in law in 1922 and another in political science in 1923. He worked in the Austrian civil service

centred on the topic of “Employment and Public Expenditure”; the subject of the conference of the 29th was “The Meaning of Competition”. In the conference at the Chambers of Commerce, Professor Hayek also spoke on the subject of “The Political Consequences of Economic Planning”. President of Banco Internacional Luís Montes de Oca – a self-declared enemy of economic planning and, like Professor Hayek<sup>65</sup>, a supporter of neo-liberalism – presented the speaker to the audience. At the time, the president of the Bankers’ Association was Carlos Novoa<sup>66</sup>. The magazine *El Tiempo* reported that the mere mention of Hayek’s arrival in Mexico aroused the interest and stirred the passions of Mexican economic scholars. The most notable thing about the article, however, was the first appearance in the press of the term “neoliberal”; previously, visiting professors had been labelled as members of the Austrian School or the School of Vienna. In his final conference, Hayek expounded on one of his principal theses:

...that political freedom is not possible without economic freedom, and that any planning or guidance of the economic activities of a country implies the guidance of the political activities of its citizens. He declared himself a supporter of a sys-

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from 1921 to 1926, and between 1927 and 1931 he was the Director of the Austrian Institute for Business Cycle Research. From 1929 to 1931 he was also a professor in political economics at the University of Vienna. In 1931 he was appointed professor of economic sciences and statistics at London University. He was a member of the British Academy and of the Royal Economic Society Council. Professor Hayek published the following works: *Prices and Production*, 1931; *Monetary Theory and the Trade Cycle*, 1933; *Collectivist Economic Planning*, 1935; *Monetary Nationalism and International Stability*, 1937; *Profits, Interest, and Investment*, 1939; *The Pure Theory of Capital*, 1941; *The Road to Serfdom*, 1944. See: *El Universal*, 17th July 1946.

<sup>65</sup> *El Tiempo*, 26th July 1946, pp. 45-46.

<sup>66</sup> *El Universal*, 17th July 1946.

tem of private enterprise that would only allow a certain degree of planning in exceptional cases...<sup>67</sup>

Like Ludwig von Mises, von Hayek does not stop at an appreciation of the individual as merely an economically rational being, the maximising individual; instead, he sees the individual as a political being perhaps over and above a subject whose behaviour optimises the economy. This is an essential point that differentiates this school of thought from the old liberalism.

In his conferences, addressed to a public made up of bankers, he challenged the policy of public works in a period of high inflation as, in his opinion, this would accentuate the imbalance between investments and savings. He stressed that the regulating mechanism in the economy was competition, not the State.

Hayek's views were echoed in the Mexican business world. At a conference he gave on Industrial Planning at the National School of Economics before Hayek's arrival in the country, José R. Colín, President of the Mexican Chamber of Manufacturing Industry, said in reference to the Austrian scholar that

...This writer's thesis has been found time and again in the theses put forward by different employers' organisations in our own country, where the Austrian economist's arguments have been repeated<sup>68</sup>.

Colín's comment begs the question: Did Montes de Oca introduce Mexico's business leaders to Hayek's theories, or were they simply theories that were well received by the country's business community?

Hayek's presence in Mexico received a great deal of attention from the press. Nonetheless, it would appear that only the professor of economic theory at the UNAM's National School of Economics,

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<sup>67</sup> El Nacional, 1st July 1946

<sup>68</sup> Revista de Economía Continental, vol. 1, no. 1, 15th August 1946.



Francisco Zamora, was prepared to debate his theories and to challenge the members of the Asociación Mexicana de Cultura. In a lengthy article published in the newspaper *El Universal*, Professor Zamora says:

It is at once revealing and ironic that the first foreign academic invited to visit by the opulent association of bankers and industrialists, to whom is owed the youthful existence of the Instituto Mexicano de Economía and who almost plays the role of ideological

godfather to the latter, is Professor Friedrich von Hayek. Revealing, because the distinguished economist is the most well-known and crowd-pulling star that economic liberalism has in these increasingly trying times; and ironic because among the prominent persons who invited him are many, perhaps the majority, who owe their relatively recently achieved fortunes and social standing to the anti-liberal intervention of the Mexican State in the economic activity of the nation, thanks to which monopolies have been created that have made them rich.

Thus we find ourselves faced with an amusing paradox: Professor Hayek has come to Mexico to nurture the seed of the liberal economy, after having undertaken a similar mission with great success among the North American mesocracy, on the initiative and at the cost of a group of moneyed individuals whose wealth, in a great number of cases – it could be said in most cases – has its origins in government policy that is the polar opposite of the principles of liberalism. The patrons of this crusade against State intervention in the orientation and development of private enterprise without doubt have a wide range of backgrounds; but the fact that at least some of them have arrived at this point from the sectors of government finance, the sugar industry and the road haulage industry gives one justification to doubt the sincerity with which they are sponsoring this more or less scientific, liberal-economic propaganda exercise<sup>69</sup>.

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<sup>69</sup> Zamora, 1946.

Professor Zamora was referring specifically to the businessman Aarón Sáenz, who, as we have already mentioned, was a founding partner of the Asociación Mexicana de Cultura, a sugar-industry mogul and a person who had made his fortune under the protection of the ‘developmentalist’ State that he so harshly criticised.

### *10. Von Mises Returns*

In August of 1946, Mises visited Mexico for a second time and joined Hayek. They travelled together to Lake Chapala in the state of Jalisco. In Guadalajara, Mises presented a conference and, once again, Montes de Oca was his translator. During his stay in Mexico City, Mises gave a series of talks that had been convened by Raúl Baillères, the president of the Asociación Mexicana de Cultura, and by the president of the Bankers’ Association, Carlos Novoa. The subject of the first conference, held in the auditorium of the Instituto Mexicano de Economía, was “Interventionism; Ideological Foundations and Economic Consequences”<sup>70</sup>. The second conference, “The Crisis of Interventionism”, was held at the same venue on the 14th of August<sup>71</sup>.

Hours before giving the last of these talks, Von Mises met with members of the Mexico City Rotary Club at an elegant restaurant. He told the select group of financiers that he had been a member of the Vienna Rotary Club from 1929 to 1938, until Hitler disbanded Rotary Clubs in Austria, then in Germany the following year and subsequently in all the countries invaded by the Reich. On this occasion his speech was on price control<sup>72</sup>. The essential ideas that he put forward in both conferences referred to the obstacles or incen-

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<sup>70</sup> The Instituto Mexicano de Economía was located at Palma Norte 518, on the 6th floor. The conferences were held on the 7th and 14th of August 1946, at 7 p.m. El Universal, 7th August 1946.

<sup>71</sup> El Universal, 8th August 1946.

<sup>72</sup> El Universal, 14th August 1946.

tives for the accumulation of capital in developing countries like Mexico:

What these countries need, he said, is industrialisation, and for this it is necessary to have foreign capital. Exchange-rate controls (which do not exist in Mexico) and the policy of expropriation have prevented this capital from coming from abroad. Another method is State investment; but this, commented Ludwig Von Mises, is politically dubious... There is no other alternative, then, to the formation of capital internally. This could be achieved by creating the conditions for a quantitative and qualitative increase in production, as well as for an increase in the marginal product of labour.

However the obstacles that hinder the accumulation of capital must be removed. Any action taken by the State to encourage [the accumulation of capital] is good; any action that deters it or makes it impossible is bad. Price controls and wage increases through the trade unions go against this goal...

Price-control policy contains a structural contradiction: governments want on the one hand high prices for manufacturers, and on the other hand low prices for consumers. These opposing goals are simply impossible to reconcile. By removing barriers to foreign trade and food imports, lower prices would be achieved...<sup>73</sup>

Mises's recommendation for the process of accumulating capital in Mexico was free trade, which implied the mobility of capital and goods and the influx of foreign investment.

### *11. In the Company of Monterrey Businessmen*

The Centro Bancario de Monterrey invited Von Mises, through the Asociación de Banqueros de México, to the city of Monterrey to give some of his talks on economics. This led to a conference that was held on Tuesday, the 20th of August 1946<sup>74</sup>. Mises's

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<sup>73</sup> Ibid.

<sup>74</sup> El Porvenir, Monterrey, 19th August 1946.

reflections once again centred on government interference and the development of private enterprise. He also spoke about the successes and failures of the Austrian School in the United States:

The Austrian school of economic thought, explained Professor Von Mises, was studied and adapted by many of the economists in the United States who are advisors to the government. However, the start of the war threw the economic structure of that great nation into turmoil. In the opinion of Professor Von Mises, the country will soon recover from its current economic problems<sup>75</sup>.

In Von Mises's opinion, economic recovery in the United States would have a favourable effect for Mexico, as inflation in Mexico was dependent on the neighbouring country to the north. As he said to a reporter from the newspaper *El Porvenir*:

As soon as that great nation improves its economic situation, inflation in Mexico will stop.

Mexico did not have the choice to go or not to go down the dangerous path of inflation. Price controls in the United States, which have now been regulated differently to how they were before, will soon make American industry surpass itself. This, I assure you, is colossal. It is not just the vision of a European scientist with regard to the potential of this great American continent<sup>76</sup>.

Von Mises takes note of the interrelation that existed between the two economies. However, he does not consider Mexico's economic dependence on the United States as something harmful; rather, it is an essential part of Mexico's condition as a backward country.

The following day, the 21st of August, Von Mises continued with his talks with groups of business leaders from Monterrey. The central topics of this conference were: State interventionism and the

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<sup>75</sup> El Porvenir, Monterrey, 20th August 1946.

<sup>76</sup> Ibid.

price-control system. Nazi Germany and Socialist Russia were the historical examples that Von Mises made constant reference to. In his opinion, State interventionism had direct effects on the political system. He says: “It is clear that interventionism on the part of the State is self-destructive, because it restricts parliamentarianism, limits the freedom of the press, overlaps with labour interests, and destroys private enterprise and political freedom of thought”<sup>77</sup>.

He went on to talk about the price-control system as one of the most detrimental forms of State interventionism:

The price-control system, said Von Mises, is one of the most flagrant forms of interventionism. The system results from the inflation created by governments. Governments should not be said to combat inflation, but rather its effects...

Of course what the price-control system results in, once the government has failed in its intervention to dictate the economic index of a given product, is the farmer or the industrialist that produces the product whose price has been capped by the government simply abandoning his crop or his production, because the benefit created by the activity decreases. When supply goes down but demand remains the same, the value of the article increases outside the regulated market, creating one fictional price and one black-market price; this leads to inflation because the government is incapable of controlling the rise in the price of the article due to demand. The government eventually is forced to abandon its price interference and to accept the inflation, and must then try to combat inflation after the fact<sup>78</sup>.

Mises also held meetings with several business concerns from the region: accompanied by Virgilio Garza Jr., president of Crédito Industrial; Ignacio Martínez Jr., manager of Banco de Nuevo León; Francisco Maldonado, manager of Compañía General de Aceptaciones; and Jesús Velasco, manager of Banco de Monterrey, he visited several local factories, gave a conference at Banco de

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<sup>77</sup> El Porvenir, Monterrey, 21st August 1946.

<sup>78</sup> Ibid.

Crédito Industrial, and dined with a group of bankers at the Casino de Monterrey. As we can see, Mises and Hayek had a very busy schedule on the visit they paid to Mexico's business community.

## *12. Mont Pelerin Society in Mexico*

On the 10th of April 1947, the Mont Pelerin Society was created by a group of mainly economists, historians and philosophers from the academic world, under the leadership of Friedrich August von Hayek and Albert Hunold<sup>79</sup>. Among other notables who formed the society were Ludwig von Mises, Milton Friedman and the philosopher Karl Popper<sup>80</sup>. At its inaugural meeting, a discussion was proposed of the State and the fate of classical liberalism. The group stated that:

Its sole objective was to facilitate an exchange of ideas between like-minded scholars in the hope of strengthening the principles and practice of a free society and to study the workings, virtues, and defects of market-oriented economic systems<sup>81</sup>.

The society's members described themselves as liberals, and they were opposed to theories that defended State interventionism such as those of John Maynard Keynes, which gained currency after the Second World War.

In the post-War period, those responsible for economic policy in various countries took inspiration from Keynesian theory to pursue the development of their respective economies. At the same time,

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<sup>79</sup> The society's name is taken from the Swiss resort where the group's first meeting was held. See: Harvey, "Breve", 2007, p. 26.

<sup>80</sup> For the society's articles of incorporation, see web site: <http://www.montpelerin.org/aboutmps.html>, and Harvey, "Breve", 2007, p. 27.

<sup>81</sup> <http://www.montpelerin.org/montpelerin/mpsAbout.html>.

neoliberals opposed the systems of centralised State planning. They argued that:

Decisions made by States... were condemned to be politically biased on the basis of the interest groups that would be affected on each occasion (such as trade unions, environmental organisations or business lobbying interests). Any decisions made by States on investment and the accumulation of capital would always be erroneous, because the information available to the State could not compete with the information contained in the market<sup>82</sup>.

The group held annual meetings in different cities around the world, and in September 1958, Mont Pelerin came to Mexico. The society's meeting was sponsored by the Instituto de Investigaciones Sociales y Económicas, A.C. The attending professors who were members of the society were: Bruno Leoni, Ernst Bieri, Bernard Pfister, Friedrich von Hayek, Albert Hunold, W. H. Hutt, John Van Sickle, Arthur A. Shenfield, Ludwig von Mises and Daniel Villey.

As well as conferences that were given by some of the members, a round table discussion was organised on the problems of the world economy. The two fundamental topics of the debate were inflation and official controls. There were also reflections on:

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<sup>82</sup> The members of the group described themselves as “liberals” (in the traditional European sense of the word) because of their fundamental commitment to the ideals of individual freedoms. The label “neoliberal” indicated that they were adherents of the free-market principles established by neo-classical economics, the movement that emerged in the second half of the 19th century (as a result of the work of Alfred Marshall, William Stanley Jevons and Leon Walras) and replaced the classical theories of Adam Smith, David Ricardo and Carlos Marx. Nonetheless, they stood by Adam Smith's conclusion that the invisible hand of the market was the best mechanism to mobilise even the basest of human instincts, such as gluttony, greed and the desire for wealth and power, for the common good. Harvey, “Breve”, 2007, p. 27.

...inflationist financial policy... and they warned that controls on prices, imports and exports would counteract the efforts of private enterprise and necessarily create negative effects on agricultural and industrial production and on the different business sectors; in the long term the economy would be brought down by a contraction in productive activity. We can only hope that these authoritative voices are heard in the spheres of government in Mexico, where the controlled economy has powerful sympathisers who stubbornly follow an inept policy of making the State the master of the land<sup>83</sup>.

The Mont Pelerin intellectuals failed to achieve broad appeal in Mexico because at that time, the so-called “Mexican miracle” was at its peak and the Mexican State had adopted a model of development that ensured stability, with an economic policy in which State intervention played a fundamental role. Nonetheless, there were those among the country’s élite who were determined to strengthen the liberal programme promoted by the organisation.

### *13. Epilogue*

The economic programme of President Cárdenas, based on economic growth with the distribution of wealth, was seen in a negative light by some of Mexico’s business leaders. Bankers and industrialists sought to create institutions that would counteract the movement, which was the cornerstone of Mexican ‘developmentalism’. Within this context, it is easy to grasp the significance of the trips made to Mexico by the two most important members of the Austrian School – Von Mises and Von Hayek – whose aim was to provide ideological and theoretical support for the debate being waged by the Mexican élite against the nationalist Mexican State. They fulfilled their role of helping to articulate the dis-

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<sup>83</sup> Excélsior, 2nd October 1958.



course of the group of Mexican businesses most closely linked to the international financial sector.

The élite took on the task of creating the conditions for the construction of an alternative project to Cardenism, and therefore to economic nationalism. The establishment of higher education institutions was the most significant means employed to help realise this ideal. An example is the Instituto Tecnológico de México; from the time it was founded, both the Institute's administrators and the members of the Asociación Mexicana de Cultura began submitting the necessary applications to the corresponding authorities to achieve full academic independence for the institution. On the 10th of April 1962, President Adolfo López Mateos signed a decree granting the institution its independence<sup>84</sup>. This gave the institute complete freedom to design study plans, programmes and methods of teaching, and it became the Instituto Tecnológico Autónomo de México (ITAM). The institute became an important source of young people with technical expertise as economists and a different way of thinking about economics to that which was prevalent in the so-called 'developmentalist' stage, who then went on to implement the political project conceived by their educators.

Things did not stop there. The group of business leaders would continue to create institutions throughout the second half of the twentieth century. On the 13th of September 1962, on the initiative of the businessman Bruno Bagliani, the Mexican Council of Businessmen (CMHN) was founded. The organisation ostensibly had the objective of creating a mechanism for arbitration between business, the State and civil society<sup>85</sup>, although banker Aníbal de Iturbide suggests that the business group was established with the aim of creating a direct channel of communication with the top levels of political power and of representing the country's most important business leaders.

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<sup>84</sup> The decree was published in the Official Federal Gazette on the 19th of January 1963, at a time when the Minister for Public Education was Jaime Torres Bodet. Miguel González Avelarand and Porfirio Muñoz Ledo participated in drafting the decree. See: *Opción*, April 1988, p. 44.

<sup>85</sup> Brito, 2002, p. 81.

Over time, and for the rest of the twentieth century, the demands of the group of business leaders who set about building institutions to promote liberalism and oppose economic nationalism remained: limitation of participation of the State in the economy, elimination of protectionism, and promotion of free trade and foreign investment.

To conclude, it is very important to emphasise that although the group with liberalist leanings was economically strong, not everyone in the Mexican business community was opposed to the ideology of economic nationalism. In fact, a group of business leaders emerged and became strong due to economic protection and the support of government policies. A detailed study has yet to be carried out as to what kinds of business interests, and from which sectors, were the ones who sought to create a project linked to liberalism during the twentieth century in Mexico.

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