The Mexican Economy, 1870–1930: Essays on the Economic History of Institutions, Revolution, and Growth. *Edited by Jeffrey L. Bortz and Stephen Haber.* Stanford: Stanford University Press, 2002. xvii + 348 pp. Index, notes, tables, figures. Cloth, $60.00; paper, $24.95. ISBN: cloth 0-804-74207-3; paper 0-804-74208-1.

Reviewed by William Schell Jr.

This collection of essays on the Mexican economy from 1870 to 1930, edited by Jeffery Bortz and Stephen Haber, continues Haber's campaign to restore empirical rigor to Latin American economic history by employing "theoretical insights from New Institutional Economics [NIE], econometric hypothesis testing, and traditional archival methods in order to address a series of interrelated questions about the political economy of growth during the Porfiriato (1876–1911), the revolution (1910–1917) and the immediate post-revolutionary period (1917–1930)" (p. 9). In contrast to the impossibly neat neoclassical economic world of market clearing, perfect knowledge, and equilibrium, NIE postulates an untidy, chaotic world, where institutions (broadly defined as informal agreements, rules, and laws) are critical to the pace and direction of economic development. If institutions serve to protect property rights, enforce contracts, and limit state intervention, economic growth increases; if they do not, growth is impeded.

Mexico thus presents the ideal negative test case for NIE. As Bortz and Haber point out, Porfirian and revolutionary regimes all produced institutions that hampered economic development. Indeed, they refer to the Porfiriato as the "canonical case of an economy in which growth was created via the specification of institutions that created rents for select groups of economic agents" (p. 15).

The collection opens with analyses of Porfirian financial reforms by Haber, Noel Mauer, Carlos Marichal, and Paolo Riguzzi, who all link the decision to grant quasi-monopolistic charters to Banco Nacional México (Banamex) and Banco de Londres y México to the regime's need to deal with its external debt. Extending special favor to banks dominated by foreign capital and political insiders gained the regime access to European and New York money markets, but it also served to restrict credit, especially long-term loans and mortgages, and to raise interest rates, thereby dampening economic growth.

Sandra Kuntz Ficker and Edward Beatty describe how the regime promoted industrial import substitution by the creation of a cascading tariff structure that assigned high tariffs to finished goods, moderate tariffs to intermediate goods, and low tariffs to raw materials and capital goods. The strategy was effective. From 1876 to 1911, Mexico replaced 32 percent of its consumer imports with domestic manufactures, aided by silver's steady depreciation until rising domestic inflation offset its benefits in 1900, and by the sheer complexity of Mexican customs regulations that significantly raised import costs.

Bortz and Aurora Gomez-Galvarriato find labor conditions improved during the Revolution as workers became a political constituency and competition for their support opened political space for union organization. Too weak to oppose workers' demands, the state adopted laws and regulations that restricted the property rights of factory owners by constraining their ability to hire, fire, and control conditions on the floor. Productivity remained flat, but this was due more to insufficient capital inputs and failure to modernize than to higher wages and improved shop conditions.

Haber wraps up the collection with a discussion of the "commitment problem." Briefly put, any state "strong enough to protect property rights is also strong enough to abrogate them" (p. 324). Investors will not risk capital unless the state can make credible assurances (commitments) that it will not tax or seize property arbitrarily. The Porfirian regime lacked the strength to make general assurances, so it opted instead to "make a credible commitment to some *subset of asset holders* that it would enforce their property rights," thus delivering politically generated rents to regime favorites and their foreign investor clients, displaying classic crony capitalism (p. 325).

This collection marshals quantitative data in forty-two tables and thirty-seven figures to confirm empirically what we already knew, presumably by squishier, less precise means: Porfirian Mexico industrialized through a defensive modernization directed by a regime of brokers who used their political connections to gain quasi-monopolies and tax advantages, known as concessions, to profit by facilitating the entry of foreign investment. This crony capitalism expanded during the revolutionary period to include labor, thus ensuring that, while the economy might grow, Mexico would remain economically backward. The elegance and sophistication of the econometrics employed in this book, however, led me to expect, perhaps unfairly, that the authors' conclusions would push the boundaries of what we know or would challenge conventional wisdom.

For example, in their investigation of banks, financial markets, and industrialization, Mauer and Haber ran a series of multivariate regression analyses to discover what benefits textile firms derived from cozy relations with banks. They concluded (surprise!) that favored firms gained competitive advantage by easier access to credit. But their more problematic assertion—that credit would have been more efficiently allocated had banking laws not inhibited the establishment of competing banks—lacks quantitative evidence. Moreover, it is based on a faulty premise, which also underlies Mauer's discussion of banking regulation and performance. Mauer's study includes only government-chartered banks. Yet, from 1898, chartered banks faced competition from private banks established as joint-stock companies, such as the US Banking Company, the International Banking Company, the US–Mexican Trust Company and, after 1905, from Mexican branches opened by U.S., Canadian, and British banks. Similarly, how might the inclusion of data from the Mexico City Banking Company, the Building and Loan Company of Mexico, and other private lenders have affected Paolo Riguzzi's analysis of mortgage contracts and long-term credit?

My quibbles notwithstanding, this collection delivers on its promise to provide a coherent "body of theory" to guide Mexican economic studies away from dependency and neoclassical fallacies (p. 15). Haber's embrace of NIE is encouraging, given its obvious compatibility with New Cultural History, which he has often criticized. In *The Mechanisms of Governance* (1996), Oliver Williamson described NIE as having four levels of analysis, the most fundamental being culture, in which all else is embedded. In effect, NIE asks us to see from all sides at once, employing equal parts intuition and empiricism to fashion histories that integrate culture and economy. Perhaps rapprochement between empirical economics and the New Cultural History is on the horizon.

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Recently he published Integral Outsiders: The American Colony of Mexico City, 1876–1911 *(2001) and "Silver Symbiosis: Re-Orienting Mexican Economic History," in the* Hispanic American Historic Review *(2001). His commentary, "Opposing Military Tribunals," aired on National Public Radio's* Morning Edition *in December 2001.*