CHAPTER IV

INDUSTRIAS UNIDAS AND WORLD WAR II

Having explained the methods of expansion of Industrias Unidas and the bases of its development in the 1930's, Chapter IV investigates the accelerated industrial growth that was caused by World War II, the result of which increased foreign exchange reserves, which in turn fueled the postwar economic boom in Mexico.[1] Looking at these developments on a micro-level through the expansion of Industrias Unidas and its use of foreign bank loans for expansion, Chapter IV follows the methods Chito used to keep abreast of world economic development. It also studies the corporate structure of Industrias Unidas and the repercussions of the devaluation of the peso in 1954. This chapter traces the manipulation of the commodities market in the 40's and the 50's by Industrias Unidas de Nuevo Laredo and its president, Chito Longoria.

Stephen H. Haber's study of the industrialization of Mexico, 1890-1940, opined that Mexican industrialization

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1 Glade and Anderson. The Political Economy of Mexico, pp. 11 - 15.

began during the Porfiriato with the physical importation of entire factories to Mexico from industrialized nations.[2] Because Mexico did not yet manufacture capital goods, i.e., the machines that make the machines, nor possess the necessary technicians for research and development, it was logical to import already developed plants. These imported plants were designed and manufactured to produce products which in Mexico had no corresponding mass market. In other words, the factory could not be run at its maximum because there was not enough wealth or demand for the product.[3] During Haber's period of examination, 1890-1940, there was a break in the industrial structure because of the Revolution. Industrialization commenced again with the cessation of hostilities.

Traditionally, historians have dated the industrialization of Mexico at the advent of World War II, since logically Mexico became a major supplier to the United States of both manufactured and raw goods in an isolated and non-competitive atmosphere. Haber insists that the factories were already in place and only had to be run at capacity to bring production up to the increased demands of the United States.

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2 Haber, p.6.

3 Haber, p.55.

Haber's theories hold true for the conglomerate of Industrias Unidas. A major portion of the plants were imported; the soap plant, the oil plant, the cotton gins, and even the ice plant. Mexico was not vertically integrated, and there was no production of capital goods in the '30's and '40's. Imported plants up until World War II were unable to run at capacity because there the internal market was insufficient. By examining the development of I.U., the overall development of industry in Mexico in the first three-quarters of the twentieth century can be better understood.

Historians often cite the protective nature of the Mexican government towards its industries as a reason for their success. Indeed, there were and are laws protecting Mexican industries from imported competition, which may be cheaper and better made. Yet in the case of Industrias Unidas, the government, as exemplified by the Secretary of Agriculture, favored a foreign corporation over a domestic one. One can only speculate as to the reason for such favor. Chapter IV will explore this phenomena in Mexican business of the 1950's.

The closing months of 1931 brought more bad news to the Longoria family. The oil mill and shortening plant, the major operations of Industrias Unidas, burned to the ground one night. There was no insurance. Chito paid for the rebuilding from of his own pocket since there was not enough money left in their father's estate to pay for reconstruction. Probably another reason for paying for the reconstruction personally was that the shares of Industrias Unidas had been given to Chito by his father and he considered the plants to be his property.

In 1932, the plants were rebuilt with all possible speed. Fred, the second eldest Longoria brother, helped Chito operate the bank. Shelby, the next eldest, was the chief soap salesman for Industrias Unidas and eventually the purchasing agent for cottonseed from farmers adjacent to Matamoros and Nuevo Laredo. The other boys were still in school. Chito was on the construction site by 6 a.m. making sure that everything went according to his instructions. He opened the bank at 9 a.m. and returned to the site at lunch, returned to the bank until closing and then, back to the site until late evening.

About the same time the industrial plants had reached completion in the early 1930's, the Don Martín dam which was located about 70 miles southwest of Nuevo Laredo, near Anahuac, was completed and the farmers in the surrounding areas started planting cotton. Chito already operated the oil mill, the soap and lard plants and was in a perfect position to purchase the residual seed from the cotton gins throughout the areas being served by the Don Martín dam.

Unfortunately for Nuevo Laredo, Anahuac, and the cotton farmers, the Don Martin dam was a classic disaster. The dam was built in the late 20's by the J.G. White Engineering Company of Texas, and it was one of the first built in northern Mexico under the auspices of the Calles government.[4] President Plutarco Calles was the moving force behind the creation of the National Irrigation Commission which was to oversee the creation of dams and water districts throughout Mexico. Sadly for Mexico, the commission worked from political expediency rather than logic. The commission was also composed of civil engineers with little or no experience in the study of hydraulics. President Calles chose to site water projects in areas hostile to his regime in an attempt to mollify the residents of the hostile area.[5]

Because dam placement was motivated by politics, and time was of the essence to Calles, no one bothered to explore the viability of dam placement and the husbanding of scarce water resources. No one had studied the river flow for an extended time nor was a study made of where to place the dam. The result was that the flow of the river which had been strong for only a few years, began waning a

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4 Longoria, Shelby J. Deposition, October 26, 1977. Page 332. Volume I.

5 Greenberg, Martin H. Bureaucracy and Development: A Mexican Case Study. p. 13.

few years after the dam was completed. The dam stood empty for several years before it was repaired and renamed for Venustiano Carranza.[6] At the time, though, it was of little use to the farmers, who were forced out of the cotton business and back into the cattle business from a lack of water.[7]

In the 1930's, while cotton prices continued high in northern Mexico, there was some effort to irrigate the cotton fields around Nuevo Laredo by pumping water from the Rio Grande, but the level difference between the river and the farm land is such that using water pumps became too expensive. Eventually the farmers gave up irrigation around Nuevo Laredo altogether and the land reverted to the way it looks today, dry and devoted to cattle raising.

One reason for the cotton boom of the 30's was that there was no duty on Mexican cotton exported to the United States. Mexican farmers, in areas where there was good irrigation, were able to plant cotton, export it and pay off their agricultural loans within two years. Cotton was selling for 10c a pound to the United States, while it could be produced on the Mexican side for 5c per pound.

Anderson and Clayton, a Houston based U.S. commodities firm, built cotton gins on the Mexican side of the border

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[6] Ibid, p. 18.

[7] Longoria, Shelby J, Deposition, p. 332..

in order to take advantage of lower farm and production costs. They erected an oil mill in Matamoros and cotton gins in Matamoros and Anahuac. The U.S. firm was going to be in direct competition with Chito and his oil plant in Nuevo Laredo. The farms around Anahuac were at this time irrigated by the Don Martin dam. With gins strategically placed, Anderson-Clayton was in a position to buy all the cotton that was being produced by the Mexican farmers along the border.

As Chito perceived it, he and Anderson-Clayton needed to come to some sort of agreement and work together so that Chito could keep his plants supplied with the cottonseed needed for his oil, lard and soap plants and the cottonseed cake necessary for his cattle. Anderson-Clayton had more or less locked up the market by controlling the local cotton gins, and really did not have to cooperate with a local businessman who had nothing to bring to the party. Chito traveled to Matamoros and paid a visit to Joe Sharp, the Anderson Clayton representative in Mexico. He implied that if Anderson-Clayton did not sell him the cottonseed he needed for his plants at some sort of discount, he would be forced to go into the cotton business himself and this would place him in direct competition. Sharp indicated that it was of no concern of Anderson-Clayton if he planned to go into the cotton business. They also had no plans to sell any of their cottonseed to Industrias Unidas lower than market price.[8]

Rebuffed by Anderson-Clayton, Chito was as good as his word and entered the cotton business in 1933. He found an idle cotton gin near Nuevo Laredo and leased it from the owner. Since Anahuac was only 70 miles from Nuevo Laredo, Chito arranged to buy the cotton from the farmers and have it shipped by truck to his leased gin. In the first year, Chito bought about 1,000 bales from the farmers. This first tentative step in the cotton business allowed Chito to supply Industrias Unidas with cotton by-products for the oil, soap and the lard plants.

Soon Chito was selling his ginned cotton to Anderson-Clayton and in exchange, Anderson-Clayton sold Chito more cottonseed at a better price. As the cotton deliveries commenced, Anderson-Clayton cut their prices for the delivered cotton. At first Chito was convinced that the company was trying to renege on their contract, but that was not the case. It turned out that the quality of cotton determined the price that was paid, and the cotton that Chito was delivering to Anderson-Clayton was not first class. All of this was news to Chito, the neophyte.

The first year of ginning cotton was not without problems, but none were debilitating. Most were related to

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8 O.L.L. Oral history, Tape 10.

learning the business; in fact Chito made a small profit that year. The following year, which was 1934, he bought cotton not only from the farmers around Anahuac, but also from farmers near Matamoros. Although the freight was more expensive, he still made money.

The effects of the Great Depression were still rocking the border economy and one of the consequences was that for the previous five years, there were few sales of new or used gins, which meant that the old ones were too worn and the new ones expensive. The cotton business was so profitable in 1934 that Chito bought his first cotton gin from the United States. In fact, the president of the manufacturing company was so anxious to sell a cotton gin, he personally came to Mexico to close the deal. The cost was 10 thousand dollars, not including a diesel engine to run the plant, which cost around 1 thousand dollars, second-hand. The total investment in the cotton gin, including the building, office equipment and trucks, was around 15 thousand dollars. The gin was placed in Anahuac and it required ten men per shift to gin 75 bales of cotton every 24 hours. At the end of the first year the gin made 19 thousand dollars, which paid for the gin and netted 4 thousand dollars. By 1935, Industrias Unidas was making a greater profit than Banco Longoria.

Chito was not the only one to take advantage of the cotton boom in northern Mexico, others had done the same thing and all were making tremendous profits. In his second year with the new gin, Chito made 30 thousand dollars.[9] Such success encouraged the notion to expand as quickly as was economically feasible, which with Chito in charge meant immediately.

Ramon Salido, Chito's brother-in-law, was asked by him to manage the new cotton gin in 1936. Salido had been an internal tax revenue officer in charge of the Monterrey area, but his wife, Laura, Chito's sister was lonely and anxious to return to her native Nuevo Laredo and her family. By 1937 all of the Longoria brothers were working for Chito.

Business was so good, that Chito contracted to buy two more cotton gins. He put one in Matamoros and another in Reynosa. He had organized these gins under the name Algondonero del Golfo, which was incorporated in 1937. Again, because of the corporation laws of Mexico, Chito made his brothers directors of the corporation.

With gins producing so much cotton seed, it was too expensive to ship the seed to Nuevo Laredo for processing into the various products handled by Industrias Unidas. It was decided that it might not be a bad idea to build an oil

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[9] Ibid, Tape 11.

processing mill in Matamoros. That way only the oil needed for the vegetable shortening plant would have to be sent on to Nuevo Laredo. Meanwhile, Chito had acquired three more cotton gins which brought his total up to six gins. As Chito expanded his operations, it was necessary to rely on good managers at each of the new mills. Often, he delayed the installation of the mill until he had acquired such a man to run the operation.

It was rumored in Matamoros that Algodonera del Golfo was planning to build an oil mill. Joe Sharp, Anderson-Clayton's representative in Mexico approached Chito with an offer. The offer was to share the oil mill that Anderson-Clayton already had operating in Matamoros. Since they did not process enough cotton during the season to keep the mill operating at capacity, they were offering to let Chito lease the mill for a portion of the cotton season. After some negotiation, Chito and Anderson-Clayton struck a bargain. Chito bought 1/3 of the oil mill, which gave him the right to mill 1/3 of the mill time. Anderson-Clayton financed the partnership, which cost Chito 800 thousand dollars. Payments to Anderson-Clayton were 75 thousand per month. The partnership was named Compania Industrial de Matamoros. However, Anderson-Clayton did not use their 2/3 of mill time, and in that event Chito had the right to use the difference by simply paying the expenses and a small overage fee to Anderson-Clayton.[10] It was a good business arrangement for both partners and was repeated once more with a partnership called Compresoras de Algodón y Bodegas.

The best location for growing the highest quality of long staple cotton is that cotton grown around the area of Torreon in the states of Durango and Coahuila. The area, popularly known as La Laguna, is composed of almost 600,000 square miles, and produced in 1940 about 40% of Mexico's cotton.[11] La Laguna had long been irrigated and is considered to be one of the most fertile areas in Mexico.

La Laguna once belonged to the latifundio of the Marquis of Aguayo in the seventeenth century. It was later sold to the Sánchez-Navarro family, who controlled the land for over a century.[12] Eventually it was sold in parcels to various Mexican land owning families.

In 1936 Lazaro Cárdenas, following the precepts of Article 26 of the Mexican Constitution, redistributed the land giving small plots to those who had previously sowed as laborers on the haciendas. Ideally, the land was to be farmed communally and the profits divided among the farmer

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[10] O.L.L. Oral history, tape 12.

[11] Senior, Clarence. Democracy Comes to a Cotton Kingdom. P. 5.

[12] Because the large landholders of La Laguna had supported the French intervention and the government of Emperor Maximilian, their land holdings were confiscated by the Juarez government after it returned to power in 1867.

workers, each paid according to his efforts. The traditional land owners were allowed to retain 150 hectares of irrigated land of their choice. The rest was distributed among the landless.[13]

In the mid-1930's, when Chito decided to expand into Torreón, which was part of the Laguna area, the farmers could not themselves finance the necessary seed and insecticides for their farmland. The established way of doing business in the area was that the cotton millers or brokers supplied the farmers with an advance for seeds, insecticides and equipment needed for the coming crop. In this manner the miller and the farmer contracted for the sale of the crop at the current market price, less the money lent for the seed and insecticides. To make this business transaction even more profitable, Chito sold the farmers their supplies from his own supply stores. Usually the only cash advances to the farmers occurred during the picking season in order to pay for the labor. Interest of 15% to 18% was charged for the loans. The loans were then liquidated out of the proceeds of the seed cotton sold to

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13 Senior, Clarence. P. 7. Strangely, the Cardenas government let the seasonal farm workers from other states also claim land in the Laguna district. This meant more land for the workers and less for the traditional land holders, but as there was a finite amount of irrigated water, it also meant less water and land for those involved and a shorter time until all the land became pulverized minifundias.

the gins. Settlement of the accounts did not take place until the picking season was finished, so that the gins for certain period were actually being financed by the farmer.[14]

Chito borrowed from foreign banks to finance their expansion in Torreón and northern Mexico. The loans were short term with 30, 60, or 90 day notes, with no debt that was not repaid within the same fiscal year. The loans were secured by the warehouse receipts of the ginned cotton which had not been sold. Chito already arranged for credits from Bank of America, Chemical Bank of New York and First National City Bank. In each case, Industrias Unidas was granted by the above banks a line of credit of three million dollars, each secured by warehouse receipts for cotton. These lines of credit were offered to Chito on the condition that the notes be "cleaned" from the respective bank ledgers at least once per year.

Irving Trust Company of New York fixed the loans at 90 dollars per bale of cotton and 140 dollars per ton of seed cotton on a line of credit for three million dollars in 1950. Irving estimated the cost of the warehouse receipts by including the Mexican tax per bale and subtracting the tax from the estimated cost of the bale. For instance, in

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14 W.F. Graff, Irving Trust Company, interbank letter of appraisal of Longoria assets, June 10, 1950.

1951, more than 17% was added for collateral to the cost of a bale of cotton in Mexico. 2% was an ad valorum tax, 15% was called a "sobre tasa", and 3% charged when the cotton was exported. All together this worked out to be a tax of 17/34% of the value of the cotton which amounted to $55.00 per bale. This was deducted from the market value in order to determine the real collateral value of the cotton.[15] As the cotton was sold, payments were paid to the creditor bank and the receipts were released by the bank. United States banking institutions considered the Longoria enterprises a sound investment with little risk involved.

In order to succeed in Torreón, an area so distant from his mills in Nuevo Laredo and Matamoros, Chito built not only cotton gins, but also an oil plant with short term loans from the Irving Trust and Chemical Bank of New York. As there was no feasible way to ship the seed back to the border and still make a profit, they ginned the cotton and milled the cottonseed into oil and sold the finished products in their own provision stores. Chito started in Torreón with two gins and one oil mill, which took three years to complete. The plants made an immediate profit. The benefits of rapid expansion to other cotton growing districts were obvious. Within two years three other cotton gins had been purchased.

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15 Ibid.

After Torreón, Chito expanded northwest to the state of Chihuahua near the town of Delicias, where a new dam had been built and cotton was grown in the surrounding areas. In this area too, the farmers were financed by the millers, or vice versa.

Because future crops were already contracted for between the farmers and the millers, problems developed when there was a poor growing season. In this case, the farmer would often repay his debt with a different crop. In the 1940's and the early 1950's financing by the millers was guaranteed not by liens against the crops, but by mortgages of the farmer's property and equipment, which meant that debt collection was assured. Prices for cotton in the 1940's had been good, but Chito's plan if world cotton prices fell was to remain liquid, with very short term debts to banks and paying the farmer less for his cotton. Naturally the profit would be less, but having little debt, their position was thought to be good.

Chito was often repaid in wheat when he had contracted for cotton. For this reason, he started building flour mills in the same farm areas as the cotton gins. He built his first flour mill in Torreon in 1940. Since he already had agents selling his cottonseed, soap, and lard, it was not a great feat to add flour to the list of items offered for sale.[16]

One of Chito's greatest challenges was trying to break into the cotton market around Mexicali in the early 1950's. This area was already controlled by a closed cartel of millers including Anderson-Clayton. There were good reasons for wanting to participate in the Mexicali market. Cotton was cheaper in that area and since it was near the coast, it was easy to sell and ship cotton to Japan or any other country in Southeast Asia. Another interesting reason for growing and selling cotton around Mexicali was the weight factor. Grown inland, the cotton was shipped to the coast where it was weighed and exported. If the cotton was warehoused along the coast for any length of time, the cotton absorbed the moisture from the sea air and the brokers arranged to have the cotton weighed later and thus made more money.

In preparation for entering the Mexicali market, Chito traveled there and shopped for suitable land for his gins and oil mill. Each time he thought he was close to purchasing some land, he would discover that the land had been purchased by Anderson-Clayton. As Chito said, "and I talked to other people who had already sold to Anderson-

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16 O.L.L. Oral History, tape 12.

Clayton and they made some very fine investments. Keeping me out, because land values went tremendously high".[17]

Two years later, Chito tried again, this time going so far as to purchase the milling equipment beforehand. The first cotton gin cost in the neighborhood of 15 thousand dollars with everything included. In the 1940's, prices had increased substantially. Cotton gins were more efficient and instead of 75 bales per day the new gins baled at least 250 per day. The cost of a cotton gin with housing and all related equipment included, was 300 thousand dollars. He was determined not to be kept out, for the dollar commitment to Mexicali in equipment alone was well over a million dollars. There were two cotton gins, which included a compressor and an oil mill.

With the equipment all lined up, Chito traveled to Mexicali and again, every time he bid on a piece of property, he was outbid or undercut by the established millers of the area, with Anderson-Clayton in the forefront. Again he failed. He sent the milling equipment to Obregon, in the state of Sonora.[18] By this

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17 Ibid, tape 13.

18 This sequence of events might seem hard to believe, but Chito was a very stubborn man. If he had decided that the fair price for a piece of land was x, he would not pay one peso more. Therefore his options on certain lands were necessarily limited and it was possible to out-bid him, or convince the seller that the land was worth more than Chito had offered.

time the cost of the mills had gone up to two million dollars, and Chito was still kept out. In his profit and loss statements of 1952, the mills appeared as assets of two million, lately purchased for Mexicali. In the 1954 statement the asset has simply disappeared. Chito gave no explanation to the banks and banks reflected this in their reviews of I.U.'s credit worthiness.[19]

On the third try, instead of going personally to Mexicali, Chito sent one of his employees from the auditing department to try and buy land in the area. Chito set up operations twenty miles away, so that the competition would not know that it was he who was trying to buy in Mexicali.

Chito instructed the accountant on which pieces of land he wanted. He sent the man to buy 30 acres of irrigated land, telling the sellers that he was farmer who wanted to acquire some land to raise chickens and hogs. They even went to far as to not call each other on the telephone, because the phones were not automatic and the operators could listen to the conversations if they were so inclined.

Finally, the accountant found the perfect piece of land which he bought in his own name. Chito again purchased another set of mills and had them shipped to

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19 Irving Trust Company, D. Copeland inter-bank memo, June 15, 1955, p.6.

Mexicali and installed on the new property. But the trouble was not over. The millers protested that Chito could not buy cotton from the farmers because the established millers had already financed the farmers for the season. So the farmers told Chito that they could not sell to them since they already owed the millers for the seed, insecticide and fertilizer. Chito suggested that they pay the millers what they owed them, and he would pay the farmers more than the market price for the cotton.

> "I wanted to buy cotton from the farmers. And Clayton said, "No, I've financed this man. This cotton belongs to me." I said, "All right, you can keep your farmer, but you are buying cotton for fifty dollars a bale."
> "I told the farmers, I'll pay you seventy-five dollars a bale. You are buying seeds for fifty dollars. They charge you twenty dollars for ginning. I'll charge you ten. I said I'm going to buy five thousand bales and I'm going to lose half-a-million dollars."

After all, with the mills brand new and on line, it was better to lose some money at first and get the mills running, than to let the mills stand idle. He also had no intention of being thwarted by the establishment for a third time.

What Chito suggested to the farmers was considered treason by the other millers and the Mexican government agreed. The established millers and the government threatened the farmers, telling them that if they sold their cotton to Longoria, they would not be financed by either private or governmental sources for the next season. The Secretary of Agriculture stopped Chito from purchasing any cotton that first year by withholding the required operating permits.

With encouragement from Chito, the farmers staged a strike directly in front of Algodonera de California, which was the name given to Chito's gins. The gins were located farthest from Mexicali, with the older mills located closest to town. Since the Algodonera was farthest away, it was the first mill that the farmers passed as they brought their cotton to market. Stopping the farmers on the highway in front of his mills, Chito told them that the millers, with Anderson-Clayton in the lead, were robbing them. The farmers blocked the highway with railroad ties so that no others could proceed to market. The government sent soldiers to break the strike.

The farmers' strike was to no avail. The government would not issue the permits necessary for the purchase and ginning of cotton. Chito had been out-maneuvered once again. There was too much money at risk for Chito to close down, so his next move was to go to Mexico City and talk to the Secretary of Agriculture, Julián Rodríguez Adame (1958-1964).

Chito went to the office of the Secretary of Agriculture every day, and every day he was ignored. It was obviously a personal snub to Chito because the Secretary was receiving many of Chito's friends and competitors in the same businesses. After Chito had been waiting about ten days, Joe Sharp from Anderson-Clayton came to see the Secretary with several of his associates. Chito greeted Sharp and asked him what Anderson-Clayton was planning that needed the approval of the Secretary of Agriculture. Sharp merely smiled and proceeded into the Secretary's office. Later that same day Chito saw Sharp and the Anderson-Clayton associates dining in a private room of the Banker's Club with the Secretary. For Chito, that was the last straw. Not only had Chito been ignored by the Secretary of Agriculture, the Secretary it seemed had an abundance of time for North American cotton merchants, but no time for his own countrymen.

The next morning the major Mexican newspaper Excelsior, carried a full page advertisement declaring that Secretary of Agriculture, Julian Rodriguez Adame was a traitor to his country and that he should resign. The advertisement outlined the Secretary's preference for doing business with foreign corporations (Anderson-Clayton) rather than Mexican. The real fly in the ointment was not Chito's advertisement per se, but the unfortunate timing of it. The Secretary was "running" for president of Mexico and bad publicity was not going to help his candidacy. On the other hand, Chito's public attacks were not going to expedite his cotton permits either. One might say that Rodríguez Adame and Chito had a Mexican stand-off.

The newspaper campaign continued for several days in the major journals of Mexico City. The Undersecretary of Agriculture called Chito and told him to stop the slander, yet he offered no compromise or solution, i.e., the permits. Responding, Chito said he understood the Secretary's anguish, but that he too, was under pressure because he had such a large amount of capital invested in the Mexicali mills, which were still not operating. Implicit in the conversation was that the newspaper advertisements would stop the minute that Chito got his permits. The Undersecretary said he would call him later.

The next day, the Undersecretary called again and invited Chito to lunch at his home, hinting that the Secretary might join them. Chito hesitated and the Undersecretary was outraged, unable to believe that Chito would turn down an invitation issued by such important people. Ultimately Chito accepted, but an hour before appointed time the lunch was cancelled. The Secretary had to meet with the President of Mexico. Chito was told to meet the Secretary later at the Secretary's office. Chito rejected the invitation. Strangely, the Secretary's appointment with the President was canceled and he could have lunch after all.

At the lunch, Chito and the Secretary, who had known each other for years, discussed generalities. According to Chito, no pertinent business was covered and the lunch ended on a pleasant note. The next day the permits were delivered to Chito at his office and Chito canceled his advertisements.[20]

In the end, it took over five years to break into the Mexicali market and much money was lost, but for Chito it did not seem to matter. He had finally prevailed. With the Algodonera operating the other millers were not making as much money. Chito consistently undercut their profits because his new gins and compressor were faster and more efficient. He could afford to pay the farmers more for their cotton and gin and compress it for less time and money.

The expansion of Industrias Unidas and its subsidiaries across northern Mexico required financing from banks outside of Mexico. Chito's first loan was from the Chemical Bank of New York in 1948. Later, in a credit evaluation by Irving Trust in 1949, Longoria owned credit institutions had expanded to two banking firms, Banco Longoria, and a finance company called Financiera

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20 O.L.L. Oral History, Tape 18.

Fronteriza, S.A., two operations owned jointly by I.U and Anderson-Clayton, and had created 29 other firms. By 1950 the firms had expanded to 33. A comparison of the figures of Irving Trust provides a resume of the Longoria book value in 1949 and 1950.[21]

21 Irving Trust Company, inter office memo from D. Copeland, March 30, 1950.

TABLE 4.1

NET WORTH OF 29 COMPANIES AND BANKS IN 1949

(000's pesos)[22]

	1949	1950	Change
Agencies, G.M. Car	60,380	112,709	+51,829
Shares owned by O.L.L	8,296	14,861	+ 6,565
Cattle ranches, bldg, instl.	9,206	9,221	+ 15
Farms, equip. cotton growing.	7,580	7,580	-0-
Urban & Rural real estate.	2,857	4,626	+ 1,769
Land used by Co.s but owned by family (includes 1350m of prop. used by Ford agency)	12,750	12,450	-300
Sub-Total	101,569	161,447	+59,878
Amts. owed by Co.s to O.L.L.	12,750	15,524	+6,182
TOTAL	110,911	76,971	60,060[23]

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22 Including 1949 net worth p.1,474m. of 3 undisclosed Ford automobile agencies.

23 Ibid, A tentative break-down by D. Copeland of Irving Trust Company, p. 1.

Chito had purchased 3 Ford automobile agencies which were not listed on their profit and loss sheets because the Longorias already owned several General Motors agencies and for competitive reasons they did not publicly acknowledge the ownership of the Ford agencies, but listed them as belonging to Ramon Salido, Chito's brother-in-law. Chito also owned shares of Banco Continental, S.A. and Banco Comercio.

Each individual company under the umbrella of Industrias Unidas de Nuevo Laredo was financed by an account in the name of O.L. Longoria. As the companies borrowed money from the O.L.L. account for expansion or operating purposes, they became indebted to this account. Since Chito assumed that he owned all the operations, the accounts were indebted to him personally and he funded them accordingly. In several bank reviews of I.U.'s and Chito's creditworthiness, the banks complained that one of the liabilities of lending money to I.U. was that the entire operation of the enterprises were run out of the mind of O.L. Longoria and this made understanding the intracacies of I.U. difficult. Mostly, the banks loaned money to Chito based on his personal wealth and reputation. His profit and loss statements were incomplete and vague at best.

A breakdown of the business according to activity and the portion of the total net worth is shown below:

TABLE 4.2

TYPE OF BUSINESS

(000's pesos)

	10/31/49	12/31/50	Change
Cotton growing, ginning, compressing, selling	26,561	65,280	+38,719
Oils, fats, I.U.	13,658	22,439	+ 8,781
Provisions	4,636	5,026	+ 390
Constr.Material & Supplies	5,341	5,969	+ 628
G.M.-Ford sales	4,130	4,427	+ 297
Ice Plants	1,830	1,847	+ 17
Furniture manuf. and sales	911	1,542	+ 631
Movie Theater	154	168	+ 14
Bank and Finance Co.	3,658	5,960	+ 2,302
Butane Gas Distrib.	-	51	+ 51
TOTAL	60,880	112,709	+51,829

Wherever cotton was growing, Chito built cotton gins and an oil mill. In the '50's, Industrias Unidas had gins, oil and flour mills throughout northern Mexico, from Matamoros to Mexicali, with 10 different divisions: Nuevo Laredo, Baja California, Chiapas, Laguna Chihuahua, La Paz, Matamoros, Michoacan, Monterrey, Sinaloa, and Sonora Pacifico.

Between the 40's and the 50's the Longoria expansion, fueled by World War II, had been rapid and successful, especially in cotton. As can be seen from the above charts, profits increased. In 1949 the Longoria enterprises had a working capital of 23,704,000 pesos, and in 1950 it was 31,669,000 pesos. Cotton prices had remained high.

However, in late 1951 Chito faced his worst business crisis. In the last part of 1951 and early 1952 he speculated with cotton, holding on to large inventories acquired at high prices. In 1952 cotton prices fell and he was forced to sell the cotton for less than he had paid, taking a substantial loss.[24] Profits declined from 63 million pesos to 32 million, and in 1952 the speculation was realized by a drop of 2.75 million pesos in the total equity of all Longoria enterprises. The income statements

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[24] Ibid, inter-bank memo, D. Copeland, June 5, 1953. P.2.

which were shown to Irving Trust should have looked considerably worse, but the cotton losses were absorbed and covered by Chito's private account, and the net result was that the enterprises showed a modest profit for the '51-'52 years.

Irving Trust also commented that they had been confidentially informed by Chito that the actual Longoria profits were two or three times greater than those shown on the income statements. This excess accumulation of funds was hidden from the Mexican government for tax purposes, and was not distributed as dividends but remained within the companies in Chito's personal account, and was the cushion that absorbed the cotton speculation losses.

One of the driving forces of Chito's business genius was his obsession with avoiding taxes of any kind. For the first twenty years of marriage to Alice, they lived on the United States side of the Río Grande, and Chito commuted to Nuevo Laredo daily to run the businesses. He was forced to move back to Mexico in 1950 because he had trouble with the United States Internal Revenue Service. He had not paid any personal income tax in the United States. In any event, the declared profits were modest for I.U. during the 1940's and the 50's.

Chito was fortunate to have the friendship of high officials in the Mexican government, and because of those relationships he was granted letters from the government which absolved him from various import, export, and income taxes in Mexico. The creditor banks, especially those of the United States, on one hand, worried that this fortuitous relationship with the Mexican government might come to an abrupt end at some point and Chito would be left in an unenviable position. On the other hand Chito let his relationship with the government be known (always on a strictly confidential basis) to the banks, who were quite impressed.

In 1954 business was booming, and Chito's relationship with his friends in government and finance could not have been better. Because of this optimistic outlook, Chito planned his first trip to Europe and Africa. Typical of the patriarch of a large Mexican family, he included as his guests his wife Alice, his brother Alfredo and his wife, and his sister Lelia and her husband. They planned to be away for six weeks. On their arrival in Stockholm, Sweden, Chito received a cablegram informing him that the peso had been devalued. He moved immediately, flying out on the first available plane and leaving his family in Europe. As Chito put it, "a devaluation is worse than a revolution!" Three days later he was in Acapulco talking to the President Ruiz Cortinas (1952-1958), who was speaking before the International Banker's Convention being held there.

By hastening back to Mexico as fast as possible, Chito was able to convert the peso disaster into an advantage. Before the prices were raised on the commodities which Chito needed for his factories and mills, he bought them at the old rate. Through CONASUPO, the government commodities warehouse, Chito arranged to buy wheat and oil seed at prices which were still controlled following the devaluation. He bought as much of these commodities as possible and as the prices were adjusted upwards in a few weeks, made a sizable profit.[25] Chito also received from the Mexican Federal Government a 6.5 million peso reimbursement to cover exchange losses which arose from the devaluation.[26] No reason for the reimbursement was given.

Legally, all the companies formed by Chito had to have stock holders and a board of directors. In each case Chito made his brothers the directors, which in the future was to cause tremendous difficulties. All the companies were listed on the income statements as belonging to the combined brothers, even though Chito had funded them and The Brothers took orders from Chito. He was the sole owner

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[25] Irving Trust, letter of review of Longoria and I.U., June 15, 1955, from D. Copeland.

[26] Irving Trust, Credit Review, J.W. Rowe, 2-11-55. Document #02406.

and possessed the original bearer bonds of Industrias Unidas, the parent company for all the other companies.

To complicate the question of ownership more, Chito often spoke and corresponded with his brothers as though they were partners. Chito paid from his personal account for the education of his nieces and nephews and for any little extras that his brothers or sisters-in-law might desire. The actual nature of The Brothers' relationship was ambiguous, but without a doubt, Chito was the head of the Longoria family, and as long as all the Longoria enterprises were profitable, there were few problems between The Brothers.

With the advent of World War II, Chito had been in a good position to make money. Most of the Longoria holdings were expanded or created during the war. The five Longoria brothers worked hard at their individual tasks. Federico was the General Manager of Banco Longoria. Shelby was in charge of the cotton operations. Eduardo handled the automobile agencies and the lumber yards, Alfredo handled the technical engineering problems of all the companies. Chito was the president of Banco Longoria and Industrias Unidas de Nuevo Laredo and the coordinator of all the companies and the driving force behind The Brothers. Besides arranging for the expansion of their cotton enterprises, Chito was playing with commodity prices and making a fortune.

Commodity prices skyrocketed in anticipation of the coming war. Industrias Unidas had been importing and exporting commodities for years since the plants processed oil, soap and lard. Prior to the war, Chito had received permission from the Mexican government to import certain commodities from the United States which were used in the production of cooking oil, soap or lard. After 1941, the permits continued, which greatly enhanced his ability to manufacture goods and export them to the United States where these items were now rationed. With these permits, Chito could import commodities that were not abundant in Mexico, turn them into a product and sell it within Mexico. Because of his geographic location and the nature of his industries, Chito could do nothing but make money. He simply could not lose...for the moment.

After 1941, with rationing and artificial shortages rampant in the U.S., Chito found that there was a market for his soap. Admittedly, the soap was not of the same quality as Crystal White soap, which was a popular U.S. brand selling for five cents a bar across the river. Yet it was impossible to get enough of this soap or any other brand for that matter. Chito saw an opportunity to sell his soap on the U.S. side at a profit.

Mexico prohibited the export during the war of many items and to discourage the export of soap, there was an export duty of one dollar per pound. Mexican soap was selling on its domestic market for thirty or forty cents per pound, so there was no incentive to try and export the soap. The manufacturer stood to lose money. Yet Chito knew better. He exported one car load of his soap on an experimental basis. He paid the export tax and charged three times the normal price and it was a success. The demand for more soap was endless. The brand name of the soap exported was Gloria, named after his younger daughter.

Originally, the soap plant produced about 500 cakes of laundry soap per month. With added equipment over the years, the production was raised, but the plant was not run to capacity until the 1940's when Chito was producing 3,500 cases of soap per day. The plant never closed for Sundays or holidays. The soap plant was making a profit for the Longorias of over 50 thousand dollars per week.[27] This operation continued at a non-stop pace for almost eight years.

The permits which allowed Chito to import commodities to Mexico required that the products be bonded, which meant that he did not have to pay duty, just renew the bond periodically and keep importing.

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[27] O.L.L. Oral History, tape 17.

It had been apparent to Chito that with war on the horizon commodity prices would rise, so he started buying and importing just about any commodity he could get his hands on. From Balfour-Guthrie he imported copra, palm oil, and cotton seed oil. At one point, Chito bought several tons of corn oil in Mexico from Corn Products Inc. for a few cents per ton. He turned around and sold the corn oil to Corn Products Inc. in Columbus, Ohio for four times that amount. It was the same corporation but different section managers. Apparently there was little communication between the departments.[28] Chito continued this operation for the duration of the war and Corn Products Inc. was never the wiser. He bought a tank car from the Mexican office every twenty days and had an income from the turn-over of 5 thousand dollars per month. Along the same line, Chito bought 1,000 pounds of cottonseed oil at four cents per pound from Anderson-Clayton, to be shipped from Recife, Brazil. He then sold the same cargo to Anderson-Clayton in Houston for twelve cents a pound, which translated into a profit of 8 thousand dollars.

Industrias Unidas purchased copra, which is the meat of the coconut. They crushed it in order to extract the coconut oil which they used for the soap and lard plants, and the residue was fed to cattle. I.U. purchased from

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[28] O.L.L. Oral History, tape 16.

Balfour-Guthrie 1,000 tons of copra in 1940, f.o.b. San Francisco. The cost was 2 hundred dollars or 50 cents per ton. After Pearl Harbor, it was impossible to bring copra in from the Pacific. Balfour-Guthrie refused to honor the contract with I.U. saying the war had disrupted deliveries. Chito insisted that they deliver. Balfour offered 5 dollars per ton to cancel the contract, but Chito was adamant; copra prices had risen to 40 dollars per ton. After some time, Balfour was offering 20 dollars and copra was selling for 80 dollars, still Chito would not settle.

Meanwhile, I.U. bought great quantities of palm oil from Balfour at three cents per ton, and had sold 20 car loads of the palm oil to Swift and Company for eighteen cents per ton. Balfour shipped the palm oil to Swift and I.U. collected the money. Yet I.U. had never paid Balfour for the original orders of palm oil. Balfour requested payment from Chito and I.U., and his reply was that he would pay Balfour the minute his copra was delivered. Balfour no longer had the copra, nor could they acquire it at a reasonable price. Eventually, Balfour and I.U. settled. I.U. did not pay for the palm oil and also received 50 thousand dollars in cash.

Lard was a major source of profit for I.U. during the war years. I.U. had always imported hog lard from the U.S. for the production of cooking lard. Mexicans much prefer to cook with hog fat rather than vegetable oils, yet Mexico does not produce enough lard itself. With the lard plant running at capacity, I.U. purchased a tank car of lard, which meant between 50,000 to 75,000 pounds. The lard was steam melted during the night, and by morning it was ready for packaging or canning. Within two days the lard was on its way to the consumers of Mexico. Hog lard sold in the U.S. for twelve cents per pound. I.U. treated, packaged and sold the lard to Mexican consumers for thirty cents per pound.

Industrias Unidas, with Chito as its president, made almost obscene amounts of money during the war by trading in commodities. This was not unique to the Longoria family, since Chito's father had dealt in commodities and the sale thereof after the Mexican Revolution.

As World War II drew to an end, so did the spiraling prices of commodities. The trick was not to get caught holding unsalable commodities after the market evened out, and to keep the plants operating at capacity. To this end, Chito sent his cousin Alfredo Leal to Cuba to try and sell them laundry soap. U.S. consumers were no longer interested in the Gloria Brand of soap once the old brands became available.[29]

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[29] Chito's oldest daughter Sara Alice had always asked her father when he was going to name a product after her. Chito told her that the name of their corporation was

Leal had no trouble selling the soap to Cuba, and this helped offset the slowed demand for their soap from the U.S. While in Cuba, Leal heard that the Cubans had purchased 50 tanks of hog lard which was stranded in Florida because the Cubans could not find any ships to transport the lard to their island. The Cubans offered to sell the lard to Leal, who contacted Chito and got permission to buy it and pay the owed storage and freight. The cost of the hog lard was more than Chito had on hand. He contacted Salvador Ugarte of Banco de México and asked for a loan of one million dollars. The loan was quickly approved and the lard was sent on to Mexico. Since the lard had legally left the United States and was on its way to Cuba, Chito did not have to pay export duty. The loan was repaid to the bank and another sizable profit had been realized for Industrias Unidas. This was also the beginning of I.U. and Chito borrowing from major Mexican banking institutions rather than using Banco Longoria.

For much of Mexico, World War II was a fortuitous circumstance. This was especially true for industrialists whose plants were already operating. The example of Chito and Industrias Unidas reinforces Haber's theory and illustrates what was possible for plants running at

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Industrias Unidas S.A., and that the S.A. stood for Sara Alice. It was not until she was a young woman that Sara Alice realized that her father had been teasing her.

capacity during this time. Mexico was forced by its isolation into import substitution, not as an experiment in economic independence, but through an historical event over which it had no control. In northern Mexico import substitution and production increases allowed many small businesses to prosper and expand in blissful, noncompetitive isolation with the southwestern part of the United States for their market. World War II allowed Industrias Unidas to quadruple its production output for a secure market. The war years permitted businessmen with acumen to play the commodities market to their advantage. It made the Longorias millionaires.

Industrias Unidas already had its plants in operation prior to World War II. The war merely caused these plants to be used for the first time at their capacity. Post World War II highlighted the preferential treatment certain United States owned companies received in Mexico at the expense of their own nationals.