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Larger Menus and Entrepreneurial Appetite: An  
Empirical Investigation of Organization Choice in  
Mexico, 1886-1910

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## Abstract

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*Do countries need a large menu of organizational forms? Does the flexibility of a larger organizational menu provide advantages for businesses? This paper explores these questions by studying the choice of organizational form in an underdeveloped civil law country undergoing rapid industrialization: Mexico between 1886 and 1910. Using a newly assembled dataset of chartered companies, we analyze the election of organizational choices. Then we run multinomial logit models to determine the importance of firm characteristics in the election of organizational structures mostly available in civil law countries (namely the limited liability partnership and the limited liability partnerships with tradable shares). We have two main findings. First, the effect of a larger organizational menu was not big if we look at how much capital was registered as limited liability partnership and limited liability partnership with shares. If these organizational forms had not existed, 4% of total capital and less than 15% of businesses would have been lost. Second, even with this evidence in hand, it is hard to argue that the larger organizational menu was completely irrelevant. Some Mexican commercial firms and British firms preferred the limited liability partnership over any other organizational form. Thus, the existence of limited liability partnerships clearly served a function. Different entrepreneurs wanted a different mix of limited and unlimited liability and Mexico had organizational forms to serve those needs. That is why we believe this is evidence that the organizational menu available in Mexico offered more flexibility for business creation than the organizational menu commonly associated with common law countries (especially with the United States).*

## Resumen

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*¿Los países necesitan un menú amplio de formas de organización? ¿La flexibilidad de un mayor menú de formas de organización proporciona ventajas para los negocios? Este trabajo explora esas cuestiones estudiando la elección de la forma organizacional en un país subdesarrollado, regido por un sistema de derecho civil, que se encuentra sujeto a una rápida industrialización: México entre 1886 y 1910. Mediante una nueva base de datos de compañías registradas, analizamos la elección de la forma organizacional que toma la empresa. Estimamos un modelo logit multinomial para determinar la importancia de las características de la empresa en la elección de alguna forma de organización disponible en los países con derecho civil (a saber: sociedad en comandita simple y sociedad en comandita por acciones). Presentamos dos resultados principales. Primero, el efecto de un mayor menú organizacional no es tan grande si*

*miramos cuánto capital fue registrado bajo sociedades en comandita y sociedades en comandita por acciones. Si esas formas de organización no hubieran existido, 4 % del capital total y menos del 15% de las empresas se hubieran perdido. Segundo, aun con esta evidencia en mano, es difícil argumentar que tener un menú más amplio de formas organizacionales haya sido completamente irrelevante. Algunas empresas mexicanas y británicas prefirieron la sociedad en comandita simple sobre cualquier otra forma de organización. Así, la existencia de sociedades en comandita simple claramente tuvo un propósito. Diversos empresarios quisieron una mezcla distinta de responsabilidad limitada e ilimitada, y México tuvo esas formas de organización para satisfacer sus necesidades. Es por esto que nosotros creemos que el menú de formas organizacionales disponibles en México ofreció más flexibilidad para la creación de negocios que el espectro de organización comúnmente asociado a los países regidos por el derecho común (especialmente los Estados Unidos de América).*



## *Introduction*

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Do countries need a large menu of organizational forms? Does the flexibility of a larger organizational menu provide advantages for businesses? How can we identify which firms need the advantages of a larger organizational menu? This paper explores these questions by studying the choice of organizational form in an underdeveloped civil law country undergoing rapid industrialization: Mexico between 1886 and 1910.

There is an ongoing debate of the long term impact of legal systems on economic activity. Recently, the works of Rafael La Porta, Florencio López de Silanes, Andrei Shleifer and Robert W. Vishny (LLSV) (1998) and Djankov, La Porta, López de Silanes and Shleifer (2001; 2002) have argued that there are significant differences between business regulations in common and civil law countries that have an impact on business performance and market entry. They provide strong evidence –based on large cross-country contemporary databases– to support the view that common law based systems provide better business environments than civil law systems.<sup>1</sup> Their results show that common law countries have, on average, a freer and more flexible business environment than civil law countries.<sup>2</sup>

On the other hand, Lamoreaux and Rosenthal (2005, 2005b) argue that the French *Code de Commerce* offered a more flexible contracting environment than the American legal system during the nineteenth and early twentieth centuries. They found that American law offered enterprises a more limited menu of organizational choices. Moreover, businessmen in the US had less ability to adapt the basic organizational forms to meet their needs than their French counterparts. The French commerce code allowed partnership to provide different levels of liability for each of the partners, provided options to have limited liability, and allowed limited liability shares to be traded. Finally, Lamoreaux and Rosenthal argued that the law regarding organizational forms evolved more readily in response to economic change in France than in the United States.

Recent work by Freeman, Pearson and Taylor (2006) shows that not all common law countries had the same limited organizational menu that the United States had. For example, according to Lamoreaux and Rosenthal (2004: 9), the limited partnership was rarely used in the United States. However, it

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<sup>1</sup> Papers with other coauthors sustain similar arguments. See, for example, Beck, Demirgüç-Kunt and Levine (2002); Levine, Loayza and Beck (2000); Johnson, La Porta, López de Silanes and Shleifer (2000); and La Porta and López de Silanes (2001).

<sup>2</sup> This argument is developed more formally in Shleifer and Glaeser (2002) and defended with recent data in the empirical tests of Beck, Demirgüç-Kunt and Levine (2002).

was relatively common in Scotland, England, Wales and Ireland (Freeman, Pearson and Taylor, 2006).<sup>3</sup>

This debate opens the question of how to explain LLSV (1998) and Djankov *et al.* (2001, 2002) results of relatively worse business environment in civil-law countries given Lamoreaux and Rosenthal findings. Since it is in underdeveloped civil law countries that LLSV and Djankov *et al.*'s results clearly hold for the 1990s, it is particularly interesting to explore the relationship between legal system and economic performance in this type of countries during the first period of industrialization.

In this paper we study if companies took advantage of the diverse menu of organizational forms that the Mexican Commercial Code offered. We test if having a larger menu of organizational choices, particularly those types not available in common law countries, made a difference for the creation of new businesses. If having a larger menu of organizational choices matters for investment and growth, we would expect to find several firms preferring societal types more commonly found in civil law countries over those that were more commonly available in common law countries (*i.e.*, simple partnerships and corporations).

We study the entrepreneurs' choice of organizational forms controlling for the characteristics of their business. We explore the decision businessmen made to organize their firms as partnerships (*sociedad en nombre colectivo*), limited liability partnerships (*sociedad en comandita simple*), limited liability partnerships with shares (*sociedad en comandita por acciones*), corporations (*sociedad anónima*) or cooperatives (*sociedad cooperativa*). We build a test using a newly assembled database of all businesses registered in the *Registro Público de la Propiedad* (the Property Registry) in Mexico City between 1886 and 1910 (5132 entries). We initially follow Lamoreaux and Rosenthal's strategy and look at the number and capital of firms registered under the different organizational forms according to their trade. This gives us a good idea of the importance of organizational forms by sector. Then, we run different specifications of a multinomial logit model to study the entrepreneurs' decision to go for one organizational form over a base category, provided that other organizational forms were available. The estimation also controls for different business characteristics.

The basic idea behind our statistical approach is that entrepreneurs decided on the organizational form based on the characteristics of their business plan. This means that the choice of organizational form was determined by the amount of capital they needed (and the form in which it was going to be raised), the expected duration of the project, the sector in

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<sup>3</sup> Between 1840 and 1850, only two out of the 160 partnerships established in the Boston area, for which R.G. Dun collected credit information, were limited partnerships (Lamoreaux and Rosenthal, 2004:9). In contrast, 75.9%, 33.3% and 48.3% of the unincorporated companies established between 1720 and 1840 in Scotland, Ireland, England and Wales had proportional liability provisions (Freeman, Pearson and Taylor, 2006: 12).

which the business was going to operate, and on whether the firm was foreign or not (we control by specific nationality too). In our estimations we also include some basic macroeconomic controls and a time trend to explore if there is a preference for any type of organizational form over time.

Following this empirical exercise we can go beyond the simple analysis of the number and capital of businesses choosing limited liability partnerships and partnerships with shares, to understanding specific business characteristics that determine the choice of organizational form. Lamoreaux and Rosenthal (2005) find that a larger menu of organizational forms was important because of the number and capital of the firms which decided to choose limited liability partnership forms. They also point out that some sectors, like media, tended to prefer the limited liability partnership. We look at more detailed business-specific characteristics to understand what sectors and business structures made entrepreneurs prefer limited liability partnerships as organizational forms.

We use the multinomial logit set-up to study the entrepreneur's organizational choice. This statistical approach provides the probability of choosing two organizational forms relative to a base category. First, we assume that entrepreneurs decide on whether to charter a corporation or a limited liability partnership, over chartering a partnership (*i.e.*, the partnership is our base category). We then use the corporation as our base category and study the relative preference for limited liability partnerships (and partnerships) over this organizational form. We leave out partnerships with shares because we have too few observations.

We believe there is a somewhat clear order of preference between organizational forms according to the capital needs and the intended duration of the project. In general, we expect to find that with higher size (measured in shareholders' capital) or longer intended duration of the project, the partners preferred to limit their liability or the liability of some of the partners, and spread the risk among many investors. Figure 1 depicts our logic. In this figure we show how we hypothesize entrepreneurs would choose one of the limited liability partnership for projects with low to medium capital needs and medium to long intended duration. Then, the corporate charter would be preferred for larger projects with longer intended durations.

We test three specific hypotheses to study the importance of having a larger organizational menu. First, we use our database to test if the existence of a larger organizational menu made a difference for the creation of new business, both in number and in terms of total capital formation (proxied by declared capital at the time of registration). We conduct this general test by looking at whether the organizational forms peculiar to civil law countries, such as limited liability partnerships and limited liability partnerships with shares, had a significant number of charters filed and represented a significant share of total capital registered during the period studied.

Second, if a larger menu of organizational forms was relevant for new business formation, we expect to find that organizational types such as limited liability partnerships (LLP) were preferred over partnerships as the size of the project measured in initial capital went up and as the intended duration of the project was larger. Also, we expect to find that foreign investors preferred to limit their liability and, thus, preferred LLP over simple partnerships.

Third, we expect to find that organizational forms such as LLP or LLP with shares were only preferred over the corporate charter for projects with smaller capital, shorter intended durations, and mostly by Mexican companies or companies from countries where these organizational forms were available. This last point is important because for practical reasons we do not expect to find firms adopting organizational forms not available in their home countries. Therefore, we expect to find American investors avoiding the unfamiliar contractual arrangement of the LLP and preferring the more familiar corporate charter.

We do not have a clear hypothesis when it comes to the trade of the enterprise. In sectors like banking, insurance and large projects, such as railroads and utilities, we expect to find entrepreneurs preferring the corporation over all organizational forms, followed by limited liability partnership arrangements. On the other hand, there were so many regulatory costs imposed on corporations in the finance sector (*e.g.*, regular disclosure or approval of bank charters by the government) that we expect to find small finance operations chose to adopt the partnership or limited liability partnership forms.

We do not find overwhelming evidence in support of Lamoreaux and Rosenthal's hypothesis that a larger menu of organizational choices made a difference for the industrialization of a civil law country like Mexico. First, only a small fraction of the entrepreneurs chartering a new firm preferred the limited partnership or the partnership with shares (13.5% and 0.4% of the total number of filings). Second, the capital of the businesses that chose these two organizational forms represented only 1.6% and 0.3% of total capital formation, according to our data.

We find, however, that limited liability partnerships were strongly preferred over partnerships by foreign entrepreneurs. British and Italian firms clearly preferred the LLP form over the partnership, but that was not clear for firms from other nationalities. We also find that larger registered capital meant that entrepreneurs preferred the LLP over the partnership form. But we do not find evidence that projects with a longer duration actually preferred LLP over partnerships.

We also provide statistical evidence showing LLP was preferred over corporations for smaller projects with shorter duration. We find that British, German and some Italian entrepreneurs strictly preferred the LLP

organizational form over the corporation. Although Great Britain was a common law country, entrepreneurs chose the limited partnership form frequently. Moreover, these results show that the flexibility of a larger organizational menu in fact served the needs of many foreign entrepreneurs.

Finally, our analysis also shows that for Mexican entrepreneurs in the commerce sector the larger organizational menu played an important role. Businessmen in this sector preferred limited liability partnerships over the corporate charter. This is because many Mexican firms in this sector preferred to avoid the cost of disclosure and the regulatory burden of the corporate charter, and they chose to limit the liability of some of the partners rather than to form simple partnerships.

The evidence we provide makes it hard to reject the claim that a larger menu of organizational forms provides flexibility and advantages for a civil law economy like Mexico's. On the one hand, most of our quantitative evidence points in the direction of simple partnerships and corporations dominating the organizational choices over time. Specifically, the corporate form dominated total capital formation and the number of corporations registered increased rapidly during the first decade of the twentieth century. On the other hand, British and Italian firms and Mexican businesses in the commerce sector strongly preferred the LLP over any other organizational form.

Therefore, we conclude two things. First, the effect of a larger organizational menu was not big if we look at how much capital was registered as limited liability partnership and the limited liability partnership with shares. If these organizational forms had not existed, 4% of total capital and less than 15% of businesses would have been lost. This loss would be equivalent to 3% of GDP in 1900. In other words, in the absence of a large organizational menu, Mexico would have still have industrialized rapidly. Second, even with this evidence in hand, it is hard to argue that the larger organizational menu was completely irrelevant. The existence of limited liability partnerships clearly served a function. Different entrepreneurs wanted a different mix of limited and unlimited liability and Mexico had organizational forms to serve those needs. That is why we believe this is evidence that the organizational menu available in Mexico provided flexibility for business creation than the menus available in countries that restricted the use of limited liability partnerships.

The Mexican case is interesting to test these hypotheses because it was industrializing rapidly during Porfirio Díaz regime (1876-1910). In 1876, after decades of political turmoil, general Porfirio Díaz pacified the country, renegotiated the foreign debt, eliminated internal tariffs and passes uniform commercial laws of the whole country. During this period, Mexico had high rates of GNP growth and large flows of foreign investment. Thus, this is a period when we find a large number of new business registrations, choosing

from a diverse menu of organizational options. In 1884, Congress approved a national Commerce Code. This code defined the organizational structure that companies could adopt. Our dataset starts in 1886, just two years after the approval of the new code and at the beginning of the period of rapid economic growth.

During the Porfirio Díaz regime a large share of the investment was from foreign entrepreneurs opening businesses in Mexico. From 1886 to 1910, 75% of the capital registered in the Mexico City Chartering Office was foreign. This allows us to study the differences in organizational choices between Mexican and foreign companies and among specific nationalities too.

The lack of developed financial markets makes Mexico an interesting comparative case. In Mexico City, the stock exchange was very small. Very few companies had their shares actually traded each year. In fact, there was no law regulating the operation of brokers or of the exchange itself. Thus, we expect foreign companies that established a business in Mexico to have taken the advantage of having a more developed financial market at home where they could gather funds to invest in developing countries. This would constitute a major difference with the French case studied by Lamoreaux and Rosenthal (2005). Mexico did not have the developed financial markets of France, something that might have affected directly which organizational forms dominated over time. For instance, we believe that more partnerships with shares would have been established if there had been more liquid financial markets in Mexico. Finally, the fact that the majority of foreign businesses operating in the developing world during this period came from common law countries might explain why the organizational types that prevailed in those countries ended up being so predominant (*i.e.*, the simple partnership and the corporate charters).

The paper is organized as follows. In section 1 we present a brief review of the evolution of Mexican corporate law until 1889. Section 2 presents the data and the methodology used for the analysis. Section 3 presents the findings of the paper. We present our conclusions in section 4.

## ***1. The evolution of Mexican commercial and corporate laws***

During the first half of the nineteenth century, Mexico's regulation of commercial activities was mostly based on the laws inherited from Spain. From the sixteenth to the nineteenth century, commercial activities and chartering were regulated using Spanish laws and others developed in the New Spain. Perhaps the two most important laws were the *Siete Partidas* and, after 1737, *the Ordenanzas de Bilbao*. Also among the laws inherited from colonial times were the regulations of the *Consulados* of Veracruz, Guadalajara and Puebla, the *Ordenanzas del Consulado de México* and the *Ordenanzas de Minería* (Barrera Graf, 1984, 129). The *consulados* were

merchant associations organized for the promotion of trade and the defense of their members' interests. They were integrated by local merchants and acted as arbitration courts to solve commercial disputes among their members. Disputes were settled using the body of law of the *usus mercatorum* and the written norms prevalent in each *consulado* (Cruz Barney, 2003, 409). Two or three judges (*cónsules*) and the administrator (*prior*) were elected annually among the *consulado* members.

Mexican commercial law evolved slowly in the nineteenth century. After Mexico became independent in 1821, in the absence of a national legislation, colonial regulations far from being abolished continued to be applied. Moreover, even Spanish laws enacted after Independence such as the Spanish *Código de Comercio* of 1829, and the *Ley de Enjuiciamiento Civil* of 1855, although with no legal power, were frequently invoked by Mexican legal instances. Mexican legislation that appeared during the first half of the 19<sup>th</sup> century such as the Civil Codes of Oaxaca and Zacatecas of 1829 added to the former regulation in the states where they applied (Barrera Graf, 1984, 139-141).

In 1841, president Santa Anna passed a decree organizing the *Juntas de Fomento* and the *Tribunales Mercantiles* (Development Boards and Commercial Tribunals). This decree created the Commercial Tribunals to deal with all the commercial disputes and compelled companies and merchants to register their businesses with the local Development Boards. Following the Spanish Code of 1829, firms had to submit a copy of their statutes to these boards. The decree also replaced some of the colonial legal rules. The *consulados* were replaced with the Commercial Tribunals and the Development Boards. The commercial tribunals solved all commercial disputes until 1855 (Orozco 1911, 94-95; Cruz Barney, 2003). According to this decree, the *Ordenanzas de Bilbao* ruled over all other commercial matters until Congress passed a national commerce code.

In practice, the Spanish Code of 1829, the *Siete Partidas* and the *Ordenanzas de Bilbao*, were applied in these tribunals. Mexican lawyers based their knowledge on the subject on classical Spanish legal works that were adapted to Mexico and printed there, such as the *Curia Philipica*, by Hevia Bolaños, and *Elementos de Jurisprudencia Mercantil* and the *Febrero Reformado*, by Eugenio Tapia (Barrera Graf, 1984,139). This last book, published in Mexico as the *Nuevo Febrero Mexicano* (Galván, 1851) contained several standard blueprints of the types of societies that were normally used. It included three types of societies: personal, collective (partnerships) and commandite (limited partnerships), and showed different ways to limit the liability (mainly in favor of the *comanditario* partners), several arrangements for the distribution of profits and losses, and for restricting the competence of some of the shareholders in specified aspects of the partnerships (Barrera Graf, 1984,142).

In 1854 Mexico enacted its first *Código de Comercio*, profoundly influenced by the Spanish *Código de Comercio* of 1829. Both codes resembled the French *Code de Commerce* of 1807 in many aspects but were, in relation to corporate law, even more advanced (Barrera Graf, 1988, 138). This made Mexico's *Código de Comercio* of 1854 extremely progressive for the time because it introduced the system of free incorporation. Under this system, companies could enter the market when the local tribunal of commerce approved their statutes.<sup>4</sup> The Mexican code copied these provisions from the Spanish code of 1829, but in 1848 the latter code was amended as a result of a severe crash and royal approval of company statutes was reinstated. Mexican legislators chose not to include these changes in the Mexican code and kept a regulation with easier market entry (Keinan *et al.*, 2002, 842).

The Mexican *Código de Comercio* of 1854 offered a menu of three organizational forms: the partnership (*sociedad en nombre colectivo*), the limited partnership (*sociedad en comandita simple*) and the corporation (*sociedad anónima*). In very few articles it established the basic principles of each type of organization, but did not have the more detailed regulation regarding the existence, the governance and the finance of the ventures that later codes included. Unfortunately, there are no studies on the impact of this law on entrepreneurial activity. We do not know if, as in Spain, the liberalization of entry requirements was followed in Mexico by a founders' boom or if, as in Colombia, it had a negligible impact on economic development, since few entrepreneurs became aware of the possibilities the new law offered and continued to operate as simple partnerships (Keinan *et al.*, 2002, 842-846).

The Code of Commerce of 1854 was in force only between May 27, 1854 and November 23, 1855. However it continued to be applied in Veracruz, (the most important commercial center of the country after the capital) according to a law passed in the state in September 1855. Moreover, during the Maximilian Empire its enforcement was reinstated throughout the nation by the decree of July 15, 1863. After the Republic was restored in 1867 the Code of Commerce of 1854 continued to prevail in the Federal District, and the states of Mexico, Puebla and Veracruz.<sup>5</sup> (Barrera Graff, 1984, 144-145).

In 1884, Mexico's Congress passed a new national Code of Commerce influenced by the evolution of chartering laws in other civil law countries, especially France and Spain. In 1830, French legislators introduced the limited partnership with shares, and in 1863 new legislation permitted firms below a maximum capital of 20 million francs to organize as corporations without a

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<sup>4</sup> Art. 253 of the Mexican Commercial Code of 1854. It says "En las compañías anónimas, para que puedan llevarse a efecto, se requiere además indispensablemente que el tribunal de comercio del territorio en que hayan de establecerse examine y apruebe sus escrituras y reglamentos".

<sup>5</sup> The Civil Code of Veracruz of 1868 and the Civil Code of 1870 indicated that the regulation of mercantile societies was ruled by the Code of 1854.

special permission from the government. Later on, in the 1867 general incorporation law removed the limit on capitalization (Muñoz 1947, 117).

The Mexican Commerce Code of 1884 expanded the range of organizational choices and facilitated market entry. It introduced partnerships with tradable shares and limited liability companies as organizational forms (*sociedades de responsabilidad limitada*). The partnership with tradable shares and the limited liability company limited the liability of the partners to the face value of their shareholdings. The limited liability companies were small corporations similar to the "private companies" in England, with limited liability for the shareholders, but without tradable shares (the only difference with the limited liability partnership was that there was no need to have a partner with unlimited liability). Instead of the brief description and regulation of firms in the Code of 1854, the Code of 1884 included 276 articles that outlined the regulation for each organizational form. In 1884, Mexican Congress also passed a Code of Mines, which replaced the colonial *Ordenanzas de Minerías* of 1783. In this law, the legislators introduced an organizational form similar to the corporation (*sociedad anónima*) with some minor variations. For instance, shareholders would have their shares voided if they did not pay in full all the calls of capital. Moreover, there was a one-share-one-vote provision with a cap on the maximum number of votes at 49% of the total (Barrera Graf, 1984, 152).

Limited liability companies and corporations were then merged into a single corporate charter in April 1888. The new Joint Stock Company Law (*Ley de Sociedades Anónimas*) of 1888 mandated that corporations (*sociedades anónimas*) and limited liability companies (*sociedades de responsabilidad limitada*) should adopt the general corporate charter (Barrera Graf, 1984, 153). This law regulated the value of shares, their denomination (nominal or bearer shares), and the procedure to call capital. It also established three bodies to regulate the functioning of corporations: the shareholders' assembly, the management, and the shareholders' auditing body. Finally, it laid out regulation for ordinary and extraordinary shareholder assemblies, it established a reserve fund, included mandatory annual disclosure of balance sheets, and laid out the procedure for bankruptcy and liquidation.

In 1889, the Commerce Code of 1884 and the Joint Stock Company Law of 1888 were merged into one document. The Code of Commerce of 1889 followed the European model of commerce codes, such as the French Law of 1867, the Italian Code of Commerce of 1882, and the Spanish Code of Commerce of 1885. It defined five different types of organizational structures: 1) partnership (*sociedad en nombre colectivo*); 2) limited partnership (*sociedad en comandita simple*); 3) corporation (*sociedad anónima*); 4) limited partnership with shares (*sociedad en comandita por*

*acciones*); and 5) cooperative (*sociedad cooperativa*).<sup>6</sup> The new code also required firms to have a registered public contract (*escritura pública*) when they were established or when the contract was amended.

Recent analysis of the Mexican Commerce Code shows that in many aspects it was more flexible (enabling) than its counterparts in other civil law countries.<sup>7</sup> In our interpretation, the flexibility of the Mexican Code of Commerce stems from the three principles that legislators of the Spanish Commercial Code of 1885 defined: 1) ample freedom to the partners to constitute their firm according to their interests; 2) the complete absence of government intervention in the internal operation of the firm; and 3) publicity of all actions that could be of interest to third parties (Moreno, 1905, 161).

In sum, the Mexican commerce codes of 1884 and 1889 provided a broad menu of organizational forms and allowed easy market entry. This paper is concerned with the effects of the larger organizational menu. The effects of easy market entry are not fully studied here, but as our results show, there was a rapid increase in capital formation after the 1884 and 1889 commerce codes were passed. The total capital registered in Mexico City grew in real terms at an annual compound growth rate of 18% from 1886 to 1910.

## 2. Methodology

For the purposes of this paper we built a database from the *Noticia del Movimiento de Sociedades Mineras y Mercantiles...*, edited by Dr. Antonio Peñafiel.<sup>8</sup> The registry book was a summary of the charters filed at the Mexico City property registry (*Registro Público de la Propiedad y del Comercio*) between January 15, 1886 and December 31, 1910. As in other French civil law countries, the Mexican Commercial Code established that in order for charters to be legally binding companies had to register the main detail of their constituting contracts at the property registry.

Our database contains information for the 5132 registrations of firms at the *Registro Público de la Propiedad y del Comercio* between 1886 and 1910. This database is not a census of all companies operating in Mexico because many companies registered in other cities of the country. We also excluded

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<sup>6</sup> This is clear by analyzing a version of the 1899 Code that compares every article of the law with the legislation of other countries.

<sup>7</sup> Enabling law makes most of the statutory provisions optional and allows parties to reallocate control rights (Keinan *et al.*, 2003), 9. For example, as in other civil law countries, the Mexican Código de Comercio of 1889 set a requirement of a supermajority shareholders vote to increase or decrease capital, something considered mandatory (unflexible) by Keinan *et al.*, but it opened the possibility for an alternative arrangement, since it stated that this applied only *when the company statutes did not establish something different*.

<sup>8</sup> Mexico. Secretaría de Fomento. *Noticia del movimiento de sociedades mineras y mercantiles habido en la Oficina del Registro Público de la Propiedad y del Comercio durante los años de 1886 a 1910. Formada por la Dirección General de Estadística a cargo del Doctor Antonio Peñafiel*, Mexico, 1911.

those companies that did not provide information on capital or societal type, ending with a database of 5021 entries.

We have found evidence showing that several foreign companies operating in Mexico did not register in the country, which meant those companies were not operating under the Mexican Code of Commerce. Given that our database reports all the charters filed at the Mexico City office, it is most likely biased towards larger firms and foreign businesses. An effort to look at all the business registrations in Mexico City and Monterrey is underway, but their databases are not ready yet. Therefore, this is a first study of the determinants of organizational choice in Mexico between 1886 and 1910.

Our database provides detailed information for each of the business registrations. For each entry we have the organizational form (*i.e.*, partnership, corporation, etc.), the firm's name and main trade, the date of registration, the full authorized capital, the headquarters' location, the country of origin, and the intended duration of the business. We divide the business activities into eight sectors: agriculture, mining, manufacturing, real estate, finance, railroads and utilities, commerce and services (mostly restaurants, hotels and bars). We define ventures as foreign if the social capital registered was given in a foreign currency or if the location of the company was in a foreign country.

Following Lamoreaux and Rosenthal (2005, 2005b), we test whether options other than the partnership and corporate charters were actually important for business choices. We do so by introducing a new methodology to look at the entrepreneurs' decision to select an organizational form, controlling for all the firm characteristics simultaneously. This is done using a multinomial logit estimation. This model allows us to study the probability of chartering two types of organizational choice, relative to an organizational type that we choose as base category.

We run two multinomial logit estimations. First, we study the probability of chartering a corporation or a limited liability partnership (LLP), relative to the probability of chartering a partnership. Second, we study the probability of chartering a LLP (and a partnership) relative to the probability of chartering a corporation.<sup>9</sup> From the coefficients of the estimation we obtain the contribution of each of the firm characteristics to increase or decrease the probability of chartering an organizational type, relative to the probability of chartering the organizational type we use as base category. The coefficients are interpreted as the change in the odds ratio of choosing an organizational form over choosing the base category. The precise percentage change in the probability ratio is presented in an additional column for clarity.

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<sup>9</sup> We could not study the probability of chartering limited liabilities with shares since there were not enough observations to obtain significant econometric results.

Our empirical set-up allows us to study the importance of having a larger organizational menu than common law countries. The multinomial logit estimation provides a way to find what firm characteristics made entrepreneurs choose the organizational forms most commonly associated with civil law countries. For instance, if there were firm characteristics that significantly made entrepreneurs choose the limited partnership over the partnership or the corporate charter we can argue that the larger organizational menu made a difference for some subset of businesses. If, on the other hand, there are no clear characteristics that made some entrepreneurs choose the limited partnership over the corporation or a simple partnership, then we can argue that the larger organizational menu provided options that were not necessary according to any specific business characteristic.

We also check if there is any organizational form that became dominant over time. From our initial exploration of the data we found that over time the corporation became a dominant organizational form in terms of capital and number of filings. In our statistical analysis we add a time variable (YEAR) to all the specifications in order to capture the move towards one organizational form over another over time.

Finally, in order to use a multinomial logit we need to test for the assumption that the selection of one organizational form over the base category is independent of the existence of the other organizational form included in the test. The multinomial logit is in fact testing the preference of one organizational form over the base category organizational form (*e.g.*, the preference of LLP over partnership), but taking into account that there was another option (*e.g.*, the corporate charter). If the exclusion of one of the options made any difference for the coefficients, we cannot be sure that we have independent and homoscedastic errors. For this purpose we run a Hausman test (or Hausman-McFadden test) of Independence of Irrelevant Alternatives (IIA) for each multinomial logit specification.

The Hausman-McFadden test of IIA compares the results of a multinomial logit set-up with that of a regular logit in which one of the alternatives has been dropped. If the coefficients of these two estimates change radically, then we cannot use a multinomial logit to perform this kind of study, given that it violates the assumption that the election of one alternative is not independent of the existence of other alternatives. This would imply, for example, that when we study the decision to charter a corporation over the decision to charter a partnership is independent of the decision of chartering a limited partnership over filing a partnership. We believe this is a somewhat strong assumption in reality because entrepreneurs make a decision based on all the menu of options available. However, since this is the best statistical approach to study the chartering decision we make the assumption of IIA and run the necessary tests. In fact, we find that the assumption holds for our multinomial logit set-up, except when we run the model using the foreign

firm sample only. The problem is that we do not have enough foreign companies choosing LLP to have enough variation to run the model in a reduced sample of foreign companies. That is why most of the analysis is done using the full sample of Mexican and foreign firms.

### **3. Findings**

The evidence provided in Figure 2 shows that the partnership (*sociedad colectiva*) and the corporate charter (*sociedad anónima*) were the preferred organizational forms over time. In Figure 2 we plot the number of corporations, partnerships and limited liability partnerships registered in Mexico City between 1886 and 1910. The number of partnerships picks up after 1900 and after that point there were close to or over 200 partnerships registered per year. Before 1900, the limited liability partnership (LLP) was a very close competitor of the corporation in terms of number of charters per year. But while the number of LLP's chartered stayed between 40 and 70 after that 1900, the number of corporations increased rapidly. From 1900 to 1905 there were between 50 and 80 corporations registered per year (*vs.* 40 LLPs on average), and after 1905 there were over 140 corporations established per year. Finally, the number of cooperatives and limited liability partnerships with shares (LLP with shares) was low throughout the period under study. There were only 21 LLP with shares chartered during our whole period of study.

The dominance of the corporate and partnership registrations is more evident when we look at the capital registered by type of organizational form. Table 2 shows the capital registered per company. Corporate registrations represented 28.1% of total registries and were the most important organizational form when we look at total capital registered, adding up to 93.6% of the total. The partnership represented 57% of all firm registrations, with capital adding up to 4.4% of the total. Limited partnerships represented 13.5% of the number of entries, but only 1.6% of total capital. Limited partnerships with shares and cooperative represented a negligible number of companies and of capital registered. Only 21 companies chose the form of limited partnership with shares (0.4% of the companies established), with a registered capital of 0.3% of the total. The cooperative form was chosen by only 48 ventures, representing 1% of the number of companies and only 0.1% of total capital.

The effect of a larger organizational menu was not large if we look at capital registered. If we define an extreme counterfactual, in which limited liability partnerships, limited liability partnerships with shares and even cooperatives did not exist and assume that the firms that chose these organizational forms would never have chartered a business, then we would find that these organizational forms in fact had a negligible effect in total

capital formation. The number of business filings in Mexico would have fallen 15%, but only 4% of capital formation would have been lost.

The mean capital of the companies in the different organizational types followed the order that we would expect. In Table 2 we present the average capital of chartered firms by sector and by organizational type. Corporations had the largest capitalization (on average \$1,445,000 pesos of 1900, approximately US \$750,000), followed by limited partnerships with shares (\$342,000 pesos), and then by limited partnerships (\$52,000 pesos). Finally, at the bottom of the distribution were partnerships and cooperatives with capitalizations of \$34,000 and \$30,000 pesos each. Mexican firms were considerably smaller than foreign firms in every sector, with an average capitalization of only \$19,000 thousand pesos of 1900 compared with \$102,000 for foreign companies.

In sum, our data shows that the organizational forms associated with common law countries (*i.e.* partnerships and corporations) emerged as the dominant organizational forms in Mexico. In fact, all of the organizational forms other than the corporation and the partnership were losing ground during the period we study. This is confirmed by all of our regressions below. Interestingly, a similar pattern of corporate charter dominance has been observed in other countries, for instance, in Spain between 1830 and 1840, right after the approval of the free incorporation laws with a large organizational menu in 1829 (Martín Aceña, 1993).

Lamoreaux and Rosenthal (2005, 2005b) argue that in France since the corporate charter required special approval by the government before 1867, having a menu with different partnership structures (e.g. with limited liability or tradable shares) made a difference. The limited partnership (*comandite*) was a relevant substitute for the corporation before there was free incorporation. For the case of Mexico between 1886 and 1910 the corporate charter existed without special approval and with limited liability for the shareholders, therefore we believe the limited partnership was not a strong substitute. In fact, chartering options such as the cooperative and the partnership with tradable shares were almost irrelevant as organizational types in Mexico. The reason that made partnerships with shares irrelevant as an organizational choice in Mexico in the period we study was that most of its advantages were already offered by the corporate charter or the limited partnership.<sup>10</sup> The possibility of trading shares did not add much value in an economy with small and illiquid capital markets.

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<sup>10</sup> The disadvantages of the partnership with shares, relative to the corporation were the following: 1) there had to be at least one partner that had unlimited liability; 2) the shares of limited partnerships had to be, by law, nominal (with a name attached to it) and could never be denominated “to the bearer”; and 3) if the “socio comanditario” (the unlimited liable partner) died, the partnership had to be dissolved by law. On the other hand, the main disadvantages of corporations, as Lamoreaux (2000) has argued, were the requirement of public disclosure of financial accounts, and that limited liability itself could deter probable lenders from financing the firm.

The evidence does show that limited liability partnerships were strongly preferred over other organizational forms. We find evidence showing that British, German and Italian firms strongly preferred the limited liability partnership form over the partnership. Table 3 shows multinomial logit estimations that study the choice between partnership (our base category), the corporate charter, and limited liability partnership. Holding everything constant, British and German firms were between 200% and 260% more likely to adopt a limited liability partnership rather than a partnership. The British used this organizational form for insurance and commercial ventures, while German entrepreneurs used it for drugstores and insurance companies. The limited liability partnership form was also used, for instance, by an Italian entrepreneur representing the Fiat automobile company.

We do not find any sector that had a strong preference for the limited partnership over the partnership. In fact, being in the mining or railroad and utility sectors decreased the probability of choosing limited partnership over partnership (Table 3). But, there was no sector in specific for which the probability of choosing the limited partnership over the partnership would increase.

Finally, in Table 4 we show that the limited liability partnership was strongly preferred over the corporation by Mexican firms in the commerce sector. We also find that British and German firms in the service and commercial sectors preferred to register their businesses as limited partnerships. These British and German firms operated mainly in the insurance and commercial sectors. The Mexican entrepreneurs that preferred the limited liability partnership above all organizational forms concentrated in the commercial sector. Mexican firms in this sector had 1.5 higher probability of choosing a LLP over a corporation. There were over 430 Mexican limited liability companies in the commercial sector (over 1/7 of the total Mexican firms in the sector and about 8-9% of all the firms in the sample). This was a common arrangement between merchants and one or more investors. The merchant kept control of the day-to-day commercial operations and had a partner financing part of the operation, while facing limited risk (with limited liability). The number of different trades within the commercial sector using limited liability partnerships is so large that it is complicated to make generalizations. The dominant trades were small loan houses, grocery stores, trading houses, tailors, textile trading houses, and shoe merchants.

Table 4 also shows that there is no clear trend over time regarding the preference for chartering a limited liability partnership relative to chartering a corporation. On the other hand, the corporation gained ground *vis à vis* the partnership. Each year the probability of chartering a corporation relative to the probability of chartering a partnership increased 11%.

Regression results show that some companies actually took advantage of the set of organizational options available in Mexico. Our statistical analysis

shows that in a few instances limited liability partnerships were strongly preferred over the corporate and partnership charters. This occurred mostly in the commerce sector for Mexican firms and in diverse sectors for the British and German companies.

A final minor point is that as expected, duration of the business was also important when choosing organizational form. Our findings show that ventures that chose a larger time span for their operations also opted for the corporate charter, whereas short lived businesses were more likely partnerships or limited partnerships. As the duration of the business increases, the ratio of the probability of choosing the corporate charter over the probability of choosing a partnership increases. So, for every additional year the business intended to live, this probability ratio increased by 3%. In contrast, this variable is negative and significant only in some specifications in the case of limited partnerships (see Table 3). Table 4 shows that, as expected, longer duration reduced the probability of being a limited partnership over a corporation.

Duration was a variable freely chosen by the business subscribers, which they were forced to provide at the moment of registration (Art. 95 of the Code of Commerce). One of the advantages of corporations over partnerships (and limited partnerships) was precisely their possibility of outliving the partners. Partnerships by law needed to have the last names of the partners attached to the business name (and in the case of limited partnerships this was true only for the unlimited liable partners). Thus, the firm would only survive as long as the partners were alive. A partner passing away implied the dissolution of the business and the settlement of accounts. The data clearly reflects that businessmen interiorized these legal constraints and chose their organizational forms accordingly.<sup>11</sup>

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<sup>11</sup> Razo (2003) had a similar finding when he studied the duration of corporate charters in Mexico until 1908. However, he misinterpreted the meaning of duration of businesses in the public registry records. He defended the idea that this was a variable determined by the government, instead of by the business subscribers. Yet, it is clear in the Mexican Code of Commerce as well as in the legal practice of French civil law countries that there was no legal binding or government interference in the determination of duration, except in the case of businesses that required special concessions, such as banks, railroads and some utility companies.

## *Conclusions*

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This paper provides evidence that undermines the implicit model used by recent studies that compare common and civil law countries on a variety of economic indicators. History shows us that civil law systems have been in fact more flexible than civil law systems during some periods of time.

However, our results show that civil-law specific organizational forms declined over time, leading the way for the emergence of the corporate charter as the dominant organizational type. The corporate charter evolved during the nineteenth century into an organizational form that gave several advantages for the formation of new businesses. Limited liability and the possibility of trading shares allowed businesses to pool large amounts of capital by attracting a large number of small investors to participate in the venture. Tradable shares gave investors the chance of having investment opportunities in very liquid assets that gave them some control over business performance (depending on the corporate governance structure of the country of origin). Thus, the evolution of the corporate charter over the nineteenth century gave the corporation advantages over other organizational forms available in civil law countries, such as the limited liability partnership and the limited liability partnership with shares, while also precluding some of the disadvantages.

We argue that while in France limited liability partnerships might have been a dominant and useful organizational type in the first half of the nineteenth century. This is because the option of chartering a corporation with limited liability was not available in France until 1867.

In Mexico, free incorporation was available since 1854, something that probably made the limited partnership option less attractive. We believe that entrepreneurs in Mexico took advantage of free incorporation laws and chartered corporations rather than limited liability partnerships because the former had most of the advantages of limited partnerships, while also being more attractive to obtain capital in foreign financial markets. Limited partnerships might have been more relevant earlier in the 19<sup>th</sup> century, but studies of organizational choice before 1886 are needed in order to verify that claim.

In developing countries the corporate charter offered a peculiar advantage to foreign entrepreneurs and domestic companies that could appeal to foreign financial markets. It allowed businesses to take advantage of developed financial systems in Europe and the United States to fund businesses that operated in environments without financial markets. Thus, the corporate charter facilitated the flows of capital to developing countries and allowed small investors in developed countries to diversify their portfolios with securities of the “emerging markets” of the time. The popularity of corporate

shares was due, to a large extent, to the fact that investors had their liability limited to the value of the securities they acquired.

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## Appendix

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### ***Independence of Irrelevant Alternatives (IIA) or Hausman-McFadden Test.***

An important assumption of multinomial logit models is that outcome categories for the model have the property of independence of irrelevant alternatives (IIA). This property states that the ratio of the probabilities of choosing any two alternatives is independent of the attributes of any other alternative in the choice set. Stated simply, this assumption requires that the inclusion or exclusion of categories does not affect the relative probability ratios associated with choosing one organizational form over the base category. For instance, if we are looking at the election between a corporate charter and a partnership, we do not want the ratio of probabilities of choosing one organizational form over the other to be affected by the inclusion of the limited liability partnership option.

Under the IIA assumption, we would expect no systematic change in the coefficients if we excluded one of the outcomes from the model. The IIA (also known as Hausman-McFadden test) is based on eliminating one alternative from the choice set to see if underlying choice behavior from the restricted choice set obeys the independence from irrelevant alternatives property. We estimate the parameters from both the unrestricted and restricted choice sets. If the parameters are approximately the same, then we do not reject the multinomial logit specification, but if the parameters change significantly, then we have to discard the validity of the model.

For instance, when looking at the choice between the corporate charter and the limited liability partnership vs. the simple partnership we estimate parameters excluding the limited partnerships outcome (*partial*), and perform a Hausman-McFadden test against the efficient full model (*all*). The results are in Tables A.1-A.2 below. Tables A1 and A2 show that we can not reject the multinomial logit specifications that we use (when the chi2 statistic has p-values lower than 0.05), except when we try to use only the sample of foreign firms chartered in Mexico. In some cases we obtain negative chi2 statistics. Such a result is not unusual outcome for the IIA Hausman-McFadden test, and should be interpreted as zero. In our cases it means that the difference between the two models is quite small (*all and partial models*). Therefore, we interpret this result as evidence that we should not reject the multinomial logit specification.

When we run the multinomial logit estimates with the sample of foreign companies only, we violate the assumptions of the model. The results of these estimations are in Table 4. The results of the Hausman-McFadden test (Table

A2) when we run estimates with foreign company sample only give Chi-squared estimators that are not significant. Thus, we have to reject the null hypothesis that the difference in the coefficients is not systematic when we eliminate one of the options. We think this is a consequence of having few foreign companies choosing the limited partnership form. There are only 19 foreign limited partnerships in our sample. That is why when we exclude the corporate charter as an option, our coefficients for foreign companies change radically.

For this reason we based most of our analysis of organizational choice on the results we get using the full sample (combining Mexican and foreign firms) in Tables 3 and the first panel of Table 4. The results of all the Hausman-McFadden tests are presented below.

**A1. HAUSMAN-McFADDEN TEST FOR THE MULTINOMIAL LOGIT ESTIMATION THAT USES THE PARTNERSHIP AS BASE CATEGORY**

	Excluded category: Limited Partnership (full sample)				Excluded category: Corporation (full sample)			
	(b)	(B)	(b-B)	sqrt(diag(V <sub>b</sub> -V <sub>B</sub> ))	(b)	(B)	(b-B)	sqrt(diag(V <sub>b</sub> -V <sub>B</sub> ))
	partial	all	Difference	S.E.	partial1	all1	Difference	S.E.
Year	0.102	0.106	-0.004	0.006	-0.017	-0.016	-0.001	0.003
Capital_1900	0.003	0.002	0.000	0.000	0.000	0.001	-0.001	
Foreign	2.131	2.165	-0.035	0.041	0.837	0.784	0.053	0.093
Duration	0.034	0.033	0.001	0.000	-0.003	-0.004	0.001	
Exchange Rate	0.193	0.364	-0.171	0.049	-0.282	-0.287	0.004	
LN GDP_1900	-0.580	-0.710	0.130	0.123	0.308	0.302	0.005	0.049
Constant	-192.2	-199.9	7.7	10.1	29.0	26.8	2.1	4.4

b= consistent under Ho and Ha; obtained from mlogit

B = inconsistent under Ha, efficient under Ho, obtained from mlogit

Test: Ho difference in coefficients not systematic

$$\text{chi2}(4) = (b-B)[(V_b - V_B)^{-1}](b-B) = 30.22$$

$$\text{Prob} > \text{chi2} = 0.00$$

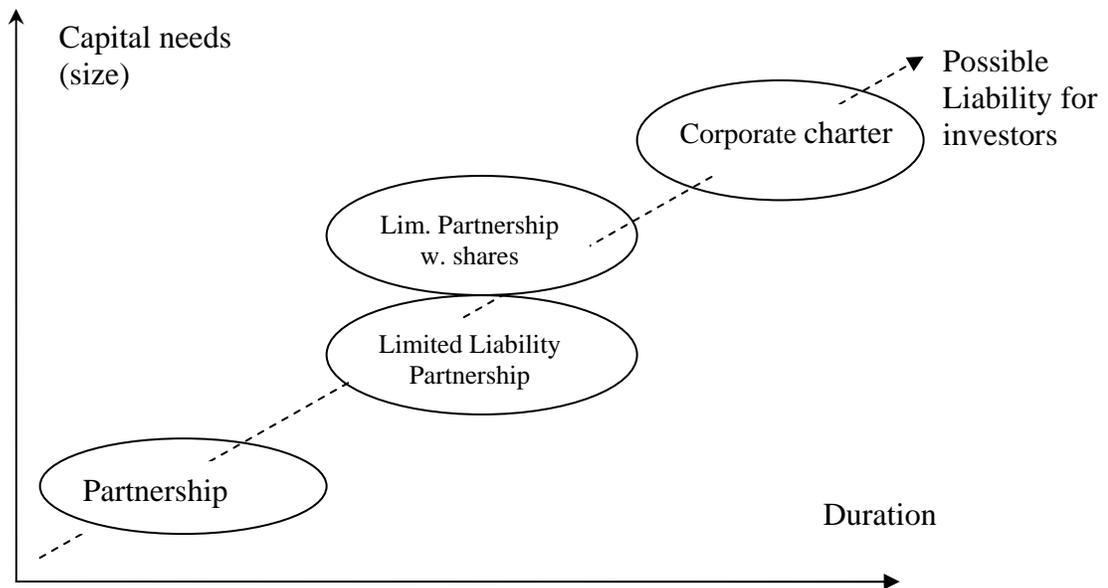
$$\text{Chi2} = -0.76$$

**A2. HAUSMAN-McFADDEN TEST FOR THE MULTINOMIAL LOGIT ESTIMATION THAT USES THE CORPORATE FORM AS BASE CATEGORY**

	Excluded category: partnerships (full sample)				Excluded category: partnerships (Mexican firm sample)			
	(b) partial	(B) all	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.	(b) partial	(B) all	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Year	-0.113	-0.122	0.009	0.020	-0.089	-0.114	0.025	0.022
Capital_1900	-0.002	-0.001	-0.001	0.000	-0.005	-0.003	-0.001	0.001
Foreign	-1.222	-1.381	0.159	0.082				
Duration	-0.053	-0.037	-0.016	0.002	-0.052	-0.036	-0.016	0.003
Exchange Rate	-0.569	-0.651	0.082	0.179	-0.313	-0.460	0.147	0.191
LN GDP_1900	1.241	1.012	0.228	0.368	0.756	0.786	-0.030	0.402
Constant	208.4	226.7	-18.3	35.0	166.6	213.8	-47.2	38.2
	chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 20.6 Prob>chi2 : 0.0004				chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 18.81 Prob>chi2 : 0.0003			

*Figures and tables*

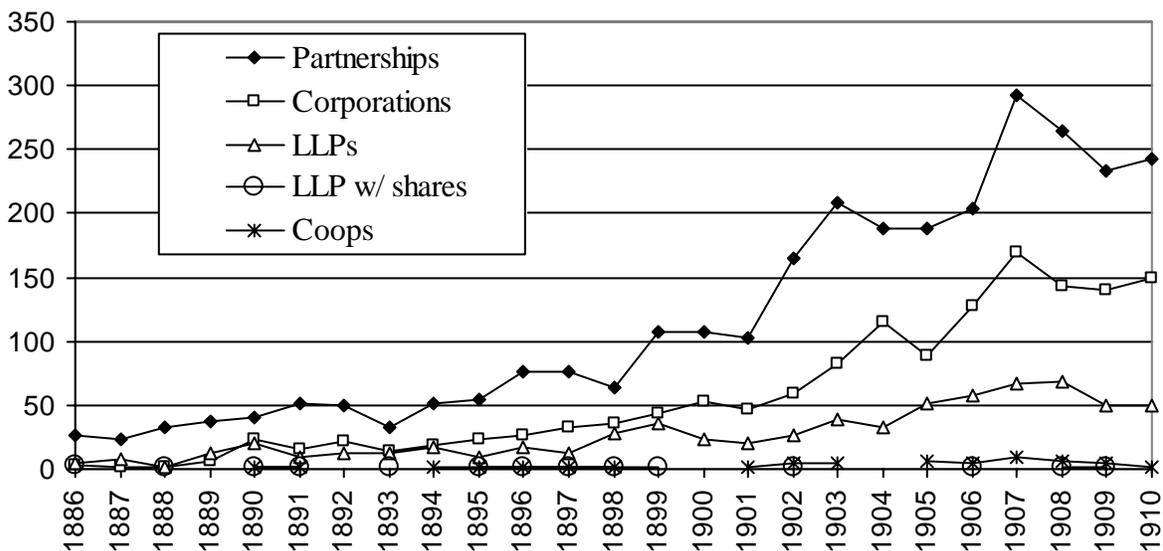
**FIGURE 1. EXPECTED RELATION BETWEEN SIZE, DURATION  
AND ORGANIZATIONAL FORM**



ACTUAL APPROACH TO LIABILITY AND CAPITAL NEEDS

		LIABILITY BY ORGANIZATIONAL TYPE		
		ALL PARTNERS UNLIMITED	SOME PARTNERS UNLIMITED	ALL PARTNERS LIMITED
SHARES	BEARER / NOMINAL SHARES			CORPORATIONS ( <i>SOCIEDAD ANÓNIMA</i> )
	NOMINAL SHARES		LIMITED PARTNERSHIPS WITH SHARES, AT LEAST ONE PARTNER WITH UNLIMITED LIABILITY ( <i>SOCIEDAD EN COMANDITA POR ACCIONES</i> )	
	NO SHARES	PARTNERSHIPS ( <i>SOCIEDAD COLECTIVA</i> )	LIMITED PARTNERSHIP ( <i>SOCIEDAD EN COMANDITA</i> )	

FIGURE 2. NUMBER OF FIRMS REGISTERED IN MEXICO CITY, 1886-1910



Source: Estimated from Mexico. Secretaria de Fomento [Peñañiel, Antonio], *Noticia del Movimiento de Sociedades Mineras y Mercantiles* (1886–1910), 1911.

**TABLE 1. CAPITAL OF THE FIRMS REGISTERED IN MEXICO CITY, 1886-1910**

(THOUSANDS OF 1900 PESOS)

SECTOR	PARTNERSHIP			CORPORATION			LIMITED LIAB. PARTNERSHIP		
	Foreign	Mexican	Total	Foreign	Mexican	Total	Foreign	Mexican	Total
Manufacturing	1,021	14,324	15,345	14,479	54,900	69,379	549	3,830	4,379
Mining	2,700	733	3,433	662,420	31,095	693,515	155	88	243
Agriculture	4,380	5,216	9,596	69,779	28,660	98,439	11	1,019	1,030
Real Estate	7,605	2,851	10,456	66,946	25,044	91,990	1,377	157	1,534
Finance	7,355	2,485	9,840	561,169	61,608	622,777	10,376	1,005	11,382
Railroads and Ut..	3	4,540	4,543	358,900	30,555	389,456		29	29
Commmerce	1,943	41,274	43,217	65,845	33,789	99,634	544	16,495	17,039
Services	7	1,415	1,421	463	2,230	2,693		325	325
<b>Total</b>	<b>25,015</b>	<b>72,837</b>	<b>97,852</b>	<b>1,800,001</b>	<b>267,882</b>	<b>2,067,882</b>	<b>13,011</b>	<b>22,949</b>	<b>35,960</b>

Sector	LLP with Shares			Cooperative		
	Foreign	Mexican	Total	Foreign	Mexican	Total
Manufacturing		2,124	2,124		92	92
Mining						
Agriculture		33	33		423	423
Real Estate					162	162
Finance	2,996	245	3,240		69	69
Railroads and Ut..					73	73
Commmerce	107	1,632	1,738	58	208	266
Services		49	49		200	200
<b>Total</b>	<b>3,102</b>	<b>4,082</b>	<b>7,184</b>	<b>58</b>	<b>1,228</b>	<b>1,286</b>

Source: See figure 2. All data deflated using the price index of Gomez-Galvarriato and Musacchio (2000).

**TABLE 2. MEAN CAPITAL OF THE COMPANIES PER SECTOR, TYPE AND NATIONALITY REGISTERED IN MEXICO CITY 1886-1910 (THOUSANDS OF 1900 PESOS)**

Sector	Colectiva			Anonima			Comandita Simple		
	Foreign	Mexican	Total	Foreign	Mexican	Total	Foreign	Mexican	Total
<b>Manufacturing</b>	86.71	26.27	26.69	443.57	254.58	276.41	135.11	26.66	29.59
<b>Mining</b>	15.33	52.11	50.49	4,115.04	469.95	2,399.71	154.64	17.66	40.49
<b>Agriculture</b>	4,358.85	44.76	81.32	1,130.36	335.50	631.02		41.18	41.18
<b>Real Estate</b>	2,535.09	43.19	151.54	1,715.93	281.94	691.65	635.01	23.96	117.97
<b>Finance</b>	2,451.66	29.23	111.82	6,997.35	984.20	4,324.84	2,594.09	77.34	669.52
<b>R.R. and utilities</b>		105.65	105.65	6,436.86	770.97	3,166.31		9.79	9.79
<b>Commerce</b>	101.81	23.35	24.18	885.91	169.06	331.01	58.90	38.26	38.64
<b>Services</b>	6.76	9.56	9.54	223.06	62.41	70.86		9.29	9.29
<b>Total</b>	636.85	26.62	33.78	3,609.45	355.45	1,445.41	674.35	34.60	52.27

Sector	Comandita por Acciones			Cooperativa			Total		
	Foreign	Mexican	Total	Foreign	Mexican	Total	Foreign	Mexican	Total
<b>Manufacturing</b>		424.75	424.75		23.08	23.08	371.64	81.91	92.81
<b>Mining</b>							4,011.48	327.13	1,920.64
<b>Agriculture</b>		32.66	32.66		422.93	422.93	1,185.08	162.46	361.59
<b>Real Estate</b>					54.13	54.13	1,722.81	171.78	477.72
<b>Finance</b>	998.53	122.27	648.03		6.95	6.95	6,450.17	383.87	2,451.93
<b>R.R. and utilities</b>					73.31	73.31	6,436.86	503.26	2,318.24
<b>Commerce</b>	106.53	233.09	217.27	57.59	25.99	29.51	647.54	40.44	63.56
<b>Services</b>		24.62	24.62		14.28	14.28	150.96	18.02	19.70
<b>Total</b>	775.53	240.11	342.09	57.59	29.96	30.62	3,290.85	97.64	435.91

Source: República Mexicana, Secretaría de Fomento [Peñañiel, Antonio], 1911. Noticia del Movimiento de Sociedades Mineras y Mercantiles (1886-1910), Mexico, Secretaría de Fomento.

TABLE 3. MULTINOMIAL LOGIT WITH PARTNERSHIPS AS BASE CATEGORY

THE DEPENDENT VARIABLE IS THE LOG OF THE ODDS RATIO OF CHOOSING LLP OR THE CORPORATE FORM OVER THE SIMPLE PARTNERSHIP

	I. Corporation (sociedad anónima)				2. Limited Liability Partnership (Sociedad en comandita Simple)											
	Spec1	Spec2	Spec3	Spec4	Spec1	Spec2	Spec3	Spec4								
	RRR	%	RRR	%	RRR	%	RRR	%								
Year	1.112 [0.032]***	11.2	1.093 [0.033]***	9.3	1.11	1.092	1.084 [0.027]	9.2	0.984 [0.027]	-1.6	0.983 [0.027]	-1.7	0.983 [0.027]	-1.5	0.983 [0.027]	-1.7
Capital_1900	1.002 [0.000]***	0.2	1.002 [0.000]***	0.2	1.002 [0.000]***	1.002	1.001 [0.000]***	0.2	1.001 [0.000]***	0.1	1.001 [0.000]***	0.1	1.001 [0.000]***	0.1	1.001 [0.000]***	0.1
Foreign	8.716 [1.828]***	771.6	6.902 [1.521]***	590.2			2.19 [0.647]***	119	2.394 [0.709]***	139.4						
Duration	1.033 [0.001]***	3.3	1.031 [0.001]***	3.1	1.034 [0.001]***	1.031	0.996 [0.002]*	3.1	0.997 [0.002]	3.1	0.996 [0.002]	3.1	0.997 [0.002]	3.1	0.997 [0.002]	3.1
Exchange Rate	1.439 [0.320]	43.9	1.184 [0.275]	18.4	1.341 [0.300]	1.092	0.751 [0.151]	9.2	0.765 [0.154]	-23.5	0.765 [0.154]	0.759 [0.153]	9.2	0.759 [0.153]	-24.1	0.776 [0.157]
LN GDP_1900	0.492 [0.285]	-50.8	0.696 [0.422]	-30.4	0.503 [0.294]	0.713	1.353 [0.436]	-28.7	1.373 [0.730]	37.3	1.353 [0.730]	1.333 [0.731]	-28.7	1.353 [0.731]	33.3	1.369 [0.731]
United Kingdom					1.265 [0.582]	26.5	0.822 [0.387]	-17.8		3.235 [1.748]**	223.5	3.66 [1.998]**	266	3.66 [1.998]**	266	3.66 [1.998]**
France					2.746 [2.176]	174.6	3.502 [2.804]	250.2		1.927 [1.676]	92.7	1.892 [1.649]	89.2	1.892 [1.649]	89.2	1.892 [1.649]
United States					19.495 [5.982]***	1849.5	14.634 [4.630]***	1363.4		0.622 [0.475]	37.8	0.707 [0.540]	-29.3	0.622 [0.475]	-29.3	0.707 [0.540]
Germany					0.488 [0.392]	-51.2	0.618 [0.498]	-38.2		3.097 [2.112]*	209.7	3.006 [2.056]	200.6	3.097 [2.112]*	209.7	3.006 [2.056]
Other Countries					4.604 [3.180]**	360.4	5.103 [3.808]**	410.3		4.071 [2.891]**	307.1	4.107 [2.921]**	310.7	4.071 [2.891]**	307.1	4.107 [2.921]**
Mining	3.26 [0.618]***	22.6			3.33 [0.636]***	3.33	0.822 [0.387]	233		0.334 [0.146]**	-66.6		0.334 [0.146]**	-66.9	0.331 [0.146]**	
Agriculture	1.769 [0.314]***	76.9			1.742 [0.313]***	1.742	3.502 [2.804]	74.2		0.786 [0.189]	-21.4		0.786 [0.189]	-20.6	0.794 [0.191]	
Real Estate	2.055 [0.411]***	105.5			2.043 [0.414]***	2.043	14.634 [4.630]***	104.3		0.703 [0.223]	-29.7		0.703 [0.223]	-30.6	0.694 [0.222]	
Finance	1.218 [0.261]	21.8			1.304 [0.278]	1.304	0.618 [0.498]	30.4		0.735 [0.207]	-26.5		0.735 [0.207]	-29.3	0.707 [0.200]	
R.R. and utilities	2.677 [0.655]***	167.7			2.621 [0.647]***	2.621	5.103 [3.808]**	162.1		0.245 [0.148]**	-75.5		0.245 [0.148]**	-74.2	0.258 [0.156]**	
Commerce	0.371 [0.043]***	-62.9			0.374 [0.043]***	0.374	3.502 [2.804]	-62.6		0.969 [0.104]	-3.1		0.969 [0.104]	-3.8	0.962 [0.103]	
Services	0.641 [0.144]**	-35.9			0.641 [0.144]**	0.641	5.103 [3.808]**	-35.9		0.956 [0.201]	-4.4		0.956 [0.201]	-4.9	0.951 [0.200]	
Observations	5020		5020		5020		5020		5020		5020		5020		5020	

Standard errors in brackets. \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%  
 Note: Coefficients are converted to show the percentage change in the odds ratio for easier interpretation.

TABLE 4. MULTINOMIAL LOGIT USING THE CORPORATE CHARTER AS BASE CATEGORY

THE DEPENDENT VARIABLE IS THE LOG OF THE ODDS RATIO OF CHOOSING LLP OVER THE CORPORATE FORM

	Limited Partnerships (Sociedades en comandita)												
	Full sample (Mexican and foreign firms)						Mexican firms						
	Spec1	Spec2	Spec3	Spec4	Spec1	Spec2	Spec1	Spec2	Spec1	Spec2	Spec1	Spec2	
RRR	%	RRR	%	RRR	%	RRR	%	RRR	%	RRR	%	RRR	%
Year	0.885 [0.031]***	-11.5	0.899 [0.033]***	-10.1	0.887 [0.032]***	-11.3	0.9	[0.033]***	-10	0.892 [0.034]***	-10.8	0.907 [0.035]**	-9.3
Capital_1900	0.999 [0.000]***	-0.1	0.999 [0.000]***	-0.1	0.999 [0.000]***	-0.1	0.999	[0.000]***	-0.1	0.997 [0.000]***	-0.3	0.997 [0.000]***	-0.3
Foreign	0.251 [0.067]***	-74.9	0.347 [0.097]***	-65.3									
Duration	0.964 [0.002]***	-3.6	0.968 [0.002]***	-3.2	0.963 [0.002]***	-3.7	0.967	[0.002]***	-3.3	0.964 [0.002]***	-3.6	0.968 [0.002]***	-3.2
Exchange Rate	0.522 [0.142]**	-47.8	0.646 [0.183]	-35.4	0.566 [0.155]**	-43.4	0.711	[0.202]	-28.9	0.631 [0.181]	-36.9	0.844 [0.251]	-15.6
LN GDP_1900	2.752 [1.950]	175.2	1.971 [1.448]	97.1	2.65 [1.904]	165	1.92	[1.427]	92	2.195 [1.649]	119.5	1.515 [1.175]	51.5
United Kingdom					2.557 [1.279]*	155.7	4.452	[2.325]***	345.2				
France					0.702 [0.653]	-29.8	0.54	[0.506]	-46				
United States					0.032 [0.023]***	-96.8	0.048	[0.035]***	-95.2				
Germany					6.342 [5.248]**	534.2	4.864	[4.053]*	386.4				
Other Countries					0.884 [0.611]	-11.6	0.805	[0.610]	-19.5				
Mining	0.103 [0.045]***	-89.7					0.1	[0.044]***	-90			0.091 [0.044]***	-90.9
Agriculture	0.445 [0.115]***	-55.5					0.456	[0.120]***	-54.4			0.524 [0.141]**	-47.6
Real Estate	0.342 [0.112]***	-65.8					0.34	[0.113]***	-66			0.314 [0.111]***	-68.6
Finance	0.604 [0.188]	-39.6					0.542	[0.170]*	-45.8			0.443 [0.154]**	-55.7
R.R. and utilities	0.091 [0.056]***	-90.9					0.098	[0.060]***	-90.2			0.116 [0.072]***	-88.4
Commerce	2.613 [0.369]***	161.3					2.573	[0.367]***	157.3			2.647 [0.389]***	164.7
Services	1.493 [0.416]	49.3					1.483	[0.417]	48.3			1.346 [0.379]	34.6
Observations	5020	5020	5020	5020	5020	5020	5020	4487	4487	4487	4487	4487	4487

Standard errors in brackets . \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%

Note: Coefficients are converted to show the percentage change in the odds ratio for easier interpretation. Estimates of the model only with the foreign firms sample is not included because the sample of foreign limited liability partnerships was too small to generate enough variance to estimate the model.

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