

THE TROLLEY CAR COMPANY OF MEXICO CITY AND THE ABSENCE OF  
INSTITUTIONALIZED ACCOUNTING 1940-1943

A Thesis  
by  
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## **Abstract**

### **THE TROLLEY CAR COMPANY OF MEXICO CITY AND THE ABSENCE OF INSTITUTIONALIZED ACCOUNTING; 1940-1943**

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This thesis reveals that during 1940-1943 the Trolley Car Company of Mexico City haphazardly recorded its expenses and revenue and did not adhere to any accounting regulations. Utilizing never before analyzed source material, including company expense reports from 1940, 1941 and 1942, this thesis brings to light a new discussion regarding Mexican industrial development and the Mexican labor movement. Accounting practices, or the lack thereof, not only impacted the company, which can be seen within the reports, but it also impacted labor negotiations and the company's relationship with the Mexican government.

## **Dedication**

To Nana; who never wavered in her love- and whose choice to be joyful is a continuing inspiration.

## **Acknowledgements**

A master's thesis is only a symbol of one's education and a culminating production of years of learning. And, as such it is not through the completion of a thesis itself that one grows as an academic, though the project does help, but rather the journey through the field of study, and through life, that is important. Along my journey, many individuals have assisted me at various points.

In order to be successful academically, one must be surrounded by friends, Alex Finch and Caleb Tabor have been great friends. I have also been grateful to my brothers. The men who in numerous ways are responsible for who I am, and thus partly responsible for the environment necessary for this body of academic work to be completed are; Andrew Mitchell, David Kennedy Deboer, and Dino Landino who, along with myself, have seen each other at our best, and our worst; to all the men of the NC Epsilon Chapter of Sigma Alpha Epsilon, especially Carroll Strong, Scott Moseley, Thomas Brigman, Eric Thompson, Jon Riley, Kyle Von Linden, Eric Pan, Shane Gragg, Johnnie Coudriet, Tyler Nosek, Kader Joseph, Mo Oxendine, Bryan Terry, Tanner Triage, Carson Cole, Brian Harbour, Justin Clontz, Jacob Cooper, Tyler Carter, Vincent Porcelli, and Scott Mitch Barron I give my lasting thanks; also thanks to John Sawyer, who is a great brother and continues to be a great help as I begin the next chapter of my studies. Also, thanks to Steven Kronenberg for his part in introducing me to Sigma Alpha Epsilon, Steven Lyerly for teaching me what those few words mean, and to Larry Johnston and Mike McNally who provided important advice.

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to Kelly McMillan who saw fit to complain about my daily presence in the library and for never ceasing to ask why completing this thesis took so long.

Also, thanks to the staff of the Center for Student Involvement and Leadership for their lessons on management and leadership. Thanks to the workers of the Appalachian State University Physical Plant who so often rose at horrid hours in indescribable conditions to clear snow and ice off campus walkways so class could take place, and so that I could access the library. To Donna Davis and Teanna Setzer of the history department I owe a great deal of thanks, they are by far the most excellent, enjoyable and dependable people I met in a professional capacity at Appalachian State. Thanks to the Appalachian State University Office of Student Research which provided a travel grant that began my flirtation with Mexico. Thanks to the men and women of 4<sup>th</sup> Supply Company (-) 4<sup>th</sup> Supply Battalion with the United States Marine Corps Reserve and specifically Derrick Hudson, Matthew Weikert, Matthew Weingarten, Brittany Gaddy and Antonio Borrego.

Any successful student is merely the product of a series of dedicated teachers, the type of teacher that believes it is their calling to improve society one student at time in the hopes that the problems of the world will be solved by the educated. I have been lucky enough to be taught by several talented teachers over the course of the years and to them I am grateful. For their time and advice before I came to Appalachian State I thank Brenda Berry who introduced me to the magic of the university environment, Alan Webb who is responsible for my sense of civic duty, Daniel Assael who is more talented than a high school English teacher ought to be, and who is responsible for my dread of commas and my sense of academic discipline, Lee Gordon who introduced me to historical writing, and showed me that history is living, breathing and present in all things, Matt Hamlett, and Coach Bobby Shriner who serves as a model example for Christian living, his dedication, discipline and joy for life has caused me live every day to its fullest, because in fact every day is a gift, and as such every day is a “great day to be alive.”

I also thank the professors that guided me through my undergraduate and graduate education which include Dr. Karen Reid, who with her dedication to teaching and to bringing French History

alive in the class room taught me many things, Dr. David Reid, Dr. Renee Scherlen for providing a political perspective on the issues within this thesis, to Allan Scherlen who assisted with navigating the world of libraries, Dr. Scott Jessee who provided essential if not ambivalent assistance and to Dr. Jeffrey Bortz, for showing me Mexico and all things caffeinated and intellectual, his common sense advice and analytical mind have proven right far more times than I would like to recall. A special thanks goes to Dr. Holly Ackerman at Duke University for allowing my access to pertinent primary documents, to Chyrise Bradley who often inquired and encouraged my work, and again to Jacob Cooper for helping me to interpret the jumbled financial reports one will find within the appendices of this work.

And finally, thanks to my family, my father, my step-mother and my sister.



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## A MICRO-FINANCIAL HISTORY

### Introduction

In April of 1896, the Compañía de Ferrocarriles del Distrito Federal (CFDF) was granted permission by the Mexican government to electrify the trolley car lines of Mexico City.<sup>1</sup> The British and Canadian investors of the CFDF then formed the Compañía Limitada de Tranvías Eléctricos de México, Electric Trolley Car Company of Mexico Ltd., in 1898 and began work to modernize the trolley routes. In the next two years over 100 trolley cars were ordered from industrial plants in Philadelphia, Pennsylvania, and shipped to Mexico.<sup>2</sup>

On January 15, 1900, a group of New York industrialists reported that the first electric trolley cars began operation in Mexico City. The first trolley route in Mexico connected the city center plaza, The Zocalo, to the town of Tacubaya, and it started with President Díaz in attendance as well the ambassadors of Russia and China and industrialists from Canada.<sup>3</sup> t to see scores and even hundreds of Mexican children, as well as Indians and their squaws and papooses, running after the cars until out

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<sup>1</sup> An interesting note, the two industrialists that fronted the capital for the electrification of the trolley car tracks were German-born businessmen who operated South African mine operations from London. Julius Werhner and Alfred Biet managed Werhner, Biet and Co. which promoted British imperialism in South Africa and was specifically concerned with the diamond mines. After Werhner's death, Biet became involved with what was to become Debeers Inc. "Trams Travel 105 Years," [http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id\\_nota=65270&tabla=ciudad](http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id_nota=65270&tabla=ciudad) (accessed January 3, 2011). Also, there has been some work with regards to the impact of trolley cars in other Latin American countries. Anton Rosenthal, "Streetcar Workers and the Transformation of Montevideo: The General Strike of May 1911," *The Americas* 51, no. 4 (1995): 471. Anton Rosenthal, "The Arrival of the Electric Streetcar and the Conflict Over Progress in Early Twentieth Century Montevideo," *Journal of Latin American Studies* 27, no.2 (1995):319.

<sup>2</sup> "The Tramways of Mexico City," <http://www.tramz.com/mx/mc/mc00.html>, (accessed January 3, 2011).

<sup>3</sup>"Trams Travel 105 Years,"

[http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id\\_nota=65270&tabla=ciudad](http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id_nota=65270&tabla=ciudad), (accessed January 3, 2011).

of breath... They did this simply out of a curious interest to see the cars flying along without any apparent means of propulsion.”<sup>4</sup>

This monumental step brought Mexico City its first form of modern transportation. Before this period, trolley cars were in fact on the streets of Mexico, but were pulled by horses.<sup>5</sup> Mexico had now made a substantive step in the direction of industrialization and modernization. Nearly every facet of life in Mexico City changed. The average Mexico City resident now had an option for less expensive and faster transportation to and from their place of work. Citizens now had relatively more disposable income and time that translated into more leisure travel. Everything was changing in Mexico City.<sup>6</sup>

This thesis concerns an aspect of the relationship between the Compañía de Tranvías de México (Cia de Tranvías) and its unionized employees, the Alianza de Tranviarios de Ciudad de México (The Alliance of Trolley Car Workers). The primary characteristic of this relationship to be studied is the absence of certain financial institutions within the Cia de Tranvías; the results will show that the lack of such institutions increased overall labor costs. This is a precise study, a micro-financial history, as it focuses on the minutia of an event during a time in which international events and economic forces were exerting great pressure on Mexico.<sup>7</sup>

The source material shows that during labor negotiations that took place in 1940-1943, the absence of a federally mandated or company mandated set of accounting standards is visible within the confusing and haphazard nature of financial reporting. The consequences of this absence of

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<sup>4</sup> *Hopkinsville Kentuckian*, March 20, 1900.

<sup>5</sup> The decline of animal powered trolleys was slow. The last horse powered trolley car being decommissioned in 1932.

<sup>6</sup> “Trams Travel 105 Years,” accessed January 3, 2011, [http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id\\_nota=65270&tabla=ciudad](http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id_nota=65270&tabla=ciudad).

<sup>7</sup> What differentiates the methodology of this thesis from the field of micro-history, and thus warrants the label of micro-financial history is simple. Micro-history focuses on small units of study, a family, a single event even, much like this thesis. However, a micro-history is typically the exception of history, not the rule. This thesis does not argue that the Compañía de Tranvías de México was the exception to the rule of the evolution of financial institutions, but rather is an example.

financial reporting came in the form of unnecessary costs emanating from government mandated concessions from the company to unionized workers.

The bulk of the primary source documents that serve as the foundation for this thesis came from the Mexican Department of Labor and Social Welfare. These documents include newspaper articles, minutes from labor negotiation meetings and expense and revenue reports of the Cia de Tranvias. This material has not yet been studied in any capacity, and the Cia de Tranvias has not been subjected to a historical study itself.<sup>8</sup> This thesis will show, via financial records of the Compania de Tranvias de Mexico, that mandated accounting regulations did not exist within Mexico during the 1940s.<sup>9</sup> The absence of such regulations resulted in the company's inability to present accurate expense reports to the government, strengthening the union's case. Consequently, within the labor dispute of 1940-1943, the government's decision favored the union. However, the decision the government rendered was in fact more costly to the company than the original demands of the union.

This thesis proves that an absence of accounting principles in this instance resulted in higher costs to the business and greater victories for workers. In broader terms, as will be shown in Chapter 3, this thesis presents evidence that suggests that the impact of the absence of institutionalized accounting aggravated the conditions of underdevelopment within Mexico.

The thesis is organized into three chapters, an introductory chapter, a substantive chapter and a theoretical conclusion. The first chapter introduces the issues that come to bear within chapter two. An understanding of the development of the Cia de Tranvias, the Alliance of Trolley Car Workers, the Mexican Labor Movement, and the Mexican economy, is essential to grasp the importance of the

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<sup>8</sup> However, the workers of the Cia de Tranvias, and other trolley workers in Mexico and Latin America have been the subject of various labor studies.

<sup>9</sup> All the expense reports that were presented during the March 1943 negotiations can be found in the appendices, appearing as Appendix 4-12. The figures appear exactly as they did in 1943. They have not been adjusted for inflation, nor converted to the U.S. dollar equivalent. Appendices 10-13 are recreations of Appendices 1-9. This recreation was necessary for two reasons. First, Appendices 1-9, the actual expense reports, are confusing. Secondly, upon critical analysis Appendices 1-9 contradict one another in several ways. Thus, Appendices 10-12 were created to better organize the data of Appendices 1-9 and better highlight the contradictions of the original expense reports. Also, thanks to Jacob Cooper for his assistance in organizing and interpreting the reports.

lack of certain mandated financial institutions on labor negotiations, business success and labor. This chapter will also include a brief historiographical discussion on the Mexican Labor Movement.

In Chapter 2 it will be shown that the Cia de Tranvias lacked a coherent and consistent method of accounting for its expenses and profits prior to 1943 and thus produced reports that were false, incoherent and inconsistent, whether purposeful or not. The result of such jumbled reports included complicated labor negotiations, strikes and unnecessary costs. Company expense reports, in various forms, from 1939-1942 will be pointed out. These reports do not conform to any format from year to year and are inconsistent in both format and content. Inconsistencies in financial reporting will be discovered, incorrect math will be presented and dramatic changes in expense to revenue ratios will be discovered. The impact of this haphazard reporting, as Chapter 2 will show, was a 13 percent increase in salary for workers, which is greater than the 10 centavo and 5 centavo wage increases the union originally asked for.

The cost of this salary was more than was necessary and was only made possible through expensive cuts to business infrastructure investment. In other words the company's inability to carefully record its expenses and revenues, not collective bargaining, resulted in increased costs detrimental to company operations.

The final chapter expands on these examples and places the events within the larger context of the evolution of financial regulatory institutions.

Despite the fact that this is a single example in the plethora of Mexico businesses from the period, lessons from this relationship between businesses and accounting practices can be extrapolated beyond the relationship presented. The impact of the absence of some form of accounting regulation can be applied to Mexican business development and the Mexican labor movement as well as to broader historical themes. Chapter 3 places the events and institutional behavior presented in Chapter 2 within a world context. The arrival of accounting regulations to Mexico after significant industrial development is not unique when compared to other industrialized nations during 1940. However, during the 1940s Mexico's financial regulatory bodies were

substantively less evolved than those bodies in other industrialized nations. This lack of regulatory bodies is due to the relative late arrival of the Industrial Revolution to Mexico.

The micro-analysis of a single labor dispute presents an issue that has not been explored within the historiography of the Mexican Labor Movement, nor of the development of Mexican business and Mexican underdevelopment, economic development in general and business operations. No study has been published concerning the effect of slow-evolving financial regulatory bodies on Mexican business and the Mexican Labor Movement.

As Stephen Haber and Jeffrey Bortz have stated, the field of Latin American studies “has been influenced by the convergence of history and economics.”<sup>10</sup> This convergence resulted in the utilization of quantitative data to better explain historical events and institutional behavior. The New Institutional Economics, as seen by Haber and Bortz, “argues that economic growth is caused by productivity increases that are brought about by the more efficient allocation of factors of production through more smoothly functioning firms and markets. Smoothly functioning firms and markets, in turn, are the product of changes in institutions...that both permit and bound economic or other types of social behavior.”<sup>11</sup> The Cia de Tranvias adhered to no standardized accounting practices. The absence of such behavior resulted in unnecessary business costs in the form of government mandated concessions to the Alliance of Trolley Car Workers.

The academic intersection of the Mexican economy, the labor movement, and the Trolley Car Company, on such a small scale, is quite precise, and as such, there is no historiography on the relationship between these actors. However, there is an extensive historical debate regarding the process and evolution of the Mexican Labor Movement. Therefore the first chapter will briefly present the historical discussion of the Mexican Labor Movement.

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<sup>10</sup> Jeffrey Bortz and Stephen Haber, *The Mexican Economy 1870-1930: Essays on the Economic History of Institutions, Revolution and Growth* (Stanford: Stanford University Press, 2002), xvi.

<sup>11</sup> Bortz and Haber, 3. The term “institutions,” as used in the quote from Bortz and Haber, was derived from Douglas North’s definition of the term as “a set of rules, compliance procedures, and moral and ethical behavioral norms designed to constrain the behavior on individuals in the interests of maximizing the wealth of utility of principals.” Douglas C. North, *Structure and Change in Economic History* (New York: W.W. Norton and Company, 1981), 201.

Historical discussion of the Mexican Labor Movement begins in 1934 when Marjorie Ruth Clark published her *Organized Labor in Mexico*. The result of early archival work, Clark chronicles the early development of the movement and presents the evidence suggesting that the labor movement cooperated with Mexican political parties.<sup>12</sup> Ramon Ruiz, goes further than Clark, and argues in his *Labor and the Ambivalent Revolutionaries: Mexico, 1911-1923* that the workers attempted to abandon is the co-optation and developed violent characteristics to seize as much benefit from the Revolution as possible.<sup>13</sup> John Mason Hart, in contrast, asserts in his *Revolutionary Mexico* that the Mexican Labor Movement effectively ended after Carranza came to control the COM after it had contributed the Red Battalions to his armed forces.<sup>14</sup> Dan La Botz maintains in his *The Crises of Mexican Labor* that the movement was co-opted by labor leaders who worked alongside the Mexican government seemingly against the rank and file workers. However, Botz presents the rank and file workers as still capable of developing independent political ideology and organizations.<sup>15</sup> Alan Knight, in his *The Mexican Revolution*, disagrees with the notion that workers were active shortly after the Revolution and attributes the beneficial Article 123 of the 1917 Constitution, not to workers, but as a paternalistic mechanism of the state that, in his view controlled labor.<sup>16</sup> Kevin Middlebrook asserts in his *The Paradox of Revolution*, that not only did the government control the labor movement, but the leaders of the labor movement willingly allowed this and that both leaders of the movement and workers benefited.<sup>17</sup>

Yet, Jeffrey Bortz completely disagrees with the many of the conclusions by these historians. In his *Revolution Within the Revolution*, Bortz describes a “social revolution of textile workers from below,” arguing that the workers seized the initiative in the Revolution and overturned power

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<sup>12</sup> Marjorie Ruth Clark, *Organized Labor in Mexico* (New York: UNC Press, 1934), 5.

<sup>13</sup> Ramon Ruiz, *Labor and the Ambivalent Revolutionaries* (New York: Johns Hopkins University Press, 1976).

<sup>14</sup> John Mason Hart, *Revolutionary Mexico* (Los Angeles: University of California Press, 1987).

<sup>15</sup> Dan La Botz, *The Crises of Mexican Labor* (Westport: Praeger, 1988).

<sup>16</sup> Alan Knight, *The Mexican Revolution* (New York: Cambridge University Press, 1986).

<sup>17</sup> Kevin J. Middlebrook, *Paradox of Revolution: Labor, the State and Authoritarianism in Mexico* (Baltimore: Johns Hopkins University Press, 1995), 2.



relationships in the factory, eventually developing the power to hire and fire.<sup>18</sup> This revolution, Bortz asserts, led to the passage of Article 123 of the 1917 Constitution and organized labor's success.

The majority of the works mentioned above would agree with the notion that the labor movement was heavily controlled by the government from Venustiano Carranza onward. However, given the precise scope of this thesis, the events described do not conclusively support, or refute, any of the ideas mentioned above. Yet, Middlebrook's notion that both rank and file workers and leaders of the labor movement benefited from cooperation with the government does hold true to the events described in Chapter 2.

### **The Mexican Labor Movement**

“From the outset of any discussion on the labor force we should understand that the organized labor movement in Mexico is neither independent nor free, that organized labor comprises a minority segment of the labor forces as a whole, that labor unions exaggerate membership statistics and that the labor force as a whole receives miserably low wages, even though one segment of organized labor has managed to carve out a notch for itself alongside the middle and upper sectors of society.”<sup>19</sup>

Shortly after Porfiro Diaz came to power in 1870 his domineering industrialization resulted in a reciprocal development of a socialist ideology amongst certain sectors of society.<sup>20</sup> As a result of this ideology various societies and groups were formed to advocate the passage of federal labor laws. These first efforts by the unions were not successful and in some cases attempts at organized labor were outlawed.<sup>21</sup> The first important strikes that marked the beginning of the Mexican Labor Movement were the 1906 and 1907 strikes at Cananea and Orizaba, respectively. These strikes led to then President Diaz acting as the mediator between the workers and the companies, this set a precedent that followed in the years to come.

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<sup>18</sup> Jeffrey Bortz, *Revolution Within the Revolution* (Stanford: Stanford University Press, 2008), 3.

<sup>19</sup> Frank Brandenburg, *The Making of Modern Mexico* (Englewood Cliffs, NJ: Prentice Hall Inc., 1964), 242.

<sup>20</sup> Clark, 5.

<sup>21</sup> *Ibid.*, 10.

As the Revolution progressed, so did the Labor Movement; many unions supported Madero once Porfirio Diaz was overthrown and enjoyed some degree of freedom.<sup>22</sup> However, the political value of labor was realized once Madero fell to Victoriano Huerta, and him to Venustiano Carranza. When Carranza ascended to power he realized that if he could align himself with the labor unions he could more quickly concentrate his power. Nevertheless, Carranza entered into this alliance reluctantly.<sup>23</sup>

This alliance and, as Middlebrook stated, the development of organized labor's role within national politics was the "most significant long term consequence of the Mexican Revolution."<sup>24</sup> Middlebrook believes that the role of labor and the worker within the production process is key to more adequately understanding the roles of workers and labor organizations as sociopolitical actors.

Certain portions of the Constitution of 1917 resulted from this alliance between labor and the government. These articles provided the most progressive labor laws in the world to that point. Article 123 of the Constitution of 1917 provided for an eight hour work day, eleven hour night shift, a six day work week, and maternity leave.<sup>25</sup> Increased legislative success subsequently came on the heels of increased organization by the unions. However, some historians argue this merely formalized state control over the labor movement and provided no substantive progress.

In 1916 and 1917 major labor congresses were organized in Veracruz and Tampico. These congresses led to the organization of two large, and rival, union confederations, the Confederacion Regional de Obreros de Mexico (CROM) and the Confederacion General de Trabajo (CGT).<sup>26</sup> However, as the country gradually recovered from the Revolution, the ruling party was able to adequately concentrate its power and influence. Carranza's working pact with organized labor

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<sup>22</sup> Middlebrook, 13.

<sup>23</sup> Clark, 24.

<sup>24</sup> Middlebrook, 2.

<sup>25</sup> Clark, 45.

<sup>26</sup> Hobart A. Spalding, *Organized Labor in Latin America: Historical Case Studies of Workers in Dependant Societies* (New York: Harper and Row, 1977), 110.

developed into direct state control of the CNC between 1938 and 1948.<sup>27</sup> Gradually, however, the alliance with labor was viewed by political elites, as an ongoing hindrance to development, especially when Camacho came to power in 1940 and sought a path away from an agriculturally based economy to one more industrialized.

### **The Cia de Tranvias**

As stated before, the Trolley Car of Mexico City began service in January of 1900. However, its business life began long prior. The trolley car system of Mexico City was the most advanced mass transit system in the country at its time. Conceived as an urban mass transportation system after railroads were built in Mexico, trolleys originally were pulled by mules. By 1890 the Compania de Ferrocarriles y Tranvias del Distrito Federal (The Railroad and Street Car Company of Mexico City) had expanded to own 3,000 mules and horses and employed 300 conductors and 1,900 other workers.<sup>28</sup>

Once Porfiro Diaz came to power in 1876 industrialization became a definitive goal of the new regime. In order to improve urban transportation the electrification of the trolley tracks became a goal for the government. Throughout the late 1890s, industrialists arranged and financed the construction of new trolleys and more miles of urban rail. In April 1898, a group of Canadian and European capitalists created the Mexico Electric Tramways Co. in London and purchased the Compania de Ferrocarriles y Tranvias del Distrito Federal. As mentioned before, the first electric trolley route came into service in January 1900. Soon after 1900, the trolley car became a service of growing importance as new significant routes were added and new trolleys were pressed into service.

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<sup>27</sup> Ian Roxborough, "Mexico," In *Latin America Between the Second World War and the Cold War 1944-1948*, ed. Leslie Bethel and Ian Roxborough, (New York: Cambridge University Press, 1992), 193.

<sup>28</sup> Hector Manuel Romero, *Historia del Transporte en la Ciudad de Mexico de la Trajinera al Metro* (Mexico City: Secretaria General de Desarrollo Social, 1987), 12-84.

<sup>29</sup> In 1906 a group of British-Canadian industrialists formed the Compañía de Tranvías de México in Toronto, Canada, and purchased the vast majority of the existing trolley car industry in Mexico City. The new company also actively engaged in the hydro-electric industry as it developed a dam and power plant in the state of Puebla. However, four years later in 1910, the Mexican Revolution intervened and upon the end of the Porfiriato the following year, the company suspended operation for 5 years and the Compañía de Tranvías de México did not issue a dividend to stockholders for the next 30 years. <sup>30</sup>

### **The Trolley Car Workers**

Within a year of the start of operations the employees of the Compañía de Tranvías de México engaged in their first serious act of collective bargaining. In response to the ownership of foreign capital to the company, and perceived exploitation of the working class, the workers struck in 1901 and began a long history of organized labor and collective bargaining. <sup>31</sup>

The employees of the Cia de Tranvías were not only a politically active labor group, but they were also an extremely polarized and divided group as well. Most of the employees were divided into two groups: blue collar workers “workers” and white collar “employees,” with employees being of foreign birth and working in the office of the company and earning a higher wage, while all workers, Mexican citizens, conducted the trolleys, maintained tracks, and did most any other manual labor required. <sup>32</sup>As such, each of these two groups had separate interests and goals. When the Mexican Revolution began the workers supported Francisco Madero and many joined the 2<sup>nd</sup> Red Battalion based in Veracruz and joined forces with the elitist northern landowners, while others joined to fight

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<sup>29</sup> “Trams Travel 105 Years,”

[http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id\\_notia=65270&tabla=ciudad](http://www2.eluniversal.com.mx/pls/impreso/noticia.html?id_notia=65270&tabla=ciudad) (accessed January 3, 2011).

<sup>30</sup> Ibid.

<sup>31</sup> Diane Davis, *Urban Leviathan; Mexico City in the Twentieth Century* (Philadelphia: Temple University Press, 1994), 50.

<sup>32</sup> Ibid., 52. This holds true for several industrial workers in Mexico during this time.

with Pancho Villa, a man with different goals than Madero.<sup>33</sup> This represented a division of ideology that would also appear within the labor movement after the first years of the Revolution.

From 1910-1920 the trolley car workers of Mexico City struck several times. In 1915 the workers made requests that were “distinctly servile in [their] terms,” requesting that the company agree to a wage increase and provide basic living essentials for the workers.<sup>34</sup> In 1916 the workers struck and again won a wage increase, but due to complications a general strike was organized. This strike resulted in the government responding violently as strikes at that point were not legally recognized actions for collective bargaining. In 1917 strikes became legally recognized but not for industries that provided public services, such as mass transit. Due to these strikes, and the inability of the public to rely on trolleys for consistent service, due to the frequent nature of trolley car strikes, the government came to favor other forms of mass transportation, such as buses.<sup>35</sup> These other transportation workers came to politically and economically challenge the trolley car workers.<sup>36</sup> Because of the important public service that the workers provided their support evolved as a political pawn that union confederations fought to control and influence.

The workers and employees of the Compañía de Tranvías de México were one of most divided groups of workers that actively participated in the Mexican Labor Movement. As Spalding stated, “within a 10 year period the Mexico City Streetcar union supported the Casa, joined the left and then rejoined the CROM, twice declared itself independent; affiliated with the CGT; and finally split into three unions.”<sup>37</sup> In some cases when the union struck at a time when the union was aligned with a labor confederation that opposed the interests of the government, the union, and its members,

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<sup>33</sup> Ibid., 51.

<sup>34</sup> Clark, 37.

<sup>35</sup> Bernardo Navarro, *El Traslado Masivo de la Fuerza de Trabajo en la Ciudad de México* (Mexico City: Plaza y James, 1988), 34. This favoritism is reflected within the statistics that in 1940 the Mexico City bus company had 2,502 buses while the trolley company had only 500 trolleys.

<sup>36</sup> Davis, 55.

<sup>37</sup> Spalding, 111.

would come under attack by government cronies.<sup>38</sup> As such, organized labor in Mexico experienced two extremes in behavior, first; submission to the state, and second; the marginalization of minority voices within the labor movement itself.<sup>39</sup>

## **The Economy**

“The key issue in Mexican economic development therefore involves the pace and extent of industrialization.”<sup>40</sup>

The case of the Alliance of Trolley Car Workers is not unique when placed within the broad Mexican Labor Movement. Neither is the case of the *Compania de Tranvias de Mexico* when compared to other industries of the Mexican economy from 1870-1943. The life of the *Compania de Tranvias de Mexico*, from incorporation by foreign industrialists to nationalization by the Mexican government, was similar to other industry sectors in Mexico.

During the course of his reign as president of Mexico, Porfirio Diaz made a concerted effort to recruit foreign investment to Mexico, realizing that his tenure in power was directly connected to economic growth.<sup>41</sup> This rapid industrialization had many unintended effects. Due to these policies under Diaz “Mexican industry,” and thus its economy, came “to be controlled by oligopolies and monopolies,” resulting in the survival of only a few firms. This was the result of a set of restrictions on the economy that include the inability to export, high costs of imported capital goods, and the comparative low productivity of Mexican labor.<sup>42</sup> The majority of capital invested in Mexico during

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<sup>38</sup> Robert J. Alexander, *Organized Labor in Latin America* (Stanford: Stanford University Press, 1968), 188.

<sup>39</sup> Raul Trejo Delarbe, “The Mexican Labor Movement 1917-1975,” In *Modern Mexico, State, Economy and Social Conflict*, ed. Nora Hamilton and Timothy F. Harding (London: Sage Publications, 1986), 177.

<sup>40</sup> Brandenburg, 264.

<sup>41</sup> Bortz and Haber, 15.

<sup>42</sup> Stephen Haber, *Industry and Underdevelopment: The Industrialization of Mexico, 1890-1949* (Stanford: Stanford University Press, 1989), 5.

its industrialization was foreign, mostly originating from Europe and the United States<sup>43</sup> These industries, and the Mexican government, developed a business strategy that discouraged competition. This practice of relying primarily on limiting competition and supporting monopolies, instead of developing technology and creating jobs, only allowed major industrial and manufacturing firms to grow to a certain point. This created a period of rapid industrialization which caused inflated growth that created institutions that were difficult to change once markets were saturated. This, in turn, developed into stagnate development. These the later years, exasperated by the Revolution, experienced no “self-sustaining economic growth.”<sup>44</sup>

This absence of a self sustaining economy, or the mere conception of such an absence, made it quite difficult for Avila Camacho to steer away from the agricultural emphasis of Lazaro Cardenas.<sup>45</sup> As Avila stated, the goal of the Mexican Revolution was “to create by all means compatible to economic justice, a regime of abundance developing the potential wealth of our country.”<sup>46</sup> Even an analysis of the allocation of federal funds during the two administrations suggests this, as Cardenas spent 37.6 percent of his budget on economic programs, 18.3 percent on social programs and 44.1 percent on administrative departments; while Camacho allocated 39.2 percent, 16.5 percent and 44.3 percent respectively.<sup>47</sup> Adopting an industrial focused economic policy to attempt to get the Mexican economy moving again, Avila Camacho took advantage of the economic possibilities World War II offered.

Such growth, in Avila’s mind, was only possible through sacrifice. World War II afforded Avila the opportunity to demand the sacrifice he needed to attempt economic reform. One of the primary recruitment tools to bring industry to Mexico during the Porfiriato was tax exemption. This

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<sup>43</sup> Ibid., 12.

<sup>44</sup> Ibid., 85.

<sup>45</sup> Sanford A. Mosk, *Industrial Revolution in Mexico* (Los Angeles: University of California Press, 1954), 101. As Lombardo Toledano stated, “Mexico cannot consider itself an autonomous nation, even politically as long as it is dependent on the great international monopolies.”

<sup>46</sup> Manuel Avila-Camacho, *The Second Six-Year Plan, 1941-1946* (Mexico City: Partido Revolucionario Insitucional, 1941), 9.

<sup>47</sup> Roger D. Hansen, *The Politics of Mexican Development* (Baltimore: Johns Hopkins Press, 1971), 66.

tool was eventually codified in 1941 in an attempt to draw new industry to Mexico.<sup>48</sup> However, during the course of the Avila administration, and World War II, a new attitude was developed toward foreign capital. This was an attitude that sought to make “foreign investors welcome in a manner that stood out in contrast to his predecessor,” Lazaro Cardenas whose policies were more agriculturally based.<sup>49</sup>

When Avila took the President’s chair in 1940 it was on the heels of a comparatively less violent transition of power when compared to other presidential elections, so much so that some historians choose the date of 1940 as the year when the Revolution ended. However, it was apparent that Avila had different ideas regarding economic development than Cardenas. The president took positions that were consistently unsympathetic to social reform or change.<sup>50</sup> In effect, Avila was willing to sacrifice a great deal to achieve consistent and self sustaining economic growth.<sup>51</sup>

Avila Camacho was given a unique opportunity to obtain this goal of consistent and dramatic economic growth. On May 13, 1942 a German U-boat sank the *Portero del Ilano*, sailing under the Mexican flag, resulting in thirteen Mexican deaths. After Avila dispatched a warning to all three Axis powers, the *Faja de Oro* was torpedoed, and Mexico declared war. Even though only a single Mexican squadron saw combat during World War II, the war situation allowed Avila to consolidate power and shape a more conservative Mexican regime, and while calling for “solidarity in a time of great danger,” Camacho was given great latitude to attempt to achieve economic reform.<sup>52</sup> A strong tenant of this economic reform policy was the concerted effort to punish foreign owned companies with nationalization if they failed to recognize decisions made by the Mexican Labor Department.<sup>53</sup>

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<sup>48</sup> Mosk, 64.

<sup>49</sup> Stephen R. Niblo, *Mexico in the 1940’s; Modernity, Politics and Corruption* (Wilmington: SR Books, 1999), 92.

<sup>50</sup> Michael Nelson Miller, “Culture and State in Mexico in the Sexennium of Manuel Avila Camacho.” Ph.D. Diss., Texas A&M University, 1992. 289.

<sup>51</sup> Halbard McNair Jones III, “The War Has Brought Peace to Mexico: The Political Impact of Mexican Participation in World War II,” (Ph.D. Diss., Harvard University, 2006), 317.

<sup>52</sup> *Ibid.*, iv-130.

<sup>53</sup> Joe Ashby, *Organized Labor and the Mexican Revolution Under Lazaro Cardenas* (Charlotte: UNC Press, 1963), 121.



As Frank Brandenburg stated, “what at first glance may appear to be ambivalence thus becomes a clear cut policy on foreign capital: destroy capital that impedes domestic economic growth, exclude foreigners from certain strategic economic activities, then invite foreign capital anew to help accelerate internal economic growth on strictly nationalistic terms.”<sup>54</sup> Thus, during Avila’s administration, according to Brandenburg, foreign capital only had a select few options. It could either invest directly into a business alone, join in a partnership with either Mexican capitalists or the Mexican government, make loans to the Mexican government, buy securities or lend to private business.<sup>55</sup>

During this same period, real wages had reached a precipice in 1936 only to drop by half in 1946.<sup>56</sup> Strikes increased, as prices in Mexico City rose by 60 percent from 1941-1943 while wages only increased 20 percent.<sup>57</sup> This drop in income occurred simultaneously with an average increase in industrial output by 9.4 percent a year between 1940 and 1945 and a significant rise in exports.<sup>58</sup> The economy experienced annual growth of 2 percent<sup>59</sup> The increase in real wages as a result of a new labor regime that occurred after the Revolution was being destroyed in the 1940s.<sup>60</sup> But, as E. Bradford Burns stated “growth is simply a numerical accumulation,” and 1940s Mexico was quite similar to the Mexico of the nineteenth century in that “...the poor bore the burden of the inequitable institutional structures and paid for the modernization enjoyed by the privileged.”<sup>61</sup> These were the conditions of the Mexican economy during the time of the labor negotiations discussed within the following chapter.

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<sup>54</sup> Brandenburg, 215.

<sup>55</sup> Ibid.

<sup>56</sup> Jeffrey Bortz, *Industrial Wages in Mexico City, 1939-1975* (New York: Garland Publishing, 1987), ix.

<sup>57</sup> Delarbe, 192.

<sup>58</sup> Brandenburg, 267.

<sup>59</sup> Robert Bennett attributes this growth to five policies of Avila Camacho, tax incentives for investors, protectionism, strong monetary policies, recruited foreign investment, increased exports to the U.S and a “disciplined, internationally minded, business oriented government.” Bennett, 291.

<sup>60</sup> Jeffrey Bortz and Marcos Aguila, “Earning a Living: A History of Real Wage Studies in Twentieth-Century Latin America,” *Latin American Research Review* 41, no. 2 (2006): 112-138.

<sup>61</sup> E. Bradford Burns, *The Poverty of Progress; Latin America in the Nineteenth Century* (Los Angeles: University of California Press, 1980), 133-151.

## THE CIA DE TRANVIAS AND THE ALLIANCE OF TROLLEY CAR WORKERS

### **Introduction**

Over the course of its private sector life, 1910-1946, the CTM repeatedly ran afoul of its union, the Alliance of Trolleycar Workers. Eventually, over the course of time, the consistent labor conflict caused the company to be nationalized by President Avila Camacho in 1946. This conflict was not constructed of several independent labor conflicts, but of a constant state of conflict that existed between the two entities by the late 1930s. There were typical labor issues at the heart of the conflict, and there were some atypical ones. As one would expect, the employees of the company were often seeking wage increases, increased vacation pay and increased health benefits.<sup>1</sup> Some more unique items that the workers were concerned with were the quality of the tracks and maintenance of the roads as well as the organizational structure of the company as a whole.<sup>2</sup>

The reasons for the workers' concern for a wage increase were addressed in the previous chapter. The state of the Mexican economy during the Second World War was one that did not often benefit the worker; wealth was exported and foreign investors got rich. The wages of the workers of the company had not kept up with inflation, and any increase received was the result of collective bargaining.<sup>3</sup> Also, during a time of burgeoning nationalism, the company's workers became suspect of the fact that the company was foreign owned.<sup>4</sup> This international company's name was Sofina, and it was Canadian owned. The company also owned the Mexican Light and Power Company as well as other companies in other countries.

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<sup>1</sup> "Piden Los Tranviarios," *El Universal*, December, 27, 1942.

<sup>2</sup> Archivo General de la Nacion; AGN, gal 1 styps caja 1172 3/200(29)/2.

<sup>3</sup> AGN, gal 1 styps caja 1172 3/200(29)/2, A company memo dated January 6, 1941 attributes the two wage increases prior to the 1941 strike to collective bargaining.

<sup>4</sup> AGN, gal 1 styps caja 1172 3/200(29)/2.

## The Cia de Tranvias in January 1941

During the course of the years 1941-1943 the primary source of the labor conflicts between the company and its union stems from the implementation, or lack thereof, of past contracts between the two. Typically, these contracts had a lifespan of two years before renegotiations were to take place.<sup>5</sup> In 1940 a contract was mandated by the government, and it is this contract that is the source of the conflict during the years 1941-1943.

At the onset of this conflict the financial condition of the company was poor. The company volunteered information in January of 1941 that made it apparent that the company was only staying off bankruptcy by virtue of injection of large sums of cash from the Sofina company. According to the company, the following points describe the state of its finances at the beginning of the 1941 fiscal year:<sup>6</sup>

1. Shareholders had been paid a dividend since 1913.
2. The company had not paid income tax since 1929.
3. The company had not paid the tax on the export of capital.
4. The government's report on the state of the company dated July 1939 stated the "company's situation was precarious."
5. The 1939 report stated the company had an annual cash loss of 200,000.00 pesos.
6. The company was forced to increase wages in 1935 and 1937 to avoid strikes. The funds for these wage increases were reallocated from the funds intended to fund infrastructure projects that the government ordered completed; and as such the company was fined 96,000, or approximately .9% of revenue for a single year.
7. To increase the wages of the workers the company was forced to reduce the cost of maintenance of the tracks.
8. The cost of track maintenance in 1940 was roughly 1,000,000.00, or roughly 10% of revenue for the year.<sup>7</sup>
9. In 1943 the company reported that its expenses accounted for 110% of revenue, however, during the labor negotiations in early 1941 this fact was not reported.<sup>8</sup>

The company's condition according to the above facts was perilous. The company's ability to pay dividends to its international shareholders every year since 1913, while operating well outside its

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<sup>5</sup> Ibid.

<sup>6</sup> In Mexico at this time, the fiscal year corresponded with the calendar year.

<sup>7</sup> AGN, Gal 1, styps caja 1172 3/200(29)/2. This information was garnered from a company memorandum dated January 6, 1941.

<sup>8</sup> AGN, Gal 1, styps caja 1172 3/200(29)/2, this figure was compiled from analysis of an expense report dated, September 18, 1942.

means, and not paying income tax, must be attributed, in some degree, to the government's grant of a tax exemption to the company, which it often did to recruit industry.<sup>9</sup>

The contract the government attempted to implement with the company in August of 1940 included a number of stipulations designed to allow the company to afford a wage increase for the workers. These issues included a reduction in maintenance costs by 835 thousand pesos, the removal of the office of president of the company and an overall reduction of management salaries by 159 thousand pesos, as well as the reduction of the secret police budget by 18 thousand pesos. These items when added to an expected increase in revenue of 350 thousand pesos and the subtraction of the 200 thousand pesos for estimated cash lost brought a new fund balance to allow 1.157 million pesos for wage increases.

The company refused to implement these measures, and as 1941 approached the Alliance of Trolley Car Workers sought new concessions. The company criticized the method in which the figures of the 1940 contract were calculated, arguing that the government could not possibly predict with any certainty the company's revenue in future years.<sup>10</sup> The company also attacked the arbitrary use of the \$835 figure to reduce maintenance work, arguing that the figure was baseless, especially when considering that costs for the materials for maintenance, such as steel, had risen by 80 percent in recent years due to the war. The company also argued against the reduction of management salaries arguing that the salary for department heads was comparable to others in similar industries in Mexico City. Other points of contention the company presented included the government's failure to account for the cost of equipment replacement.<sup>11</sup>

It is apparent that at the beginning of what was to evolve into a drawn out labor dispute there were several overarching issues at hand. First, it is obvious that the government and the Compañía de

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<sup>9</sup> This statement suggests that the company was paying dividends to its shareholders at a time when the company was not operational, or that one some statement regarding the nature of dividends is falsified.

<sup>10</sup> Notice that nowhere in the stipulations of the aforementioned labor agreement was there mention of a fare increase for the riders of the trolley cars.

<sup>11</sup> AGN, Gal 1, styps caja 1172 3/200(29)/2, This figures come from a company memorandum dated January 21, 1941.

Tranvias de Mexico could not agree on the company's expense and revenue figures. Second, the government did not address the issue of taxes, suggesting the company had acquired a substantial tax exemption or maintained an existing one.

Because of the continual refusal of the company to acknowledge the government contract of 1940, the workers initiated a strike that began on January 11, 1941, that lasted ten days. During the strike, the company, the union, and the government met daily in order to come to a resolution. The agreement reached on January 21, 1941, that ended the strike stipulated the following;

1. The Mexican Light and Power Company was ordered by the government to lower the rate it charged the Cia de Tranvias for electricity by \$400 thousand for the year.
2. The Mexico City government authorized the company to increase its fare allowing for an annual increase in revenue estimated at approximately \$340 thousand.
3. The Mexico City government ordered the company to decrease its expenditures on road maintenance by \$450 thousand.<sup>12</sup>

These measures allowed for the availability of \$1.190 million for wage and benefit increases. The parties' agreement to the contract of January 21, 1941 voided the unimplemented August 1940 contract.<sup>13</sup> With the exception of a company memo dated two weeks after the 1941 agreement protesting the reduction of maintenance costs, the company and the union experienced a respite in labor unrest until the 1941 agreement had nearly expired.

### **The Trolley Car Company and the Alliance of Trolley Car Workers**

During the winter of 1942, approximately three months before the 1941 agreement was to run out, the union began to publicly present their demands. The demands included a 10 centavo hourly wage increase for those who earned less than 200 pesos a month, a 5 centavo hourly wage increase for those who earned more than 200 pesos a month, increased vacation time and medical benefits.

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<sup>12</sup> Ibid.

<sup>13</sup> Where the \$33 thousand difference between the government's estimation of savings and the government's order for wage increases would go is not mentioned.

The reported reason for the wage increase request was the recent rise in the cost of living in Mexico.<sup>14</sup> It is unclear what the average workday was like for the trolley car workers of the Compañía de Tranvías de México. Thus a complete and accurate understanding of the value of a 10 and 5 centavo increase in the hourly wage can not be obtained. However, utilizing price indices, a vague calculation can be garnered. In 1943 twelve industries are listed as having a weekly wage over 40 pesos. The average wage of came to 44.51 pesos weekly and .85 pesos nominally which averages to 8.7 hours a day for 6 days a week. A five centavo per hour increase would be a 5.8 percent increase for an individual earning .85 pesos an hour.<sup>15</sup>

For the next few months there was no movement by either party. Eventually, the lack of movement by either organization led the Mexican government to bring the two to the negotiating table again. During the first meeting on February 4, 1943, the company refused to present any proposal stating that they were not prepared to do so. This resulted in an ineffective meeting that quickly adjourned.

Before the labor negotiations began, the union, via the media, made specific demands of the Cia de Tranvías. This initial exchange set the atmosphere for the whole exchange over the following weeks as the new labor contract was negotiated.

Two days after the first meeting between the government, the company, and the union, the union presented a detailed list of demands. The demands presented were diverse and included a design to increase the revenue of the company via investments. However, the union did not offer plans on how to procure funds for these investments. First, the union called for the immediate implementation of the terms of the November 1940 agreement and insisted that these terms would stay in effect until January 1945, at which point the then-current two year period would conclude. Second, the plan called for the retroactive payment of all benefits, such as medical services, as if the

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<sup>14</sup> "Piden Los Tranviarios," *El Universal*, December 27, 1942.

<sup>15</sup> Bortz, *Industrial Wages in Mexico City*, 375-429. In my average calculations I removed three data points which would have grossly inflated the mean.

original November 1940 agreement had been implemented. Thirdly, the union called on the company to reimburse the union for the costs of labor negotiations.<sup>16</sup>

Within this same plan presented by the union, the union noted that the Cia de Tranvias and the Mexico City Light and Power Company are owned by the same Canadian company, Sofina. The union claimed that the Trolley Car Company only paid 2 cents per kilowatt of electricity consumed, while the public rate charged by the Mexican Power and Light Company was 16 cents per kilowatt. Thus, the union charged that the Sofina company was interested in the failure of the Cia de Tranvias so that the Mexico City Light and Power Company could then sell the resulting surplus of electricity to the public at eight times the price. This, according to the union, would have dramatically increased the overall revenue of Sofina. During the entire course of the labor negotiations neither the government nor the company mentioned the Sofina Company.<sup>17</sup>

The final elements of the presentation by the union dated February 6, 1943 detail various costs and present proposals on how to meet those costs. According to the union, 60 percent of the tracks were in fair or good condition, with the remaining being in poor condition and often not utilized within the routes, resulting in lost income.<sup>18</sup> The union asserted that only 50 percent of the cars that were in operation in 1900 were currently in use, and thus the union argued if the remainder were placed into service revenue could increase. The union stated that in 1942 ridership increased by 11 million. This increase, according to the union, also decreased the quality of the trolley tracks through addition daily wear and tear. However, this loss in track quality was offset by an increase in revenue numbering one million pesos as a result of the increased ridership.

To address the cost of poorly maintained tracks the union proposed that the company invest 400,000 pesos to cover equipment maintenance, which is separate from the tracks, as well as to invest

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<sup>16</sup> AGN, Gal 1, styps Caja 1172 3/200(29)/2, This plan was presented by the Cia de Tranvias on February 6, 1943. It should be emphasized that nowhere in the above presentations did the union call for the precise pay increases that it did in the earlier mentioned newspaper article.

<sup>17</sup> Ibid.

<sup>18</sup> The union does not mention however, that within past labor negotiations, a large portion of the funds to reallocate to allow for a wage increase came from the account that managed and maintained the tracks.

at least what was previously dedicated to track maintenance before Mexico entered the war and the spike in steel prices occurred. The union also urged the company to invest further into its tracks by building twenty more kilometers of track to bring trolley service to more densely populated areas and by building fifty more electric trolleys in its own shops utilizing as few imported materials as possible.

The union also called for the guarantee of pensions valuing 5.2 million, or approximately 43 percent of the 1942 revenue.<sup>19</sup> All of these demands and debating points were concluded with the final statement that if in fact a strike occurs, the union demands that the company submit to pay wages to all workers while the strike continued as well as to reimburse the union for any expenses that it might incur during the negotiations and strike.<sup>20</sup>

It is apparent that the union demanded many things from the company. In addition to wage increases, the union demanded the implementation of the previous labor agreement. Also, the union demanded that the company guarantee pensions worth several million pesos, as well as investment in new tracks and new trolley cars. Perhaps the most dramatic point made within the memorandum accuses the international company Sofina of conspiring to allow the union to force the Cia de Tranvias into bankruptcy, thereby allowing its subsidiary, the Mexico Light and Power Company, to sell the resulting surplus in electricity to the Mexican public. The union was quite aware that their demands carried a cost, and as such proposed a plan in order to assist in increasing revenues. However; these investments in capital goods, the goods the union depended on for increased revenue, also carried a cost, and no comparable plan was presented that might offset these costs.

At this juncture in the labor fight, the union again sought allies in public. This new public relations campaign was targeted at both the general public and the government. First, the union announced, in the newspaper *El Universal*, that it acknowledged the nationalization of the Chilean tram service and hailed the event as a “victory for the Santiago tramway,” and that it would “benefit

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<sup>19</sup> Ibid.

<sup>20</sup> Ibid. The presentation dated February 6, 1943 was signed by the executive committee of the Alliance of Trolley Car Workers with the salutation, “A society without classes.”



all Chilean people in the future.” The union praised the Chilean government for “finishing the conflict that existed between the workers and the owner of the company,” thus suggesting that the union would look favorably upon Mexico’s nationalization of its own trolley company. The article injected a reminder to the public that the union was asking for a wage increase. The union also asked Mexico City to invest 11 million pesos in the transportation infrastructure of the city stating that it will “lower rates two to fifteen cents.”<sup>21</sup>

Secondly, the union lobbied other unions to write letters to President Avila Camacho expressing their interest and concern for the labor negotiations between the Cia de Tranvias and the Alliance of Trolley Car Workers. A letter from the Sindicato Industrial de Trabajadores Mineros, Metalurgicos y Similiares de la Republica Mexicana called on Avila to intervene in order to avoid a strike. The tobacco division of the Graphics Arts Union asked Avila to understand that the issue concerned more than a wage increase, but was also a matter of public policy that affected the entire city. The letter suggested that if Avila intervened it would certainly give him “strong support from the working class.”<sup>22</sup> However, the most substantive letter comes from the Federation of Workers from the State of Coahuila.

The aforementioned letter urged the president to intercede on behalf of the 4,000 trolley car workers, stating that it is not right to allow an international company to “gradually liquidate a business that not only represents a source of work for about four thousand workers, but is also a public service of absolute necessity.” The same letter also included the exact points the union presented to the company on February 6, 1943; the 4 million pesos to invest in transportation infrastructure, the construction of 50 trolley cars by the company, the implementation of the 1941 agreement as well as corresponding back pay, union expenses, and wages lost during strike.<sup>23</sup>

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<sup>21</sup> Los Tranviarios Y La Nacionalizacion, *El Universal*, February 13, 1943,.

<sup>22</sup> It should also be noted that the only other primary form of revenue for the Cia de Tranvias other than passenger fares was the sale of advertisements.

<sup>23</sup> AGN, Gal 1, styps Caja 1172 3/200(29)/2, All three of these letters were addressed to President Avila Camacho on February 19, 1943.

The following day, February 20, 1943, an inflammatory article appeared in *El Universal* entitled “The Streetcar Workers are on a War Footing.” This article mentioned the uncooperative behavior of the company and the union’s demands for higher wages and medical services, but what distinguished this article from others is that it placed the labor negotiations within the economic situation in Mexico at the time. The article points out that because other forms of transportation had recently experienced a rate increase, trolley cars were now the least expensive mode of mass transit in the city, and therefore a necessary service to the working classes, as well as a job for 4,000 employees. The article mentioned the rise in food prices and other necessary goods due to the war. The article concluded by asking for sacrifice from all Mexicans, and accused the Cia de Tranvias of attempting to destroy the achievements of the Revolution.<sup>24</sup> There were no new demands or points of contention mentioned within the article, however, it is showed the trolley car service as a staple for the working classes due to the recent price increases for other forms of transportation. This further solidified the notion that the union was not only attempting to preserve their own jobs, but also preserve a necessary service for the workers of Mexico City, and by default the Mexico City economy.

On February 24 the Cia de Tranvias, the Alliance of Trolley Car Workers and representatives from the Mexican and Mexico City governments met to set terms for the negotiations. The terms agreed to, proposed by a representative from the Mexican Department of Labor, required that the company grant leave with pay to ten workers designated by the union to negotiate on behalf of the employees, that talks be conducted daily, and finally, that the company present income and expense reports the following week.

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<sup>24</sup> AGN, Gal 1, styps, caja 1172 3/200(29)/2. El Popular, February 20, 1943, Los Tranviarios en Pie de Lucha.

## **The Company Presents Revenue and Expense Reports**

Although the company was to present revenue and expense reports on February 27, it failed to produce these reports, claiming that not enough preparation time had been allowed. However, before the meeting was concluded, the government accused the company of stalling and the union requested specific information regarding the nature of oversea expenses and the salary of higher ranking managers of the company. After the company took note of these specific requests the meeting adjourned with the understanding that the company would in fact present some form of expense report the following Monday.<sup>25</sup>

On the morning of Monday, March 1, 1943, before the labor negotiations began, an article appeared in *El Universal* concerning an interesting crime. Four men were caught in the act of attempting to steal scrap iron from the workshops of the company. The date of the crime is not reported, but the identities of those apprehended are reported. It is not mentioned if the individuals were, or were not, affiliated with the company or the union.<sup>26</sup> However, in the minutes recording the meeting that followed the same morning, union representative mentioned that 18,000 pesos were spent in 1942 on a company sponsored “secret police,” whose purpose “was to cause turmoil within the alliance and difficulties between the company and the union.”<sup>27</sup> Of course it cannot be determined if the reported crime was a result of action by the employed secret police of the company. It is interesting that the crime was published the day of an important labor meeting between the union and the company.

The three party discussion that took place on March 1 varied in topic and scope. The nature of these discussions was shaped by the company’s fulfillment of its obligation to present financial documents proving the inability to afford the requests of the union. The primary topics discussed included the nature of the interests of the Sofina Company and the company’s debt, the wages of the

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<sup>25</sup> Ibid. This information derives from the minutes of the three party meeting on February 27, 1943.

<sup>26</sup>“Robaban Fierro a La Compania de Tranvias,” *El Universal*, March 1, 1943.

<sup>27</sup>AGN, Gal 1, styps, caja 1172 3/200(29)/2. As mentioned, this information was taken from the minutes of the March 1, 1943 three party labor negotiations.

workers and the management staff, the anticipated profit for 1943 and transportation costs.

Throughout these discussions there are many contradictions regarding the state of budgetary line items.

One of the most confusing aspects of the company's books to the government, and a fact that the company did not seem to want to spend much time discussing, was that the company at the time of negotiations was some 23 million pesos in debt. Jean Bernier, the chief representative for the Cia de Tranvias during these negotiations, glossed over this issue stating that it was not an overly important issue because the debt was the responsibility of the Sofina company. However, Bernier refused when asked to provide any documentation of what, if any, portion of that debt had been paid by the corporation. Several other items came to light during these discussions. The Sofina company was based in Toronto, Canada, and therefore during discussions regarding expenses the company presented expenses for foreign offices. Jean Bernier defended these costs as necessary because the majority of the funds were related to the purchase of foreign goods and their subsequent importation with the remainder being allocated to salaries.<sup>28</sup>

The allocation of salaries for the management was a contentious point linked directly to the existence of foreign offices. The president of the Cia de Tranvias did not in fact work and live in Mexico City, but rather he and his staff lived elsewhere never having visited the company in any capacity. Thus, the government questioned the need for a large sum for the salaries of the staff, roughly 730 thousand pesos, and the foreign management. The government also questioned the nature of the salaries of the management staff that resided in Mexico.

Without the company providing substantive numbers, the three parties discussed for some time whether the salary of the resident management should be cut or frozen. The government sided against the company stating that even though these individuals experienced hardship, due to the increase in cost of living, one could "not compare the plight of a manager of the company with that of workers with extremely low wages." According to the company, during the year 1942 salary costs

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<sup>28</sup> Ibid.

totaled 7,606,080.65 with 230,098.90 of vacation pay added bringing the total to 7,836,179.55. With roughly 4,000 employees, not counting management, that brings the mean salary to roughly 1,900 pesos during the year of 1942.<sup>29</sup>

Another important issue covered during the March 4 negotiations concerns the government's estimates for the company's 1943 profit margin. Because the government believed that the Cia de Tranvias had been experiencing growing profit margins since 1936, the figure of 2.5 million was believed to be an accurate prediction of the future profit margin.<sup>30</sup> The primary reason, according to the government, for such a large estimated profit margin, was the expectation that the company would receive a 16.4 percent return on invested capital.<sup>31</sup> The location of these investments was not reported, nor the amount invested.

Another major point of discussion during the negotiations concerned the rates charged to those who rode the electric trolleys as well as the overall state of transportation costs in Mexico City. According to the minutes of the talks, the company representatives made the point that fares for electric trolleys had risen in the United States and Canada since the start of the war. However, due to numerous economic and political factors, the trolley car system in Mexico City had not experienced a rate increase in 25 years.

Outside factors regarding public transportation probably added additional pressure to these negotiations. During the same period, all other Mexican transportation systems were in the midst of their own labor negotiations with the government. These other industries were heading for a general transportation strike, excluding trolleys. Thus, the negotiators certainly felt some pressure to ensure that the public of Mexico City had some form of transportation guaranteed in the near future, if not

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<sup>29</sup> Ibid. The reported amount of total salary paid during 1942 would increase as the negotiations progressed.

<sup>30</sup> Reference Appendix 6. It can be seen that these numbers do not prove a substantial increase in revenue in the years 1940-1942, certainly not an increase worth the estimated 2.5 million peso profit that the government predicted would occur in 1943. Thus, the government must have been seeing other reports, or saw the figures in Appendix 6 and calculated an unlikely result.

<sup>31</sup> AGN, Gal 1, styps, caja 1172 3/200(29)/2, As mentioned, this information was taken from the minutes of the March 1, 1943 three party labor negotiations.

for the basic human need for transportation, at least out of concern for the economy and overall functioning of Mexico's capital.

During the course of these negotiations several contradicting statements were made. First, it is stated that the company had not paid a dividend to shareholders since 1913; this claim is in contradiction to the claim in 1941 that the company, until that point, had paid a dividend every year since 1910. Also some figures that were reported prior to March 1 are inconsistent with some reported after March 1. The company reports during this meeting that operating expenses totaled 12,248,470.86 for 1942 yet all the data presented within the financial reports state that the figure was 12,248,770.86. Considering that the figure is only 300 pesos off, such a mistake very well could have been a typographical error and such a lack of proof reading could point to more serious mistakes.<sup>32</sup>

At the conclusion of the negotiations on March 1, the three parties decided to refocus on the four issues of management salaries, overseas expenses, and deferred maintenance costs of track and equipment, and cash reserves. As the parties approached a strike the discussions contain brief periods of lucid debate regarding facts and figures as well as periods of attacks and blame. The company presented more data than it had previously, while refusing to present data the union requested. In fact, most of that data presented was verbal; no documents concerning the financial state of the company were presented on March 1.

On March 2, a general transportation strike began that excluded the trolley car industry. According to reports rental cars were positioned to block intersections and trolley car tracks throughout the city, completely immobilizing the city. The police did not attempt to remove the barricades for the duration of the strike, which lasted thirteen hours, and the people of the city reportedly waited until normal services resumed. The cause of the strike was not related to wages or benefits, but rather in support of 38 members of the affected union who had been arrested because they initiated a sit-in at the office of the Secretary of Labor.<sup>33</sup> With transportation services halted for a

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<sup>32</sup> Appendix 8.

<sup>33</sup> "Se efectuò el primer paro general de los transportes," *El Universal*, March 3, 1943.

few hours, the negotiators of the trolley car issue, as well as the people of Mexico begin to realize that the possibility existed that in late Spring 1943 all transportation in Mexico City could be halted for an indeterminate period of time.

On March 3, it was reported that the Alliance of Trolley Car Workers of Mexico City was to meet with President Avila Camacho, in an attempt to resolve the differences between the company and the union. Within the article is the first mention of a raise in rates for passengers. The company stated that due to the poor nature of recent profits, it could not afford a wage increase unless it was allowed to raise the rate it charged passengers. Concern was also expressed that if a strike were to break out the remaining transportation systems in the city would not be able to meet the influx of customers, and dire consequences could result.<sup>34</sup> The March 3 article is unique for two reasons. First, it mentions a rate increase for passengers. Second, it does not present any demands from the union. Rather, the article is decidedly more pro-industry than what was published before, painting the company as attempting to keep transportation both dependable and affordable in Mexico City.

On March 4 the three-party talks began with the company presenting large amounts of financial data. This data served as the evidence each side attempted to use in order to support their respective positions. During the course of the day several things became apparent. First, the union argued that the company was misrepresenting the financial reports, and argued the company was more financially secure than reported, and could afford a wage increase without a corresponding increase in rates, or a corresponding reduction in track maintenance.<sup>35</sup> Second, the company argued that despite modest financial gains, it could not afford a wage increase without a corresponding increase in rates; however, the company stated that if it were allowed to increase its rates it would increase wages. The company reiterated its concern for the government's continual insistence that the account for track maintenance be diminished.<sup>36</sup> Third, the numbers that appear in the minutes of the

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<sup>34</sup>“Veran los tranviarios al senior president,” *El Universal*, March 3, 1943,.

<sup>35</sup> The union does not provide any quantitative data to support the argument.

<sup>36</sup> AGN, Gal 1, styps, caja 1172 3/200(29)/2, This information was taken from the minutes of the March 4, 1943 three party labor negotiations.

meeting and the numbers that appear in the financial documents do not match. In many cases the numbers that appear in the minutes present a more profitable view of the company than the financial reports.

### Number Analysis

This is where the complexities of the negotiations emerge. The three parties negotiated over a set of figures, those that appear within the minutes, while the company presented reports that are in many ways significantly different numerically, or present a different narrative altogether. To best analyze these complexities, revenue will be discussed, both the presentation of revenue that appears in the minutes and the nature in which it is presented in the reports, then expenses in the same manner, followed by the expense to revenue ratio.

**Table 1.** Revenue According to the Minutes 1939-1942

<u>Year</u>	<u>Revenue</u>
1939	10,736,047.75
1940	11,760,221.71
1941	12,068,300.81
<u>1942</u>	<u>12,845,225.83</u>

The company reported in the meeting that revenue from 1939-1942 conformed to the above table.<sup>37</sup>

The mean increase in revenue for the period above is 703,059.36 pesos per year, roughly 100,000.00 pesos less than the claim by the union that each year the company had experienced an increase in revenue totaling 800,000.00.

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<sup>37</sup> Ibid.



The written financial reports that the company presented during the negotiations can be found in the appendices. As mentioned before Appendices 1-9 are exact reproductions of the reports submitted by the company to the government as evidence that it could not afford any concessions. These documents are convoluted. Appendices 10-13 are a result of applied critical analysis of Appendices 1-9, and in effect could be characterized as a clarified summation of Appendices 1-9.<sup>38</sup>

Appendix 1 is a company estimate of the increase in various assets for 1942. Of interest within this document is the increase in net assets for 1942 in the amount of 596,500 and the mention of a 242,000 thousand peso payment to reduce debt, roughly 1.2 of the 20 million debt discussed during the meetings.

Appendix 2 appears to present a five year period of income, claimed deductions and losses. However, the accountant that constructed the spreadsheet did not see the need to attach the corresponding years to each notation. The column labeled “declared income,” includes some figures that suggest that the years could be 1938-1942, but the figures do not match with other reports. Therefore, this report is useless factually; however, it provides evidence that the accounting department of the company did not, in some cases, attach financial entries in reports to their corresponding year. This results in uncertainty as to the true state of expenses and revenue.

Appendix 3 presents the increases in revenue for the months of February-July comparing 1941 to 1940 and 1942 to 1941. There are several unique characteristics about this report. There are obvious differences in revenue for February 1941/1940, April 1942/1941 and June and July 1942/1941. There is no accompanying reason for the nature of the report, the months reported seem arbitrary, and there is no supplemental commentary explaining the reason for the difference in compared income.

Appendix 4 is a detailed expense report covering the years 1940, 1941 and the first seven months of 1942. This report lists wages and other benefit costs, electric costs, material costs and

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<sup>38</sup>Also, it should be noted that the appendices came from the same source as the minutes of the labor meetings which is the same citation as mentioned above. The formats of the spreadsheets have been preserved as best as possible.

capital depreciation as well as office expenses. As one can see in Appendix four it is oddly formatted. The numbers 1-8 at the bottom of the spreadsheet correspond to the expense accounts at the top of the spreadsheet. For example, wage and salaries would be 1, other benefit costs would be 2 and so on.

Appendix 5 is a comprehensive revenue and expense report for 1942. It is an obscure report. Appendix 5 presents total expenses for 1942 as being 12,248,770.86 and 95.36 percent of revenue. However, 12,248,770.86 is only the sum of the miscellaneous expense account, taxes, social welfare expenses and wages and salaries. The total expense figure does not include costs of investment depreciation or the operating costs for foreign offices. Whether by design or not, this report is misleading. It presents that the company experienced a profit of 596,454.97 in 1942. However, when costs of depreciation of investments and foreign office costs are added the company actually ran a deficit of 850,066.62 for 1942. The company presents expenses in this report as 95.36% of revenue when in actuality it was 106 percent.

Appendix 6 details the wage portion of the expenses for 1942. The figures within Appendix are consistent with the figures reported in Appendix 5. Both appendices report that in 1942 the total salary expense for the company totaled at 8,262,582.26 which comprised 64.32 percent of revenue for the year.

Appendix 7 is entitled "Operational Expenses for 1942." According to the report such expenses totaled 3,031,082 pesos for 1942 and accounted for 23.6 percent of revenue for 1942. These figures are somewhat consistent with the entries made within Appendix 5. In Appendix 5 the "miscellaneous" line item at the bottom of the report was in the amount for 3,031,082 which accounted for 23.6 percent of the revenue for 1942. This is the "operational expenses" that Appendix 7 details. The reason for inconsistent corresponding names for these accounts is not mentioned within the reports or minutes. Also, within Appendix 7 there is an 81,082.00 miscellaneous figure that is not attributed to any particular expense. Of note in Appendix 7 is the remarkable nature of compensation for accidents, bonding and office expenses. All of these figures suggest that some degree of approximation occurred to arrive at these numbers.

Appendix 8 compares 1940 expenses and revenue to 1941 expenses and revenue. Appendix 9 is a condensed version of Appendix 5.

Appendix 10 is the first appendix that is a result of critical analyses of the previous appendices. This appendix highlights three areas of concern for the 1942 budget; contributions, depreciation and foreign office expenses. The reporting of these three accounts in the expense reports for 1942 have been inconsistent enough to warrant review here. Regarding foreign expense accounts; it can be observed that in Appendix 5 the costs of foreign offices is listed as 123,021.59 pesos, .96% of the 1942 revenues. In Appendix 4 the foreign office expense account is included with the Mexico office expense account and these costs were reported as totaling 292,223.81 for seven months of 1942. Appendices 5, 7 and 9 include the whole of 1942 but no other “Mexico and Foreign Office Expense” account is included. It is the contention of this thesis that by averaging the reported 1940 and 1941 “Mexico and Foreign Office Expense” accounts, as well as the “Depreciation” and “Contributions” accounts a more accurate reflection of the 1942 expenses can be determined.

These new expenses change the total company expenses to 13,401,950.14 which, when other expense accounts from 1942 are subtracted leaves 9,523,770.86 unaccounted for which is 6,971,091.58 over the reported miscellaneous expense account.

Appendix 11 is a condensed version of the 1942 income statement that does not reflect the calculations of Appendix 10. The reason for this absence is to show that the difference between the estimated miscellaneous expenses and the company’s net income is merely 95,142.31 pesos.<sup>39</sup>

Appendix 12 reflects the calculations of Appendix 10 and presents to the reader the changes in profit margins for 1942, 1941 and 1940. This data shows that the company was experiencing several years of losses during the 1940s.

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<sup>39</sup> The calculations for this can be shown within Appendix 13.

The company financial reports are not concise or consistent in format or subject.<sup>40</sup> Thus, even though some figures were discussed within the meeting, they were not necessarily included within the financial reports. For instance, the reports primarily focus on the years 1940-1942, with more emphasis on 1942 than any of the other years. The sources of revenue for the years 1940-1942, as reported by the company are below.<sup>41</sup>

**Table 2.** Sources of Revenue 1940-1942.

Revenue	1940	1941	1942
Passenger fare	11,381,705.46	11,673,155.01	12,421,805.63
Freight	53,987.66	57,209.45	53,012.24
Advertisements	197,729.45	217,239.86	358,049.81
Miscellaneous	126,799.14	120,696.49	Not Reported
<b>Total</b>	<b>11,760,221.71</b>	<b>12,068,30.81</b>	<b>12,845,225.83</b>

The mean increase in revenue for the period presented within the reports is 542,502.08 and far less than the 800,000 thousand increase argued by the union and less than the company reported in the minutes. For the years 1940-1942 the numbers match perfectly with what was discussed within the minutes; however, for whatever reason the company did not present data prior to 1940 in these reports. One can see from what was discussed in the minutes that the company had a dramatic increase in revenue from 1939-1940, similar to what it had from 1941-1942. The absence of this data point greatly reduced the mean increase in revenue.

Within the minutes of the report the company discussed expenses that totaled the following.<sup>42</sup>

<sup>40</sup> Appendices 10-12 are compilations of the reports provided by the company. Appendices 1-9 are copies of the reports provided by the company.

<sup>41</sup> AGN, Gal 1, styps, caja 1172 3/200(29)/2.

<sup>42</sup> AGN, Gal 1, styps, caja 1172 3/200(29)/2.

**Table 3.** Expenses According to the Minutes 1939-1941.

<u>Year</u>	<u>Expenses</u>
1939	11,309,647.89
1940	11,221,735.31
<u>1941</u>	<u>12,057,810.09</u>

The report covering expenses for 1940-1942 can be seen in Appendices 7 and 8. However the following is a summary of the totals.

**Table 4.** Expenses According to the Reports 1940-1942.

<u>Year</u>	<u>Expenses</u>
1940	13,347,731.15
1941	13,938,206.87
<u>1942</u>	<u>12,248,770.86</u>

This is the point at which the company's case begins to unravel under scrutiny. Each year's expense total is significantly higher than what was discussed in the minutes. The union does not call attention to this, nor does the government suggest that the company, if aware of this fact, kept the government ignorant.

According to the minutes of the March 4 meeting the following is the expense to revenue ratios for 1939-1941.

**Table 5.** Expense to Revenue Ratios 1939-1941 From the Meeting

<u>Year</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Ratio</u>
1939	10,736,047.75	11,309,647.89	105.3%
1940	11,760,221.71	11,221,735.31	95.4%
<u>1941</u>	<u>12,068,300.81</u>	<u>12,057,810.09</u>	<u>99.9%</u>

According to the reports presented by the company the following is the expense to revenue ratio, as well as the difference between the ratios from the minutes and the reports.

**Table 6.** Expense to Revenue Ratios 1939-1942 Differences Between Meeting and Reports

<u>Year</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Ratio</u>	<u>Difference</u>
1939	10,736,047.75	11,309,647.89	105.3%	---
1940	11,760,221.71	13,347,731.15	113.49%	18.09%
1941	12,068,300.81	13,938,206.87	115.49%	15.59%
<u>1942</u>	<u>12,845,225.83</u>	<u>12,248,770.86</u>	<u>95.35%</u>	<u>---</u>

The difference between the ratios calculated from the data in the minutes and from the data in the reports is staggering. The company described the books more positively in negotiations than what was presented with its financial reports. The most egregious difference of all in the numbers above is the difference between the ratios from the minute's calculations for the year 1942. How did the company's expense to revenue ratio drop 20.14 percent in one year with only an increase in revenue of 776,925.02? The expenses reported dropped dramatically. This is because certain expense accounts were not tallied and included within the 1942 expense report.

Within the reports presented in the March 4, 1943 meeting there are conflicting expense reports. The data included in Appendices 4 and 8 present two separate figures for total expenses for

1940 and 1941. The data utilized to calculate ratios, per the use of this thesis, came from Appendix 7 because it was the most consistent with other documents.

The Compania de Tranvias de Mexico reported that 1942 was more profitable than it was, a bizarre tactic for a company to adopt in these circumstances. More logical thinking would assume that the company would make the year look less profitable to avoid a wage increase. However, if the company had made the year of 1942 appear less profitable, which it was, a different financial situation would be apparent. When the reports that the company presented, Appendices 1-9, are analyzed and combined to conform to more current formats, Appendices 10-13, it is apparent that 1942 was more fiscally similar to the prior two years.

The portion of reported expenses that was not accurately reported was the miscellaneous account and the line items foreign office expenses, contributions and depreciation. These line items were reported for years 1940 and 1941, but were not reported for 1942. Instead, there is only a 3,031,082 expense account for materials and miscellaneous expenses; however there is also a “materials” line item for 1940, 1941 and 1942 as well. Therefore, Appendix 1 was compiled to obtain a better picture of the expenses of 1942. If one takes the reported total expenses of 12,248,770.86 and subtract the reported expenses of electrical use and materials one arrives at 9,523,770.86. This figure is unallocated and has no accounts attached to it. In order to better gain a picture of expenses that were reported in past years, the contributions, depreciation and foreign office expense accounts, the mean of the two prior years for each account was calculated. This calculation drops the miscellaneous expense figure from 9,523,770.86 pesos to 6,971,091.58 pesos which can be seen in Appendix 10. However, when one recalculates the company’s expenses one finds that total miscellaneous expenses equal 1,861,082.00 which when subtracted from the estimation figures gives a difference of 691,597.28 which can be seen in Appendix 11.

When the debit 691,597.28 is added to the 1942 budget then instead of a surplus of 596,454.97 the company experienced a deficit of 95,142.31. However, the original math concerning the expense reports that the company presented was incorrect. According to the company the

expenses for 1942 totaled 12,248,770.86, and within Appendix 8 expenses actually totaled 13,949,663.02 pesos. As one can see in Appendix 12, the math is correct. A more organized version of the same information can be found in Appendix 2. However, the expenses in Appendix 8 were not properly added. There are additional expenses reported in Appendix 8 that are only reported there; however, the total expense figure remains the same as in Appendix 12.

These inconsistencies concern far more than a few pesos, but rather entire expense accounts. The company either deliberately presented large amounts of information in an attempt to satisfy the negotiators and the union, while not expecting the reports to be scrutinized to a high degree, or the financial records were extremely disorganized and poorly maintained. Either way, the expense reports of the company are not consistent with one another, nor with the nature of the condition of the company that can be seen within the minutes of the meetings.

**Table 7.** Edited Expense to Revenue Ratio for 1942

<u>Year</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Raito</u>	<u>Difference</u>
1939	10,736,047.75	11,309,647.89	105.3%	--
1940	11,760,221.71	13,347,731.15	113.49%	18.09%
1941	12,068,300.81	13,938,206.87	115.49%	15.59%
1942	12,845,225.83	13,949,663.02	108.59%	--

Thus, when the estimated miscellaneous expenses of 691,597.28 is added to the expense account of 1942 the total of 14,641,260.30 is found, 113.98 of revenue and more closely resembling the previous year's numbers. This can be seen in Appendix 13.

The company misrepresented and misreported the expense reports for 1941 and 1942. Review and calculations of these expense reports show that even though revenue did increase on average slightly more than 700,000 thousand, as the union argued, in 1941 and 1942 the true nature of the company's expenses wiped out those increases. In addition to that, it becomes apparent that the



company either misrepresented these numbers in order to make it appear that more of a profit was gained in 1942, or suffered from the absence of mandated accounting regulations.

After the union presented its case to Avila, he announced that he supported the union and its cause, and within the meeting suggested that the company increase wages by 13 percent, significantly higher than the 5.8 percent increase the union asked for in public. The company, up to this point, had not moved yet on its position to only support a wage increase if a corresponding rate increase was allowed by the government. This rate increase, even after President Avila Camacho announced his support of the wage increase, was still opposed by the Secretary of Labor. After such statements, the union announced that the strike would begin on April 1, 1943, at noon.<sup>43</sup>

Shortly thereafter, an editorial appeared in the press that called attention to the precarious nature of the labor discussions. The article argued that since the trolley cars moved more than one million people a day in Mexico City, a strike would be detrimental to daily life and the economy of the city as a whole. The article also speculated that the chance of the government nationalizing the Cia de Tranvias existed, and that the event might occur if an increase in wages and rates was not agreed to and a prolonged strike were to break out.<sup>44</sup>

During the course of the following two weeks negotiations came to a stalemate, and the date for the start of the strike was again postponed, this time to April 13, 1943. Negotiations did not result in a new collective bargaining agreement prior to April 13. Therefore, on April 13 at noon all trolley cars in Mexico City ceased service. Upon the personal intervention of Secretary of Labor Francisco Trujillo the three parties, the government, the Cia de Tranvias and the Alliance of Trolley Car workers agreed to a new labor contract. The strike lasted two hours; trolley car service was interrupted for two and a half hours.<sup>45</sup>

The new labor agreement included a 13 percent increase for all union workers, beginning January 21, 1943, not the staggered increase based on how much the worker currently earned. The

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<sup>43</sup>“La Huelga,” *El Universal*, March 9, 1943.

<sup>44</sup>“Los Transportes,” *El Universal*, March 16, 1943.

<sup>45</sup> “Solucionada,” *El Universal*, April 14, 1943. AGN, Gal. 1, styps, Caja 1165 1/200(06)/346.

company was to take no longer than fifteen days to pay all workers the resulting back pay as well as pay all workers their normal wage for the day of the strike. In response to the concessions by the company, the union ended the strike and the two parties agreed that the terms of the contract would be renegotiated in two years time.<sup>46</sup> It is unclear if the strike or the presentation of a government compromise resolved the matter because the two events occurred on the same day. However, the public fear of a prolonged strike probably gave the government incentive to reach an agreement with the company.

The primary source material reported that the new labor agreement did not make mention of any concessions by the union. Also, the source material does not mention where the necessary funds would be derived. It is worth reiterating that at the conclusion of the meeting between the union and Avila Camacho, the president suggested a wage increase of 13%, and that following the meeting the president supported the notion, but his Secretary of Labor refused to agree on the basis that it would require a rate increase. Only two weeks later, upon Trujillo's intervention, did a new labor agreement come to fruition, however, as mentioned before, no mention of a rate increase is made in any of the reports. At face value, the reports show that the union received all that it demanded while conceding nothing.

## **Conclusion**

None of the original points of contention, from either side, were included in the final agreement. Union workers received a 13 percent increase in salary, which as calculations show, probably was significantly higher than what the union originally asked for.

The numbers literally did not add up. The expense reports from 1940 and 1941 were not consistent. Expense reports from 1942 make it appear that the company was in fact, doing far better than it was. This falsification, or result of unintended disorganization, did not result in a victory for the Cia de Tranvias, but rather a victory for the union itself. The inconsistencies between the expense

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<sup>46</sup> Ibid.

reports and the minutes can be attributed to the company not adhering to any form of accounting regulations, unintentionally constructing a false image of the company's financial situation.

The expense reports, Appendices 1-9, do not conform to a uniform method. The number of expense accounts varies year to year and figures for the same expenses in the same fiscal year differ in some cases. An absence in regulated industrial accounting practices further aided the union cause during this instance. Despite the Avila administration's gradual move to break the power of the unions, this example proves that an absence of uniform accounting hurt the industry and aided the union. More information is to be gathered concerning regulated accounting practices, or the lack thereof, in Mexico City and Mexico, during this time, as well as the effects of such accounting practices on labor negotiations and the broader labor movement.

## THE CIA DE TRANVIAS: EXAMPLE AND INSTITUTIONAL EVOLUTION

### **The Fate of the Company**

It is clear that the financial records of the Cia de Tranvias affected the outcome of labor negotiations during the years 1941-1943. There are inconsistencies within the documents suggesting that simple typographical errors are present, in turn suggesting hurried preparation. There are also instances within the documents that lead this thesis to conclude that the company submitted false information. Whether this was intentional or not is unclear. These inconsistencies would not have been as severe if accounting regulations were mandated and enforced.

What does this mean? Certainly it presents very tangible realities as far as the company and the unions are concerned. One might even ask, why would the administration of Avila Camacho, which was determined to achieve self sustaining economic growth at the expense of social progress and organized labor, be willing to give this victory to the union against foreign capital? What allowed Avila to side with organized labor?

As mentioned in Chapter 1, Cardenas, and by extension, Avila Camacho, punished foreign owned companies when they failed to honor the decisions of the labor courts, as when Cardenas nationalized the railroad and oil companies.<sup>1</sup> The determination of the Cia de Tranvias, and its parent company Sofina, to ignore the previously arranged labor agreements allowed Avila Camacho the excuse needed to hand organized labor a public victory. This single victory for the union was later followed up by a subsequent strike in February of 1945. At this point the government accused the Cia de Tranvias of violating labor contracts and confiscated the majority of its property. The government

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<sup>1</sup> James D. Cockroft, *Mexico: Class Formation, Capital Accumulation and the State* (New York: Monthly Review Press, 1983), 132-135.

then formed the Servicio de Transportes Urbanos y Suburbanos, which was later renamed the Servicio de Transportes Electricos, and the government of Mexico formally purchased the assets of the Canadian subsidiary for 13,975,000 pesos. The Servicio de Transportes Electricos is still in operation today.

### **The Impact of Slow Developing Accounting Institutions**

But what does the discovery of a lack of mandated accounting practices within the Cia de Tranvias mean for the labor movement, notions of business operation, industrial development and economic productivity? As outlined in Chapter 1 the evolution of the company known as Compania de Tranvias de Mexico, the Cia de Tranvias, followed a typical business path in Mexico from 1896-1945, and a typical business path in developing Latin America.<sup>2</sup> The capital, recruited by Porfiro Diaz, was from European investors who brought in skilled workers and imported the capital goods necessary, rather than developing the technology locally. The company suffered from the Revolution and during this time its workers began to collectively organize and became active in the labor movement. As a result of the nationalistic fervor, both from the Revolution and World War II, the workers became suspect of the motives of the company's executives and parent company resulting in numerous labor disputes. These disputes eventually led to the Mexican government seizing the company and nationalizing its assets. Because of this similarity, this thesis will extrapolate the effects of the absence of mandated accounting institutions from this particular example of the Compania de Tranvias de Mexico onto the development of Mexican industry and the Mexican economy and the broader world economic system.

An understanding of the industrial revolution is absolutely critical to understand the development of economies and states. The substantive issue at hand within this thesis concerns the

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<sup>2</sup> Peter N. Stearns, *The Industrial Revolution in World History* (Boulder: Westview Press, 1993), 148. Here Stearns says that "even in the independent nations of Latin America, Western businesses often acquired direct ownership and management of crucial enterprises, no longer relying on local leadership to manage laborers and produce necessary export goods."

behavior of a particular business in Mexico. However, the life cycle of the Compañía de Tranvías began across the world and was borne out of capital, and principles, gained and developed as a result of the industrial revolution. Taking Stearns' definition, the industrial revolution is "a massive set of changes that begin when radical innovations in technologies and organizational forms are extensively introduced in key manufacturing sectors and that end, in the truly revolutionary phase, when these innovations are widely, though not necessarily universally, established in the economy at large. Subsequent changes, often quite unsettling are assured, but they arise within the contours of an industrial society."<sup>3</sup>

These dramatic changes forced political and economic organizations to attempt to set rules to govern the direction of change. However, the interests of these organizations stipulate that behavior should be governed by a set of rules and that these rules be enforced by some sort of procedure.<sup>4</sup>

Ever since there has been industry and business, individuals have had to develop some method to record expenses and revenue in order to keep track of the ratio of expenses to revenue, or risk failure and bankruptcy. The industrial revolution, and thus significant economic expansion, was the impetus for business firms to grow exponentially, the realization to keep records of such figures was only realized after the fact. Thus, the development of certain business practices, such as accounting procedures, did not begin until after significant economic growth took place and significant capital markets developed.<sup>5</sup> As the industrial revolution spread from country to country, changing business and life, the organizational principles of business also changed, and one of these principles was that of accounting.<sup>6</sup>

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<sup>3</sup> Ibid., 6.

<sup>4</sup> North, 17.

<sup>5</sup> Stephen Haber, "Industrial Concentration and the Capital Markets: A Comparative History of Brazil, Mexico, and the United States, 1830-1940," in *The Journal of Economic History*. 51, no. 3, 559-580. Here Haber argues that Mexico was behind the developed world in creating a sound capital market.

<sup>6</sup> Stearns, 2-6.

The first locale in the world that began to discuss the necessity for major accounting uniformity and procedure was England.<sup>7</sup> This of course is the natural beginning point of this movement because the British Isles is also the birthplace of the industrial revolution. It was the behavior and discourse of British businesses and accountants that led John Previts, an American, to publically, and repeatedly, calls for standardized accounting practices to lower transaction costs and thus conduct business conversations more accurately and expediently.<sup>8</sup>

However, such uniformity took a great deal of time to implement effectively. By the first decade of the twentieth century, accountancy was only just being recognized as a profession. Also, accountants themselves at this time had come to the realization that there were enough individuals within the field that “revolutionizing the account keeping of public service corporations,” was indeed possible if only they could agree on what to standardize and how to standardize it so that those who “someday may be delegated the power of regulation,” might be able to properly do so.<sup>9</sup>

Significant economic growth, developed capital markets and the field of accountancy followed the Industrial Revolution as it spread out of Europe and the North Atlantic into other regions of the world. Eventually, it became apparent to accountants that there was a need for the profession to standardize accounting procedure within their own country borders. Governments also became equally aware that some form of oversight was necessary to govern the field as it developed into a systemically important institution.

Generally, in the developed world, generally accepted accounting procedures (GAAP) are proposed by some private sector professional institution to a governmental regulatory body. This regulatory body reserves the right to veto any proposed regulation, but in general depends upon the private sector to develop regulations. Thus, it is important, for the purposes of this thesis, to determine when in industrialized countries, in this case the United States and the United Kingdom,

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<sup>7</sup> John Previts, Lee D. Parker, and Edward N. Coffman, “Accounting History: Definition and Relevance,” in *The History of Accounting, Critical Perspectives on Business and Management, vol. 1 Method and Theory*, ed. John Richard Edwards (New York: Routledge, 2000), 581.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

professional accountancy organizations were formed and when the governmental regulatory body was created to determine GAAP as compared to the same events in Mexico.

The Institute of Chartered Accountants in England and Wales (ICAEW) was chartered in 1880. Only in 1942 did the ICAEW make significant efforts to publish recommendations regarding generally accepted accounting practices.<sup>10</sup> Its counterpart the American Institute of Accountants (AIA) was formed in 1887. In 1936 the AIA introduced the term generally accepted accounting principles, and began making regulatory suggestions, one year after its regulatory body, the Division of Corporation Finance, a division of the Securities and Exchange Commission, was created. In 1940, two years prior to its British counterpart, the AIA published significant accounting procedures.<sup>11</sup> The predecessor of Mexico's Instituto Mexicano de Contadores Publicos (IMCP) was formed in 1917 and began issuing publications regarding accounting procedure shortly thereafter, but significant contributions did not begin until 1977.<sup>12</sup> The Mexican financial regulatory body the Comision Nacional Bancaria y de Valores was formed in 1946.<sup>13</sup> However, though by analysis of the dates alone it appears that Mexico began issuing accounting principles out to its field of certified accountants, a few points need to be made.

First, the accountancy profession in Mexico during the first half of the twentieth century was small and not well organized.<sup>14</sup> Due to the absence of large domestic corporations during this time, accountants found it difficult to obtain a practicing accountancy job and typically settled for employment in education.<sup>15</sup> This severely limited the impact of the few procedural suggestions the

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<sup>10</sup> "History and Development," <http://www.icaew.com/en/library/subject-gateways/accounting-standards/knowledge-guide-to-uk-accounting-standards> (accessed March 15, 2011).

<sup>11</sup> "The Evolution of U.S. GAAP: The Political Force Behind Professional Standards," <http://www.nyscpa.org/cpajournal/2005/105/infocus/p18.htm> (accessed March 15, 2011). In 1940 the AIA published "the matching principle." This principle emphasizes the need to match costs with revenues. Only when this is accomplished can a true understanding of the condition of a company's assets and liabilities be determined.

<sup>12</sup> "Historia," <http://www.imcp.org.mx/spip.php?article31> (accessed March 15, 2011).

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.



IMCP issued. Even foreign accountants remarked that the accounting practices in Mexico were “amusing and strange,” and seemed to be focused on policy minutia and not procedure itself.<sup>16</sup>

After the financial crises of 1929, the United States was the first country to make attempts at regulating accounting practices. In the 1920s the Federal Trade Commission recognized the need for a “program for audit procedure,” and in 1936 after the formation of the SEC the first accounting regulatory body was created within the Division of Corporate Finance named the Committee on Accounting Procedure (CAP) which allowed the private sector to determine its own regulations, chiefly determined by the American Institute of Certified Public Accountants.<sup>17</sup> Due to the CAP’s relative ineffectiveness the Accounting Principles Board (APB) was organized in 1959; however, effective accounting procedures were not implemented and enforced until 1973 with the creation of the Financial Accounting Standards Board (FASB).<sup>18</sup>

With the creation of the FASB came the first stringent directive on accounting concepts. “...The Conceptual Framework is a coherent system of interrelated objectives and fundamental concepts that prescribes the nature, function, and limits of financial accounting and reporting and that is expected to lead to consistent guidance.”<sup>19</sup> And such, the most industrialized nation in the world only developed strict accounting standards long after industrialization. The United States was slow to develop effective accounting regulations; Mexico was slower.

Not only was the development of the profession of accounting a function of the nature, and time, of the arrival of industry, but the field of accounting history itself has only recently developed.

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<sup>16</sup> A.F. Bendetto, “Accounting in Mexico,” *The Accounting Review* 9, no. 4. (1934): 340-342.

<sup>17</sup> Stephen A. Zeff and Maurice Moonitz, *Sourcebook on Accounting Principles and Auditing Procedures 1917-1953 vol. 1. Accounting Principles and Auditing Standards* (New York: Garland Publishing, 1984), 5.

<sup>18</sup> “Great Events in Accounting and Business History,” <http://acct.tamu.edu/giroux/timeline.html> (accessed February 10, 2011).

<sup>19</sup> “Statement of Financial Accounting Concepts No. 8,” <http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175821997186&blobheader=application%2Fpdf>. (accessed February 15, 2011).

However, it is limited to the development of the field and has yet to broaden.<sup>20</sup> Yet, theory on the interaction of accounting and economics is slightly more developed.

As one scholar states, the development of accounting is “essential...as a basis and a guarantee for a proper conduct of business activities and growth...both accounting order and economic order must work in tandem and rely on each other for stability.”<sup>21</sup> And so, if the state is in a developing form, and is not capable of dedicating necessary resources to constructing sound institutions, then economic progress will suffer.

If the accounting infrastructure is weak, or does not exist, then the cost of information, ensuing from the difficulty of gathering accurate information, will be increased; and conversely if the infrastructure is developed the cost of information is comparatively low. For the purposes of this thesis infrastructure is defined as “facilities of information production, the framework of information diffusion, the foundation of information monitoring in the nature of laws and regulations that govern production, and the foundation of contract enforcement in the nature of the legal entity that monitors and implements the laws.”<sup>22</sup>

Because the Cia de Tranvias did not adhere to a set of uniform accounting principles, because such an institution did not exist at this time, its costs with conducting labor negotiations were increased. These increases materialized because haphazard accounting provided the necessary evidence that eventually aided the very union the numbers were designed to thwart. Absence of any accounting principles can be seen within the appendices as several expense accounts were not reported in a consistent manner between 1940 and 1942. These accounts show that the company did not adhere to any formal accounting standards.

The absence of standardized accounting institutions resulted in increased business costs for the Cia de Tranvias and a victory for the Alianza de Tranviarios de Ciudad de Mexico.

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<sup>20</sup> Previts et al., 22.

<sup>21</sup> Ahmed Riahi-Belkaoui, *International Accounting and Economic Development, The Interaction of Accounting, Economic and Social Indicators* (Westport: Quorum Books, 2002), xi.

<sup>22</sup> Ibid, 29.

The impact of an absence of accounting institutions in the development of Mexico's economy and the history of the Mexican Labor Movement needs to be researched more thoroughly. This is a specific example in history, a micro-financial history; however the conclusions drawn have potentially major implications regarding the Mexican Labor Movement. If the movement was co-opted by the government as some historians suggest, did the lack of certain institutions increase the frequency of labor victories? If, as other historians assert, labor was able to create its own labor regime, then is it possible that in some cases labor unions were able to overcome foreign ownership by exploiting the weaknesses of their own country's financial institutions?

This study also suggests other more broad conclusions. The relationship between the evolution of systemically important institutions and the corresponding evolution of their regulatory bodies, even on a small scale as shown by this thesis, can impact business, and thus economic development and the economy of nation states. Also, a study of the time frame in which certain institutions arrived in various regions of the world after the region experienced the industrial revolution, and a study of the method of the arrival of these institutions has the possibility to yield dividends in the understanding of institutional development. It is also important to study the absence of institutions, both formal and informal, as well as the institutions themselves. With such insight a better understanding on the economic impact of institutions will be found.

Because of the relatively limited organization of both the accounting professional societies and financial regulatory institutions of Mexico during the 1940s, businesses suffered from an absence of institutionalized accounting standards. The absence of informal and formal accounting institutions resulted in increased business costs, as proved by the Cia de Tranvias during 1940-1943.

APPENDIX 1

Approximate increase in net assets for 1942

Increase in active:

Construction Jobs	
(Costs on roads from trolley service)	130,700.00
Projects in progress and contract advances	195,600.00
Accounts Receivable	83,000.00
Miscellaneous Accounts	34,000.00
Less Decrease in Cash Available	<u>70,800.00</u>
Total	372,500.00
Decrease in Liabilities	242,000.00
Lower Paying Increased Reserve Claims	18,400.00
Total	224,000.00
Sum of Totals	596,500.00

APPENDIX 2

From Company Statements

Declared Income	Claimed Deductions	Accounting Loss	Tax Loss
10,712,547.71	11,605,816.15	1,016,451.91	893,268.44
10,752,730.11	12,222,566.20	1,665,537.47	1,469,836.09
10,737,061.75	12,768,719.59	2,732,696.93	2,031,657.84
12,030,381.88	12,572,058.88	1,456,948.29	541,677.00
12,161,546.17	12,321,056.97	1,863,266.24	1,159,510.80

27 February 1943

No Export Tax has been taken into account on capital estimates

### APPENDIX 3

Revenue increases compared to the same month of the previous year.

	1941/1940	1942/1941
February	2,254.00	47,715.55
March	50,436.84	50,791.49
April	46,785.97	16,826.26
May	53,984.86	37,285.33
June	51,751.32	18,920.57
July	95,134.33	1,016.79

#### APPENDIX 4

##### Primary expenses and relation to total income and expenses

	1940	1941	1942 (Jan-July)
<u>Primary Expenses</u>			
Wages and salaries	6,960,210.92	8,035,016.36	4,755,085.82
Other benefit costs	162,483.37	598,931.05	234,150.57
Total	7,122,694.29	8,633,947.43	4,989,236.39
Electric usage	2,025,456.29	1,512,537.74	910,409.25
Materials	1,178,970.21	1,119,243.00	910,409.25
Contributions	570,345.62	528,620.32	318,540.56
Depreciation	1,473,500.00	1,325,250.00	772,250.00
Mexican and Foreign office Expenses	652,495.84	555,146.78	292,223.81
	13,023,462.25	13,674,745.27	7,993,008.47

##### Percentage of items to total revenue

1	59.19	66.58	64.98
2	1.36	4.96	3.2
3	60.57	71.54	68.18
4	17.22	12.53	12.44
5	10.02	9.28	9.71
6	4.85	4.38	4.35
7	12.53	10.98	10.55
8	5.55	4.6	4
Total	110.74	113.31	109.23

##### Percentage of items to total expenses

1	52.14	57.65	58.79
2	1.22	4.3	2.89
3	53.36	61.95	61.68
4	15.18	10.85	11.26
5	8.83	8.03	8.78
6	4.27	3.79	3.94
7	11.04	9.51	9.55
8	4.89	3.98	3.61
Total	97.57	98.11	98.82

APPENDIX 5

1942 Revenue and Expense Report

Revenue	Amount	Percent
Passengers		
Cash	1,676,627.60	13.05
Returns	6,885,332.73	53.6
Tickets	3,859,845.90	30.05
Special Cars	12,357.55	.1
Cargo	53,012.24	.41
Advertisements and Miscellaneous	358,049.81	2.79
Total Income	12,845,225.83	100.00
Expenses		
Operation and Maintenance Costs in Mexico	12,248,770.86	95.36
	596,454.97	4.64
Depreciation of Investments	1,323,500.00	10.3
	727,045.03	5.66
Costs of Foreign Offices	123,021.59	.96
Summary of Operating Expenses		
Wages and Salaries	8,262,582.26	64.32
Social Welfare Expenses	409,401.48	3.19
Taxes	545,705.12	4.25
Miscellaneous	3,031,082.00	23.6
	12,248,770.86	95.36

Note: These figures were compiled in December 1942



APPENDIX 6

Salaries and wage summary for 1942

		Percent of Total
Regular wages and overtime	7,606,080.65	
Vacations	230,098.90	
	7,836,179.55	61
48 Officers, deputy and Confidential employees	426,402.71	3.32
	8,262,582.26	64.32

APPENDIX 7

Operational Expenses for 1942

		Percent of Total
Cost of Electric Power	1,555,000.00	12.13
Materials used in operation and Repair of roads	1,170,000.00	9.11
Compensation for accidents and Legal expenses	75,000.00	.58
Insurance and bonding	62,000.00	.48
General office expenses	88,000.00	.67
Miscellaneous expenses	81,082.00	.63
	3,031,082.00	23.6

Note: These figures were compiled in December 1942 and are subject to change.

APPENDIX 8

	1940	1941	Difference
<b>Income</b>			
Passengers	11,381,705.46	11,673,155.01	291,449.55
Freight	53,987.66	57,209.45	3,221.79
Ads on cars	197,729.45	217,239.86	19,510.41
Miscellaneous	126,799.14	120,696.49	6,102.65
Total	11,760,221.71	12,068,300.81	308,079.10
<b>Expenses</b>			
<b>Operations</b>			
Streets	18,425.12	24,479.77	6,054.65
Electric Use	1,967,805.94	1,466,461.42	501,344.52
Substation Operations	108,265.53	110,532.34	2,266.81
Transport Operations	4,381,131.31	4,987,577.78	606,446.47
Worker Benefits	500,953.86	1,009,621.57	508,667.71
Administration Salary and Benefits	1,319,325.09	1,239,293.62	80,031.47
Overhead Costs	338,366.78	371,531.96	33,165.18
Strike Costs	17,630.91	162,954.66	145,323.75
Total	8,651,904.54	9,372,453.12	720,548.58
<b>Maintenance</b>			
Street Maintenance	1,036,769.60	1,004,979.94	31,789.66
Rolling Stock	1,570,996.94	1,666,743.04	95,746.10
Substation Buildings	44,214.45	40,160.45	4,054.00
Total	2,651,980.99	2,711,883.43	59,902.44
Reserve for depreciation	1,473,500.00	1,325,250.00	148,250.00
<b>Contributions</b>			
Total expenses	13,347,731.15	13,938,206.87	590,475.72
Loss	1,587,509.44	1,869,906.06	282,396.62

APPENDIX 9

Condensed losses and gains for 1942

Products		Percentage of Revenue
Passengers		
Cash	1,676,627.60	13.05
Returns	6,885,332.73	53.6
Fare	3,859,845.90	30.05
Special Cars	12,357.55	.1
Load	53,012.24	.41
Miscellaneous Product	358,049.81	2.79
 Total Income	 12,845,225.83	 100
 Operation and Maintenance Costs in Mexico	 12,248,770.86	 95.36
	596,454.97	4.64
 Depreciation of equity investments	 1,323,500.00	 10.3
	727,645.03	5.66
 Expenditures on overseas Offices	 123,021.59	 .96
	850,066.62	6.62
 Summary of operating expenses and Maintenance in Mexico		
Wages and salaries	8,262,582.26	64.32
Social and Welfare expenses	409,401.48	3.19
Tax	545,705.12	4.25
Materials and expenses	3,031,082.00	23.6
	12,248,770.86	95.36

APPENDIX 10

Year	1940	1941	1942	
Primary Expenses				
Wages and Salaries	6,960,210.92	8,035,016.38	8,262,582.26	
Other Benefits	162,483.37	598,931.05	409,401.48	
Total	7,122,694.29	6,633,947.43	8,671,983.74	
Electrical Usage	2,025,456.29	1,512,537.74	1,555,000.00	
Materials	1,178,970.21	1,119,243.00	1,170,000.00	
Contributions	570,345.62	528,620.32	<b>549,482.97</b>	<b>Estimated</b>
Depreciation	1,473,500.00	1,325,250.00	<b>1,399,375.00</b>	<b>Estimated</b>
Foreign Office Expenses	652,495.84	555,146.78	<b>603,821.31</b>	<b>Estimated</b>
Total	13,023,462.25	13,674,745.27	12,248,770.86	
Unspecified Expenses	0	0	9,523,770.86	
Amount over Estimation	0	0	6,971,091.58	

The difference between the Unspecified Expenses and the Amount over Estimation can only be attributed to the “Miscellaneous Expenses” that the company claims to have incurred. According to the presented financial statements, miscellaneous expense should total 1,861,082 with the estimation suggesting that miscellaneous expenses should be closer to 2,552,679.28. Notice the difference between these two figures.

## APPENDIX 11

### Income Statement 1942

#### Revenue:

Cash	1,676,627.60	
Returns	6,885,332.73	
Fare	3,859,845.90	
Special Cars	12,357.55	
Load	53,012.24	
Miscellaneous	358,049.81	
Total		12,845,225.83

#### Expenses

Wages	8,262,582.26	
Welfare	409,401.48	
Taxes	545,705.12	
Materials	3,031,082.00	
Total		<u>12,248,770.86</u>
		596,454.97

Estimated Miscellaneous Expenses	691,597.28
Estimated Net Income	<u>596,454.97</u>
Difference	95,142.31

This suggests the possibility that the company understated the miscellaneous account which would increase net income.

#### The Estimated Miscellaneous Expenses

Contributions	549,482.97	
Depreciation	1,399,375.00	
Foreign Office Expenses	<u>603,821.31</u>	
Total Estimated Miscellaneous		2,522,679.28
Materials and Expense Account	3,031,082.00	
Materials for Operations	<u>1,170,000.00</u>	
		1,861,082.00
Difference		691,597.28
Actual Reported Miscellaneous		81,082.00

APPENDIX 12

Profit Margin 1942	4.64%	Net Income as a Function of Gross Sales
Profit Margin 1941	13.31%	“ “
Profit Margin 1940	10.74%	“ “
Estimated 1942 Profit Margin Miscellaneous	13.98%	Net Income as a Function of Gross Sales including Expense estimate
Debt Ratio 1942 liabilities	46.34%	Percentage of Net Income that must be used to cover

APPENDIX 13

Year	1940		1941	
Estimated Revenue	11,760,395.75		12,068,436.39	
Primary Expenses				
Wages and Salaries	6,960,210.92	59.18%	8,035,016.38	66.58%
Other Costs	162,483.37	1.38%	598,931.05	4.96%
Total	7,122,694.29	60.57%	8,633,947.43	71.54%
Electrical Usage	2,025,456.29	17.22%	1,512,537.74	12.53%
Materials	1,178,970.21	10.02%	1,119,243.00	9.27%
Contributions	570,345.62	4.85%	528,620.32	4.38%
Depreciation	1,473,500.00	12.53%	1,325,250.00	10.98%
Foreign Office Expenses	652,495.84	5.55%	555,146.78	4.6%
Total	13,023,462.25	110.74%	13,674,745.27	113.31%
Year	1942		1942	
	Reported		Estimated	
Estimated Revenue	12,845,225.83		12,845,225.83	
Primary Expenses				
Wages and Salaries	8,262,582.26	64.32%	8,262,582.26	64.32%
Other Costs	409,401.48	3.19%	409,401.48	3.19%
Total	8,671,983.74	67.51%	8,671,983.74	67.51%
Electrical Usage	1,555,000.00	12.11%	1,555,000.00	12.11%
Materials	1,170,000.00	9.11%	1,170,000.00	9.11%
Contributions	549,482.97	4.28%	549,482.97	4.28%
Depreciation	1,399,375.00	10.98%	1,399,375.00	10.98%
Foreign Office Expenses	603,821.31	4.7%	603,821.31	4.7%
Total	12,248,770.86	95.36%		
	Estimated Miscellaneous Expenses		<u>691,597.28</u>	<u>5.38%</u>
	Total		14,641,260.30	113.98%



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## **Vita**

John Benjamin Bradley was born in Burlington, North Carolina, in June 1987. He attended public schools in Orange County, North Carolina and graduated from Orange High School in 2005. That summer he enlisted in the U.S. Marine Corps Reserves. After his active duty training concluded he entered Appalachian State University. He minored in Political Science and he majored in History focusing primarily on revolutionary Europe and the Mexican Revolution of 1910; he was awarded a Bachelor of Science degree in May 2009. That fall he began work towards a Master of Arts degree in History. The M.A. was awarded in May 2013. During the fall of 2011 Mr. Bradley began his enrollment at Thomas Goode Jones School of Law in Montgomery, Alabama. Mr. Bradley is a member of the Phi Alpha Theta honor society and the Sigma Alpha Epsilon fraternity.