

## INTRODUCTION

Entrepreneur: one who creates and operates a commercial or industrial business.

"Spirit of entrepreneurship" describes a period of Mexican history from 1930 to the first years of the 1970's. The entrepreneurial spirit which swept Mexico for a little over forty years was magical. It was a spirit and a period of history which permeated certain sectors of the Mexican psyche with a sense that anything was possible, if one had courage, intelligence, and of course, a little capital. It was an era of enthusiasm, where the words "cannot" and "no" were not tolerated by Mexico's economic elite.

During the 1930's, industries in Mexico were burgeoning, despite the effects of the Great Depression. This is not to say that the Depression did not affect Mexico in many areas, but concurrently, many industries grew and new ones were established. With the advent of World War II, Mexican industry expanded considerably. With then normal avenues of imports and exports blocked necessarily by the war, Mexico was forced into a position of import substitution, and opportunities for increased production were legion. The United States had rationed

many goods which could be produced easily in Mexico, providing Mexican industrialists with a golden opportunity. Could it be at this juncture that Mexico began its industrial revolution?

Historians agree that Mexico did indeed industrialize but to date there is no agreement on exactly when it happened and who were the prime movers of this industrialization. Did industrialization magically occur with the advent of World War II? Or, had industrialization begun decades earlier?

Howard Cline suggests that the Industrial Revolution of Mexico began on April 21, 1941, when the first Law of Manufacturing Industries became effective. It offered tax exemptions to Mexican industries, especially new ones and those thought necessary for the further stimulation of Mexican manufactures.<sup>1</sup> Stephen Haber dates the beginning of industrialization in Mexico in 1898.<sup>2</sup> James Wilkie places the industrial revolution in the Cárdenas administration, when Cárdenas made serious credits available for industrial expansion.<sup>3</sup> Raymond Vernon

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<sup>1</sup> Cline, Howard F. Mexico, Revolution to Evolution 1940-1960. P. 232.

<sup>2</sup> Haber, Stephen. Manufacturing in an Underdeveloped Economy: The Industrialization of Mexico, 1890 to 1940, p. 6. Doctoral Dissertation, UCLA, 1986.

<sup>3</sup> Wilkie, James W., Mexican Revolution: Federal Expenditure and Social Change,

suggested that without demeaning the part played by the war, there were probably good enough conditions within Mexico's borders for industrialization without relying on external forces.<sup>4</sup> Clark Reynolds in his book on the Mexican economy concurred with Vernon and found that a significant industrial base already existed at the beginning of the war which allowed manufacturing production to increase by 75% without any major new investment and that most of the growth since 1940 was attributable to private investment which in turn was protected by the public sector.<sup>5</sup> Opinions of historians on when industrialization commenced run the gamut, not to mention the diversity of opinion as to who the men were who actually caused the industrialization to happen.

William P. Glade asserted that the industrialists emerged from "the dispossessed elite, whose younger members sought to recoup lost fortunes and land by turning to commercial, financial and industrial activities..."<sup>6</sup>. Sanford Mosk insisted that a "new group" of industrialists appeared with the advent of World War II and that the war

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<sup>4</sup> Vernon, Raymond. The Dilemma of Mexico's Development, p.155.

<sup>5</sup> Reynolds, Clark. The Mexican Economy, Twentieth Century Structure and Growth.

<sup>6</sup> Glade, William P., Anderson, Charles W. The Political Economy of Mexico, p. 48.

was the primary reason for a major portion of Mexico's industrialization.<sup>7</sup>

Indeed, to understand how industrialization came about one must go beyond studies of industrialization per se, and do an in depth study of the industrial efforts of one entrepreneur to shed light on the entrepreneurial spirit that permeated Mexico for forty years. Was the Mexican entrepreneur of the early twentieth century a foreign born opportunist who saw a chance to make a quick profit from World War II? Was he a member of the dispossessed elite from the Mexican revolution? Or was he an industrialist who was already in place and operating? This work proposes to look at one entrepreneur to help answer such questions. This study does not claim to represent all entrepreneurs. The twentieth century man who is the subject of this work is one of the few, if not the only entrepreneur, for which a plethora of material has been made available.

Some historians, notably Daniel James, claim that Mexico's private industrialists could not possibly act in an entrepreneurial or independent fashion because they were products of a "socialist political establishment".<sup>8</sup> Did

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<sup>7</sup> Mosk, Sanford, Industrial Revolution in Mexico, p. 21.

<sup>8</sup> James, Daniel, Letters to the Editor, The Wall Street Journal, 1-15-88.

the Mexican government dictate to the entrepreneurs? Did the State limit industrial expansion and subordinate it to the good of the State?

For forty years the Mexican government facilitated industrial expansion, until the advent of the administrations of Luis Echeverría and José López Portillo, from 1970-1982. For the twelve years of their statist-oriented administrations, state-controlled enterprises grew from 84 in 1970 to 760 by 1982.<sup>9</sup> The numbers speak for themselves. Prior to 1970, the Federal government basically remained aloof from private enterprise, only interfering when certain large enterprises that employed a great number of workers were in financial difficulty. In that situation, the government was often forced to take an active role. With regard to sizable, troubled, industries or businesses that employed many workers, the government took control of operations and kept them running. A perfect example of this was SOMEX.<sup>10</sup> To depict the Mexican government as socialistic because of two statist

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<sup>9</sup> Camp, Roderic A. Entrepreneurs and Politics in Twentieth-Century Mexico, p. 29.

<sup>10</sup> SOMEX originally a private organization itself, was in financial difficulty and the Mexican government was forced to intervene. After the government took control of SOMEX, it used the organization to intervene and assume leadership in other troubled businesses.

administrations is to overstate the reality.<sup>11</sup> The subsequent administrations of Miguel de la Madrid and Carlos Salinas de Gortari divested the government of many of the state controlled enterprises, realizing that Echeverría and López Portillo had done nothing but chase entrepreneurs and their needed capital out of Mexico. In fact, Salinas de Gortari in his first State of the Nation Report on November 1, 1989 declared that the statist policies of the previous decade had allowed parastate enterprises to monopolize financial resources. "As the facts show, the State concerned itself more with administering its properties than with meeting pressing social needs".<sup>12</sup> He went on to declare that successful State intervention of the past was clouded (lately) by a tendency to make the State almost exclusively responsible for management of the entire economy, which prevented its effective regulation of the mixed economy.<sup>13</sup>

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<sup>11</sup> Wilkie, James W. ed., Society and Economy in Mexico, Chapter 1. "Statism is the trend toward government control of economic life, especially through nationalization of industries considered to be strategic for national development. Statism involves an expanding governmental structure and bureaucracy to carry out state planning and the execution of plans. In my view, statist systems are achieved when the public sector (central government plus parastate sector of nationalized enterprises) controls nearly half or more of a country's GDP..."

<sup>12</sup> Salinas de Gortari, Carlos, First State of the Nation Report, November 1, 1989. P. 8.

<sup>13</sup> Ibid, p.9.

Contrary to the view of observers such as Daniel James who claims that Mexico is socialistic, and the entrepreneurs mere appendages of the Mexican government, this work will demonstrate that those entrepreneurs who appeared on the Mexican scene from 1930 to 1970 used the government to their advantage and not the reverse. The governments of Avila Camacho, Alemán, Ruiz Cortines, López Mateos, and Díaz Ordaz assisted the entrepreneurs in every way imaginable, from tax relief, to subsidies. Of course some of the administrations were more statist than others, but the overall trend was toward assisting those entrepreneurs and industrialists who were modernizing Mexico and at the same time employing thousands of Mexican workers.

This work focuses upon the life and times of Octaviano Librado Longoria who was born in Nuevo Laredo, Tamps. and died in Mexico City (1905-1986). Known throughout his life as Chito, he was a twentieth century entrepreneur descended from a middle-class Mexican family of Spanish descent. Located on the Río Grande border between the United States and Mexico, he took his modest assets and parlayed these circumstances into a position on the world economic and social stage.

Chito was an entrepreneur who developed his style of governmental relationships in an effort not only to survive

complex and often confusing edicts from Mexico City, but to prosper and expand his industries. For forty years, the Federal government assisted such industrialists in their headlong drive for the modernization of Mexico's industries. Tax laws were liberalized to favor the industrialists. Labor laws were stretched to accommodate their unique needs, and money for expansion was often made available by the government.

By the 1970's, a new breed of bureaucrat was at the helm of the Federal government. The new bureaucrats were statisticians, men who believed that industry and trade could be controlled from the center and that the era of the Mexican entrepreneur was at an end. These socialistic bureaucrats believed that the industrialists had unduly profited from liberal laws which permitted their expansion at the expense of the general population of Mexico. The rules of the game had changed but the older industrialists were too old or too tired to learn the new rules. It was difficult for them to cultivate relationships with the new bureaucrats who ran Mexico.

By the mid 1970's the majority of the entrepreneurs who had done so much to industrialize Mexico were out of favor. A few survived, but at great expense and personal risk. Most were forced by adverse political and economic circumstances during the Echeverría and López Portillo



administrations (1970-1982) to remove their capital from Mexico. During those administrations, Mexican businessmen never knew from one day to the next if the peso would be devalued, their companies "nationalized", their financial assets seized, or they themselves thrown in jail.

The following episode will illustrate the attitude of the new breed of statist/socialistic bureaucrats who ruled Mexico during the 1970's. At one of the first formal gatherings after the election of Luis Echeverria, in 1970, the elite was gathered at a Presidential reception at Los Pinos. As had been the tradition, the ladies and gentlemen were bejewelled and dressed in their finest. During the evening, the President's wife found a hat and started passing among the guests with it. As she greeted them she would comment on what a beautiful ring or necklace the guest was wearing, and politely ask that the guest place the piece of jewelry in her hat, "for the poor". There was no way to refuse the wife of the President, and so the hat grew heavy, filled with jewels. When news of the requisitioned jewels spread, there was a general exodus of excess cash and jewelry to the United States. The rule in Mexico for the next twelve years was one of austerity. One simple act, perhaps with good intent, had frightened away much needed capital from Mexico. Further incidents did not

calm the fears of Mexican businessmen and their families, but exacerbated them.

The major goal of the new statist bureaucrats was to redistribute the wealth of Mexico. This is not a bad thing, but Echeverría had vowed redistribution even if it meant stopping economic growth.<sup>14</sup> The irony of his program was that it never gave the general population of Mexico one extra peso, but merely chased the elites and their capital away.

It was within this framework of Mexican history that Chito developed his entrepreneurial skills. For more than forty years he and his family prospered as bankers and industrialists, only to be caught in the new wave of statist bureaucracy which began in the 1970's.

To develop the history of Chito and his proper place in twentieth century Mexico, Chapter I is devoted to the origins of the Longoria family and their migration from Spain to Mexico's northeastern frontier. Chapter II covers the history of the Longoria family after its roots were firmly established along the banks of the Río Grande and the early entrepreneurial endeavors of young Chito Longoria. Chapter III examines the establishment of Industrias Unidas and acquisition of a federal bank charter

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<sup>14</sup> Wilkie, James W., and Edna Monzón de Wilkie. Mexico Visto en el Siglo XX.

for Banco Longoria. Chapter IV details the accelerated industrial expansion caused by World War II. Chapter V discusses Chito's relationship with the State and various politicians and the continued expansion of his industries. Chapter VI chronicles Chito's arrangements with foreign banks which supplied the capital needed for his industries, and his often acrimonious relationship with his brothers. Chapter VII describes Chito's courtship and marriage to his second wife Jeanette. Chapter VIII examines the disintegration of his relationship with his brothers, the eventual collapse of his industrial empire, and the part the Mexican government played. Chapter IX details the litigation among the Longoria family which followed after the break up of the industrial empire. Chapter X describes the end of the life and times of Longoria. Chapter XI contains the conclusions which can be drawn from the life of a Mexican entrepreneur.