One of the unfortunate factors which affects the development of the Mexican economy and particularly certain vital aspects thereof is the continued prejudice against foreign capital. This is not unreasonable and is really purely demagogic, for all thoughtful Mexicans, just like thoughtful people in any country, must recognize the important part which foreign investment has played in the development of the country. Without it the Mexico of today would not exist.

Mexico, with respect to the need for foreign capital, does not differ from any other country and particularly the newer countries. It is customary on the part of some people to speak of Mexico as a still undeveloped country, and in some respects this is true, but it is only relatively true. In some respects one can speak of Canada and the United States as still partially undeveloped countries. Development is a relative term. It is true that in many countries of Europe one cannot speak of them as undeveloped, for over centuries their economic system has been developing and with the concentrated population and established lines of economy the character of the economy is well defined. Mexico may be a still undeveloped country, but its economic development has progressed far when compared with a country like Peru, almost as much so when compared with Brazil, and she is not far behind Canada, and perhaps just as far behind Canada as Canada is behind the United States. I repeat that so-called development is therefore relative, whether it be in the agricultural, industrial, political or social field.

The prejudice against foreign capital can do a great deal to retard development. The United States did not hesitate to use foreign capital and technicians in the development of her agriculture, her railways, her industry and her utilities during the period when there was not sufficient capital in the country to carry through constructive enterprise at a reasonable rate. The foreign capital was given the protection of the laws of the country and given that security which such capital needs as an incentive. It was that capital which made possible the rapid building of our railways and many of our industries which contributed so much to the general tempo of the industrial and economic development. Over the course of the years to a large extent this foreign capital gradually passed into the hands of the people of the country but it was a natural and not a forced process. In Canada the same situation is developing. It needed foreign capital even more than the United States needed it, but it has given it and is still giving it this full protection which is necessary to attract capital and to enable it to operate to the advantage of capital and the country. When oil deposits were discovered in Northwestern Canada recently, the Canadian law permitted hundreds of millions of dollars of foreign capital to flow into that area, with the result that these oil resources are being developed at a tremendous rate and are going to bring extraordinary riches to the country, and Canadian sovereignty and self-respect has in no way been injured. American and British
British capital went into Canada to build up industry in many lines which brought down the cost of articles to the Canadian consumer and resulted in a quick broadening of the basis of national economy which had its consequent result in a higher standard of living.

In Mexico with its large area, extraordinary natural resources and limited population the springs of national wealth had to develop slowly if dependent entirely on the capacity of the population to produce wealth. The country therefore needed large sums of foreign capital and it was foreign capital which built the railways which did so much to lay the basis for agricultural development in the earlier stages. It was foreign capital which came in and developed the mines from the primitive mining processes in effect since the Spanish days and which built the smelters and which has made Mexico one of the leading producers of metals and minerals in the world, and anyone familiar with the Mexican economy is aware to what extraordinary degree the wealth produced by the mining industry has contributed to the development of the country. And yet even today there are demagogues who speak of the foreign mining companies as an octopus which is sucking the life blood out of Mexico and transferring all of its earnings abroad. It is true that the mining companies do transfer a certain amount of their earnings abroad, but this is only a very reasonable return on the investment which the foreigner made in the mines to make possible their development. The great and overwhelming part of the value of the product of the mines finds its way into the Mexican Treasury, to the Mexican workers and to the general economy.

In the same way the demagogues still continue to speak of the electricity companies as foreign octopuses. In this particular industry the amount of capital necessary to produce current is very great. From the very beginning Mexican capital did not show any interest in the electricity business except in a few small plants serving very restricted areas and where the cost of the plant was small and where return was attractive. Had it not been for the enterprise of foreign capital the electricity industry in Mexico would not have developed for years. The electricity industry did not get the same treatment as the mining industry because it is an industry which serves practically every member of the population and therefore government regulation in price of current came early. It is desirable that the cost of electricity should be regulated, but those who regulated the cost of electricity in government knew that the capital had to have a reasonable return or the capital would not be available. The Electricity Law of 1939, with its amendments, provided that the electricity industry should get a return on its investment not less than the highest rate paid on Federal Government bonds. At that time the rate of interest on Federal Government bonds was higher than it is today, but the Electricity Law has not been changed and the minimum rate of return which can be given to private electricity companies remains the same. In other words, while the lowest rate paid on Government bonds in 1939 was more than 6 per cent, the lowest rate of return which can be given to the electricity industry has not been increased, although the rate on Government bonds is now 6 per cent.
It is quite reasonable and understandable that there has been no interest on the part of Mexican investors in the electricity industry. Before the electricity law of 1939 came into effect popular pressures made it impossible for the companies to secure tariffs which gave them an appropriate return on the investment. When the Electricity Law of 1939 was enacted it was well understood by those who conceived and voted the law that further plant capacity could not be constructed unless the industry was given a reasonable rate of return, and for that reason a minimum return was fixed in the law. The ratesetting, regulating authorities were given the right to give a higher rate of return such as that in comparable industries. This law was not implemented until 1949, and then in the establishment of the definitive tariffs of the Mexican Light & Power Company it was given the absolute minimum which the law provides.

An investor has the right to a return on his investment, just the same as a worker has the right to expect a reasonable return for his labor, or a manufacturer of cotton cloth has the right to expect a price for his cloth which covers the cost of the raw materials, manufacturing costs and taxes and leaving him a margin of profit. In the electricity industry, strangely enough, this concept has never been accepted by the public. It takes more money to build an electricity plant than it costs to build most manufacturing plants, and yet the producer of this electricity cannot get a reasonable return on his investment to provide the incentive for additional investment and production which is necessary in so vital an industry.

It is, as said before, reasonable that the Mexican investor who had made savings and wanted to put his money to work would not wish to put it in the electricity industry which was earning around 3 per cent on the capital invested, when if he put the same money in a manufacturing establishment he could get anywhere from 10 to 20 per cent return or more, and could get a minimum of 6 per cent from Federal Government bonds and a much higher return from State bonds, and as much as 10 per cent on industrial bonds, and even a higher rate of return if he lent the money on sound mortgages.

This has created a special situation for the electricity industry, for even under the best circumstances the rate of return which can be got on new investment is less than that which can be got from other forms of investment. Foreign capital which was invested in the electricity industry over two score of years and which received no return on its investment to speak of, was encouraged to hold on in the hope that in due course it would receive a reasonable return. In the meantime this foreign capital was supplying the power needs for the domestic consumer and for the developing industry, which in most cases was receiving a very high return on its investment. In other words, while the electricity industry made possible new industry which was receiving a good rate of return on its invested capital, the electricity industry was receiving little or no return on its investment. The Mexican Light & Power Company, which is the principal supplier of electricity in the country and whose investment is entirely foreign, was not able to pay any dividends on its capital for several years. It could not pay any dividends on its common shares from 1913 to date. It
could not pay any dividend on its preferred shares from 1931 to date. In spite of the new definitive tariffs granted in December 1949 which should give the industry a fair minimum return on the investment of around 6 per cent, the capital needs for new construction are so great that the company has had to agree not to pay dividends on its shares, and even not to set aside amortization on its first mortgage bonds during the construction period, as every penny of earnings beyond interest on the first mortgage bonds is necessary for peso expenditures on the program of new works necessary to maintain the level of the economy and to provide power for increased development and needs of domestic consumers which are constantly rising.

Even under these circumstances the necessary capital for the new works cannot be attracted from within the country, for the same reasons which have existed before. Those who object to foreign borrowing by the electricity companies fail to take into account the fact that if it were not for the intervention of the International Bank and of the Export-Import Bank these new works could not be constructed and the economy be definitely impeded.

The Mexican Government, in order to provide electricity in areas where no Mexican or foreign capital could venture, set up the Comisión Federal de Electricidad, but it also had to have recourse to the Export-Import Bank and to the International Bank for the financing of the foreign equipment needed for these plants, as it simply could not be secured from private investment in Mexico, and if the Government had supplied the pesos to buy the dollars or foreign currencies for this equipment it would have meant that other programs such as roads, schools, railways and irrigation would have been carried forward greatly restricted and the economy impeded. The Mexican Light & Power Company, for the same reason as the Federal Power Commission, has been obliged to resort to foreign borrowing. The private investor in the United States and other countries will not put any more money into the Mexican electricity industry, for his venture and vision in the past have not been given any return, and he will therefore not invest his money in the Mexican electric industry when he can find a place at home or abroad in other industries through which he will get a reasonable return. The Mexican Light & Power Company, therefore, to meet this very great program of new plant, has had recourse to the International Bank for Reconstruction & Development, which has been willing to lend the dollar needs for the program on the basis that the capital of the loan will be guaranteed by the Mexican Government, as well as by the value of the properties, and on the assurance that the company will be given the reasonable return on the investment which the Electricity Law of 1939 provides.

Even though there is money available in Mexico today in increasing amounts for industry of other kinds, and this is a very important step forward, it is still not available for the electricity industry, and the demagogues who attack the government for giving its guarantee to the loans which are being made for the electricity industry and who attack the government for giving a reasonable and minimum return to the companies on their capital investment, are the same people who would under no circumstances invest a single penny of their money in the electricity industry, knowing
at the same time that it is vital to the entire economy of the country and as a basis for other industries. In connection with this unreasonable attitude toward foreign investment, and particularly in the electricity industry, it is significant to note that the Federal Power Commission and the Mexican Light & Power Company are getting the money which they need for this new plant from the Export-Import Bank and from the International Bank at a rate of interest which is very low and much lower than that charged by anyone in Mexico. The Power Commission is getting its money from the Export-Import Bank and from the International Bank at a cost ranging from 3-1/2 per cent to 4-1/2 per cent, and Mexlight is getting its foreign borrowings at the rate of 4-1/2 per cent. The minimum at which the Mexican Government is able to borrow with the country is 6 per cent, and the interest at which industrial borrowers are able to borrow money in Mexico is from 7 to 10 per cent. The money which the Eximbank and the International Bank are lending comes largely from the pockets of the individual investor in the United States who is putting his savings to this use and on which he can expect what he considers a reasonable return. The simple fact of the matter, therefore, is that the investor abroad is still willing to lend his money for use in Mexico at a rate of return which is lower than that at which the Mexican investor will lend money to his government or to Mexican industry.

The damagogue who rant against foreign capital for the most part is aware of these facts, and he deliberately ignores them or tries to cover them up by stirring up nationalistic passions and prejudices. It is safe to say that in every case those who rant against foreign capital would be the first not to lend their money at a reasonable cost to those enterprises in their own country which they know are essential to its wellbeing.

The fundamental facts remains that if it were not for the foreign investor who is still willing to take risks which are greater and a return which is less than those which the Mexican investor is prepared to take, there could be no development in the electricity industry in Mexico and this would mean that the whole economy of the country would be set back and the standard of living would be seriously affected. In fact, the whole monetary and industrial structure of the country would be prejudiced.

The time will come when Mexico will have reached a phase of industrial and financial development when foreign capital may not be necessary for her wellbeing and further development, but that period is still long in the future. It is no discredit to Mexico that this should be so, for it is only a very few countries in the world which have reached the stage where they are able to do without foreign capital.

There are those who say that the government in Mexico could have supplied the capital for the power industry and that the best thing to do would be for the government to take over the power industry and operate it as a national industry. Those who make this argument fail to take into account the fact that the taking over of the power industry by the government would not in any way change the material needs of the industry. The cost of production and of plants and of distribution would probably increase rather than decrease, as this is the general experience in all countries in government operation. There would be no decrease in cost of power to the consumer, domestic or industrial, unless the government were
in the position to subsidize the industry and absorb through general tax revenues such subsidy. It is not likely that this would be done, for the demands on the tax revenue are too great. Further, if the industry were nationalized there would still remain the need for this money for construction, and if it were to be carried through without foreign borrowing it would mean that the government programs for irrigation, schools, roads and social services would have to be cut down, because there is just so much money available to government and no more, and whatever it does beyond that must be borrowed either at home or abroad. The capacity of any country to borrow from its people is limited by the capacity and willingness of the people of the country to buy government bonds. Whether, therefore, the government is operating the electricity industry or private industry is operating it, the problems are the same and for years to come foreign borrowing would be inevitable if there is to be a continuance of opportunity for development in the country.

Mexico, March 21, 1950.