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The Great Depression as a Catalyst for Changes in Mexican Economic Policy: From Integration to Nationalism

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1. Introduction

The Great Depression was an era that transformed many aspects of the United States’ culture, society, and economy. Although, it is regarded as an extremely significant time period within the United States history, many fail to recognize the international impact it had on the societies and economies of other nations. In this essay I will examine the Great Depression through its influence on the developing Mexican economy of that time. I will begin by investigating the colonial and imperialistic history of Mexico, and establishing the imperialistic ties Mexico has had with the United States. This will provide a better indication of the economic status of Mexico, in relation to the United States before, during, and after the Depression. Ultimately, I will use historical accounts, empirical evidence, and the Developmentalist theories of Raul Prebisch, and Hans Singer, to show that the U.S. economic decisions and isolationist responses to the Great Depression catalyzed Mexico’s efforts to adopt and implement precipitously increasing autonomous ideology and economic policies.

During the Great Depression, the United States and Mexico experienced significant changes in trading and investment relations. The trade relationship between the US and Mexico prior to the Great Depression was typified by substantial investment from US firms in Mexican heavy industry, as well as significant consumption of primary commodities, minerals, and natural resources. Supplying 75 – 80 percent of machine imports to Mexico, the U.S. was the largest foreign investor in the railroad construction and oil industries. In return, Mexico exported vast amounts of primary goods to the U.S. economic market and supplied U.S. industries operating in Mexico with cheap and abundant labor. This trade relationship elucidates Mexico’s vulnerability through its
reliance on U.S. demand and investment, as well as the resulting threat of the U.S. isolationist policies and economic downfall during the Great Depression.

The Great Depression weakened the economic strength of the U.S.; thereby impairing its global trading position. This encouraged U.S. adherence to more isolationist practices; limiting imports, and foreign investment abilities. The U.S. economic policy response forced Mexico to deviate from economic dependence on the U.S. and focus on the problems of internal growth to position the country as a developing and independent nation. Adhering to increasingly isolationist policies, by limiting imports and foreign investment, in response to declining demand during the Depression compelled Mexico to deviate from economic dependence on the U.S. by developing its internal economy. The evolution of Mexican economic policy occurred in four distinct phases of political regime change and development: (1) U.S.-Mexico economic integration, (2) the birth of nationalistic ideology in Mexico, (3) the pursuit of economic autonomy, and finally (4) the intensive implementation of nationalistic economic policies. While the Great Depression did not initiate economic reform in Mexico, it indirectly, through the consequences of U.S. economic policy, intensified the implementation of nationalistic policies by the Mexican government. However, before delving into this topic, an in-depth examination of the imperialistic relationship between the U.S. and Mexico preceding the Great Depression is necessary to comprehending the Depression as a propagation mechanism for Mexico’s economic transformation.

2. Imperialistic Ties between the U.S. and Mexico
After its political independence from Spanish rule in 1821, Mexico was still on a dependency path due to the years of colonial rule that left the country with a structure based on external control. With the entrance of different Mexican leaders, the aim and economic role of Mexico on a national level began to change as influence from foreign investment transformed a colonial relationship into an imperialistic one. Mexico was never colonized by the United States but the relationship between the two countries can be qualified as imperialistic in nature.

The imperialistic relationship is characterized by the U.S. acquisition of Mexican lands, after the Mexican-American war, as well as the concessions the U.S. received from the Porfirian Government (1876-1911). This land acquisition accentuated the subsequent influence of the U.S. on Mexico’s economic policies. The United States formed a dominant economic and political role within Mexico because the United States not only had land ties, but also became the main provider of foreign investment and owner of prominent firms in industries crucial to the Mexican economy. As the Dependency theorists argued, U.S.’s economic dominance in Mexico made the latter assume the role of a primary goods exporter rather than utilizing its resources to develop its own domestic demand. We will now examine these theories. (“Colonialism”-electronic source).

3. A Theoretical Framework: The Dependency and Structuralist Theories

Mexico’s imperialistic relationship with the U.S. established Mexico’s role as a peripheral nation and the United States as the “Centre.” This interaction frames the significant U.S. influence on Mexico’s dependence on the United States. The main idea is that the center is “capital rich” therefore focusing on technology and industry but relying
on the supply of labor and raw material supplies from the periphery. As the “Centre” nation, the United States utilized financial investment as a conduit to propelling Mexico into a dependency path by developing their economic power as a “peripheral nation.” This idea is one that economist Raul Prebisch describes in his Dependency Theory (Kanth, 166). He explains that capitalism is “manifested” in the relationship between the centres and the periphery. In the centre, technological progress begins and leads to a rise in productivity, enhanced by increasing demand from within the periphery and the centre. However, the industrialization process and its benefits through trade and productivity are concentrated within the centre, leaving the periphery at the margin, to obtain minimal benefits in profits and advancement. The structure and development of the centre enables it to gain more from peripheral production growth but the periphery gains only a limited amount from the centre growth. Political forces and structures within the periphery limit its access to resources from the centre. The periphery is constrained by its continual process of production that requires little to no innovation or internal technological development. This not only limits further industry growth but increases Mexico’s dependency on the United States.

Centre investment in the periphery can exist in the form of transnational corporations. However, the corporations are conducive to the “internationalization of forms of consumption” rather than to the “internationalization of production through trade with the centres,” which further hinders peripheral “development.” (Kanth, 166). Attempts to alleviate this situation include the use of import substitution and an increase in manufacture exports. However, the centre’s domination of the manufacture sector
limits the import goods manufactured by the periphery, thereby strengthening the
periphery’s reliance on the import of manufacturing goods from the centre.

In addition to transnational corporations, technology from the centre also
continues to spread into the periphery though centre investment and introduction. The
changes in the technological sector leads to changes within the employment structure as
labor shifts from agriculture to industry. However those employed in industry do not earn
wages reflective of the growth in the productivity of industry. A fraction of the “fruits of
technical progress” is attained by a small portion of the labor force, while the “surplus” of
profits, created due to increasing productivity, is retained by land and physical capital
owners (upper social class) (Kanth, 168). A necessary precursor for the growth in the
production of finals goods is an increase in demand for those goods produced. For that
reason, businesses pay higher wages to increase demand, which will “absorb the final
supply increased by the growth of productivity, without prices falling” (Kanth, 168).
Therefore, without appropriate increases in income, there is an unequal income
distribution in favor of the upper class, leading to a waste of “capital accumulation
potential” (Kanth, 168).

The Dependency theory ultimately views the less developed nations, or periphery,
as “part of the global process” so their “fate” is to supply the centre with inputs or “to
receive their cast-off, low wage manufacturing processes under trading conditions which
were likely to worsen”( Kanth,168). The theory, therefore, focuses on “external” forces
as the causes for the slow rate, or lack of development in the periphery.

Raul Prebisch takes a structuralist approach when he examines the supposed
“comparative advantage” the periphery has in terms of raw material and primary exports.
He explains that the comparative advantage is, in effect, insufficient to fuel development for the periphery, a path that will eventually lead to an end of the nation as a periphery. He notes that “behind the laws of demand and supply there often lurked power relations and quite dissimilar forms of production between nations” that inhibited the existence of the comparative advantage (Cypher and Dietz, 160).

Prebisch recognized that during the Great Depression, the export prices of the primary goods decreased at a greater rate than did the prices for “manufactured,” or secondary products” (Cypher and Dietz, 160). Through workings with the Argentine Central Bank, he postulated that for manufacturing the supply of output was relatively price elastic. This means that quantity supplied falls as a result of decreasing demand, which leads to a “limited” decline in price (Cypher and Dietz, 160). However, within the agricultural market the supply of output was price inelastic, meaning a change in price did not result in an appropriate change in supply that reflects demand. This is because suppliers within the agriculture market were mainly small farmers with “limited land” (Cypher and Dietz, 161). Those farmers were inclined to grow as much as they could annually, so as demand decreased the quantity supply wouldn’t decrease much in response, but the prices significantly and quickly fell. Therefore, Prebisch concluded that the manufacturing sector had the ability to partly control supply while the agriculture did not, so the primary goods producers were more negatively affected by any downward changes in demand than those of the industrial sector. This point is worth remembering when we examine the different impacts on the U.S. manufacturing based economy and on Mexico, a primary goods producer and exporter.
This greater elasticity of primary goods supplied by the periphery explains, in part, why the center gains the “benefits of trade” (Cypher and Dietz, 162). Furthermore, Prebisch explains that over a longer period of time, the periphery would need to produce more mineral or agriculture goods in order to gain more of the “imported manufactured products” (Cypher and Dietz, 162). According to a study conducted by UN, on average “a given quantity of primary exports would pay, at the end of the period, for only 60 percent of the quantity of manufactured goods, which it could buy at the beginning of the period” (Cypher and Dietz, 162). Therefore Prebisch feels that the elasticity would worsen the terms of trade and would continue to inhibit developing nations. He suggested that the nation should establish a program that promoted “internal changes” to transform the economy of the periphery towards one with more focus on domestic production and a lesser emphasis on imports.

Prebisch also recommends that the periphery place more focus on the production of manufactured and secondary goods, rather than on the mere exportation of “raw material, foodstuffs, and other primary products” in order to diversify production and increase domestic strength (Cypher and Dietz, 163). Prebisch explains that this could be done using Import Substitution Industrialization techniques. This is when a country starts to produce and manufacture consumer non-durables that are being imported, therefore encouraging the periphery to become more like the centre and less susceptible to “declining terms of trade” (Cypher and Dietz, 163).

However Prebisch states that in order for this to work, the government and the economic structure needs to be supportive by restricting imports, through tariffs, of goods that may compete with those new import substitution industries. The government
should also be responsible for “allocating” and supplying public “expenditures” to those areas where the greatest rate of return could be expected. Prebisch does explain that there will be a need for imported technology in the form of machinery and equipment. Furthermore, the technology needs to be more labor intensive, meaning that the resulting growth in industry requires a larger amount of labor, thereby creating a movement of the labor force from the agricultural to the industrial sector. Ultimately, Prebsich feels that the benefits of leaving the “agro-mineral” arena of the peripheral economy were far greater than the costs; and industrialization would lead to economies of scale, technological progress, and ultimately high levels of development (Cypher and Dietz, 164).

Hans Singer is another developmentalist economist associated with the structuralist view as well as the dependency theory. In regards to the structural examination and terms of trade, Singer explains that free trade is detrimental to developing nations because of the differences in economic and labor market structures. In the “advanced countries,” the industries consist of mainly oligopolistic industries with extensive price setting abilities. Also, within the centres there exist unions that influence the increase in incomes. However, in the periphery, the majority of agricultural goods and minerals face international trade competition so the supply price is hard to control. Also, union presence is not very strong in the periphery so there are few efforts made to raise incomes in relation to technological progress (Cypher and Dietz, 167).

The presence of new technology would also lead to greater productivity and higher wages; however, in the periphery, new technology leads to falling output prices because production costs decrease encouraging the Centre to lower prices and increase
profits by creating more demand. Therefore, the centre gains substantially from increased technology when trading with the periphery, while the periphery suffers due to falling prices and incomes. Singer explains that the centre is able to cheaply import primary products with their "higher-profit" manufacturing exports and with greater worker wages while the periphery experiences lower worker incomes. The resulting lower purchasing power requires greater primary good exports in order to import more manufactured goods from the centre. The Dependency Theory sheds light on the impacts of U.S.-Mexico trade on Mexico’s development. We will turn to this point in the following section.

4) U.S.-Mexico Integration (1880-1911)

The amalgamation of U.S.-Mexico trade and investment relations intensified during the last quarter of the 19th century under the leadership of Porfirio Diaz (1876-1911). His political and economic aims framed the nation’s ideologies concerning trade and investment interactions with the United States. The “Porfiran concept” of the economy consisted of three goals: 1) The government’s role is to foster international relations that will “attract” capital, 2) The foreign private sector should also serve to encourage investment and 3) The domestic private sector will benefit from and promote foreign investment aims (Vernon, 39). His rule is characterized with great interest in economic development. As a result there was an increase in the desire for and acceptance of foreign influence, through investments, trade, and policy. Under his leadership, Diaz oversaw many changes and improvements which include: 1) Railroad construction/investment, 2) Tariff reductions 3) Increased foreign technological investment.
Diaz’s main investment focus was in railroad construction. He deeply encouraged the development of the railroad industry which served to decrease export costs and facilitate easier trade, especially with the United States. The most extensive railroad lines, the Central and National railroad lines, were primarily funded by investment from the United States. By 1888, the two competing north and south trunk lines “linked Mexico City, the northern mining centers, and the United States” through border cities like El Paso, Laredo, and Eagle Pass (Beatty, 35). The Large capital investments enhanced the trade relationship between the United States and Mexico. Mexico’s close geographic proximity to the United States, coupled with increasing U.S. investment and dominance in railroad construction increased growth in Mexico’s imports, which nearly doubled over a ten year period, escalating from $23 million in 1879 to $44 million by 1889 (Bortz, Haber 195). Also, during the 1880’s, overland imports across the U.S.-Mexican border increased to 36 percent of U.S.-Mexican trade in 1880-85 and 53 percent between 1890-95 (Bortz, Haber, 225). Without the railroads, the majority of products were confined to local and small markets. Furthermore the investments supplied new and beneficial machinery and technology which not only established better railway systems but enabled trade, and industry growth.

Diaz also worked to limit trade barriers through the reduction of tariffs on imports. He felt that open trade would be conducive to industrial expansion because there was great demand for imported inputs. The result was an increasingly industrial based economy, more closely affiliated, through trade, with the United States. In addition to tariff reductions on particular goods, Diaz’s government focused on improving patent laws. Patent laws protect inventors and enforce property rights, thus increasing incentives
to invest effort and capital into the innovative processes. The patent law reforms were based off of “modern patent laws of the industrialized North Atlantic Countries” and led to increased private investment, especially from the U.S. (Beatty, 83).

The investment came mainly in the form of technologies that inundated Mexican industry. Technology through machinery and its various parts composed the largest and “fastest growing” imports of Mexico. Between 1880 and 1910 the value of machine imports from the United States increased fivefold, exceeding ten billion gold dollars annually and constituting 20% of the total import bill of Mexico (Beatty, 115). Mexico relied on the U.S. to supply a variation of technology in machines ranging from sewing to steam engines. The dependence was so strong that between the years 1895-1910, the U.S. provided for 75-80% of all machine imports in Mexico (Beatty, 83).

By the end of Diaz’s rule, Mexico had transformed into an export-based economy. Between the years 1876-1893 Mexican imports grew at an average rate of 5.7% in comparison to the 6.0% increase during the years 1893-1907. Mexican exports grew 6.6% during the 1876-1893 years in comparison to the 8.1% increase between the years 1893-1907. This slight increase in the growth of imports relative to the greater growth of exports indicates a more advanced and self-sufficient economic phase of the country, induced by industrial growth, largely due to foreign investments. Even though economic indicators showed that Mexico’s economy was drastically improving, Mexico’s economic development was largely due to the aid from foreign investment, thus establishing a hidden dependence on other nations, particularly the U.S. who served as it its primary investment source.
It is also important to acknowledge that these changes in development, particularly under Diaz's rule, were not entirely helpful because it reinforced Mexico's dependence on the U.S. The majority of the wealth was controlled by the small elite population creating an unequal distribution of income. Also, many of the foreign investors were paying Mexican workers very low wages, contributing to poverty and deterring advancement (Vernon, Ch. 2). This was reinforced through Mexico's operation as an export economy. As an export economy, Mexico "exploited" its natural resources using cheap labor and investments through foreign capital and technology, which led to the increase in production and strengthened the exchanges with foreign markets. It also reinforced Mexico's reliance on the U.S. for technological imports.

The export-based emphasis brought wealth to a minority class of society and excluded the majority from the "development process" (Reynolds, 23). The main export industries such as mining and manufacturing, increased at a faster rate than their share of employment. In 1895, mining and other "extractive industries" comprised 2% of the national employment and produced 18% of the nations combined output. Up until 1910, the share of employment in the industry remained stable but its output increased dramatically, nearly doubling to 30%. In comparison, agriculture constituted 81% of employment and 59% of output in 1895, and as of the year 1910, its employment share remained constant but its output share decreased to 47%.

These rates convey that the rise in income, due to economic growth, with respect to extractive industries, cash crops, and manufacturing, did not reward the labor force through balanced increased in wages. Rather, the owners of the capital, and other resources absorbed the increase in income through profits, rent, and interest paid. The
income gained transformed into savings; however these “savings” were received more by foreign investors than Mexicans (Reynolds, 25).

The control of the nation’s income by a small group of “local and foreign investors” as well as the export based orientation of the economy left it quite vulnerable to foreign market fluctuations and general instability (Reynolds, 25). By 1910, the onset of the revolution, it became clear that this export-led economic structure was only “superficially successful” (Reynolds, 25). The expansion of the Mexican economy into that of national markets, as well as the development in internal transport, was not sufficient to establish a domestic market with the ability to employ the increasing labor force. Furthermore, profits from the industrial sector were not absorbed enough by the Mexican economy but mainly transformed into payments abroad, due to the great foreign investment and presence.

These economic inefficiencies, created by superficial growth, contributed to the vulnerable state of the Mexican economy when the Great Depression occurred. Mexico’s strong reliance on the United States’ investment and consumption, in addition to its own structural inability to increase domestic demand, and obtain technological independence, contributed to its economic downfall. However, emerging from its economic downfall, the Great Depression spurred an economic restructuring out of nationalistic ideology.

5) Birth of Nationalistic Ideology

The removal of Porfirio Diaz from office in 1910, and the onset of the Mexican revolution of 1911 initiated changes in the attitude of the Mexican government. The Subsequent nationalistic ideology was built on the goals of unification, internal demand,
production strength, and limited U.S. investment. In 1917, President Victoriano Carranza addressed the major revolutionary aims of the people and amended the constitution. The constitutional amendments declared the nationalization of oil resources and enforced the plan of land re-distribution. The land reforms focused on the distribution and efficient farming of lands. They proved helpful by encouraging the entrance of “new residents” in new villages where crops were to be cultivated (Calcott, 304). For workers, the constitution established union formation, minimum wage laws, and created a social security system. Those policies were intended to decrease Mexico’s weak internal demand, partly resulting from low wages.

The constitution also set limitations on property, as well as on foreign business ownership and investments. There was most conflict over the rights of foreign landowners in Mexico and in 1927, U.S. petroleum investors battled the new laws limiting the oil extraction leases. The end result was a new law that stated that aliens “inheriting real property in Mexico had to dispose of such holdings in a period of five years” and foreigners were not allowed to own properties along a 31 mile stretch of coastline and 62 miles away from the border of the country. This was significant because the majority of U.S. mines, ranches and oil fields were located within the prohibited zone. The extraction and sale of the natural resources located in these prohibited zones contributed greatly to the Mexican economy. By restricting foreign investment in these areas, domestic firms were able to harness the value of Mexico’s natural resources thereby developing its economic infrastructure. (“From the Caudillo to the Maximato: 1920-1934” - electronic source).
There were also attempts to emulate U.S. growth and structure through greater education and business emphasis. In 1921, President Obregon raised teacher’s salaries and opened new summer school courses, with “the idea of attracting local and foreign students.” By 1924 there were 214 foreign students and 385 Mexicans enrolled at the University of Mexico and the number increased to 366 foreigners and 512 Mexicans in 1925. The greater appreciation for higher education also reflected the growing value of diverse professions in fields such as business, and the desire for U.S. recognition and investment in those areas (Calcott, 296-297).

The wage changes, land re-distribution, education focus, and foreign limitations indicate the growing desire for more unity through internal power and independence. Ultimately, the main theme of the constitution was a slight anti-foreign attitude. However, the country sought to gain U.S. recognition in areas and realized that foreign investment was needed but should be limited. It wasn’t until the Great Depression, that Mexico realized the severity of its dependence on U.S.’s demand and investment, and that the country began to actively pursue economic autonomy though nationalistic policies.

6) Pursuit of Economic Autonomy-Policy Implementation (1929-1940)

A) State of the Economy (1929-1934)

The Great Depression completely transformed the U.S.-Mexico trade and investment relationship and established not only an autonomic ideology but extreme political and structural changes. It broke apart the export market, creating a decrease in internal demand and gross domestic product of Mexico. Gross domestic product in 1930 was 12.5% lower than its 1925 level and would not reach earlier levels until about 1940.
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Gross Domestic Product, had negative growth figures between 1928 -1939 averaging -3.33%, -6.77% in 1929-1930, and -16.22% in 1932.

In 1929, the Mexican exports to the United States reached US $117.7 million, which was a decrease in comparison to the US$124.5 million it totaled in 1928, a difference decline of US$6.8 million (Calderon, 17). At the same time, Mexico’s import of American goods increased from US$115.3 million in 1928 to US$133.9 million in 1929 (Calderon, 17). The numbers therefore show that Mexico imported more than it exported. It wasn’t until July of 1930 that the economic crises in Mexico was truly acknowledged and attributed to the decrease in prices of metals, particularly silver, as well as henequen fiber, and petroleum.

In 1930, the total value of exports further decreased by 132 million pesos since the previous year, from 590.6 million to 458.6 million. Imports also decreased from a value of 382.8 million pesos in 1929 to 350.1 million pesos in 1930. In 1933, the value of exports had increased to 365.0 million pesos from their 1932 value of 290.4 million and imports increased slightly to 244 million pesos from 180.7 million in 1932 (Calderon, 19). For imports, the monthly average was US$29.1 million dollars worth of imports; in 1931, the average was US$18.0 million; it was US$15 million in 1932 and then rose to US$27.5 in September of 1934.

By February 1930, the foreign investment could mainly be seen in distinct sectors: The American Bond and Share acquired 28 electric generator plants in the final years, and the investment total reached about US$100 million. The United Fruit Company and the Cuyamel Company invested about 5 million dollars in one year in Veracruz and Oaxaca into the cultivation of bananas as well as into other costs pertaining to that market,
such as wages. The American Smelting and Refining Company invested about 6 million dollars in the construction of a new plant in Monterrey. (Cardenas, 75, 76).

By 1931, the North-American investment requests were: The construction of a series of gasoline stations, tourism camps and Hotels from Nogales, Sonora, and up to Mazatlan, Mexico, which Mexico appeased in order to maintain an investment relationship with the U.S. There also existed 23 manufacturing companies with an investment total of US$6,256,000 dollars, 37 petroleum refinery plants receiving $US291,515,000 dollars in investment, 97 mining and mineral extracting companies receiving US$230,421,000 dollars, 47 agricultural companies obtaining US$58,873,000 dollars in investment, 10 railroad lines receiving US$90,393,000 dollars from the U.S., and 18 different smaller businesses obtained a total of US$8,258,000 dollars in U.S. investment funds. These numbers are large and reflect a substantial increase in U.S. involvement and investment in Mexico because only 30 years before, the total amount of U.S. capital investment was US$185 million dollars (Calderon, 77). They also indicate that the Depression didn’t entirely decrease U.S. investment in Mexico. Therefore, the continued foreign investment coupled with stronger Mexican, domestic policies and structuring helped to encourage the further development of Mexico as well as provide the tools for import substitution industrialization.

B. Mexican policy implementation—Reaction to U.S. Policies

In response to the deteriorating terms of trade between Mexico and the U.S., Mexico worked to enhance domestic demand, and establish a basis for an import substitution based economy, reflective of greater independence and industrial abilities.
The efforts were exemplified by five major changes that resulted from Mexico’s response to the U.S. tariffs. Those changes include: 1) Nationalization of mines, railways, oil industries, 2) Land reforms, 3) Higher wages, 4) Institutional changes—bank creations and 5) Creation of public committees and works programs.

To begin, the U.S. implementation of tariffs during the early 1930’s had a substantial affect on Mexico by severely limiting trade, thereby increasing the Mexican deficit. The fact that the tariffs affected mainly primary goods posed a huge detriment because the majority of Mexican exports were agricultural based. Mexico was certainly not a strong industrial country at that time and looked to other countries, particularly the U.S., to satisfy its industrial necessities. For example, Mexico’s strong reliance on petroleum exportation proved to be weakening for the economy. Over the years petroleum comprised a large amount of the total exports. In 1925, petroleum composed 49.2% of the total exports, in 1926 the number was a little lower at 47.5%; 32.5% in 1827; 21.2% in 1928 and then reduced greatly to 10.2% in 1929. This was a scary reality for Mexico, who realized that their reliance on this form of limited production prevented them from economic independence and growth (Calderon, 17). Furthermore, the decreasing demand for goods and extractions like oil lowered the wealth of the country and the ability of Mexico to import machinery inputs necessary for their industrial sector (Calderon, 22).

Although the tariff increases and implementations of the United States were discouraging for the Mexican economy, instead of following the responses of other nations and retaliating with extra tariffs, Mexico searched for a different escape by focusing on the industrial production of goods that were previously imported (Import
Substitution Industrialization). For example, the farming products were greatly affected by the imposed tariffs so in order to aid the industry and eliminate the domestic market’s servitude to the U.S., the country focused on production for the home market by decreasing any imports of goods that could be supplied within Mexico, thus working to minimize the surplus and stimulate internal demand. The government did this by offering “tax incentives for production directed toward the home market” (“Mexico: Growth and Structure if the Economy”—electronic source), (Calderon, 22).

The central government’s initiation of institutional changes began with the first National economic congress in January of 1931. During the congress, the Scientific Commission of Exports was created, given that the general belief that the economic downturn of Mexico was due to trade deficit. It was not until structural reforms were implemented that particular sectors of the economy started to improve during the depression. President Cardenas even nationalized the majority of mines and railway systems as well as foreign oil companies and transformed them into a state-owned monopoly, known as Petroleos Mexicanos (PMEX). These reforms contributed to the reorganization of the Revolutionary Party in 1938.

The new Mexican Revolutionary Party was a “corporatist structure with four sectors” (“Lazaro Cardenas”—electronic source). There was the agrarian sector under which the National Peasant Confederation functioned (CNC). The CNC drafted the beneficiaries of the land reform as well as and other changes concerning land changes. Another sector was the Labor sector, whose basis was the Confederation of Labor (CTM), which promoted wage increases and a positive attitude towards workers strikes and labor organizations. In 1931, new Federal Labor Law provided the legal right to strike, set
maximum work hours, and minimum wages. These reforms initiated during the Great Depression indicate the growing concern for equality and attempts to solidify the country through positive moral and government support.

These recovery efforts were emphasized most under President Lazaro Cardenas (1934-1940). Cardenas led a series of reforms, most notably the agrarian reforms. Under the agrarian reform 40 million acres of private land was distributed to peasant farmers and communities and established guidelines for the continuous farming of the lands. The creation of ejidos was the main component of the reforms. Ejidos are essentially land divisions that are state-owned and are dispersed to a community or individual to be farmed. The “beneficiaries of land reform, only received rights to use the land in legal theory, and could not alienate it as if it were private property”. If the beneficiaries were unable to work the land, then the land would be given to another capable individual, which served to enforce continued production and earnings for more individuals. The land reforms were also intended to act as a “supplement to a wage” because it was assumed that the farmers would work the ejidos in addition to their current job, in industry or for a private farm. Similarly, the government compulsory increase in wages in industry and agriculture directly enhanced the people’s income and spending abilities. Ultimately, both policies worked to enhance the incomes of the lower class, the largest group with the most demand influence, and therefore ensured a rise in the domestic demand for commodities. (“Historical Note on Mexico’s Land Reform”-electronic source).
In addition to initiating changes in public agencies, the tariff induced trade deficit and decreasing prices created financial pressures, which resulted in the “postponement of payments to international financial creditors” and the creation of new state-sponsored developmental agencies and banks. The agencies were “oriented” towards specific areas. Examples included: Banco de Crédito Ejidal, which dealt with agricultural related transactions, the Banco Nacional Hipotecario, which handled housing and the Nacional Financiera, geared to support small enterprises. (Aguila, Marcos T.-electronic resource)

During the first months of 1934, the general situation of the country improved and the banking system transformation was becoming more stable. The main consensus was that the Mexican financial system required a central bank to launch a quick circulation of credit. The bank of Mexico took the lead and established itself as the unofficial central bank which seemed to restore confidence in investors who felt that the banks and credit availability should be controlled by the government and treated like a “social service” that would be available to all sectors of the economy (Calderon, 67). By May of 1934, the banks within the country saw a substantial increase in the number of deposits, which reached US$213 million dollars. US$147 million dollars of the total number was held by the general banks and the Bank of Mexico had US$66 million of it. However, the general investments made by the banks were unequally distributed based on areas where the central part of Mexico received the most, the north received the second greatest amount, and followed by the Golf, the Pacific north, and lastly, the Pacific south received the least. Although the inequality in distribution reflected the need for more reform, the general aim to centralize the workings of the economy through institutional changes and creations
vividly express Mexico’s active attempts to establish its independence and strength as a nation.

An encouraging factor for Mexico’s economic transformation was that the U.S. began granting long term credits loans to Mexican producers on durable industrial goods such as tractors and other agricultural machinery. This was significant because in the preceding months the U.S. would not grant credit for practically any type of exports. It indicated the floundering banking system and weak U.S. economy needed to turn to other countries, such as Mexico, for profits through payments on foreign investment, which was helpful to Mexico, who needed the financing for technological investment.

Also, in August 1933, there was an overall increase in the price of perishable goods such as sugar, salt, rice and coffee. At the same time the number of certain Mexican exports to the U.S. also rose, such as those of cotton, henequen, and other textiles. However, throughout this time, the earnings and wages of agricultural laborers remained constant, and the majority was too afraid to speak out, out of fear of losing their land. In 1934, the agrarian upsets were legitimized by the government recognition and interference, which alleviated the social woes and instituted wage reforms.

The increasing U.S. demand for such textile goods combined with the low wages and costs for Mexican laborers in that industry facilitated a disadvantage for the workers and ultimately the Mexican economy. This is because the lower wages and the increasing prices of commodities created a lower purchasing ability. The realization was that purchasing power was a key factor used to affect internal demand. Therefore, the government focused on stimulating demand through the increase of incomes, which could
be done effectively through land distribution (agrarian reforms), raising the production of 
cash crops, as well as through direct higher wages in industry.

In general, the 1930’s was a decade of progress for Mexico because the nation 
worked to further establish itself on a more independent path of growth by focusing on 
the domestic market. There was a “vast” increase in land redistribution and removal, and 
industrial production and “urban employment” increased despite the world depression 
and diminished “foreign capital” (Reynolds, 33). Mexico was also changing from a 
country composed of numerous poor and “rural hamlets” towards one more industrial 
based with city growth and the creation of commercial centers in the north and coastal 
areas (Reynolds, 33). The movement decreased the production and population share of 
the center. Population concentration in the center fell from 42 percent to 35 percent 
between the years 1930-1960.

The changing structures and population groupings reflected the “internalization” 
of the economy. Mexico’s policies conveyed that the country no longer wanted to focus 
on the fast growth of “extractive industries and plantation agriculture regardless of the 
social consequences” (Reynolds, 36). The goal was to create a more “balanced growth” 
of output within the domestic and global markets, by allowing the participation of more 
individuals in varying regions, and also by raising the purchasing power, through higher 
real income levels, and the distribution of property.

**Overview**

It is apparent that the Great Depression transformed the world economy but the 
varying affects on each country is less known. In this paper, I sought to examine the
economic and political history of Mexico as one wrought by imperialism. The historical position worked to later establish the nation as a periphery to world powers, or Centres, like the United States. Mexico's position as a periphery nation serves as foundation for the economic analysis of the country. An analysis that labels Mexico as dependent with many structural and ideological qualities that enforced its strong reliance on the U.S. until the Depression.

Prior to the Depression, Mexico's economic ideas and policies were evolving to reflect the growing desire to strengthen Mexico's domestic market through less foreign influence. However, it wasn't until the Great Depression that new and complex policies and regulations were implemented to shape Mexico's role as an independent trade competitor. The policies were responsive to contractionary affects of the Great Depression on the world economy induced by isolationist actions of the world leaders like the United States. The U.S. and other nations implemented trade barriers through tariffs, which sought to reduce the amount of imports and allow the country to improve upon its condition without the possibility of being weakened by outside influence.

However, the U.S. concern for its own country proved detrimental to world trade, because many less developed countries, like Mexico, relied on the huge purchasing power and financial strength of the U.S. to stimulate their economy and production. A nation with such a focus is at a global disadvantage due to its lack of diversity in production and materials, leaving it limited in output and growth and susceptible to the price effects of the changing world demand for those commodities. As Prebisch explains, the "Dependency theory" positions the periphery nations as fated to produce inputs for the centres, which limits the occupational areas and processes to those of low wage
manufacturing situations with stagnant trading conditions, unsupportive of production diversification and development. In terms of Mexico, the trading and domestic policies were responsible. The U.S. investors, who controlled specific forms within the railroad and mining industry hired Mexican workers at low wages while the nation’s domestic policies also limited wage increases and favored a more unequal distribution of capital, where the small, elite population had the majority of the nation’s wealth. This reflects a loss, in a sense, of the potential capital accumulation because a more equal distribution of income would lead to a greater demand, stimulating production and reflecting the price changes.

Furthermore, the structure of the industries failed to support what could have been a comparative trade advantage. Clearly Mexico had the labor force and physical capital capacity to have an advantage in the primary goods and mineral extraction industries; however the organization and lack of a somewhat broad production focus left the country with little strength during times, like the great Depression. This is because the strong attention paid to the agriculture sector, as well as the lack of market knowledge, led to a surplus. As stated earlier, this occurs because the agricultural market within Mexico was inelastic so the larger supply, reflective of the mechanistic workings and cash crop focus, was only worsening the situation. The supply and production of those goods was excessive and not responsive to price changes so the decrease in prices left the sector with a surplus of goods and a loss in potential profits. It wasn’t until 1934, when Cardenas set wage standards and supported the creation and action of labor groups that the situation improved.
Also, during those times, the country began to focus on establishing a basis for import substitution industrialization, by focusing on land distribution, and lessening foreign investment and control. Mexico nationalized oil and refinery companies, as well as railways and created national banks that served to solidify the country’s structure and independence. Although the nationalization was limited and only applied to those companies existing after 1917, it was able to stop increased U.S. control in those industries. The intention was also to remove the “declining terms of Trade” which is the idea that the prices of imports are greater than those of exports so the country needs to import more to offset the little amount earned in exports. To do this, Mexico limited U.S. imports to certain manufacturing machinery and capital goods needed to help Mexico’s industry expand so that the country can practice import substitution industrialization. Also, the limit on foreign land and industry ownership, and the general separationist attitude towards the U.S. functioned as tools for import substitution industrialization. They served to limit U.S. reliance and “protect domestic industries” by giving Mexicans more control over their industries (“Import Substitution Industrialization”-electronic source).

From a more structural viewpoint, Mexico sought to enhance the growth by limiting elite control and creating a more equal distribution in income, and land ownership. This production control, which was an attempt unique to the time period because Mexico had, for many years, exhibited such elitist policies and lack of equality. Although the attempts weren’t too successful because the oligopoly-like control of the industries and the power of the upper-class still remained, the mere efforts and recognition of such control conveyed an expansion in the ideologies of the country. Also,
prior to the Great Depression, Mexico was able to rely on the U.S. market for imports and, most importantly, exports so the internal demand for goods was not a huge concern. The U.S. Depression affected this dependence and forced the elitist to change focus and concentrate on domestic demand. Mexico was not only recognizing the need for independence to compete globally but also the necessity for institutional changes; changes that would provide a stronger and leveled economic position of the people, who ultimately produce and guide internal demand, which was in fact the crux of Import substitution industrialization ("Import Substitution Industrialization"-electronic source).

Ultimately, Mexico's economic success as power nation and industry leader, resulting from the Great Depression isn’t the story of this essay. The reality is that Mexico hasn’t attained such a position, however it can be said that the advancement the country has made internally and internationally, was spurred by the events surrounding the Great Depression, because it forced the nation to truly see the dependence it had on the U.S. demand for Mexico’s commodities, as well as the large U.S. investment that supported the country’s economy. This led to first a change in the ideas of the country, and then attempts to carry out such independent goals. In order to do this the country not only had to limit foreign influence but had to re-structure its institutions as well as create new ones; forming the tools needed for an import substitution industry, where a more equal distribution of wages and labor was the focus. This in fact was the result and although perfect in no way, it has established a nation, still exhibiting political strife and economic deficiency, with a stronger, independent ideology and position, enabling it to be a global trade competitor and potential power.
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