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Strategic Struggle for World Oil:
Standard Oil of New Jersey and Hidden Elitelore in Mexico's 1938 Expropriation

A dissertation submitted in partial satisfaction of the requirements for the degree Doctor of Philosophy in History

by

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2006

DEDICATION

To

ANGELITA LOPEZ,

in honor of her 20 years of loyal support.

TABLE OF CONTENTS

TABLES

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PUBLICATIONS AND PRESENTATIONS

Case note: "Restrictive Covenants Against Children: An Equal Protection Analysis," 17 *Ariz. L. Rev.*, P. 717, 1976.

"Small Company Access to Big Company Commercial Paper Markets," Presentation to Young Presidents' Organization Creative Finance Seminar, Chicago, Illinois, 1985.

"Secrecy and National Security in a Democratic Society," Presentation to Arizona Honors Academy, Northern Arizona University, Flagstaff, Arizona, 1989.

"Of Cactus, Cowboys and Indians: Arizona's International Business Development", *Valley Leader* and *Arizona Business Gazette* in May, 1991.

"Spirituality in Our Business Lives", Presentation to Seychelles Academy, Chief Executives Organization, Seychelles Seminar Afloat, Indian Ocean, 2000.

ABSTRACT OF THE DISSERTATION

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by

Joseph Charles Theisen

Doctor of Philosophy in History

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Professor James W. Wilkie, Chair

This study examines my hypothesis about Mexico's expropriation of the assets of foreign-owned oil companies in 1938. Where others have looked for the underlying cause as involving disputes with organized labor, court rulings against the companies, sovereignty issues, and/or the "decline" of Mexican oil reserves, I see the expropriation as coming about because one of the foreign actors--Standard Oil of New Jersey—strategically took actions to gain competitive advantage by provoking Mexico to act.

Expropriation by President Lázaro Cárdenas immediately attained mythic status. Yet, the countless books and articles written to demystify it have not unclouded how and why the event happened.

Because Standard Oil of New Jersey erased its historical record, the various actors have been "free" to develop six "eliteloric" views. Each of those resulting six lores were developed by leaders not only to justify their views but also to establish the folkloric interpretation that would "explain" the expropriation to the masses in Mexico and around the world.

By applying James Wilkie's theory of Elitelore and complementing it with Pierre Bourdieu's theory of "Field Analysis," I articulate these six views:

1. Cárdenas' public view
2. Oil companies' public view
3. Historians' view defining folklore
4. U.S. Ambassador Josephus Daniels' view
5. Oil companies' hidden views
6. Cárdenas' hidden view

After articulating these eliteloric views that have sought to create generalized folklore, I present View 7, wherein I offer my scholarly view of Standard Oil of New Jersey's previously hidden business agenda to neutralize Royal Dutch Shell's discovery at Poza Rica, Veracruz, the world's second-largest oil reserves—a fact which changed greatly the chess board of world oil strategy.

This new view draws upon my own experience in two ways: First, as president of my own companies, the hidden goals of Standard Oil of New Jersey have been discernable; second, my role as a trial lawyer has given me the experience to develop appropriate circumstantial evidence crucial to the analysis in this work.

My contribution here is to show Mexican oil as (1) a mere square on the world chessboard of oil exploitation and (2) a major piece on the separate chessboard of Mexican politics.

PREFACE

This work examines the "real" motivation behind the 1938 expropriation of foreign-owned oil in Mexico.

In 1937, Mexico's oil industry was dominated by two major international companies: the company with the larger presence was Shell; the company with lesser presence, assets, and corporate commitment was Standard Oil of New Jersey. These two companies had been vigorously competing with each other since World War I for dominance of the oil industry in every part of the World.

The year 1938 unleashed a complicated chain of events that resulted in the expropriation of all the assets of both companies in Mexico. The effect of the action of nationalization by the Mexican government would affect Shell far more than it would Standard Oil of New Jersey Standard. Indeed I argue here that Standard Oil of New Jersey Standard sought expropriation to make a successful big gain against Shell on the global stage of oil competition,

This is the story of a hidden coup that made the difference in the titanic struggle for dominance of the world's oil supply in the late 1930's. Ironically, very few people noticed or even realized it had happened because it was "lost" in the midst of a great nationalistic struggle, the only result of which seemingly was the 1938 Mexican expropriation of the foreign-owned oil industry.

Shell, the victim of the coup was very angry about the expropriation. It knew that it had lost its highly valuable oil reserve and production facilities in Mexico, but it never could identify the fact that it had was outmaneuvered by Standard Oil of New Jersey Standard --the true perpetrator of the expropriation. Thus, in my view developed in the chapters that follow, the Mexican government only served as an unwitting instrument when it carried out Standard Oil of New Jersey Standard's plans, the "secret" of which is here revealed here for the first time.

When the people of Mexico and historians tell what has become the "official story" about Mexico's nationalization of the foreign-owned oil industry, they neglect important implications that point to dramatic effects that have always gone unnoticed.

My analysis here peels away the layers of this accepted story that has allowed the Standard Oil of New Jersey Standard scheme to remain hidden; and I do so by illuminating and analyzing the fallacies inherent in the accepted story about each key participant in this game as they played on the world chessboard of international politics going far beyond Mexico. With all the fallacies peeled away, the secret becomes manifest.

This accepted story of the expropriation focuses on the struggle between the purported villains (the British and American oil companies) and the hero (Mexican President Lázaro Cárdenas) and the right of the Mexican people to seize their country's mineral wealth. This official story starts by telling about the writing of the Constitution of 1917, when, to offset foreign-private and foreign-government involvement in Mexico's internal oil affairs, the framers of the document changed existing land and mineral law to provide that, henceforth, everything underground would be the property of the government—as had been the case under the Spanish Crown.

Let us follow the official story (which leaves much for us to uncover in the chapters that follow), which here is set forth in italics:

The oil companies that already had significant investments in Mexico in 1917 fought the new provisions in Constitution of 1917, maintaining that the law could not, ex post facto *(at least under "U.S. and "international law"), seize legally their subsoil petroleum and mineral rights, a position that they maintained until well after the expropriation in 1938.*

Tension mounted during the 1920s as Mexico sought to implement the provisions in the Constitution of 1917,[1] *and the oil companies began to slow production, shifting their focus to new opportunities under the "friendly" government of Venezuelan dictator Juan Vicente Gómez (1908-1935).*[2]

Decline of the production in Mexican oil is shown in Table 1. Oil production reached its height in 1921 (over 193,000 barrels), and then, began a gradual decline, which accelerated in 1926, falling by 25,094 barrels to reach only an output of 90,421.

In 1934 the Roosevelt administration announced the "Good Neighbor Policy",

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[1] See Merril Rippy. *Oil and the Mexican Revolution*. Leiden: Brill, 1972; Joseph Edmund, Sterrett, and Joseph Stancliff Davis. *The Fiscal and Economic Condition of Mexico.* New York: International Committee of Bankers on Mexico, 1928.

[2] According to Jonathon Brown: ""For eleven years, from the promulgation of the 1917 constitution to the 1928 Calles-Morrow agreement, the government sought to enforce public dominion over a resisting industry. The conflict retarded exploration and drilling programs. By the time the companies and the government had settled the issue of public dominion sufficiently to permit new exploration in Mexico, cheaper production from Venezuela had captured world markets while prices reached a nadir." See Brown, "Foreign Oil Companies," p. 385, in Brown, Oil and Revolution in Mexico. Berkeley and Los Angeles: University of California Press, 1993.

which essentially declared that the United States would no longer enforce American property rights in Latin America.[3] *The U.S. government had backed the oil companies in their Mexican dispute through the 1920's, and then briefly became neutral until around 1935, when it backed the Mexican government through its sympathetic U.S. Ambassador, Josephus Daniels. The broad factors in this shift were changes in the U.S. supply demand equation for oil (from short to plentiful), waves of Marxist thought affecting social and political attitudes throughout the Americas, and expectations of war against Germany and its allies.*

Table 1

Oil Production in Mexico, 1901-1950

(Thousands of Barrels)

Year	Production
1901	10
1902	40
1903	75
1904	126
1905	251
1906	502
1907	1,004

[3] Stephen Haber, Armando Razo, Noel Maurer. "Petroleum [in Mexico, 1911-1929]," p. 211 in their *The Politics of Property Rights: Political Instability, Credible Commitments, and Economic Growth in Mexico, 1876–1929.* New York: Cambridge University Press, 2003.

1908	3,931
1909	2,712
1910	3,632
1911	12,546
1912	16,550
1913	25,682
1914	26,222
1915	32,893
1916	40,545
1917	55,293
1918	63,828
1919	87,073
1920	157,069
1921	193,398
1922	182,278
1923	149,585
1924	139,678
1925	115,515
1926	90,421
1927	64,121
1928	50,150
1929	44,688
1930	39,530
1931	33,039
1932	32,805
1933	34,001
1934	38,172
1935	40,241
1936	41,028
1937	46,907
1938	38,506
1939	42,898
1940	44,036
1941	43,054
1942	34,815

1943	35,163
1944	38,204
1945	43,547
1946	49,235
1947	56,284
1948	58,370
1949	60,736
1950	72,118

Source: Thayer Watkins. "The Petroleum Industry of Mexico." <www2.sjsu.edu/faculty/watkins/pemex1.htm>, in his *Economic History and History of Mexico,* <www2.sjsu.edu/faculty/watkins/mexico.htm>.

From 1935 through 1938, when Mexican President Lázaro Cárdenas backed the Marxist-inspired sindicato (labor union) of oil workers in its demand for "fair" wages and benefits as well as a role in co-administering the foreign-owned companies, the oil companies refused union demands despite industry-wide strikes and the urging of the Mexican government to agree. The companies sought to mobilize the same type of U.S. pressure against Mexico that had been so successful at protecting their "rights" during the 1920s.

But the situation had changed, mainly because U.S. Ambassador to Mexico Josephus Daniels, inspired by Roosevelt's New Deal, sympathized with the Mexican people, the unions, and President Lázaro Cárdenas in their struggle against the foreign-

owned "Big Oil." To no avail, the oil companies called upon old friends (including a former U.S. ambassador and a former Mexican President) to help them publicly make their case in the United States and in Mexico. The argument was that the Mexican government was seeking to seize their hard-earned assets in Mexico--all because the companies could not afford to meet the oil union demands.

The unions responded to the companies' actions by appealing to Cárdenas to appoint a Mexican government commission to evaluate oil company costs and profits, thus establishing an objective manner to determine the fairness of their demands. Cárdenas did appoint the commission, which ruled in favor of labor's demands.

Oil companies' leaders stated they would never agree to these demands and publicly criticized the commission, the unions, the process, and the Mexican President. Because the oil companies were so used to prevailing through bribery and the bullying of officials, they thought that this crisis in Mexico could be resolved through the same means.

The oil companies, as a group, appealed the commission's order to Mexico's Supreme Court. To do so, they brought to Mexico some of the world's best lawyers to argue that the labor union and the Mexican government were unreasonable.

Nonetheless, the Supreme Court ruled against Big Oil, provoking the companies to add the Supreme Court to their list of Mexican institutions, individuals, and organizations to be publicly criticized inside and outside Mexico. Big Oil, then, continued to maintain that it would not submit to the decision of the Mexican Supreme Court.

At this point, Ambassador Daniels expected that, in the worst case scenario, the

Mexican government would appoint a controller of the companies to oversee their assets and comply with the demands until return of control to the companies could be worked out.

Because of fears of paralysis of oil production and its effect on the economy, President Cárdenas stepped in personally at this point for a series of negotiations with oil industry representatives.

Three Views of the Expropriation Process

About the last meeting with the oil company representatives (on March 7 or 15 or 18, depending on the source), the official view is contradicted by at least two others (which are not given in italics): [4]

> *1. Lázaro Cárdenas states the official view that, when he met March 7, 1938, with the representatives of the oil companies, he did so at the request of the U.S. Embassy. When the companies asked to postpone compliance with the Supreme Court decision against them, Cárdenas told them that the "process was closed and they had to obey."*[5] [This is a

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[4] According to Lázaro Cárdenas in his chronological notes wherein he recorded his thoughts and activities, on March 9, 1938, he had made up his mind to expropriate if the companies refused to obey the Mexican Supreme Court decisions against them. On March 10th he asked his mentor and long-time friend Francisco J. Múgica to draft the Manifesto of Expropriation. See Lázaro Cárdenas, *Obras:I-Apuntes, 1913-1940*. México DF: Universidad Nacional Autónoma de Mexico, 1972, pp. 386-390. Múgica, delegate to the writing of the Constitution in 1917, was one of the key leaders in including provisions that sub-soil minerals rights belong to the Mexican Nation.

[5] This according to Cárdenas, *Obras:I-Apuntes, 1913-1940,* p. 390. This volume was edited by his son, Cuauhtémoc Cárdenas, who told Professor Wilkie that, in order to protect his father, he neither published all of the dates for which entries were made nor all

composite of Views 1 and 3, below, which has seen the story developed as part of the Cárdenas myth (that is, as we will see, his personal Elitelore) to become part of Mexico's Folklore about how the expropriation took place.]

2. According to Pierre Boal, Daniels' counselor, who was present at the last meeting of Cárdenas with the oil companies, Cárdenas gave his word that, if the companies would agree to the terms of the Supreme Court decision, he would guarantee that no more demands would be made. Thomas Armstrong, representing the oil companies, told Cárdenas that his word was hardly a sufficient guarantee. Cárdenas taken aback by this apparent questioning of his trustworthiness immediately ended the meeting.[6] [This is View 2, below, of the last meeting, which according to Lorenzo Meyer, took place on March 18^{th}. This view constitutes the Counter-Elitelore to Cárdenas' Elitelore.]

3. [For my conclusions about the events of the expropriation process, see View 7, part N. This is the Academic View of how Elitelore becomes Folkore.]

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of the full entries for some dates. If and when the entries in his *Apuntes* are published in full, they may (if they still exist) flesh out what happened between March 7 and March 18, 1938.

[6] Boal, quoted by E. David Cronon, *Josephus Daniels in Mexico*. Madison: University of Wisconsin Press, 1960 at 184. This is discussed below when I analyze the process of nationalization in 1938.

Eleven days later Cárdenas surprised the foreign executives and the U.S. government by nationalizing the oil industry in Mexico in order to, as he put it:[7]

- *End the abuse of the Mexican workers,*
- *Prevent economic paralysis and*
- *Calm fears that Mexican sovereignty had been compromised by the companies' failure to follow an order of the Mexican Supreme Court.*

The Mexican nation cheered Cárdenas' decision to expropriate the oil.

In the meantime, the Mexican government did not appraise the U.S. government and Daniels that the expropriation was going to take place, and thus U.S. leaders were unable even to try to convince Cárdenas not to go through with the nationalization process.[8]

The oil companies punished Mexico severely by withholding spare parts and shipping tankers. Ultimately, however, their demands for compensation were resolved by

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[7] Ibid., passim.

[8] Although most accounts have Lázaro Cárdenas making his decision to expropriate on March 18, 1938, including that of Lázaro's close friend William Cameron Townsend, who translates Cárdenas speech to the Nation in his book *Lázaro Cárdenas, Mexican Democrat* (Ann Arbor: George Wahr, 1952), Howard Cline, then director of the Hispanic Foundation, U.S. Library of Congress, writes in his classic account of U.S.-Mexican relations that Cárdenas made up his mind on March 15, and so notified his cabinet at 6 P.M. Cline states that Cárdenas made his announcement to the nation at 10 PM; and the next day, the 16th, the oil companies offered to pay the full amount awarded to the workers Union, US$ 7.2 million, but received no response to their offer. (I have converted the 26 million peso award to the worker's union at the peso-dollar exchange rate of 3.6, the rate given in Nacional Financiera, S.A., *Statistics on the Mexican Economy.* México, D.F.: NAFINSA, 1977, p. 216.)

a joint U.S.-Mexico commission, just in time for Mexico to support the Allied effort in World War II.

The above official story has become a foundation of Cárdenas' heroic status and of Mexico's oil policy ever since. In the oil rich town of Poza Rica a new mural in the center of town pictures a fat cigar-smoking oil foreign oil company executive degrading oil workers until Cárdenas saves them.

Thus, this lore of Mexico's "sovereignty" over PEMEX prevents *any* foreign oil company investment in PEMEX—the official story having real consequences all the up to today.

This lore surrounding PEMEX and its role as symbolizing the "Economic Independence" of Mexico lives in spite of PEMEX shortcomings. That PEMEX is largely regarded as one of the public companies most short of investment capital in the world is ignored in Mexico. That PEMEX is one of the most over-staffed and corrupt public companies in the world is recognized in Mexico, but dismissed as "normal" by too many Mexicans.

Many critics have long observed, inside and outside of Mexico, that PEMEX is so inefficient and lacking in expertise for deep-water exploration in the Gulf of Mexico that new reserves only replace one-quarter of the oil it produces each year, and Mexicans must rely heavily on U.S. produced high quality gasoline.[9]

Given the importance of the official story that maintains the place of PEMEX as

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[9] See, for example, Daniel Luhnow "As Mexico's Oil Giant Struggles, Its Laws Block Foreign Help, *Wall Street Journal,* June 15, 2005.

untouchable regardless of its serious problems, it is crucial for scholars to test the accuracy of the accepted story, and that is the task I undertake here.

As a former trial lawyer and businessman,[10] who has been involved in historical research since 1995, I first became interested in the Mexican oil expropriation of 1938 in my graduate seminar at UCLA with Professor Richard Weiss. As I wrote my seminar paper on U.S.-Mexican relations and the role of U.S. Ambassador Daniels, I found that the official story did not make intuitive "business sense."

Daniel's comments, in his famous book *Shirt-Sleeve Diplomat,*[11] caught my attention when he wrote that the behavior of the oil companies during the dispute with the Mexican government were a "textbook example" of what *not* to do to avoid expropriation. Because Daniels had published a newspaper before entering politics, he had to have wondered to himself how the "sophisticated" oil company leaders could make such a serious mistake in their negotiations. Certainly I wondered about the extent to which the official story about the expropriation could be "true," and I set out on this quest to know more.

My preliminary research showed that since the late 1920s these same oil

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[10] Although I set out to be a lawyer and indeed took advantage of my Stanford law degree (J.D., 1977) to serve as Trial Attorney, Aviation Disaster Unit, Torts Branch, Civil Division, United States Department of Justice, Washington, D. C. (1978-1980), my father's death in October 1980 required me to take over the family business. Thus, I drew not only upon my legal experience but also upon my M.B.A. (Arizona State University, 1975) and subsequently became President, Phoenix Motor Company in Phoenix, Arizona and President (1989 – 1998), Airport Honda in Los Angeles, California.

[11] Chapel Hill: University of North Carolina Press, 1947.

companies had been fighting nationalistic movements to protect their Latin American oil fields. Sometimes successful and sometimes not, surely they could write the textbook on what to do to avoid nationalization.

How can the paradox be explained that experienced companies would write the wrong "textbook" to protect them in Mexico? Let us look at several explanations:

First, according to the official story, the oil companies thought their power was so great that Mexico could not oppose them. Yet, smaller Latin American countries had been doing so for years, and, for example, Bolivia even expropriated foreign-owned oil in 1936.

Second, why does the accepted story argue, implicitly, that all the oil companies were united in their approach to Mexico? My findings are the first to show otherwise.

Third, the literature suggests the companies thought anything in Mexico could be resolved with a big enough bribe. But this too would have been tried in these other equally corrupt Latin American countries and failed. As a businessman, I know that these companies were accountable to their boards of directors and their shareholders. They could not simply throw away assets unless it was part of a greater strategy.

Hence, I made the following supposition: If the companies had thought it in their long-run strategic best interest to survive in Mexico, they would have written the best possible textbook to avoid expropriation. Since they did not, I formulate here a new hypothesis to explain the paradox of expropriation:

Expropriation must have been in the long-term *strategic interest of at least one of the companies.*

To test this hypothesis, I selected two mutually reinforcing methods of analysis to "cross-examine" the evidence in this case study. The methods of analysis are those of Pierre Bourdieu's theory of field analysis,[12] and James Wilkie's theory of Elitelore. [13]

Elitelore Theory Defined by Wilkie

Wilkie's model argues that differing elites put forward competing explanations of events to serve their individual interests. The "winning" explanation that becomes common knowledge becomes "folkloric" in nature. Thus, in inventing "folklore," the elite justify their actions to themselves as well as their followers and the mass population. This invented "folklore" omits or leaves out elements of the truth in a way that supports that elite's goals thereafter.

Field (Game) Theory Defined by Bourdieu

Bourdieu's model looks at events as part of the bigger picture in which they play a role. Hence, he examines the rules by which games are played and at the positions of the various participants in relation to the goals of the game. He calls this gaming structure a "field," and he calls for analyzing events from the point of view of the players under their rules.

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[12] See Bourdieu's works listed in the Bibliography, for example, *In Other Words*. Stanford, CA: Stanford University Press, 1990.

[13] See Wilkie's works listed in the Bibliography, for example, *Elitelore.* Los Angeles: UCLA Latin American Center Publications, 1973; Translated into Spanish by Jorge Balán (ed.*), Las Historias de Vida en ciencieas socials: Teoría y Técnica*. Buenos Aires: Edición Nueva Vida, 1974. 93-151.

I use field analysis here to divide the events and players of the 1938 expropriation into three different fields:

- Mexican Power Structure,
- International Political, and
- Global Oil.

My findings are that leaders in the field of Mexican power and business politics sought different goals than did the leaders in the global oil field because the rewards and methods for accomplishing goals were different. Leaders in the International Political sphere were sidelined by U.S. Ambassador Daniels.

I use the analysis of elitelore here to look for leaders' explanations for the events surrounding the expropriation, events that hid what some of the oil leaders really wanted.

Whereas previous analyses have focused on the "fields" of Mexico and International Politics, I have found that the rationale and goals that mattered lie "hidden" within the logic of the global oil field as "articulated" by Standard Oil of New Jersey Standard.

Looking at the oil company's behavior through these prisms of view led to finding several curious findings:

A. During the same time period when the same Standard Oil of New Jersey Standard company officers faced political calls for expropriation in Venezuela as in Mexico, oil workers were treated very differently in the former country than in the latter. Standard Oil of New Jersey Standard was not expropriated in Venezuela—indeed; they followed a textbook example of what to do to *avoid* expropriation. Why was their behavior so different in Mexico?

B. Standard Oil permanently destroyed all its original historical records for the time period leading up to the expropriation. What would those records have showed that the company did not want the world to see?

C. Because of a worldwide glut at the time, Standard Oil of New Jersey Standard could make more money by shutting down expensive Mexican oil operations and using Venezuela oil sources than if it continued trying to send Mexican oil to the world market. Profit considerations are paramount in business strategies.

D. Because the oil companies were able successfully to punish Mexico for its expropriation, no more Latin American expropriations occurred for 22 years.

Three views counter to mine have been hypothesized. I summarize them here drawing upon two works by Stephen Haber, Armando Razo, and Noel Maurer (henceforth called "Haber Group"). One of their hypotheses is explicit:

The expropriation came about because all sides miscalculated about how to conduct the negotiations.

Thus, the Haber Group writes: [14]

> "Nationalization eventually took place because all sides in this drama drastically miscalculated. The oil companies miscalculated how much they needed the union's protection to prevent them from being expropriated.

[14] Haber, Razo, Maurer, "Petroleum [in Mexico, 1911-1929]," pp. 211-212. I have reformatted the paragraphing.

"The oil worker's union miscalculated how much the oil companies were willing to pay for its services as third-party enforcer.

"The government miscalculated the economic value of Mexico's remaining oil industry. The net result was that the oil companies refused to meet the union's demands and the union would not back down.

"The ensuing dispute wound its way to the Mexican Supreme Court, which sided with the workers.

"The oil companies refused to obey the Court's decision. They thereby set the stage for their confiscation by the government in 1938.

"Indeed, the open refusal of the companies to abide by a ruling of the Supreme Court gave President Cardenas little choice but to nationalize the industry.

"When nationalization finally came, however, it came in the context of an industry made up of played-out wells and aging equipment. By 1938 output was less than 20 percent of its 1921 peak - and trending downwards."

Did Mexico Run Really Out of Oil by the early 1930s? And What are the Implications of the Answer to this Question?

The other two hypotheses involve analysis of the rise (1901-1921) and decline (1922-1929) of foreign-owned oil production in Mexico, shown in Table 1 above. This rise and decline implicitly set the stage for expropriation in 1938.

The Haber Group summarizes matters from its point of view (pp. 1-3):[15]

> "[Scholars] advance either of two hypotheses regarding the dramatic decline of Mexico's petroleum industry. One hypothesis is that the industry's decline was a result of institutional change resulting from the Mexican Revolution. The revolution led to a new constitution in 1917. The constitution ended a 33-year tradition of fee-simple property rights and vested property rights with the federal government. The revolution also resulted in endemic political instability, which endured from 1911 to 1929. This meant that no commitments by Mexican governments toward the oil companies were credible: new governments, desperate for funds, had every incentive to renege on earlier agreements. Taxes on oil production, in fact, continually rose.
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> "A second hypothesis is that Mexico simply ran out of oil deposits that could be extracted at competitive cost, given prices, technology, and competing sources. That is, the causes of Mexico's decline were largely geological, not institutional. The decline of Mexico's oil industry in the 1920s is analogous to the history of Pennsylvania oil in the late nineteenth century....
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> "Some historians of Mexico [such as Linda Hall] have favored the

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[15] Stephen Haber, Armando Razo, and Noel Maurer, "When the Law Does Not Matter: The Rise and Decline of the Mexican Oil Industry," *Journal of Economic History* 63

> first hypothesis. Others [such as Lorenzo Meyer] have favored the second hypothesis. Some [such as Jonathan Brown] have argued that both hypotheses are true. Regardless of the substance of their arguments, all sides in this debate have two things in common. First, they tend not to specify hypothesis in a falsifiable manner. Second, they do not bring to bear much in the way of systematically retrieved and analyzed data.
>
> "We argue, based on the retrieval and analysis of systematic data, that the weight of the evidence supports the hypothesis that Mexico's petroleum industry went into decline because Mexico ran out of oil. Increases in taxes had little impact on the oil companies' investment decisions, because movements in tax rates had only a minor impact on corporate rates of return. Nor were the oil companies concerned about changes in their de jure property rights. They believed—correctly, it turns out—that they could mitigate the impact of those reforms.
>
> "Every index of investment that we have developed points to the same conclusion: the oil companies continued to explore and invest well after output began to fall. They simply could not find sources of petroleum that could be extracted at a reasonable price using existing technology."

According to the Haber Group, the oil companies always prevailed during the 1920s in their disputes with the Mexican government and the oil union. Why? In addition to saber rattling by the U.S. government (including threats to allow sale of weapons from

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(March 2003), pp. 1--32.

the USA into Mexico that would destabilize politics), the companies could and did coordinate their planning,[16] including the threat to shut down oil production.

The Haber group concludes that the oil companies did not suspend investments in the oil infrastructure. Rather, they argue, Mexico ran out of oil. They state:[17]

> "Mexico had more oil, of course, and these deposits were tapped in the 1970s. The problem was that it was not possible to either discover or tap those sources with 1920s technology. In fact, most of Mexico's current oil wells are offshore and have to be accessed at depths an order of magnitude beyond the technological abilities of 1920s producers."

Because Mexico's situation changed in the 1930s, it is unfortunate that the Haber Group did not continue excellent analysis of investment data to cover the period from 1930 to 1937. Futher they overlook three important factors.

First, for reasons unknown, the Haber, Razo, and Maurer dismiss Poza Rica's reserves as causing only "a minor rise in total output." They argue that, "in short order, it too became played out."[18]

Second, while Standard Oil of New Jersey Standard left Mexico in1929, it returned coincidently in 1932 through its purchase of the Latin American properties of Standard Oil of Indiana. In order to obtain Indiana's Venezuelan production rights,

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[16] Ibid., p. 3.

[17] Ibid., p. 2

[18] See "Petroleum [in Mexico, 1911-1929]," footnote, pp. 213.

Standard Oil of New Jersey also had to take Indiana's Huasteca Petroleum Company in Mexico.

The Poza Rica Bonanza Changes the World's Chess Game of Oil,

and It Does So with an Ironic Twist

Third, in the meantime, Royal- Dutch Shell--Standard Oil of New Jersey Standard's arch competitor--discovered in Veracruz state the Poza Rica oil field in 1922, with first proof of its wealth found in the drilling of 1928. Poza Rica came to fruition in 1933, at the time considered to be the world's second largest oil reserve, [19] under Shell's subsidiary, La Compañía Mexicana de Petróleo el Águila. In 1937, Shell signed an agreement with the Mexican government in which El Águila won the right to exploit 52.6 million square cubic meters of oil reserves.

These reserves were calculated at that time by the World Petroleum Institute to hold 4 billion barrels of oil, although in 1947 British authorities calculated the total reserves of El Águila (including Poza Rica) to be somewhat lower, standing at 2.2 billion barrels.[20] Whatever the "real" number, it was huge, as is suggested here in Table 2; and, as the conflict between the oil companies and the Mexican government was becoming acute, El Águila was opening a ten-inch pipeline with a capacity to send 11,000 barrels of oil daily from Poza Rica to its Azcapotzalco Refinery in Mexico City.

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[19] See 100 Años de la Industria Petrolera en México. Mexico, D.F.: spi, 2004, p. 2.

[20] Meyer, Lorenzo e Isidro Morales, *Petróleo y Nación: La Política Petrolera en México (1900-1987)*. México, Fondo de Cultura Económica, 1990, cited in *100 Años de la Industria Petrolera en México,* p. 2.

Table 2

Poza Rica Oil Production as Share of Mexican Oil Production

A.1940, 1945, 1949

1940	65%
1945	53%
1949	59%

B. Cumulative Share of Oil Produced, 1950

1950	20%

Source: See Table 1.

Shell was so anxious to gain the Poza Rica concession to produce oil that it agreed to pay the Mexican government from 15 to 35 percent of the amount pumped and to loan the government US$ 5 million, at the same time guaranteeing to produce 12,500 barrels daily.[21]

Standard Oil of New Jersey Standard, relegated to minor activities at its exploration camp in El Tajín, realized that it had little to gain and much to lose in the face of Shell's major operations in Poza Rica, 20 kilometers away.

If, as I believe to be true, Standard Oil of New Jersey Standard wanted to undercut Shell's position on the chessboard of world oil, what better strategy than to be sure that Mexico expropriate the foreign-owned oil? The big loser in Mexico was Shell; and

[21] Idem in ibid.

Standard Oil of New Jersey Standard went about its business of consolidating its position in Venezuela.

Indeed, if Standard Oil of New Jersey Standard carried out this subtle policy—its hands had to be clean--, would it not destroy all its company records dealing with Mexico? As we see in the work that is exactly what Standard Oil of New Jersey Standard did.

One can almost hear Standard Oil of New Jersey Standard officials later asking, "Smoking gun? What smoking gun?" The answer: "Standard Oil of New Jersey Standard lost in Mexico as did everyone else, witness our claims on the Mexican government.

Standard Oil of New Jersey Standard was no doubt pleased to present its inflated claim of damages to the Mexican government-- US$ 18.6 million. This amount was 76 percent of all U.S. oil company claims against Mexico, [22] and the global settlement negotiated in 1947 for all U.S. companies came to US$ 42 million,[23] including accumulated interest payments.

The total British compensation came to US$ 130 million, payable in installments

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[22] Because the U.S. company Mexican Gulf Oil broke ranks with Big Oil and accepted the decision of the Mexican Supreme Court, it was not expropriated in 1938. Rather, it was bought by President Miguel Alemán in 1949 for US$ 2.8 million. For the amount in pesos, see Héctor Hugo del Cueto, *Miguel Alemán: Historía de un Gobierno, 1946-1952.* México, D.F.:Talleres de Impresión Moderna, 1974, p. 53, converted to dollars with the Mexican peso-dollar exchange rate (8.65) given in James W. Wilkie, Enrique C. Ochoa, and David E. Lorey, *Statistical Abstract of Latin America* 28 (1990), p. 946.

[23] Howard F. Cline, *The United States and Mexico*. Revised edition; New York: Atheneum, 1976, p. 249.

though 1962. This amount includes US$ 23 million in accumulated interest. [24]

The chapters that follow are presented as views seen from the vantage points of key players in the expropriation:

Views 1 and 2 set forth the two different explanations of what happened as articulated by Cárdenas and the oil Companies around the time of the expropriation.

View 3 sets forth the resulting folklore that has become the common historical understanding of what roles each party played and why they acted as they did leading up to the expropriation.

View 4 looks at the United States and asks what were the sources of Daniels power and his perceptions of the oil companies and Mexico. It asks, implicitly, was the Roosevelt Administration really surprised by the expropriation? Could it have better helped its corporate citizen, Standard Oil of New Jersey Standard, before and after the expropriation? How appropriate were U.S. actions?

View 5 looks at the commonalities of the oil companies and asks if they were surprised by expropriation. What factors--other than international power and money--may have made expropriation attractive to the oil companies then doing business in Mexico? What elitelore did they as a group want to put forth about the expropriation?

View 6 looks at Cárdenas and asks about his characteristic style and strategies in dealing with various interest groups in Mexico. What were his intentions? Did he miscalculate? What considerations did he have to take into account as he moved to expropriation? Because the Mexican Supreme Court had been named by him and each

[24] Ibid., p. 247.

member served at the pleasure of the President of Mexico, it is appropriate to ask: Did not Cárdenas dictate the Court's decision against the oil companies?

View 7 looks at the individual strategies on a worldwide basis of the global oil companies operating in Mexico, how they cooperated and competed with each other. What part did Mexico play in each company's global strategy? Viewed from the standpoint of each company's worldwide objectives, what were the results for each company as a result of the expropriation?

As I indicate throughout this work and in my analysis of sources, my findings about Standard Oil of New Jersey Standard's hidden agenda in the case of the Mexican expropriation are circumstantial. Using the scientific method of attempting to disprove my hypothesis, I have not been able to do so—as we will see.

Suffice it to say here that we have discerned the motive driving Standard Oil of New Jersey Standard; and we have found that the Company destroyed its records to prevent analysis of its activities. As a historian and former trail lawyer, I leave it in the readers, who serve as jury in this historical case, to suspend judgment until they have read this entire case history in which I submit that in 1938 the chessboard of world oil was rearranged, as were Mexico's relations with the United States and Britain.

INTRODUCTION:

THE PROBLEM: UNDERSTANDING THE FOLKLORE CREATED BY ELITE IN THE CHESS GAME OF WORLD OIL

Sixty-six years ago Mexico's President Lázaro Cárdenas made a decision that ultimately had a major impact on both Mexico and the world. Although we still do not know the "real" causes and meanings surrounding his decree in 1938, Cárdenas (president, 1934-1940) ostensibly "nationalized" the foreign-owned oil industry.

In the process — and of more importance to this work — Cárdenas justified the creation of Petróleos Mexicanos (PEMEX) as Mexico's national oil company in such a manner that people everywhere came to believe that he had no other course. Yet as I argue here, the reality is that Cárdenas promoted a myth about why expropriation was crucial. Moreover, to this day the elitelore he advanced about the necessity of PEMEX persists as the accepted folklore and continues to prevent Mexico from re-privatizing its national oil company. Indeed, the Party of the Institutional Revolution (PRI) that Cárdenas helped to create in its second phase[25] may now be on the verge of breakup over whether or not to re-privatize PEMEX.

To delve into the "real" causes and meanings of Cárdenas' act, one of the most important in Mexico's history, I use here the field of scholarly inquiry known as

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[25] The Official Party of the Revolution, founded in 1929 as the Party of National Revolution, became the PRM (Party of the Mexican Revolution) in 1938 and the PRI in 1946. It held presidential power for 71 years, until 2000. The PRI (the major party in Congress) now faces a split because the government does not have the funds needed to

"elitelore," which originated with James W. Wilkie. As I will show, Wilkie's concept is the appropriate paradigm for understanding the explanation that Cárdenas offered to the public that became the folklore about expropriation. Elitelore involves the:

(a) process by which leaders (the "elite") at all levels of society (for example, national, state, local, tribal) create lore for the masses (the historic "folk");

(b) resultant beliefs that the masses come to hold as "folklore," or what is erroneously believed to be the "wisdom" of the people.

(Wilkie, cited immediately below derives this definition from the nine books and articles.)

A. WILKIE'S THEORY OF ELITELORE

Wilkie identifies and defines the concept of elitelore and its inter-relations with folklore in several publications, which include:

(1) *Elitelore* (Los Angeles: UCLA Latin American Center Publications, 1973); Translated into Spanish by Jorge Balán (ed.), *Las Historias de Vida en ciencias socials. Teoría y Técnica* (Buenos Aires: Edición Nueva Vida, 1974), 93-151;

(2) "Dimensions of Elitelore: An Oral History Questionnaire," *Journal of Latin American Lore* 1:1 (1975): 79-101 (co-authored with Edna Monzón de Wilkie);

(3) "Cinemalore: 'State of Siege' as a Case Study," *Journal of Latin American Lore* 2:2 (1976): 221-238 (co-authored with Daniel Geffner);

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prevent the decline and collapse of PEMEX.

(4) "Elitelore and Folklore: Theory and a Test Case in 'One Hundred Years of Solitude'," *Journal of Latin American Lore* 4:2 (1978): 183-223 (co-authored with María Herrera-Sobek and Edna Monzón de Wilkie);

(5) "Introduction," to *The Bracero Experience: Elitelore versus Folklore*, by María Herrera-Sobek (Los Angeles: UCLA Latin American Center Publications, 1979), 1-9;

(6) "Evita as Theater: From Elitelore to Folklore," *Journal of Latin American Lore* 7:1 (1981): 99-140 (co-authored with Monica Menell-Kinberg);

(7) "The 'I' as 'We' in Elitelore: The Merging of Individual and Collective Lores," *Journal of Latin American Lore* 13:1 (1987): 3-26 (co-authored with David E. Lorey); and

(8) "Introducción," in each volume of *Frente a la Revolución Mexicana: 17 Protagnoistas de Etapa Constructiva. Entrevistas de Historia Oral* (4 volumes, of which 3 have been published to date; México, D.F.: Universidad Autónoma Metropolitana, Vol. I (1995); Vol. II (2001); III (2002), Vol. IV (In press), (co-authored with Edna Monzón Wilkie; general editor Rafael Rodríguez Castañeda, who analyzes the elitelore theory in Vols. I, II, IV, and interviews Wilkie on his theory of elitelore in the preface to Vol. III).[26]

[26] Mexican leaders interviewed in the early 1960s (and from whose interviews the theory of elitelore was derived) include: (Vol. 1) *Intelectuales: Luis Chávez Orozco, Daniel Cosío Villegas, José Muñoz Cota, Jesús Silva Herzog*; (Vol. II) *Ideólogos: Manuel Gómez Morín, Luis L. León, Germán List Arzubide, Juan de Dios Bojórquez, Miguel Palomar y Vizcarra;*

(9) *Mexico Visto en el Siglo XX: Entrevistas de Historia Oral* (Mexico DF: Instituto Mexicano de Investigaciones Económicas, 1969), (co-authored with Edna Monzón Wilkie).

B. WILKIE'S THEORY COMPLEMENTED BY BOURDIEU'S FIELD THEORY

To augment Wilkie's concepts of elitelore and folklore, as I apply them to the expropriation of Mexico's oil, I have adopted a new approach to elitelore by supplementing it with Pierre Bourdieu's ideas of "field analysis."[27] I have used Bourdieu's theory to identify the main fields involved in the problem—one of which is that of the oil companies as a group. I define their field in View 2 (The Oil Company Response To Expropriation), in which I show how the group of oil companies launched a campaign to have their own elitelore accepted as the folklore about the expropriation—the why, the how, and the consequences such as amount owed in recompense for loss of assets above and below ground.

But Standard Oil of New Jersey Standard, before launching the general campaign

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(Vol. III) *Líderes: Salvador Abascal, Ramón Beteta, Marte R. Gómez, Jacinto B. Treviño;* (Vol. IV) *Presidente y Candidatos: Vicente Lombardo Toledano, Juan Andreu Almazán, Ezequiel Padilla, Emilio Portes Gil.* The Wilkie's unpublished interviews include Carlos Fuentes and Carolina Bassols, among others.

[27] Examples of "field analysis" may be found in P. Bourdieu and L. J. D. Wacquant, *An Invitation to Reflexive Society* (Chicago: University of Chicago Press, 1992), 94-115; P. Bourdieu see also *In Other Words* (Stanford, CA: Stanford University Press, 1990); *Critical Perspectives* (Chicago: University of Chicago Press, 1993); *Language and Symbolic Power* (Cambridge, MA: Harvard University Press, 1994); and *The State*

that it would lead because Mexico fell within its sphere on the chess board of world oil, had to deactivate a news report in the Mexican press that the Company was pleased because it "had been hoping for the expropriation to give it the opportunity to withdraw from Mexico." From New York, Standard Oil of New Jersey Standard President William S. Farish sought to quash any validity in that news. To protect what would become Standard Oil of New Jersey Standard's excessive claims against Mexico, Farish claimed that his company still had hopes of returning to reestablish its normal activities. Farish flatly denied that Standard Oil of New Jersey had been waiting for the expropriation as the way of escaping from Mexico.[28] Thus, Farish, stated that he thought the Company could return, once the Mexican government realized that (1) it could not operate the oil production and distribution process, and (2) it would have to invite Standard Oil of New Jersey to return and on Standard Oil of New Jersey's terms.

C. LIMITATIONS OF RESEARCH

Why has the 1938 nationalization and creation of PEMEX been "wreathed in nebulosity"? I find that the answer is that a major part of the historical record is missing. Why is it missing? Standard Oil of New Jersey (subsequently "New Jersey") destroyed some of its important archives after having undergone U.S. Justice Department and Senate investigations in 1941 for allegedly having helped the German war effort by

Nobility (Stanford, CA: Stanford University Press, 1996).

[28] See the news article "El Jefe de la Standard Aún Tiene Esperanzas [de] Restablecer Actividades Normales; Niega Estuverion Esperando Oportunidad de Reirarse," *El Siglo de Torreón*, May 21, 1938 (Archival Sources, B. Mexican Records 1., PEMEX Library and Archives, a. Hemeroteca Series, Vol. II).

supplying its German chemical company partner, I. G. Farben, with secrets that allowed it to gain superiority in artificial rubber production.[29] After Justice Department and Senate investigators dug through Standard Oil historical archives from 1939 through 1941, Senator Harry Truman accused Standard Oil of New Jersey Chairman Walter Teagle, Standard Oil of New Jersey President Bill Farish, and the company itself of treason in March 1942.[30] *Time* magazine tried to defend Standard Oil of New Jersey ("Seldom has a U.S. business firm taken such a smearing as Standard Oil Co. of New Jersey got last week. Assistant Attorney General Thurman Arnold swung the rubber hose while the Truman Committee held the victim."[31]) but failed. Teagle soon resigned from Standard Oil of New Jersey and public life forever while Farish collapsed and died eight months later.[32]

One of Standard Oil of New Jersey's responses to the accusations was to provide funding and support for a group of history professors to go through its archives and sub-archives. Under the editorial directorship of Harvard professor Henrietta Larson this research produced a three-volume history of Standard Oil Company (New Jersey) covering the years from 1882 to 1950.[33] The third volume, *History of Standard Oil*

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[29] Rubber production became crucial to the U.S. war effort after the fall of Singapore in February 1942, when the Allies lost 90% of their crude rubber supply.

[30] Bennett H. Wall and George S. Gibb, *Teagle of New Jersey Standard* (New Orleans: Tulane University, 1974), chapter 16.

[31] *Time* magazine cited in Wall and Gibb, *Teagle of Standard New Jersey*, 318-319.

[32] Wall and Gibb, *Teagle of Standard New Jersey*, 318-319.

[33] Volume 1 is entitled *History of Standard Oil Company (New Jersey) 1882-1911:*

Company (New Jersey) 1927-1950: New Horizons, covers the time period of Mexico's expropriation of Standard Oil of New Jersey's assets.[34] Standard Oil of New Jersey then destroyed these archives of its internal historical documents, making the richest source of material on its pre-1938 activities forever unavailable to the general public or to Shell. It is my belief that one of the things Standard Oil of New Jersey was concerned about was that Shell and/or the U.S. Government and Mexico might come to know of its "real" plan to force expropriation in Mexico.[35] Thus, in order to reconstruct the internal strategies and intents behind Standard Oil of New Jersey's actions, researchers must intuit what was actually going on inside the company from external sources coupled with the company's external actions and their results. That is the approach this dissertation takes to answer the

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Pioneering in Big Business (New York: Harper and Brothers, 1955) by Ralph W. Hidy and Muriel E. Hidy. Volume 2 is entitled *History of Standard Oil Company (New Jersey) 1911-1927: The Resurgent Years* (New York: Harper and Brothers, 1956) by George Sweet Gibb and Evelyn H. Knowlton. Volume 3 is entitled *History of Standard Oil Company (New Jersey) 1927-1950: New Horizons* (New York: Harper & Row Publishers, 1971) by Henrietta M. Larson, Evelyn H. Knowlton, and Charles S. Popple

[34] It is interesting that Larson's accounts (I refer to these accounts as hers because she was the lead author) of the critical years of the Mexican expropriation are not drawn from internal New Jersey memoranda as are her accounts of other events in the book. Instead, her research is based on documents already made public and from other secondary sources. See *History of Standard Oil Company*, 129-130 and compare footnotes 76-84 with footnotes 33-37 and 95-97. While footnotes on other matters involving T. R. Armstrong cite various internal documents to or from Armstrong, none are cited in reference to the events surrounding the expropriation, even though Armstrong was the key player for New Jersey and must have written many memoranda to other managers and board members on what was happening.

[35] Personal communication from Jonathan Brown, who interviewed the late Henrietta Larson about her role as author of the Standard Oil project; see also Jonathan Brown, "Why Foreign Oil Companies Shifted Production from Mexico to Venezuela during the 1920s," *American History Review* 90, no. 2 (1985): 363.

questions presented here.

D. THE SOLUTION FOUND IN SEVEN VIEWS

My solution is to identify and analyze the eliteloric views related to the 1938 expropriation. I have identified seven views, which are that of:

1.Cárdenas, who developed the eliteloric view justifying the expropriation thus creating folklore;

2. oil companies', which developed their eliteloric view protesting the expropriation thus creating the folklore they propagated;

3. historians', who tend to accept Cárdenas view thus helping to spread the folklore that Cárdenas invented about Mexico's expropriation;

4. U.S. ambassador Josephus Daniels, who used his elitelore to support Cárdenas against Cárdenas opponents in the U.S. government;

5. Oil companies, which created elitelore to cover their true objectives behind the expropriation:

6. Cárdenas, who created his own elitelore to justify his role on the chessboard of Mexican politics: Cárdenas as "king"[36];

7. Standard Oil of New Jersey, which created its own elitelore to justify its role on the world chessboard of oil: Cárdenas as pawn.

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[36] Lázaro Cárdenas was too humble to ever portray himself as "King," but in reality he made the Mexican presidency into a six-year "kingship," as Wilkie has argued and with whom Octavio Paz concurs but sees not as king but as tlatoani or Aztec ruler of Mexico's historical and on-going "pyramid society." See Paz *The Other Mexico: Critique of the*

All of the above views are "virtual views" which I articulate her for the first time. This is not to say, for example, that the fourth view (that of the U.S. response), the fifth view (that of the multinational oil industry), and the sixth view (that of strategy) did not exist at the world level, but rather that they have not been applied specifically to the Mexican case. I believe that these views complete the puzzle and help us understand Mexico's internal history.

Because each chapter presents the different perspectives of each view, readers are asked to refrain from judgment until they have reached View 7.

While assembling the six views as part of this complicated puzzle, I present my own perspective — the seventh view — to explain my analysis of the 1938 nationalization of Mexico's oil industry. My seventh view draws upon, yet goes beyond, the previous six views to present a new understanding of "reality." Although each of the first three-eliteloric views adds something to my analysis, the fourth, fifth, and sixth are uniquely important because my articulation of them adds major clues to the cause and meaning of the 1938 events.

I have been enabled to identify all views (especially the fourth, fifth, and sixth views) by testing my own hypothesis — that based on the viewpoint of private business (in another "life," I am a businessman) — against Wilkie's concept of elitelore and Bourdieu's theory of field analysis.

My contribution, then, is to show how each analytical view is valuable in making explicit the elitelore and folklore that have been the basis of the mysteries surrounding the

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Pyramid (New York: Grove Press, 1972), pp. 45 and 103.

expropriation. I develop a resulting new — seventh — view that unveils the world strategic struggle and defines the causes and meanings of the events surrounding the expropriation, which is still generally obscured by the distorting prism of folkloric presuppositions.

My hypothesis goes beyond the negative concept of post-modernism, which argues in the main that because "truth" is in the eye of the beholder, it is impossible to find. Indeed my hypothesis is that there are many truths, as Wilkie has argued, and I find that each is important in shaping later events. What people believe has happened in history is often as important, if not more so, as what actually occurred, and these perceptions feed back into the course of history as leaders make decisions about how to act or react.

Each view examined here is important and may have a different meaning in light of the passage of time, as I show here. For example, Standard Oil of New Jersey seemingly achieved its goals after the expropriation in 1938, but Cárdenas' folklore has prevailed in the long run. Ironically, where Cárdenas' expropriation seemingly was seen as a "success" at the time and for a number of decades, today it is increasingly seen as having disastrously affected the subsequent course of Mexican history. Mexico has not turned out to be independent in oil, but is more dependent than ever on foreign technology, chemicals, and services just to meet its ordinary processed oil needs and maintain its oil as a source of income.

Below is a brief summary of either the content of or the questions considered by each of the views.

View 1: The Cárdenas Eliteloric View Justifying the Expropriation

After the expropriation, President Cárdenas addressed the nation over the radio announcing the view he hoped would become the folklore that would find its way into history. It can be paraphrased as follows:

By expropriating the oil companies' properties, the abuse and low pay of the workers and the threatened loss of petroleum production, which would lead to paralysis and chaos in the nation, would be stopped once and for all.[37] The oil companies had put the sovereignty of the nation at stake in refusing to follow the Supreme Court decision. For the benefit of the workers, the people and even the aliens in the nation, these foreign capitalists could not be allowed to elude the obligations Mexico had placed on them. Their premeditated attitude required no less than expropriation. Therefore, the whole nation had to provide moral and physical support to face the consequences of the decision he wished he did not have to make.[38]

View 2: The Oil Company's Eliteloric View Protesting the Expropriation

After the March 18, 1938, expropriation, the oil companies put forth the view they hoped would become folklore and find its way into history. I have paraphrased it as follows:

In the beginning, the oil companies were induced to make investments with the assurance that basic property rights would be preserved and protected by domestic law

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[37] V. Prewett, *Reportage on Mexico* (New York: E. P. Dutton & Co., Inc., 1941), 111.

[38] James W. Wilkie and Albert L. Michaels, eds., *Revolution in Mexico: Years of Upheaval, 1910-1940* (Tucson: University of Arizona Press, 1984), 236.

and diplomatic understanding. For more than 20 years Mexico violated those assurances and manipulated the laws to systematically erode what they induced the oil companies to put in despite the fact that they were good corporate citizens who paid the oil workers the highest wage levels in the country and perhaps even the world along with unheard-of benefits for Mexican workers. By this expropriation on the pretext of a government-created labor dispute Mexico stole the properties without any compensation and put into question the principles of justice and fair dealing on which all international trading depends.

View 3: The Folklore of Mexico's Expropriation

The basic belief that has generally survived through history incorporates the Cárdenas view in the following way:

Mexico's 1917 Constitution returned the ownership of subsoil rights from private companies to the government. Conflict over this law became the focus of U.S.-Mexican relations for the next 25 years. The Mexican government was constantly upset because profits from Mexico's vast mineral wealth were held outside the country in a way that only benefited foreigners.

When Cárdenas became president he supported the militant labor unions in order to consolidate his power. The oil unions demanded 65 million pesos worth of labor and benefits and went on strike when the companies refused to pay them. Cárdenas intervened by sending the unions back to work and submitting the matter to a Government Arbitration Board that ruled in favor of the unions. The companies appealed the decision to the Mexican Supreme Court, which also ruled against them. When they disregarded the

Supreme Court decision Cárdenas surprised everyone including the companies, the U.S. government, and its ambassador by expropriating the companies' assets in Mexico.

The people of Mexico and the U.S. ambassador broadly supported his action. The oil companies reviled the decision and punished Mexico severely for it. The U.S. government put up a token protest afterward but really could not take effective action to reverse the decision and so brought about a settlement with the oil companies a few years later.

View 4: Eliteloric View of U.S. *Ambassador to Mexico Josephus Daniels and his Response to Mexico's Expropriation*

In an attempt to unravel some of the mysteries surrounding the expropriation, View 4 asks and provides probable answers to the following questions: Why was Daniels able to shape the "official" U.S. response even though he was not high in the official chain of command? What did the U.S. government do in relation to the expropriation? What influences, relationships, structures, political leanings, and economic conditions had an impact on the U.S. government decisions and actions? What was the relationship of the Roosevelt administration and its ambassador to Mexico with the domestic oil companies that were involved in Mexico? Were U.S. government officials genuinely surprised by Cárdenas' expropriation? If not, why didn't they take action to stop it? Could they have reversed it, and if so, why didn't they? What led Daniels to deal with domestic oil interests and the Mexican government in such a way that U.S.-Mexican relations were derailed at a critical time just prior to World War II? In retrospect, how appropriate or misguided was the U.S. response?

View 5: Eliteloric View of the Oil Companies' Role in the Expropriation

View 5 further penetrates the mysteries surrounding the expropriation by asking if the eliteloric view put forth by the oil companies accurately portrayed what role they were playing in the expropriation controversy. Were they genuinely surprised by Cárdenas' announcement? During their struggles with Cárdenas and the unions, could they have had an agenda other than securing their rights to continue operating profitably in Mexico? What conditions existed within the rest of Latin America and the world that affected the oil companies' view of the situation in Mexico? Could the oil companies have been better off with expropriation than by continuing to operate under the conditions then extant in Mexico? Did they have an interest in generating a folkloric myth to cover what their actual objectives were?

View 6: Cárdenas as Elitelore King on the Mexican Chessboard

President Cárdenas has been portrayed as a hero in Mexico for his visionary and transformative role in the expropriation. View 6 seeks to shed light on the nebulosity surrounding his actions in the controversy. What style did Cárdenas use to deal with the various interest groups that exercised political power or had the power to disrupt his objectives in Mexico? What interest groups were operating in Mexico at the time that influenced his actions in the conflict with the oil companies? What strategy did he use to try to achieve his objectives with the oil companies? Did Cárdenas always intend to expropriate oil companies, as they alleged? What considerations would he have had to think about in deciding to expropriate or not? Did he only choose to expropriate when he determined it was in the best interest of the nation, as folkloric history has recorded? Or was the decision to expropriate forced upon him by events over which he lost control?

View 7: Standard Oil of New Jersey as the Key Player on the World Chessboard of Oil: Cárdenas as Pawn

According to my analysis, the most penetrating, illuminating, and clarifying view of the mystery and nebulosity surrounding the oil controversy comes from looking at individual oil company worldwide objectives, actions, and results. How did the oil companies deal with each other during the 1930s in their worldwide quest to find, acquire, process, and market oil? How did they cooperate and how did they compete during this time? Who were the major players in the world oil industry and what were the worldwide objectives of each vis-à-vis each other? Were these same companies operating in Mexico and, thus, using Mexico as just a part of their overall world strategy? What interests did each of these companies have in other parts of the world that might have influenced their actions in Mexico? Given the conditions in Mexico and the different oil company interests at other places in the world at the time, what strategies would the major oil companies operating in Mexico have used to achieve their worldwide objectives independent of what Mexican or U.S. interests might have wanted? Was what happened in Mexico consistent with these optimal strategies? What were the results of the expropriation to each of the participants in the controversy and how do these results compare to what their objectives were prior to the expropriation?

VIEW 1:

THE CÁRDENAS ELITELORIC VIEW JUSTIFYING THE EXPROPRIATION

After spending most of his political career either conflicting with or in some cases even cooperating with the oil companies, Cárdenas was finally faced with the reality of potentially nationalizing their properties in 1938. In anticipation of the possibility that he would have to announce expropriation, Cárdenas gave instructions to General Francisco Múgica, Secretary of Communications in his cabinet, for preparation of a speech: [39]

> "Prepare ... a manifesto that will reach the heartstrings of all the people, which will make them understand the historical moment through which the nation is passing and the importance of the step that is being taken in defense of the nation's dignity.
>
> "Make a story, besides, out of the points contained in the memorandum that I left you, telling how the Governments of the Revolution, not only ours but previous ones, have had great consideration for the oil companies, in spite of the provisions of the law regulating concessions, in order not to create conflicts, but that now, since the companies themselves have caused a conflict by their disobedience to the highest court of Mexico, the people

[39] Cárdenas handwritten note to Múgica, March 10, 1938, quoted in the magazine *Hoy*, January 20, 1940, and cited in Virginia Prewett, *Reportage on Mexico* (New York: E. P. Dutton, 1941), 121. Cárdenas (*Obras, I-Apuntes*, 388-389), says that the gave such a message orally to Múgica on March 10, 1938, but, according to Wilkie, he probably

should take over the oil industry to make the law respected.

> "Let's say that the State, in making use of the expropriations law, does so because it is obliged to do so; let the industries existing in the country know that the present government wishes to continue counting on the cooperation of private capital whether it be national or foreign."

Múgica responded as requested and on March 18, 1938, President Cárdenas expropriated the foreign-owned oil companies and their distribution system in Mexico. In an address to the Mexican people over the radio, he presented a scenario that he hoped would become the folklore and finds its way into history:

> "We've heard till we tired of it that the petroleum industry brought into the country vast capital for its development. This is an exaggerated idea. For many years, during the greater part of their existence, the oil companies have enjoyed great privileges that favored their development and expansion. They have had tax exemptions and innumerable prerogatives and these, combined with the prodigious productivity of the oil wells that the nation gave them concessions to — often against its will and against public interest — comprise in truth, almost all this capital that they talk about."
>
> "The potential riches of the nation; native labor paid

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wrote his instructions to read and hand over afterward, as was his custom for major cases.

meager wages; exemption from taxes; economic privileges and governmental patronage; these are the factors that entered into the rapid upward surge of the oil industry in Mexico."

"Let us examine the social policies of the companies. In how many towns near the oil fields is there a hospital or a school or a social center or a storage tank or filtering plant for water, or a playing field or and electric light plant, even one operated by the many millions of cubic meters of gas that oil production wastes?"

"In what oil center, on the other hand, is there not a private police force to safeguard interests that are private, egotistical and sometimes illegal? About these groups, some authorized by the government and some not, there are many stories of attacks, of abuses and of murders, always in the interest of the oil companies."

"Who doesn't know the irritating discriminations that exist in the petroleum camps? Conveniences for the foreign personnel; for the native, miserable and unhealthful living conditions; refrigeration and protection against insects for the first; indifference and neglect — the medical services and medicines are always grudged — for the latter; and low pay, hard and exhausting work for our people."

"Another great disadvantage that has arisen with the growth of the antisocial oil companies has been even more harmful than all

I have mentioned: their persistence and wrongful intervention in our national politics."

"Nobody doubts nowadays that the companies maintained strong rebel bancs that fought against the constituted government in the Huasteca Veracruzana and the Isthmus of Tehuantepec from 1917 until 1920. Everybody knows that before then and since, even in our time, the oil companies have encouraged rebellious ambitions. ... They have had money, arms and munitions for rebellion. Money for the anti-patriotic press that defends them. Money to enrich their adherents."

"But for the progress of the country, for a better balance through just compensation to labor, for the betterment of health conditions where they themselves work or to salvage the natural gasses that result from oil production, there is no money, no economic capacity ... nor will they take the money from their earnings."[40]

"A total halt or even a limited production of petroleum would cause in a short time a crisis that would endanger not only our progress but also the peace of the nation. Banks and commerce would be paralyzed, public works of general interest would find their completion impossible, and the very existence of the government would be gravely imperiled because when the state loses its economic power it loses also its political power, producing chaos."

"It is evident that the problem that the oil companies have placed before the executive power of the nation, by their refusal to obey the decree of the highest judicial tribunal, is not the simple one of executing the judgment of a court; but rather, it is an acute situation which drastically demands a solution. The social interests of the laboring classes of all the industries of the country demand it. It is to the public interest of Mexicans and even of those aliens who live in the Republic and who need peace first and afterward petroleum with which to continue their productive activities."

"It is the sovereignty of the nation that is thwarted through the maneuvers of foreign capitalists who, forgetting that they have formed themselves into Mexican companies, now attempt to elude the mandates and avoid the obligations placed upon them by the authorities of this country."

"The attitude of the oil companies is premeditated and their decision has been too deliberately thought out to permit the government to resort to any means less final, or adopt a stand less severe (than expropriation) ... I call upon the whole nation to

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[40] Cárdenas, quoted in Prewett, *Reportage on Mexico*, 111-112.

> furnish such moral and physical support as may be needed to face the consequences that may result from a decision which we would neither have wished nor sought had it depended on ourselves alone."[41]

The people responded. On March 26, over 200,000 people paraded through the streets and the Zócalo sang the Mexican national anthem and other songs of triumph in a gigantic victory celebration for Cárdenas.[42]

Having Mexico's public opinion well in hand, Cárdenas then sought to ingrain his elitelore within the United States. This excerpt is taken from an interview with Jose Navarro of the *Los Angeles Examiner*, as printed in its August 26, 1939, edition:

> "When a monopoly becomes so strong that it can dictate to a government, it is time the people of that country should either buy out such a giant business or elect to starve rather than to become smothered by the great power which endangers the country's sovereignty. The Mexican government did everything possible to reach an amicable agreement before expropriation, but the companies, sure of their power, sat back and defied the Labor Arbitration Board and even the Mexican Supreme Court's decision."

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[41] Radio address quoted in William Cameron Townsend, *Lázaro Cárdenas, Mexican Democrat* (Ann Arbor: George Wahr, 1952), 256-259.

[42] Prewett, *Reportage on Mexico*, 122.

Cárdenas explained his point of view in his Annual Report to the Mexican Congress on September 1, 1939:[43]

> "Facing the intense campaign against us in world markets by the [affected] oil companies.... [especially the British-owned Shell][44]... it was necessary to reduce the productive capacity of our oil fields, but because the boycott has faded, our productivity has increased and now our products are open to world markets....
>
> In recent months, ... we have drilled five new oil wells at Poza Rica, which means an increase of 22,000 barrels in that field, compared to prior to the expropriation."

Earlier, in 1938, Cárdenas had moved to quash any idea that Mexico would be forced to sell its oil to totalitarian powers. To Japan's offer March 22, 1938, to buy Mexican oil (provided that Mexico build a pipeline from its East Coast to its West Coast, obviating the need for Japan to use the Panama Canal to transport the oil),[45] Cárdenas announced through his press attaché: "[Mexico] is not disposed to accept such on offer." Cárdenas reminded the world on March 25th

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[43] Lázaro Cárdenas, *Informes de Gobierno y Otros Mensajes Presidenciales de Año Nuevo, 1928/1940.* 2 Tomos; México, D.F.: Siglo XXI, 1978, Tomo 2, pp. 161-162.

[44] *Informe* of 1938 in ibid., pp. 133-135.

[45] "El Japón Dispuesto a Comprar Petróleo a México," News clipping from Mexican press in Hemeroteca Series, Vol. II--see the Archival Sources (Mexican Records 1. PEMEX Library and Archives).

that, at the time of the expropriation on March 18th, he had already said "he would enter into contract only with democratic countries to [Mexico's] oil."[46]

For Cárdenas's official story, then, the case was closed, and he, like the Standard Oil of Standard Oil of New Jersey's President Farish, ignored the news account in *El Siglo de Torre*ón that Standard Oil of New Jersey was pleased at the expropriation. For Cárdenas to even discuss this possibility would have raised the question of whether or not he had been "trapped" by Standard Oil of New Jersey and thus forced to expropriate, thus compromising his decisive action. For Farish, as I indicate in View 2, Standard Oil of New Jersey also had to quash the rumor in order to prepare its claim for excessive compensation for its holdings, prepare its justification for punishing Mexico and to hold together its coalition with the other oil companies. Farish immediately denied any and all truth to the idea that Standard Oil of New Jersey was pleased with the expropriation.[47]

In summary, Cárdenas wanted to keep the official story simple and uncluttered. He justified the expropriation as the only way to stop what he alleged was the oil companies' abuse and low pay of workers and the companies' threat to reduction or

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[46] "Japón No Comprará Petróleo del que se Produce En México; Un Ayudante del C. Presidente de la República no Está Dispuesto a Aceptar ni Venderá Petróleo a Japón," News clipping from Mexican press in Hemeroteca Series, Vol. II. (See below: Archival Sources (Mexican Records 1). Further, for a general quote stating that Mexico would not sell to any totalitarian powers, see Townsend, *Lázaro Cárdenas, Mexican Democrat*, p. 280.

[47] See "El Jefe de la Standard Aún Tiene Esperanzas [de] Restablecer Actividades Normales; Niega Estuverion Esperando Oportunidad de Reirarse," *El Siglo de Torreón*, May 21, 1938 (Archival Sources, B. Mexican Records 1, Hemeroteca Series, Vol. II).

terminate petroleum production, which would lead to paralysis and chaos in Mexico.[48] The very sovereignty of the nation and all its political power was put at stake by their refusal to follow the Supreme Court decision. He asked that the whole nation to provide moral and physical support to face the consequences of this decision he wished he did not have to make.[49] This official story was on its way into Mexican folklore about the expropriation.

VIEW 2:
THE OIL COMPANY RESPONSE TO EXPROPRIATION

The oil companies, of course, also launched a campaign to have their own elitelore accepted as the folklore of the expropriation.

But first Standard Oil of New Jersey Standard had to deactivate a news report in the Mexican press that Standard Oil of New Jersey was pleased because it "had been hoping for the expropriation to give it the opportunity to withdraw from Mexico." From New York, Standard Oil of New Jersey Standard President William S. Farish sought to quash that news and protect its claims against Mexico by denying that the news article was true. Thus he claimed that Standard Oil of New Jersey Standard still had hopes of

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[48] Prewett, *Reportage on Mexico*, 111.

[49] Wilkie and Michaels, eds. *Revolution in Mexico: Years of Upheaval, 1910-1940*, p, 236.

returning to reestablish its normal activities. Farish denied that Standard Oil of New Jersey had been waiting for the expropriation as the way of escaping from Mexico.[50] Thus, Farish, stated that he thought the Company could return, once the Mexican government realized that (a) it could not operate the oil production and distribution process, and (b) it would have to invite Standard to return and on Standard's terms.

By having denied the news article that Standard Oil of New Jersey had been hoping for expropriation, it is my view that Farish insulated Standard Oil of New Jersey from (a) the possibility that its claim against Mexico had been damaged; and (b) the possibility that Shell could become suspicious that Standard Oil of New Jersey may have bargained to provoke expropriation.

With Standard Oil of New Jersey's potential problems successfully neutralized, the U.S. companies could unite to send forth their public relations arms with the message that they had been "robbed by bandits who were masquerading as government leaders."[51] They hired Steve Hanagan whose promotions had made Florida a tourist haven. Operating out of Rockefeller Center, which was Standard Oil of New Jersey's headquarters, Hanagan published a bi-weekly newsletter, *Looking at Mexico*, along with other documents and news coverage that presented the oil company's point of view.

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[50] See the news article "El Jefe de la Standard Aún Tiene Esperanzas [de] Restablecer Actividades Normales; Niega Estuverion Esperando Oportunidad de Reirarse," *El Siglo de Torreón*, May 21, 1938 (Archival Sources, B. Mexican Records 1., PEMEX Library and Archives, a. Hemeroteca Series, Vol. II).

[51] Wilkie and Michaels, eds., *Revolution in Mexico: Years of Upheaval, 1910-1940*, p. 241.

Across the country, daily newspapers constantly published Hanagan's articles.[52]

One accomplishment was a special issue of the *Atlantic Monthly* titled *The Atlantic Presents*: *Trouble Below the Border*, which claimed Mexico was falling apart because of its radical leftist leaders.[53] Unfortunately for Standard Oil of New Jersey, Ambassador Daniels exposed the fact that Standard Oil of New Jersey had paid for the article. When the publisher was confronted about this, he responded that Daniels had his racket and the magazine had theirs.[54]

Further, former Republican governor and newspaper publisher Henry J. Allen returned from a tour of Mexico claiming in a series of articles for the New York *Herald Tribune* and *Reader's Digest* that Cárdenas was a communist who wanted to set up a Soviet-style Mexico. *Collier's* magazine also published an article about Mexico's oil industry collapsing because of its leadership and stating that "expropriate" was a polite way of saying "steal."[55] These articles were turned into pamphlets by the Standard Oil of New Jersey-financed Committee on Mexican Relations and sent out in conjunction with Standard Oil of New Jersey's public relations campaign. *Collier's* did not accept the article Mexico submitted in response.[56]

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[52] Lorenzo Meyer, *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin: University of Texas Press, 1972), 213

[53] *Atlantic Presents* 2, No. 1 (July 1938).

[54] E David Cronon, *Josephus Daniels in Mexico* (Madison: University of Wisconsin Press, 1960), 211.

[55] Jim Marshall, "Mexico Cuts Off Her Nose," *Collier's*, CIV (November 25, 1939), 16.

[56] Cronon, *Josephus Daniels in Mexico*, 211.

Standard Oil of New Jersey's three-part message was: (1) the expropriation was against U.S. interests and was part of a communist or fascist plot; (2) no foreign property was safe from Mexico's government thieves; and (3) the Cárdenas' administration was ruining Mexico's economy. Editorials by the hundreds reflected these ideas in local newspapers and respected publications throughout the country, while the press in England and other European countries presented similar stories.[57]

Standard Oil of New Jersey itself published a company magazine called *The Lamp,* in which Mexico was characterized as a dangerous land of revolutionaries and thieves. Oil company service stations in general warned U.S. tourists that traveling to Mexico would expose them to many dangers including uprisings, the theft of their personal property, hazardous roads, unsafe railroads, and inferior gas that would barely power a car.[58]

Standard Oil of New Jersey also presented its point of view to more elite groups.

On July 8, 1938, Tom Armstrong, who was in charge of Standard Oil of New Jersey's operations in Mexico and Latin America and in charge of negotiations with the Mexican government on behalf of all the major oil companies, delivered a speech to the Institute of Public Affairs at the University of Virginia that put forth the oil companies' basic eliteloric position. For clarity, I have excerpted key parts of this speech below:[59]

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[57] Meyer, *Mexico and the United States*, 213-214.

[58] Cronon, *Josephus Daniels in Mexico*, 209.

[59] Speech is quoted [with page numbers] in Thomas R. Armstrong, *Various Aspects of the Mexican Oil Confiscation* (New York: Committee on Mexican Relations, 1938).

"The attempt of Mexico by Executive decree to "expropriate" the oil properties of American and British nationals is now disclosed after three and a half months as an outright confiscation…." [p. 3 of Armstrong speech]

"The effort of Mexico to confiscate the properties and assets of foreign oil companies is of long standing. It began twenty years ago…."

"The Mexican government, after several attempts to impose such onerous conditions on the industry as to accomplish an indirect confiscation, nevertheless gave assurances at all times that vested rights would be respected. This gave the United States a diplomatic right, whenever Mexico undertook to violate these assurances, to protest against what were in effect confiscatory decrees."

"In 1918 and the following years the State Department protested as confiscatory the refusal to grant drilling permits, the onerous taxes, the imposition of exceptional rentals and royalties to the Government, the requirement that petroleum lands be registered, and innumerable other exactions and demands designed to harass the industry and make its operation difficult if not impossible…." [The Bucareli Agreement reestablished these vested rights.] (4)

"In December of 1925, the Mexican Government renewed its attempt to confiscate by a proposed law designed to regulate the application of Article 27 of the Constitution with reference to oil resources. The law reiterated that the subsoil hydrocarbons belonged to the state and made no reference to the decisions of the Mexican Supreme Court and to the agreements with the United States insuring the non-retroactivity of such confiscatory provisions. Again, the United States protested…." [6]

"The broad definition of "positive acts" agreed upon in 1923 was restored in the amended regulations…."

"Mexico began its new policy of harassing and ultimately expropriating the foreign oil companies in Mexico by means of imposing excessive labor burdens. Taxation had already reached the limit of feasibility. Labor agitators, cooperating with the government, saw in excessive labor demands the opportunities to mulct the oil companies and to advance their own political interests."

"In 1930, Mexico adopted an advanced labor law that provided for a fair adjudication of issues between labor and capital with a view of preventing unnecessary strikes."

"Yet a new policy of harassment began in 1935, when biased government authorities distorted the labor laws to accomplish their objectives. In that year President Cárdenas went around the country making speeches to the effect that labor was to get a new deal and that the limit of labor exactions was to be the "economic capacity" of the employer to bear the burden. It was then that the president began to make known his public platform, that if industries were not prepared to bear the burdens to be imposed upon them in respect to labor and if they were 'weary of the social struggle,' they 'could turn their properties over to the workmen or the Government'."[60] [7]

"Mexico had also, under the labor law, supported collective contracts that were operational in many of the large industries. The collective contracts between labor and capital in the oil industry operated with reasonable effectiveness and to the great advantage of labor until the Mata Redonda Strike of 1935."

"After that time, the Mexican Labor Board became an instrument of national policy to accomplish the spoliation of capital. The labor contracts in the oil industry were of an extraordinarily generous character to the workmen, granting them an average of double the common wage of labor in Mexico in addition to social benefits, which increased the disparity. School facilities, recreation facilities, medical and surgical care for entire families, paid vacations, pensions, and an indefinite number of other

[60] Excerpts from Cárdenas' speech, cited in Armstrong, *Various Aspects of the Mexican Oil Confiscation* (New York: Committee on Mexican Relations, 1938).

advantages that Mexican labor had never before enjoyed were provided."

"These advantages and contracts were simply used by the labor agitators as springboards for further claims. It finally reached a point where strikes were called on for the flimsiest excuse to get new advantages, including a large share in the management. The May 1937 strike in the oil industry finally brought the issue to a head. The demands were based on the theory of the "economic capacity" of the companies to bear the burdens."

"The Labor Board took jurisdiction of the case by a distortion of Mexican law and decided arbitrarily and under manifest bias that the companies were to share management with labor and grant labor new advantages, which the Board assumed to amount to a burden of 26,000,000 pesos per year on the industry. In fact, these burdens on a conservative estimate would amount to 41,000,000 pesos per year, whereas the annual profits of the industry for the three test years taken into account (1934-1936) were about 22,600,000 pesos."

"It is apparent, therefore, that the burdens were confiscatory and that the companies could not operate, certainly not with any profit, under these conditions. When the companies so stated — although the industry was not interrupted — President Cárdenas countered with the expropriation decree of March 18, 1938, and the companies were ousted from their properties."

> "Mexico's government was simply relying on the hope that the good neighbor policy would operate to enable it to get away with the confiscation of U.S.-owned and foreign property, in violation of [a] the terms under which the Mexican Government was recognized in 1923, [b] the Morrow-Calles Agreement of 1927, and[c] elementary rules of international law."

In the remainder of his speech, Armstrong went on to point out that it was not in U.S interests to allow the expropriation to stand; Mexico was in an economic crisis because of it; oil exploration was at a standstill; left-wing politicians would celebrate and act similarly throughout Latin America; and firm action from the United States would stabilize local and international government conditions for the benefit of all. [10-15]

The companies also conducted their public relations effort in Mexico. However, because the Mexican government controlled the media and mass organizations, little progress was made convincing the Mexican public that the expropriation raised their cost of living while creating a depression or that PEMEX was in imminent danger of collapsing. Mexico's own public relations effort of demonstrations, rallies and a propaganda drive continued the great support for expropriation in the Mexican public.[61]

In the United States, however, the oil company's efforts were successful. In 1939, a thorough survey of U.S. publications showed overwhelming support for the oil company position on Mexico.[62]

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[61] Meyer, *Mexico and the United States*, 215-216.

[62] Cronon, *Josephus Daniels in Mexico*, 211.

Mexico had not helped its case abroad because Cárdenas did not convene his Cabinet to agree to send to Congress modification of the Constitution to authorize ex post facto--August 17, 1938--cancellation and expropriation of the Government's oil concessions that had been granted to foreign companies.[63] At the same time, on August 17th the Cabinet agreed to send to Congress the legal basis for establishing PEMEX as the state-owned oil monopoly.[64]

VIEW 3:
THE ELITELORE THAT BECAME
THE FOLKLORE OF MEXICO'S EXPROPRIATION

The tenets of View 1, the Cárdenas View, emerged as the main elements of View 3, the commonly held interpretation of the expropriation. This is not surprising given that the basic documents the historians used to develop their views were written by Cárdenas' supporters, who helped to further develop his elitelore. Within the Mexican and U.S. archives and collections that the historians analyzed were memoranda, diaries, letters, and books that had been written by Ambassador Daniels, U.S. government officials, and various other parties involved in the events leading up to March 1938. Published in 1947, Daniels' *Shirt-Sleeve Diplomat* became one of the definitive primary sources of

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[63] For the best legal case against Cárdenas for illegally expropriating the oil companies and only later providing for their nationalization, see Eduardo J. Correa, *El Balance del Cardenismo.* México, D.F.: Acción 1941, Chapter 6 and 9.

information. E. David Cronon's 1960 book about his hero, *Josephus Daniels in Mexico*, was another heavily influential source. This was followed in 1972 by Lorenzo Meyer's thoroughly researched volume, *Mexico and the United States in the Oil Controversy, 1917-1942*, which further detailed and developed the Cárdenas view.[65]

Although these books and many that followed did relate conversations with oilmen and some investigation of Shell's archives, what is missing are the internal documents from Standard Oil New of Jersey relating what its leaders were doing and thinking during the precipitous events. As a consequence, current historical accounts generally reflect View 3 because they ultimately relied on the public accounts of Daniels, Cronon, Meyers, and other participants who supported the Cárdenas view.

Drawing heavily on Daniels and Cronon, View 3 is found in many current historical accounts, including textbooks on Latin America, such as Thomas Skidmore and Peter H. Smith, *Modern Latin America*; analytical works on Mexico such as Héctor Águilar Camín and Lorenzo Meyer, *In the Shadow of the Mexican Revolution*; specialized studies such as J. C. Brown and Alan Knight, *The Mexican Petroleum Industry in the Twentieth Century*; and even broad studies of the history of oil such as the Pulitzer Prize winning *The Prize: The Epic Quest for Oil, Money and Power* by Daniel Yergen.[66]

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[64] Cárdenas, *Obras, Apuntes-I,* 398-399.
[65] J. Daniels, *Shirt-Sleeve Diplomat* (Chapel Hill: University of North Carolina Press, 1947); E. D. Cronon, *Josephus Daniels in Mexico* (Madison: University of Wisconsin Press, 1960); L. Meyer, *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin: University of Texas Press, 1972).

[66] T. Skidmore and P. H. Smith, *Modern Latin America*, 5th ed. (New York: Oxford University Press, 2001); H. A. Camín and L. Meyer, eds., *In the Shadow of the Mexican Revolution* (Austin: University of Texas Press, 1996); J. C. Brown and A. Knight, eds.,

View 3 is important because it allows us to sketch the general history of events into which the 1938 decree fits. This timeline further provides the historical context of the expropriation. I synthesize View 3 in the following way:

In 1909 Mexican President Porfirio Díaz passed legislation that allowed foreign oil companies to own subsoil rights. This changed colonial Spanish law under which subsoil rights had always belonged to the government. As a result, the oil industry developed huge oil tracts and then exported most of their production.[67] Because the profits remained outside the country, Mexican revolutionaries felt only foreigners benefited from the extraction of Mexico's mineral wealth.[68]

One consequence of Mexico's 1917 revolution was a constitution that returned subsoil rights to the government.[69] The resulting property rights conflicts between companies and Mexico's government were the key issue in Mexican-U.S. relations for the next 25 years.[70]

The post-revolutionary administrations of Presidents Carranza, Obregón, and Calles struggled against the British-backed and U.S.-government-backed oil companies to

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The Mexican Petroleum Industry in the Twentieth Century (Austin: University of Texas Press, 1992); Daniel Yergen, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1992). For the most part, these accounts do not even cite the publications discussed in View 2, other than mentioning them as part of New Jersey's reaction.

[67] Camín and Meyer, *Shadow of the Mexican Revolution*, 150.

[68] Prewett, *Reportage on Mexico*, 107.

[69] Cronon, *Josephus Daniels in Mexico*, 35.

[70] Cronon, *Josephus Daniels in Mexico*, 49-50.

increase state control of the industry.[71] Various accommodations were worked out until 1935, a few years into Cárdenas' presidency.

Despite the long-standing battle between the companies and the Mexican government over subsoil rights, the dispute that led to expropriation originated in a confrontation between the companies and the Mexican workers.[72] In order to consolidate power away from the strong man of Mexico, former President Calles, President Cárdenas had to commit himself to support militant worker unions.[73]

In 1936, Cárdenas passed the Expropriation Law specifically directed at foreign interests in Mexico, yet he assured the U.S. Ambassador, Josephus Daniels, that the law was not directed against large oil or mining companies.[74] Later in 1936, the oil unions demanded wage and benefit concessions that would raise oil company costs by 65 million pesos a year.[75]

When the companies refused to meet the demands, the government-organized labor unions threatened to strike. Although Cárdenas intervened and obliged negotiations, the talks broke down in May 1937 and a serious strike ensued. To stop the resulting

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[71] Alan Knight, "The Politics of the Expropriation," in *The Mexican Petroleum Industry in the Twentieth Century*, ed. J. C. Brown and A. Knight (Austin: University of Texas Press, 1992), 90.

[72] Prewett, *Reportage on Mexico*, 115; Camín and Meyer, *Shadow of the Mexican Revolution*, 151.

[73] Wilkie and Michaels, eds., *Revolution in Mexico: Years of Upheaval, 1910-1940*, p. 17.

[74] Cronon, *Josephus Daniels in Mexico*, 122; Camín and Meyer, *Shadow of the Mexican Revolution*, 151.

[75] Cronon, *Josephus Daniels in Mexico*, 160-161.

disruption of the economy, Cárdenas submitted the dispute to the Federal Conciliation and Arbitration Board and sent the unions back to work.[76]

On December 18, 1937, the Arbitration Board overwhelmingly ruled in favor of the unions. While appealing to the Mexican Supreme Court, the companies withdrew their bank deposits. This act was seen as a way of putting pressure on the government[77] and producing a last-minute compromise by the government.[78]

When the Court ruled, as expected, in favor of the unions on March 1, 1938, the companies disregarded the decision. They assumed that in "backward" Mexico there would be a way around such legal problems.[79] Most people thought the president would simply appoint a controller of the companies to make sure the increased wages were paid.[80] Yet to their surprise, on March 18 the president announced over the radio that he had expropriated the companies' assets.[81] The U.S. ambassador announced his own shock, saying the decision was "like a bolt of lightening in a blue sky."[82]

The Mexican population uniformly supported Cárdenas' act. They cheered for

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[76] Camín and Meyer, *Shadow of the Mexican Revolution*, 152.

[77] Camín and Meyer, *Shadow of the Mexican Revolution*, 152.

[78] Knight, "Politics of the Expropriation," 92.

[79] Skidmore and Smith, *Modern Latin America*, 241.

[80] Camín and Meyer, *Shadow of the Mexican Revolution*, 153.

[81] Skidmore & Smith, *Modern Latin America*, 241.

[82] Daniels, *Shirt-Sleeve Diplomat*, 227; Camín and Meyer, *Shadow of the Mexican Revolution*, 153.

him on the streets and offered their own gold and silver jewelry to reimburse the companies for what they had lost.[83] Mexican folklore has long since regarded the president's decision as a heroic act that finally took back the country's key resources from foreign interests that had virtually dominated Mexico prior to the 1917 revolution.

Indeed, among the Mexican people, Cárdenas' revered place in history is secured by the public's impression of his perspicacity and courage in throwing out the exploiting oil companies against the strong will of each company. Thus, most Mexican commentators trumpeted the decision with language similar captured in tone buy Ambassador Daniels:

> "This was a momentous event, a date in history for which the Mexican nation had been longing for a century; to them it was the second, the economic independence, almost the re-conquest. At last, they were to be free at last to use and dispose of the fabulous wealth of the country's horn of plenty. Mexico, the beggar who had been unseated from the treasure chest by looting foreigners, now rose to drive out the interloper and could now dip the eager national hand into the treasure."[84]

Because they had not anticipated the nationalization of oil, U.S. government officials in the State Department did not try to stop it. Yet they later tried to have the expropriation reversed. To bring pressure, the U.S. Treasury suspended silver purchases,

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[83] Daniels, *Shirt-Sleeve Diplomat*, 225-226.

[84] Prewett, *Reportage on Mexico*, 121-122.

while the oil companies used their international connections and resources to punish Mexico severely.[85]

However, Daniels intervened on Mexico's behalf. His policy of weakening some and halting other U.S. government actions against Mexico[86] made great sense as events in Europe began to loom ever larger. Daniels' policy was completely victorious once the United States began to prepare for its entry into World War II. In 1941, the U.S. government set up a joint commission with Mexico that forced a monetary settlement.[87]

VIEW 4:

ELITELORIC VIEW OF THE U.S. RESPONSE TO MEXICO'S EXPROPRIATION

The 1938 Mexican oil expropriation led to dramatic tensions between the United States and Mexico just prior to World War II. It created fears that the United States would lose access to critical resources through waves of Latin American nationalism and it has, so far, resulted in 65 years of damage to U.S. strategic interests in Mexico's rich resources. Were U.S. government officials actually surprised by the expropriation or was the "surprise" explanation a created folkloric myth generated to justify U.S. non-intervention?

[85] Camín and Meyer, *Shadow of the Mexican Revolution*, 155; Cronon, *Josephus Daniels in Mexico*, 208-211; Daniels, *Shirt-Sleeve Diplomat*, 255-258.

[86] Cronon, *Josephus Daniels in Mexico*, 193-197.

[87] Cronon, *Josephus Daniels in Mexico*, 268-270.

If it was not a surprise, why did U.S. government officials not effectively try to stop the 1938 oil expropriation before it happened instead of trying to reverse it after it had become a fundamental part of Mexico's national identity? My search of the literature found little discussion of this question, other than the statement of ex-Mexican President Abelardo Rodríguez. On the day of the expropriation Rodriguez stated that U.S. State Department inaction was largely responsible for the expropriation and that the "policy of taking action after the event instead of before is usually fatal."[88]

More specifically, why did Josephus Daniels, then-ambassador to Mexico, deal with U.S. domestic oil interests and the Mexican government in such a way that U.S.-Mexico relations were derailed at a critical time prior to World War II? I believe malfunctions in the Roosevelt foreign policy process in relation to Mexico, along with widespread reliance and stress from a largely inapplicable historical analogy, allowed a biased ambassador who was acting on false presumptions to usurp the system.

The sources I have used here include books and diaries written by the key U.S. policymakers involved in the conflict. Secondary sources on the events include the biographies of Daniels and Roosevelt; analyses of New Deal Diplomacy and the Good Neighbor Policy; analyses focusing on Mexican oil and the United States; and specific histories and analyses of the events leading up to and including this expropriation.

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[88] J. C. Brown and A. Knight, eds., *The Mexican Petroleum Industry in the Twentieth Century* (Austin: University of Texas Press, 1992), 101.

4-A. BACKGROUND AND INTRODUCTION

The U.S. ambassador at the time of the expropriation, Josephus Daniels, became a great ally of Cárdenas. As a staunch "New Dealer," he had little sympathy when U.S. complained to him of property taken without compensation because they had taken the risk of foreign laws to get higher returns than they could get in the United States.[89] As Roosevelt's old boss, Daniels used his tremendous influence to gain an appointment to a country with which he was very sympathetic.[90] His fondest wish was to bring the "New Deal" to Mexico.[91]

Despite his close relationship with Cárdenas, Daniels claimed that both he and the U.S. government were "shocked" when Cárdenas expropriated the oil companies' Mexican assets in 1938.[92] After the strikes, Mexican Supreme Court cases, and extensive negotiations, Daniels believed the worst action to be expected from Cárdenas would have been the putting of the oil assets into receivership.[93] When some U.S. government officials tried to get the expropriation reversed, Daniels' influence sabotaged their efforts.[94]

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[89] Josephus Daniels, *Shirt-Sleeve Diplomat* (Chapel Hill: University of North Carolina Press, 1947), 69.

[90] E. D. Cronon, *Josephus Daniels in Mexico* (Madison: University of Wisconsin Press, 1960), 7-8.

[91] Daniels, *Shirt-Sleeve Diplomat*, 48.

[92] Daniels, *Shirt-Sleeve Diplomat*, 227.

[93] Daniels, *Shirt-Sleeve Diplomat*, 225-226.

[94] Cronon, *Josephus Daniels in Mexico*, 193-197.

Most of the discussion of the expropriation in the literature is explanatory in nature — what happened, why it happened, what it meant, and what implications could be drawn from the event. Although important lessons can be gained from what happened, there is a dearth of literature critically analyzing what U.S. policymakers actually did. Here I examine the U.S. policymakers' actions and rationales, along with their fallacies and what they could better have done instead.

4-B. DISCUSSION IN THE LITERATURE

Cole Blasier's analysis focuses on how the United States was able to come to terms with revolutionary governments in Latin America. The greatest movement occurred under U.S. Presidents Wilson and Roosevelt, who were basically sympathetic to the purposes of the Mexican Revolution and well disposed toward Mexican Presidents Carranza and Cárdenas.[95] The most climactic moments, however, came with the expropriations.

Blasier believes the primary motive that led U.S. policymakers to a negotiated settlement was their desire to keep Mexico friendly as World War II loomed in Europe.[96] Morgenthau, Ickes, and other leaders opposed harsh economic sanctions as likely to force Mexico into the arms of Nazi Germany. Blasier asks whether these fears were justified. First, Cárdenas and Hitler represented diametrically opposed ideological camps that also

[95] C. Blasier, *The Hovering Giant: U.S. Responses to Revolutionary Change in Latin America* (Pittsburgh: University of Pittsburgh Press, 1976), 101.

[96] Blasier, *The Hovering Giant*, 124.

existed as a microcosm within Mexico. Cárdenas' support was by Marxist-oriented groups with antithetical philosophies to the Nazi Party and other rightist parties of Mexico. Second, Mexico was a leader of international efforts against the expansion of the Berlin-Rome-Tokyo Axis and in publicly protesting Germany's annexation of Austria into the Third Reich. Third, there was such a prevalence of anti-Nazi publications in Mexico that the German minister in Mexico reported to Berlin that even without pressure from the United States, Mexico would not be neutral if war broke out.[97]

The March 1938 expropriation, however, created a new situation when the British, French and U.S. oil customers' boycott forced Mexico to sell its resources to the Axis powers. Despite the boycott, U.S. economic inducements, compromise offers, and political collaboration kept Mexico and Germany separate. The success of these policies is shown by two examples. Cárdenas secretly proposed joint action against aggressor nations after the Nazi absorption of Czechoslovakia in the fall of 1938. Then, in December 1938, Mexico supported the United States at the Lima Conference for an unequivocal declaration of Inter-American solidarity.[98]

Stephen Krasner looked at the expropriation from the point of view of attacks on U.S. investment. He considered the priority the U.S. government gave those considerations and the means by which they dealt with the interests involved. In the expropriation, the rhetoric of Mexican leaders was egalitarian and nationalistic with politically powerful U.S. investors as the target. U.S. policymakers struggled to maintain

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[97] Blasier, *The Hovering Giant*, 124.

[98] Blasier, *The Hovering Giant*, 126.

the primacy of state objectives over private oil company interests to avoid German-Mexican liaisons before and during the world wars. This was done by taking decisions primarily in the White House and State Department, instead of in Congress, where interested parties more easily reached the levers of power. U.S. officials' objectives were foreign policy aims first, then security of supply, then greater competition. Implementation of those policy objectives was not always effective, however, because the fragmentation of the U.S. political system prevented it.[99]

Krasner found that U.S. government protection of the private sector was limited to diplomatic and economic pressure. Military intervention before World War I in Vera Cruz and in pursuit of Pancho Villa resulted not from protecting private interests but because of Wilson's world vision and raids on U.S. territory.[100] Despite the clear threat the expropriation imposed to U.S. corporations before World War II, the only explanation he could find for U.S. policy was the deteriorating situation in Europe and the danger of German infiltration into Latin America.

The legitimacy of Cárdenas' regime became intimately tied to sovereignty over oil resources.[101] U.S. concern for oil supply was limited because Southwest American oil stocks were abundant in a depression era of limited demand. Loss of Mexico's supply

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[99] S. D. Krasner, *Defending the National Interest: Raw Materials Investment and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978), 155-156.

[100] Krasner, *Defending the National Interest*, 164.

[101] Krasner, *Defending the National Interest*, 178.

would have little impact.[102] While long-term supply was still important, general foreign policy goals led to a settlement against U.S. corporations that was largely funded by the U.S. Treasury.

U.S. leaders avoided oil company influence by taking decisions in the White House and State Department and exploiting differing interests within the private sector. Silver purchase suspension was deterred, in part, because U.S. interests controlled 70% of Mexico's silver production.[103] In response to oil company pleas, U.S. officials used only diplomatic and economic instruments in a half-hearted way against Mexico.

Bryce Wood studied the oil crisis from the point of view of Roosevelt's Good Neighbor Policy. The Good Neighbor Policy's objectives were to protect the lives and property of U.S. citizens while advancing democracy in Latin America and creating inter-American collaboration for the defense of the hemisphere. The working assumption was reciprocity. If the United States did certain things desired by Latin America, these states would respond by doing other things desired by Washington.[104] According to Wood, the non-policy factors involved in creation of the Good Neighbor Policy were its similarity to Roosevelt's domestic economic and social policy, and the emergence of militarism and aggression in Germany, Italy, and Japan.[105]

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[102] Krasner, *Defending the National Interest*, 181.

[103] Krasner, *Defending the National Interest*, 188.

[104] B. Wood, *The Making of the Good Neighbor Policy* (New York and London: Columbia University Press, 1961), 8.

[105] Ibid., 302.

The policy started at the Montevideo Conference in 1933 when Secretary of State Hull signed a document declaring, "No state has the right to intervene in the internal or external affairs of another."[106] To the State Department, "internal affairs" meant internal politics relating to party struggles and revolutions. The non-intervention policy completely renounced for the pursuit of any and all policy objectives the use of armed force.[107] Non-interference renounced any and all techniques of influence for the internal political affairs of another country.[108] A neighbor benefiting from non-intervention and non-interference was reciprocally a good neighbor if U.S. citizens and their properties were not treated in ways unacceptable to the government of the United States.[109]

Mexico wanted to extend the policy of noninterference to elimination of U.S. support for business enterprises that had secured power and status in Mexico prior to 1933.[110] Washington had great influence because Mexico depended on economic support from the United States. For instance, to help Mexico avoid serious economic problems, the Treasury Department agreed in 1936 to purchase five million ounces of silver every month from Mexico at a price of 45 cents an ounce. The Mexican government received export tax revenue of $150,000 a year from the silver. Because it was the basis of the monetary system, its total production value to the government was greater than that of

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[106] Ibid., 118.

[107] Ibid., 137.

[108] Ibid., 139.

[109] Ibid., 161.

[110] Wood, *Making of the Good Neighbor Policy*, 162.

petroleum and producing as many dollars as that of the oil revenues.[111] The extent of this influence even after the expropriation was shown by Mexican Under Secretary for Foreign Affairs Ramon Beteta's recognition that the United States "had within its power means of compelling Mexico to do whatever it wanted even to the extent of requiring the return of the properties to the companies."[112]

In one of the most definitively researched factual summaries surrounding the expropriation, Mexican author Lorenzo Meyer used the Mexican expropriation to examine the means used by developing countries to regain control of economic sectors that were dominated by Anglo American capital.[113] He found that first, in Mexican history, the two periods when the greatest progress was made in oil nationalization coincided with the two most liberal administrations in the U.S. government, Wilson and Roosevelt, and with serious international crises that culminated in world war. Second, the Mexican struggle along with the Bolshevik Revolution represented assaults on the international investment system established by capitalist industrial Western countries to change international law in a way that takes into account developing Nation needs. Third, the interests of the U.S. and Mexican governments would never again, after the expropriation, be polarized with the brutal and violent aspects seen in the past. Fourth, the oil controversy did not end Mexico's dependency but was merely a transition to a new

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[111] Wood, *Making of the Good Neighbor Policy*, 233.

[112] Ibid., 292.

[113] Lorenzo Meyer, *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin: University of Texas Press, 1972), xi-xii.

stage of dependent development.[114]

Meyer's research led him to conclude that at the end of 1937, neither the oil firms nor the U.S. government thought there would be expropriation, expecting instead that the oil properties would be put into receivership whereby an overseer would pay the wage increases and taxes until a solution could be worked out.[115] Meyer believes that the expropriation of the properties of 16 oil companies was the culmination of a Mexican leader's plan to bring about a basic change in Mexico's economic structure to keep Mexico's sovereignty from being at the mercy of foreign capital. Yet despite the march of events leading up to it, Washington was taken completely by surprise. Meyer believes this surprise was based more on wishful thinking than the facts at hand since those predicted the real possibility of expropriation.[116] Cárdenas, in making the expropriation, expected no armed intervention given Roosevelt's hemispheric policy for solidarity in the Americas prior to World War II.[117]

Meyer believed Ambassador Daniels was a new kind of diplomat: an authentic representative of the New Deal and the Good Neighbor Policy.[118] Under Daniels' direction, the oil expropriation became the last serious confrontation between the United States and Mexico brought on by implementation of the revolution's reform program. The

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[114] Ibid, 233-234.

[115] Ibid., 164.

[116] Meyer, *Mexico and the United States*, 170.

[117] Ibid., 174.

[118] Ibid., 185.

final settlement meant that Washington had accepted Mexico's post-1917 nationalist policy.

The settlement could be accomplished because of Roosevelt's cool relations with the big oil companies and their different interpretations of "national interest." Additionally, Germany and Japan's expansionist policies forced Roosevelt to adopt inter-American solidarity with Western Hemisphere neighbors to avoid Axis footholds in the United States' backyard. Hemispheric solidarity came before important U.S. private groups working in Latin America.[119] Through this, revolutionary leaders used oil reform as the touchstone for a new style of relations between Mexico and the rest of the world.[120]

David Cronon, in the definitive biography of Ambassador Daniels, sought to examine Good Neighbor Diplomacy through Josephus Daniels' actions as one of its most dedicated adherents. To him, the Good Neighbor Policy was not a neatly defined, universally applied doctrine. Daniels, he felt, worked with a humanitarian version closer to Roosevelt's definition than to the legalistic absorption in property rights of the State Department.[121] In his opinion, Daniels was truly an ambassador extraordinary, a wise and far-seeing statesman who made the Good Neighbor Policy a reality and in the process charted an uncommonly sensible way to deal with Latin American nationalism.[122]

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[119] Ibid., 226-227.

[120] Ibid., 230.

[121] Cronon, *Josephus Daniels in Mexico*, 289.

[122] Ibid., 230.

Analysis of the Elitelore

Was the U.S. elitelore/folklore that Daniels and the U.S. government was surprised by the expropriation accurate? At the very least, U.S. policymakers had more than enough information to conclude that expropriation was a very credible possibility. One of the best and most thoroughly researched accounts of the handling of the expropriation by the U.S. and Mexican government is Lorenzo Meyer's 1972 book *Mexico and the United States in the Oil Controversy, 1917-1942*. Meyer concludes that any expectation that Cárdenas would not expropriate had to have been based more on wishful thinking than on the facts at hand.

First, from 1934 on, U.S. oil company executives had been telling Ambassador Daniels, Secretary of State Hull, and other U.S. government officials that they believed expropriation to be Cárdenas' plan.[123]

Second, after Cárdenas passed the 1936 Expropriation Law, large land-holdings and plantations as well as the national railroad industry were expropriated under great protest from U.S. owners.[124]

Third, statements by a member of the Mexican Supreme Court, by the leader of all the labor unions, and by Cárdenas himself indicated that expropriation was the likely outcome.[125]

Fourth, lower level U.S. embassy officials predicted expropriation of the oil

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[123] Ibid., 58-59, 172-173; Daniels, *Shirt-Sleeve Diplomat*, 221-224.

[124] Meyer, *Mexico and the United States*, 171.

[125] Ibid.

industry after the 1937 railroad industry expropriation.[126]

Fifth, the expropriation was the culmination of the Mexican government's determined resolve since the revolutionary constitution of 1917 to change the structure of an industry vital to the economy.[127]

If the U.S. government should have expected expropriation why didn't they do something to stop it from happening given the damage it did to U.S.-Mexican relations? There is no indication that there was any coherent attempt by the Roosevelt government to consider all of the options. Roosevelt's advisors took different positions and debated them at different times before the president but their disagreements did not cover the full range of relevant hypotheses and alternative options.[128] In the expropriation case, no one advocated taking any definitive action to stop the expropriation. Hull made a brief attempt to get the Treasury to use silver purchase policy to pressure Cárdenas but Daniels and Morgenthau limited it to making Mexico renew silver contracts monthly on the basis that anything stronger would force Mexico into the hands of the Axis powers.[129] Beyond that, Hull was content to let the legal process in Mexico come to a conclusion and if there was ever expropriation, to seek just compensation. Daniels, as a philosophical matter, believed putting any pressure on Mexico would be unneighborly. Yet, policy options that

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[126] Cronon, *Josephus Daniels in Mexico*, 127-129.

[127] Ibid., 165-171.

[128] Alexander L. George, "The Case of Multiple Advocacy in Making Foreign Policy," *American Political Science Review* 66 (September 1972): 772.

[129] Meyer, *Mexico and the United States*, 165.

were used to reverse the expropriation after the fact might have been used before in advance to prevent the expropriation.

Beyond no action, there were at least five options. Immediately after the expropriation, first silver purchases were stopped entirely and when resumed, second were made at less than the world price. Both of these policies had a strong effect on the Mexican Treasury, which would have been devastated without silver purchases. The third option was the appointment of an intergovernmental commission such as ultimately did settle the dispute. The fourth option, proposed in relation to a Middle Eastern oil problem, was for the U.S. government to assume a partial ownership interest in the oil fields. The fifth option, considered unacceptable, was to station U.S. troops off shore or on property to prevent takeover.

Cutting off silver purchases until the oil dispute was settled without any expropriation, combined with the threat to cut off oil purchases if there was expropriation (which was what the U.S. government actually did), would have, in all likelihood, led either to a quick settlement or to an appointment of a trustee to run the properties in receivership until the final details could be worked out. This approach would have had an even higher probability of success if Hull or Wells had mediated directly with the parties as they did in the later Venezuelan dispute. Alternatively, with agreement from Mexico, an intergovernmental commission could have been appointed to settle the dispute as was done later. Of course, if the U.S. government owned part of the properties, Mexico would be loath to take action directly against the U.S. government!

The United States could have even reversed the expropriation. As Mexico's

Under-Secretary for Foreign Affairs, Ramón Beteta said right after the expropriation, the United States "had within its power, means of compelling Mexico to do whatever it wanted even to the extent of requiring return of the properties to the companies."[130]

If U.S. officials knew or should have assumed there would be expropriation and could have stopped it, then why did they not do so? Secretary of State Hull did try to get Secretary of the Treasury Morganthau to use silver policy to pressure the Mexican government in response to oil company complaints but Morganthau refused any meaningful action at Ambassador Daniels' urging.[131] Even more interesting are indications that Mexican government officials discussed expropriation with Ambassador Daniels and received indirect assurances that the U.S. response would be a hands-off policy.[132] What factors led to such a weak or non-existing response to a very real threat?

1. Evaluation Only By Supporters

Daniels was the main point of contact between the Mexican and U.S. governments and he was the main architect of the plan of how the situation would be dealt with. Daniels' plans, however, were evaluated only by the plans' advocates and implementers.[133] While Hull entertained some doubts, thoroughgoing scrutiny of the assumptions and premises of Ambassador Daniels plan was not implemented. Part of the

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[130] Wood, *Making of the Good Neighbor Policy*, 292.

[131] Cronon, *Josephus Daniels in Mexico*, 174-177.

[132] Ibid., 181, 188.

[133] George, The Case of Multiple Advocacy, 778-779.

reason for this was the great respect and prestige Daniels had from being Roosevelt's former boss as Secretary of the Navy in the Wilson administration.

2. The Good Neighbor Policy

The idea of reciprocity that underlay the Good Neighbor Policy in this case was not very reciprocal. If the United States neither intervened militarily nor interfered in domestic politics while providing consistent aid and support to Mexico then, the Policy assumed, Mexico should in turn treat U.S. citizens and corporations fairly in accord with international law. The Mexican government had made it clear, however, at the Inter-American Conference for the Maintenance of Peace, held in Buenos Aires in December 1936, that its policy towards changing the power and status of U.S. corporations secured before 1933 was an internal affair not subject to any means of intervention, economic or otherwise, and that it was not subject to international law either for such acts.[134]

From the standpoint of achieving the reciprocal policy goals of the Good Neighbor Policy, it was a failure in protecting U.S. corporation assets. Mexico was driven closer to the Axis powers as well; so, the decision failed to achieve that policy goal. The means employed, talking and continuing to support Mexico's silver sales, were unsuitable. The timeliness and flexibility of the response after, instead of before, the expropriation, was poor. The policy chosen did attain the calculated support they thought it would; they never expected oil company support.

3. Competitive Foreign Policymaking System

President Roosevelt used a competitive foreign policymaking system, which led to defective results. He deliberately created fuzzy lines of responsibility and overlapping areas of responsibility.[135] Some of the disadvantages of this system are that it exposes the decision-maker to partial or biased information sacrificing optimality for do-ability and its tendency to aggravate staff competition with the risk that aides may pursue their own interests at the expense of the decision-maker.[136]

Certainly, these disadvantages showed themselves in this case. Daniels made impassioned pleas directly to Roosevelt about the low wages and unscrupulous profits oil companies were taking out of Mexico while the oil companies were speaking directly to Secretary of State Hull in trying to get help. Hull tried to persuade Secretary of the Treasury Morgenthau to use silver policy to put pressure on the Mexican government but Morgenthau decided to continue buying Mexican silver with the only change being that the contracts had to be renewed monthly. This action was taken right after Morgenthau met with a Mexican official and agreed to an immediate purchase of 35 million ounces of silver to help Mexico through its economic crisis in 1937. When Morgenthau talked to Roosevelt, he emphasized the threat that Nazis would penetrate into the U.S. backyard. Each player took action he deemed appropriate, while giving Roosevelt only the partial and biased information that supported his position.

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[134] Wood, *Making of the Good Neighbor Policy*, 162-165.

[135] Alexander L. George, *Presidential Decisionmaking in Foreign Policy: The Effective Use of Information and Advice* (Boulder, CO: Westview Press, 1980), 165

[136] Ibid., 165.

A particularly telling example of aides pursuing their own policies occurred after the expropriation when Hull gave Daniels a vehement note to be formally delivered to Cárdenas, which Daniels interpreted as an ultimatum. Daniels first unsuccessfully tried to have the note changed. Then, he tried to get it delayed, and then, without authority, agreed with the Mexican government that the note would be withdrawn. All through this, Daniels avoided reporting the withdrawal to Hull and made impassioned pleas to Roosevelt.[137] A quotation from one of these pleas showing Daniels foreign policy position is "We are strong. Mexico is weak. It is always noble in the strong to be generous and generous and generous."[138]

Another example, after the expropriation, was Morgenthau's independent actions taken in response to Daniels' requests. Hull convinced Roosevelt that silver policy should be used to try to reverse the expropriation. Morgenthau would not stop silver purchases, however, without a formal request from the Department of State. Morgenthau then, at Daniels' urging, independently resumed spot purchases of silver on the open market where Mexico would not be identified specifically as the seller, thus undermining all efforts being taken by Secretary of State Hull to reverse the expropriation.[139] Morgenthau's rationale, according to his diary, was to keep the Mexicans from embracing the Axis powers to get at the hated gringos to the North.[140]

[137] Blasier, *The Hovering Giant*, 122.

[138] Cronon, *Josephus Daniels in Mexico*, 198.

[139] Blasier, *The Hovering Giant*, 123.

[140] Ibid., 123.

Thus, the structure of Roosevelt's competitive policy-making system allowed malfunctions to occur within the policy-making process so that any efforts for a coherent response were frustrated in favor of Daniels' consistently "generous and generous and generous" policy.

4. Historical Analogy

Fifth, the defining underlying historical analogy within all of the policymakers' personal experience in this case was the German infiltration of Mexico in World War I. This historical analogy was a main motivating factor behind Roosevelt's hemispheric cooperation policy as well as the Good Neighbor Policy and, more importantly for this case, Morgenthau's and Roosevelt's willingness to rely on Daniel's good neighborliness and to support his requests over those of Hull who desired to take a slightly more aggressive approach. Had U.S. policymakers identified and examined the analogy more carefully, they may have very well taken different actions towards Mexico prior to the expropriation.

In December 1937 Morgenthau opposed Hull's suggestion of economic pressure on Mexico to Roosevelt by saying "We are just going to wake up inside a year to find that Italy, Germany, and Japan have taken over Mexico ... It's the richest — the greatest store of natural resources close to the ocean of any country in the world ... They've got everything that those three countries need."[141] Morgenthau was making huge presumptions about Germany and Mexico.

When Woodrow Wilson was President with Daniels as his Secretary of the Navy and Roosevelt as his Assistant Secretary, the U.S. government was also facing the prospect of a World War. In that case both before and during the war, Mexico and Germany were major collaborators. Germany used Mexico as a base for espionage, counterespionage, sabotage, and psychological warfare. Mexico was full of German agents. Mexican leaders joined with Germany in creating an anti-American bloc of Latin American countries including Columbia, Argentina, and Chile. Decoded messages revealed that Mexico had offered to provide the Germans with submarine bases and that the Germans had offered to help Mexico re-conquer Texas, New Mexico, and Arizona.[142]

It is not surprising that American leaders in contemplating a second world war would not like submarine bases, anti-American collaboration, espionage, counter-espionage, and sabotage as well as a potential war over Texas, New Mexico, and Arizona just across the border to the south. Given how bad this outcome looked, it is understandable that U.S. policymakers made the attribution error of confusing the conceivability of an outcome with its probability.[143] It is also understandable, using prospect theory and the availability heuristic how these dramatic events which came readily to mind, were dramatically over-weighted even though they had a small probability.[144]

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[141] Blasier, *The Hovering Giant*, 123.

[142] Ibid., 105-115.

[143] George, *Presidential Decisionmaking*, 61.

[144] Barbara Farnham, ed., *Avoiding Losses/Taking Risks: Prospect Theory and*

Neustadt and May developed a process for policy makers to avoid misapplication of historical analogies by listing the likenesses and differences between the time period the decision is being made in, which they call the "now", and the time period of the historical analogy, which they call the "then". If in this case U.S. policymakers would have done this process looking at events during the eve of World War I before turning to what should be done in 1938[145], it would have changed their reliance on this misleading analogy.

The differences were overwhelming. Then, the United States had General Pershing and 4,000 troops occupying Mexico to capture Pancho Villa. Now, there were no U.S. troops in Mexico and the United States had promised that under no circumstances would there be. Then, Mexico was a major collaborator with Germany. Now, Germany and Mexico were politically and ideologically at opposite poles and, in fact, Mexico was part of the international opposition to the Berlin-Rome-Tokyo Axis. Then, Mexico was in an unstable civil war between Huerta and Carranza. Now, Mexico had a stable government under Cárdenas. Then, Germany was a major arms and ammunition supplier for Mexico. Now, Germany refused to sell arms to Mexico for fear Mexico would give the arms to loyalists in Spain who were fighting Germany. Then, the Mexican Congress was dominated by the pro-Germany military party. Now, there was a very small Nazi party that was the bitterest opponent of the Cárdenas government and its Marxist-oriented

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International Conflict (Ann Arbor: University of Michigan Press, 1994), 14.

[145] Richard E. Neustadt and Ernest R. May, *Thinking in Time: The Uses of History for Decision-Makers* (New York: The Free Press, and London: Collier Macmillan Publishers, 1986), 41.

labor parties. Then, German agents were very active with broad support in Mexico. Now, there were predominantly anti-Nazi publications in Mexico.[146] Conclusion: it was extremely unlikely that there would be any basis for a repeat of Germany's alliance with Mexico or use of Mexico as a base of operations in the upcoming war.

By allowing the expropriation, however, U.S. policymakers let a few more items move from the differences column to the likenesses column. Because Mexico could not sell its oil to the Allies, it was forced to turn to the Axis powers. The Axis powers were also needed to supply parts and equipment that the oil companies would not supply after the expropriation. Additionally, in the tension following the expropriation General Saturnino Cedillo prepared an armed revolt to overthrow Cárdenas creating political instability. Cedillo had the sympathy of Mexico's Nazis and his leading military advisor was clearly of German descent. The Germans were reluctant to actively support Cedillo, however, because they feared actual revolution would force U.S. action that would cut off the supply of oil they were getting.[147]

In fact, the pacifist policy pursued by allowing expropriation actually drove Mexico closer to Germany and Japan than they ever would have gone had a continuing relationship been established through an intergovernmental commission to settle the dispute or the existence of the temporary receivership to run the properties.[148]

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[146] Blasier, *The Hovering Giant*, 124-127.

[147] Ibid., 124-126.

[148] Blasier, *The Hovering Giant*, 124-126.

5. Value Conflict and Uncertainty

U.S. policymakers' failure to consider the appropriateness of their World War I analogy led to false premises for many of their decisions, as shown above. The stress of the analogy probably also increased the uncertainty and value complexity of the situation, given oil company assertions on one side and Daniels' on the other. This confusion may have led to devaluation of protecting U.S. corporation assets. This value supposedly was one of the foundations of the Good Neighbor Policy.

In devaluation a policymaker downgrades one of a set of competing values or interests. Doing so makes the conflict more manageable.[149] If the value of avoiding a repeat of World War I was taken out of the picture or substantially reduced in intensity because of its extreme improbability, it seems likely that the value of protecting corporate assets would have risen considerably in the competing value complex U.S. policymakers were dealing with.

The intense stress from this World War I historical analogy may also have led to defensive procrastination. In defensive procrastination the policymaker looks for a lack of immediate necessity to make a decision to escape from the decisional conflict uncertainty has created. The problem is then put out of the policymaker's mind and attention turned to other matters. Evidence of defensive procrastination can be found in displays of lack of interest in the issue, with the consequence that further information, search, appraisal, and contingency planning are foregone. Delegating the problem to an assistant or another

[149] George, *Presidential Decisionmaking*, 33.

person can facilitate defensive procrastination.[150]

With the intensity of the World War I analogy in his mind, Roosevelt may have been engaging in defensive procrastination by delegating the whole problem to Daniels and accepting whatever he suggested in order to avoid dealing with the complexity of an upcoming war as it related to Mexico.

6. Daniels' Belief System

Josephus Daniels was in his 70s by the time he was appointed Ambassador to Mexico. He was in an unusual position in relationship to President Roosevelt, having been his boss as Secretary of the Navy under President Wilson. Daniels came to the position with a well-formed ideology in life that he believed was reflected in the Good Neighbor Policy. He had very well defined beliefs about the oil companies, having been approximately 40 at the turn of the century when Standard Oil was the most hated company in the United States. He also had a certain view of Mexico having followed it fervently since carrying out President Wilson's order in 1912 to send the Marines to Vera Cruz resulting in 300 Mexican deaths or injuries.[151] Daniels' resulting belief system led to several errors in connection with expropriation that can be explained by information processing errors, attribution theory, cognitive dissonance theory, and schema theory.

When Daniels arrived in Mexico, he came believing he was bringing the "New

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[150] George, *Presidential Decisionmaking*, 36.

[151] Wilkie and Michaels, eds., *Revolution in Mexico: Years of Upheaval, 1910-1940* (Tucson: University of Arizona Press, 1984), 93-94.

Deal" to Mexico — helping the forgotten man in Mexico just as in the United States.[152] Daniels immediately identified Cárdenas with the persona of Roosevelt when they met writing that Roosevelt and Cárdenas saw eye to eye in every New Deal and Pan-American policy.[153] He wrote home that Cárdenas admired Roosevelt and intended to bring the New Deal of America to Mexico.[154] In making these analogies, Daniels was forming schemas that matched his current experience to categories or summaries of similar stimulus configurations in his past.[155]

Schema theory "explains how people make use of diagnostic information to form judgments about objects, people and situations. Because people are limited in what information they can process, they must resort to stored knowledge or cognitive schemas to make some sense of the world around them."[156] Thus, a schema is a concept stored in memory that refers to objects, events or people. They allow people to take important elements out of their experience, to frugally store memories of objects and events to make inferences beyond given information about objects and events, and to follow through with actions based on these visions to attain a goal.[157]

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[152] Daniels, *Shirt-Sleeve Diplomat*, 48.

[153] Ibid., 72.

[154] Daniels, *Shirt-Sleeve Diplomat*, 67-78.

[155] Deborah Welch Larson, *Origins of Containment: A Psychological Explanation* (Princeton: Princeton University Press, 1985), 52.

[156] Larson, *Origins of Containment*, 51.

[157] Larson, *Origins of Containment*, 51-54.

Daniels' judgment that Cárdenas was like Roosevelt was an example of the "persona" type of schema whereby inferences about the personality characteristics of casual acquaintances are made on the basis of their superficial resemblance to another persona,[158] in this case Roosevelt. Bringing the New Deal to Mexico was an example of a categorical script type of schema[159] whereby the background and underlying causes of events going on in Mexico were assumed to be similar to those in the United States. Thus, in processing what actions must be taken to achieve objectives in Mexico, little or no conscious thought or planning was necessary for Daniels.

Daniels also had a categorical script for the oil companies. In a letter to Roosevelt, he stated: "As a rule, the oil men will be satisfied with nothing less than that the U.S. government attempt to direct the Mexican policy for their financial benefit ... They would like to have an ambassador who would be a messenger boy for their companies."[160]

Daniels also believed that "all oil stinks" because it was deviously obtained through oil monopolies that violated the law and morals of society.[161] Daniels' self-schema was as a walking delegate of the Good Neighbor Policy. He conceived of this policy as an extension of the Golden Rule: "Do unto others as you would have them do unto you." He felt the consummation of this policy was more precious than all the dollars

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[158] Larson, *Origins of Containment*, 55.

[159] Larson, *Origins of Containment*, 54.

[160] Daniels, *Shirt-Sleeve Diplomat*, 171.

[161] Daniels, *Shirt-Sleeve Diplomat*, 222.

or all the diplomatic precedence of history.[162]

Given Daniels' schemas, it is not difficult to predict information processing errors, attribution errors and avoidance of cognitive dissonance as well. According to cognitive dissonance theory, if people do not change their beliefs when presented with compelling contradictory evidence, then they must have distorted the information to maintain consistency with their beliefs. Attribution theory is relevant when a policy-maker makes an inference about motives or to form an explanation of actions. Deviations from explanations or predictions that would be offered by a hypothetically rational observer shows biases inherent to intuitive thinking, such as, overestimating dispositions relative to situational factors and susceptibility to vivid information or personal experience.[163]

In 1934 the oil companies presented Daniels with two facts which should have caused him concern about eventual oil company expropriation: the formation of a government oil corporation and Mexican judges invalidating long recognized oil property titles. Analysis of this case from a belief standpoint is interesting because Daniels, as a U.S. government official, was identified so strongly with Cárdenas and the Mexican government that the "other side" to him in this case was U.S. oil corporations.

Using the attribution theory, one could conclude that Daniels made the attribution error of seeing the oil companies' behavior as reflecting dispositional rather than situational factors. When the companies complained to him that there were situational

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162 Daniels, *Ibid.*, 228.

163 Larson, *Origins of Containment*, 64-65.

events that put them in fear of expropriation, he heard them in dispositional terms asking for "dollar diplomacy" to help them continue to make big profits while paying starvation wages.[164] However, given Daniels' pre-existing beliefs about the oil companies, attribution theory may not be the best explanation because it predicts that the decision-maker acts like a scientist trying to find out what really happened. Daniels' reaction was more knee-jerk in nature and, therefore, may be better explained by his oil company schema.

Daniels" cognitively distorted the differences between the corrupt and executive controlled Mexican court system and the independent U.S. court system. When Mexican judges might be doing something illegal under international law, he distorted information to maintain internal consistency among his beliefs and told the oil companies that if they wanted relief, they must find it in Mexican courts.[165] His belief was that U.S. capital should be subordinate to the court and other authority in the country where it was located and be utilized to benefit the people of that country just as if it had remained in the United States.[166] When the oil companies pressed their case to the State Department, Daniels wrote to the State Department that the United States had no right to demand decrees from Mexican courts anymore than Mexican officials had the right to demand decrees from U.S. courts.[167]

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[164] Cronon, *Josephus Daniels in Mexico*, 58-59.

[165] Daniels, *Shirt-Sleeve Diplomat*, 220.

[166] Daniels, *Ibid.*, 228.

[167] Daniels, *Shirt-Sleeve Diplomat*, 221.

Daniels often exhibited distortion of information processing. This occurs when ambiguous or equivocal information is mistaken as firm evidence on behalf of a favored interpretation because it is not inconsistent with a pre-existing belief. On the other hand, new information that is unambiguous and unequivocal is mistakenly rejected or considered implausible or inconclusive because it is inconsistent with a pre-existing belief.[168] When Cárdenas proposed the new expropriation law in 1936, Daniels believed Cárdenas' assertions that Americans would be treated fairly despite numerous claims presented to Daniels by Americans for land taken without payment. Daniels rejected this firm evidence in favor of a rumor he heard that Cárdenas' targets might be very wealthy members of a former president's clique.[169]

In late 1937 the Mexican Conciliation Board ruled that the oil companies had to pay their workers 26 million pesos a year more than they were paying them along with all the other demands of the union. The oil companies told Daniels they would not comply with the ruling, that it was merely a pretext for expropriation and that if there were oil expropriation, the oil companies would not allow Mexico to sell its oil because they controlled all the tankers and tank cars.[170] Daniels, obviously discounting what the oil companies had to say, told them to go to the Mexican courts.

When they got no help from Daniels, the oil companies complained to the State

168 George, *Presidential Decisionmaking*, 64-65.

169 See Daniels, *Shirt-Sleeve Diplomat*, 69, for his description. Daniels actually believed in this erroneous analogy between the independence of Mexican courts and the independence of U.S. courts, as we shall later see.

170 Daniels, *Shirt-Sleeve Diplomat*, 223-224.

Department requesting help to avoid expropriation. Daniels wrote to the State Department that this was a domestic labor question and that the oil companies were mistaking the Mexican government's insistence upon better wages with a desire to nationalize the oil industry.[171] This is an example of Daniels' oil company, Mexican New Deal and Cárdenas/Roosevelt schema operating at a crucial moment. In the United States under Roosevelt and the "New Deal" government, concern for better wages for workers would be a natural concern in any conflict with a corporation. On the other hand, expropriation of a company's properties would be a virtual impossibility even under Roosevelt's anti-corporation New Deal. Apparently, Daniels was believed because the U.S. government took little action.

Thus, Daniels and the rest of the U.S. government were completely shocked when Cárdenas expropriated the oil companies instead of putting them in a temporary receivership.[172] Wages were not the real objective of the Mexican government as they would have been in the United States. Expropriation had been Cárdenas' goal all along[173] and Daniels' schema and influence caused U.S. policymakers to completely misjudge the possibility of the surprise crisis they got.

7. Spiral Value Analysis

Ambassador Daniels had a coherent ideology in place when he took his position in

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[171] Cronon, *Josephus Daniels in Mexico*, 172-173.

[172] Daniels, *Shirt-Sleeve Diplomat*, 227.

[173] Meyer, *Mexico and the United States*, 171.

the Roosevelt Administration. If a case study analyst could look at parts of a person's ideology and infer other values that tend to cluster with certain known values, that person's decision process could be predicted in reference to a foreign policy decision along with expected errors.

Don Beck and Chris Cowan of the National Values Center have created a system for predicting leadership style and methods of decision-making based on the longitudinal studies and life work of social psychologist Clair Graves. Graves postulated that human nature itself changes as the conditions of existence people find themselves in change. The resultant new human nature system changes the psychology of the individual and the rules for living to adapt to the new conditions.

This emergence of human systems as they go through levels of increasing complexity is best depicted visually as a spiral.[174] These systems involve a clustering of ideas and belief patterns that determine *how* people think or make decisions in contrast to the specifics of what things they believe or value. The systems stack or nest in people so that a person's thinking about different kinds of things: religion, family, work, sports, politics, can each use a different system.[175]

The systems can be described briefly from the bottom level up as follows:

1. Basic instinctive survival;
2. Magical-mystical, concerned with safety;

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[174] Don Edward Beck and Christopher C. Cowan, *Spiral Dynamics, Mastering Values, Leadership and Change* (Cambridge: Blackwell Publishers, 1996), 29.

[175] Beck and Cowan, *Spiral Dynamics*, 63.

3. Powerful impulsive, concerned with dominance and power;
4. Purposeful-saintly, concerned with meaning and order;
5. Strategic-materialist, concerned with autonomy and manipulation;
6. Sensitive-humanistic, concerned with equality and community;
7. Integrative-ecological, concerned with flexibility and natural flows;
8. Holistic-global, concerned with life and harmony.[176]

As one goes up the spiral of value clusters, value systems become more complex, encompassing in memory all the systems below. Higher is not better or more useful or more practical. A higher-level value cluster is only more useful for the more complex life conditions in which it evolved and may not be at all useful in a simpler set of life conditions. People can evolve down the spiral as well as up.

According to Beck and Cowan, an accurate diagnosis of a person's value cluster will lead to predictions about how a person will think or make decisions in contrast to what a person will believe or value. Thus, a religious zealot who champions "the one and only true way" can be at the same value level as another zealot who advocates a different religion. I believe Daniels' foreign-policy beliefs were clustered at the sixth level or what Beck calls the relativistic human bond. Some of the characteristic values this system would predict in Daniels are: equalitarianism, community and unity; sharing societies resources among all; relativism; liberating humans from greed and dogma; reaching

[176] Beck and Cowan, *Spiral Dynamics*, 65.

decisions through consensus; and refreshing spirituality and bringing harmony.[177]

In my view, Daniels was clearly egalitarian and humanitarian. He believed in sharing U.S. resources among all, particularly in order to create social safety nets to eliminate "have-have not" gaps between the United States and Mexico. In support of this he believed everything was relative, i.e., U.S. law in the United States and if something different was needed to promote social justice, then Mexican law in Mexico.

For Daniels, it was more important to render meaningful service and find pleasure in doing it then to make greedy profits or achieve demonstrable successes. He described his outstanding achievement in Mexico as "having a heart," "I tried to be a good neighbor and to be in sympathy with the things Mexico was trying to do for the good of their country."[178] This put his interpersonal skills at a peak because his constructive warm interactions were so integral to his self-satisfaction.

In my view, again, Daniels was not self-oriented for power or success but for the idea of "we," meaning community. His "community" was the Mexican people as well as the U.S. population. He was willing to tolerate a range of differences and standards of behavior for the "haves and the have-nots." It was a relative issue. Daniels would not fault the Mexican official who solicited and took a bribe because they were part of the "have-nots" so much as he would fault the oil company that offered the bribe because they were one of the "haves." He did not see the potential cost of so much "Good Neighbor-New Deal" caring in economic or human energy terms.

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[177] Beck and Cowan, *Spiral Dynamics*, 260-271.

[178] Daniels, *Shirt-Sleeve Diplomat*, 273.

According to Beck and Cowan, there are many disadvantages to this value system. It produces blind spots, one-sided views, and a failure to anticipate under certain conditions. Its egalitarian homogenizing offers the false hope that everyone can be made equal.[179] This level also conflicts with Level 5 which is competitive, profit seeking and self-satisfied.[180]

This would predict that Daniels would have substantial conflict with the oil companies who are absolutely competitive, profit seeking, and self-satisfied. It would also predict that once Daniels identified Cárdenas as being like him, he would not expect Cárdenas to breach the sense of community with the United States by expropriation. He would be more likely to expect Cárdenas to create a temporary receivership that would maintain a more communal way of working things out. Yet, after expropriation, the theory predicts Daniels would accept it as a means to share resources while liberating Mexicans from the greed of the oil companies. After initially trying to reverse the oil expropriation, Daniels did strongly support it.

Beck and Cowan's value theory would also predict that Daniels would have blind spots to information that would not support his belief that "have not" categories are equal, i.e., Mexican judges are corrupt and executive controlled when U.S. judges are not. Anti-Level 5 beliefs may also make him discount information coming from oil companies if it conflicted with his expectation that "have not" Mexicans were equal, and thus would act the same as "have" policymakers in the United States.

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[179] Beck and Cowan, *Spiral Dynamics*, 260-271.

[180] Beck and Cowan, *Spiral Dynamics*, 271.

In my application of Beck and Cowan's theory, someone at this value level, such as a policymaker charged with protecting his country's interests, who would put his country's interests in the same pot as another countries and then want to share them, would not be the best person to send into a competitive situation like Mexico in the late 1930s. Such a person would be good to send if the objective was to make a friend because that is what Daniels did.

4-C. CONCLUSION OF VIEW 4

We can see, then, that Roosevelt's competitive policymaking system failed to question critical assumptions and historical analogies so that key policymakers were unable to make effective policy and effectively delegated the process in relation to Mexico to a very biased ambassador. This ambassador did everything possible to promote another country's interests in pursuit of sharing the resources of the strong with the weak. To accomplish this, he was willing to frustrate and disobey his superiors as well as compromise the interests of his own country when he disagreed with them. His schema, cognitive structures, beliefs and values caused him to have a "blind spot" to certain information that was badly needed to make a better decision for Mexico and the United States.

Because Mexican petroleum workers felt that their interests had provoked an international incident, they insisted on running oil operations with their own benefit being clearly paramount. Wages quadrupled to over 50% of production costs while union members, politically immune, slacked off and invented a system of feather bedding. By

1945, 17,000 workers produced less oil per man than 13,000 in 1937. Corruption, patronage and other political practices led to an all time low production between 1942 and 1944.[181] Despite attempts at reform over the years, these same conditions exist today. All the various problems with the U.S. policymaking system in 1938 have allowed Mexico to transfer its oil wealth from one master without to another within. The United States has lost its access to these strategic resources just as much as Mexico and the rest of the world have.

VIEW 5:
AN ELITELORIC VIEW OF THE OIL COMPANIES' ROLE IN THE EXPROPRIATION

The folklore that survived the expropriation held that the oil companies were surprised and shocked by Cárdenas' decision to expropriate just as was the U.S. government. View 5 questions not only the reality of this surprise but goes further by asking if the oil companies were actually thrown out by Cárdenas or were their actions directed to unseen goals that they then wanted to cover up by generating the folkloric myth that they were thrown out to justify their actions? Could the reality be the oil companies viewed Mexico as a sacrificial pawn in a game on a much bigger worldwide chessboard?

To read the voluminous literature written on the 1938 Mexican oil expropriation,

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181 Howard F. Cline, *The United States in Mexico* (Cambridge: Howard University Press, 1963), 252-253.

one would not think so. The existing literature does not really question the assumption that the oil companies didn't really want to lose valuable assets anywhere, particularly in Mexico where they had struggled so hard against the Mexican government and unions to maintain and make those assets profitable. Yet, View 5 argues that it is precisely because of that struggle and a general trend of similar struggles elsewhere in Latin America and the world that good, albeit brilliant, business judgment dictated that the assets of the oil companies in Mexico be sacrificed. The sacrifice was meant to first secure their ability to exploit productive oil reserves in Venezuela and other countries around the world worth countless times more than what was given up in Mexico, and second, to get the highest possible value out of those assets that was unavailable by other means.

After all, for companies operating all over the world sourcing oil in one country and selling it in another, Mexico was just another source and another market. Analytically speaking, it was just one square on the board of a worldwide oil company game in which only the oil companies really understood the goals and made-up the rules. Oil companies played with national power, national institutions, and regulatory structures the same way children played with blocks.[182] Thus, to understand if their intentions and goals differed from the folkloric view, it is first necessary to understand a little about the oil industry. What did the oil companies really want? How were they different than the nations in which they did business?

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[182] Gregory P. Nowell, *Mercantiles States and the World Oil Cartel 1900-1939* (Ithaca, NY: Cornell University Press, 1994), 222.

5-A. STRUCTURAL DETERMINANTS OF THE OIL INDUSTRY

As we know, oil companies are primarily interested in accumulating economic capital which consists of assets such as real estate, underground oil, equipment to extract, refine, ship and sell the oil, money, credit and the power to protect and sustain all these assets over the long term. This fact sets them apart from nation states, which are geographically bounded and to whom economic gains and losses are simply issues they notice while primarily worrying about political issues that can, of course, include economic issues. Within their countries they are concerned about domestic position-takings that could stabilize or destabilize ruling government institutions and long term well being of the country, and external issues, such as alliances or confrontations with other countries competing with them internationally. As long as economically oriented institutions like oil companies can function reasonably well in a particular political environment, they generally accept the political status quo and do not question the positions the government takes internally or externally.

Oil companies, then, do not concern themselves with political issues in choosing countries to source or sell oil in. A dictatorship or a democracy is equally acceptable. Much more important than external political complexions are factors that affect company operations and profits, like government stability, competition, industry regulations, and profit remission. In making decisions about where to make investments, companies are automatically drawn to the most profitable option with the lowest risk.[183] Their political

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[183] Louis Turner, *Oil Companies in the International System* (London: Billing & Sons, Ltd., 1978), 121.

influence and contributions, social standing, etc., is all ultimately convertible to economic capital.

In his book *Multinational Oil*, oil industry economist Neil Jacoby details four structural determinants (SD)[184] that oil companies use to analyze their investments in order to maximize their economic returns to their shareholders. Oil company objectives can be predicted using these structural determinants.[185] They can also be used in part to explain what stakes oil companies will struggle over, what forms of investment they want and need, and what kinds of strategies they might use in competition with each other and with their host and parent governments. The host government is the particular country in which they are operating such as Mexico. Their parent government is their home country, such as the United States for Standard Oil.

Under Jacoby's scale, SD1 is the nature of risk in the investment. The risks associated with investing are: (SD1a) technical, in the unknown commercial feasibility of the wells; (SD1b) economic, in the potential return on the investment; and (SD1c) political, in the possibility of expropriation, discrimination, currency devaluation, and government-sponsored competition. Structural determinant 2 is the need for continuity of operations. Because initial investments are large and aboveground storage facilities are very expensive, much lower costs are achieved through a steady flow of crude oil from

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[184] For ease of later analysis, the words "structural determinant" will be abbreviated as SD, so Jacoby's structural determinant 1 (a) will be referred to as SD1a, for instance.

[185] Neil. H. Jacoby, *Multinational Oil* (New York: Macmillan Publishing Co., Inc., 1974), p. 288.

wells to refineries to distributors to consumers. Structural determinant 3 is the complex governmental regulation over companies coming under the jurisdiction of at least two governments. Negotiating concessions, licenses, royalties, duties, taxes, export regulations, currency, prices, and production rates is costly and time-consuming. Structural determinant 4 is the high barriers to entry involved in finding and then getting oil to markets.[186] If oil property is easy and cheap to find, extract and ship then the barriers are low. If it is in a place with a hostile government, is difficult to find, then hard to get out of the ground because it is very deep and far away from the nearest port for shipping then the barriers are high.

To maximize these structural determinants, successful multinational oil companies, like Standard and Shell, generally use large-scale plants to establish lower costs per barrel, source and sell in many nations, operate in all aspects of the industry — exploration, production, refining, shipping and marketing, while introducing massive amounts of capital and planning investments for the long term.

In the first few decades of the twentieth century the oil companies struggled, often along with their own governments, to dominate the geographic areas in which commercially feasible oil reserves could be exploited. Then, the oil companies struggled to develop the political influence with both parent and host governments to be able to secure and maintain these concessions. Third, the companies struggled over the most efficient means of transporting the crude oil to refineries and markets. Finally, the oil companies struggled for market control and domination, as in the European or U.S. oil

[186] Jacoby, *Multinational Oil*, 16-18.

and gasoline market. This was the game board where they used various strategies in any and all of these areas to change the directions, power relationships, and positions of all the players in the industry many times, Ultimately, however, the aim of the struggles was to bring home the greatest long-term economic return on the investment for their owners, because this is what produced more economic capital to continue their investments in the future.

5-B. THE MULTINATIONAL OIL INDUSTRY IN MEXICO AND THE WORLD PRIOR TO THE 1930s

English historian Fiona Venn details in her *Oil Diplomacy in the Twentieth Century*[187] many of the struggles the oil industry went through before the expropriation. Prior to the 1930s the oil companies had a unique relationship with their parent countries that enhanced their economic pursuit of rights to produce oil in the most promising areas. Major naval powers realized they needed a guaranteed supply of oil to fuel their military machines and consequently took an active interest in the location, control, and security of oil fields prior to and just after World War I. Undeveloped countries with newly-discovered reserves were subjected to intense "diplomatic pressure" to secure oil concessions for oil companies from the developed countries; in some instances, this pressure included posting warships off the coasts of countries that had untapped oil

[187] Fiona Venn, *Oil Diplomacy in the Twentieth Century* (Houndsmill [Basingstoke, Hampshire] and London: The Macmillan Press, 1986).

resources.[188] In one such gaming space, Mexico and the United States went beyond diplomatic pressure to preserve access to this key resource and to prevent British interests from dominating it. These events set up the heart of the conflict that later expressed itself in the expropriation.

Drilling for oil in Mexico began in 1901 under Mexican President Díaz who changed traditional Latin American land ownership so that oil companies owned everything under the land if they owned the surface. Previous Mexican and Latin American law held that everything under the land belonged to the government, so that only private interests could own the surface.[189] In 1910, the famous "Golden Lane" of oil was discovered near Tampico. This subsoil pool of oil was one of the most prolific oil areas ever discovered in the world. It composed a line of fields 300 yards wide and 50 miles long.

To access this oil, British interests founded El Águila (later part of Royal Dutch Shell) to secure concessions for and exploit these huge undeveloped oil reserves. To secure this source of oil, El Águila's owners allied themselves with 30-year Mexican President Díaz. Unfortunately for El Águila, in 1911 the Mexican Revolution started because of Díaz's excesses through a military coup by Madero. The extent of El Águila's involvement with Díaz has led to much speculation that the Madero revolt was financed by Standard Oil.[190] Madero was, in turn, militarily overthrown by General Huerta, whose

[188] Venn, *Oil Diplomacy*, 9.

[189] Venn, *Oil Diplomacy*, 23.

[190] Venn, *Oil Diplomacy*, 20.

government was immediately recognized by the British in 1913[191] despite the fact that he had assumed power by illegal means.

When Winston Churchill proposed building a substantial number of oil-powered ships to be supplied in part by British-Mexican oil companies, the United States concluded Britain's Latin America policy was based on securing oil.[192] After President Wilson was informed that the British had obtained concessions for half of the future oil of Mexico from General Huerta, who was struggling for the presidency against General Carranza, Wilson became determined to militarily take back this area for U.S. oil companies.[193] Wilson's Secretary of the Navy, Josephus Daniels, who later became Ambassador to Mexico under Roosevelt, opposed the military strategy but had to carry out Wilson's orders. His Assistant Secretary of the Navy, Franklin Delano Roosevelt (later president) assisted.

The U.S. naval fleet invaded Vera Cruz in April 1914 under the pretext that the United States had been insulted when U.S. Marines were detained in the port of Tampico. The Marines seized the Mexican customs house in a confrontation that left 20 Americans and 200 Mexicans dead.[194] The object of the seizure was to deny General Huerta crucial

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[191] Venn, *Oil Diplomacy*, 20.

[192] Venn, *Oil Diplomacy*, 21.

[193] William F. Engdahl, *A Century of War* (Concord, MA: Paul & Company Publishers Consortium, Inc., 1973), 71-72.

[194] Engdahl, *A Century of War*, 71-72.

munitions that were to be off-loaded at the port by a German ship.[195]

The occupation of Vera Cruz lasted seven months as the U.S. government actively helped bring about the downfall of Huerta. Much of the literature still incorrectly identifies this event as the United States' attempt to either preserve its dignity or seek to further the revolution under a more true believer; however, Wilson's true intention was to protect U.S. oil company interests because Huerta was perceived as being in British hands.[196] Deprived of crucial munitions, Huerta was militarily defeated by General Carranza. Carranza had been receiving guns and money from Standard Oil owing to the fact that he was perceived as more likely to grant oil concessions to U.S. oil companies in return for their help. Carranza was immediately recognized in October 1915 by the Wilson administration as the lawful and rightful president of Mexico.[197]

This series of events led to Article 27 of the Mexican Constitution, which declared that subsoil mineral rights belong to the Mexican government; during the colonial period they had belonged to the Crown of Spain. Article 27 put into question the rule of "international law" that had enabled dominant powers throughout the world to justify interventions in weaker countries when it was in the dominant powers' interest. Additionally, these events created a strong mutual suspicion between Britain and the United States that contributed to the buildup of the Anglo-American oil war after 1918. In

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[195] Wilkie and Michaels, eds., *Revolution in Mexico: Years of Upheaval, 1910-1940* (Tucson: University of Arizona Press, 1984), 89-93.

[196] Venn, *Oil Diplomacy*, 22.

[197] Engdahl, *A Century of War*, 71-72.

particular, Britain began arguing that the United States' positions of denouncing monopolies and supporting the "open door" were inherently self-motivated.[198] The seven major oil companies set up a secret cartel designed to maintain their marketing and production proportions in various "As Is" agreements starting in 1928.[199]

All of this development resulted in substantial oil production by the Middle East, Venezuela, Russia, and the United States. Competition and price wars, instead of obtaining concessions, drove the industry. To end this, the oil companies entered into the Achnacarry Agreement (so named because it was signed in that town in Scotland). This agreement is also called the "As Is Agreement of 1928." Under this agreement, the major oil companies accepted existing market divisions and shares, agreed to reduce production, and set a secret world cartel price. Their object was to forestall the diminishment of their oil reserves, which were threatened by low oil prices. Cutting back would mean selling less oil for more money, thereby increasing economic capital without depleting oil reserves.

The governments of Britain, United States, France, and Italy ratified part of this agreement in what became known as the "Red Line Agreement" that set forth a line that surrounded agreed-upon areas of the Middle East. Within the line, there were ironclad divisions of territory conceded to each country's majors.[200]

Nonetheless, despite the major oil companies' agreement to cut back their

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[198] Venn, *Oil Diplomacy*, 21-23.

[199] Yergen, *The Prize*, 263-269.

[200] Engdahl, *A Century of War*, 87-88.

production, there was a huge surplus. Because of the surplus, the ability of the multinational companies to convert oil reserves into economic capital diminished drastically as well. Despite the Achnacarry agreement, the price of oil fell from $1.30 a barrel to ten cents a barrel. Large discoveries of oil in Texas dropped the price per barrel to five cents by 1931. Import quotas were officially established against foreign imports in 1933 under the National Industrial Recovery Act Petroleum Code. Even Latin American crude, traditionally brought to its closest U.S. market, went to outlets abroad. To further worsen the problem, between 1929 and 1934, eastern hemispheric oil production rose 50%. Then, even outlets abroad restricted foreign sales within their borders of oil in the world.[201]

The result, paradoxically, was a dramatic decline in the political capital of the multinational oil companies, which had done their jobs in developing reserves for their countries. Their special power to guaranty a supply of a key military resource was substantially devalued. By the huge surplus of oil in the face of declining need as the world slid into the Great Depression, oil was no longer considered a significant stake or instrument of struggle in the international field of power. Multinational oil companies' effectiveness in their own industry declined without their parent government's support.[202]

The United States now was more interested in its domestic oil companies than its multinationals. The domestic companies had more influence in Congress and the

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[201] Jacoby, *Multinational Oil*, 34.

[202] Pierre Bourdieu, *The State Nobility* (Stanford, CA: Stanford University Press, 1996), p. 264.

protection of its functioning reserves was more important to the United States' future than were reserves of foreign sources, which could be cut off in the event of war. Additionally, as part of the policies of the New Deal, the Roosevelt Administration had considerable anti-oil company sentiments.[203]

5-C. MEXICAN OIL IN THE 1930s

Because of the lack of government interest and the worldwide glut, the 1930s saw huge worldwide structural changes in the oil industry. This glut and lack of home government support occurred during a time of worldwide depression and advancing nationalist, socialistic and communistic tendencies.

After the New Deal administration of Roosevelt came to power in 1933 and the labor-oriented government of Cárdenas came to power in 1934, these trends became especially evident in Mexico and severely impacted its attractiveness to the oil companies. Compromise agreements previously reached between Mexico and the oil companies were ruptured. Cárdenas backing of Communist union leader Toledano hold on Mexican labor allowed him to try to force the oil companies into compliance with the constitution and Mexico's needs as a developing country at the same time they were facing worldwide economic problems of their own. The result was that Mexico's percentage of world oil production went from 25% in 1920 to less than 3% by the time of the expropriation.[204]

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[203] Turner, *Oil Companies in the International System*, 30-32.

[204] A. J. Bermudez, "The Mexican National Petroleum Industry: A Case Study in

This dramatic decline in Mexico's share of world oil output was caused by several factors over the intervening 18 years. The Mexican government would allow confirmation of oil reserve concessions only on lands owned or leased prior to the date of the constitution in 1917. All other reserves were considered Mexico's property. Any new exploration carried with it no secure rights of exploitation. Oil companies could find oil reserves but that gave them no firm right to extract, refine or sell it. Concessions then had to be obtained. In areas where concessions were allowed, the terms were so drastic that the leases couldn't be operated profitably anywhere near the existing world market. Standard Oil of New Jersey had liquidated much of its Mexican oil production investment prior to 1927 while transferring its ablest executives to Venezuela. Reserve acreage was retained only in the hope that the government might some day come to a workable understanding; however, no new capital was invested in Mexico.[205]

Venezuela, on the other hand, was a dream-come-true for the oil companies. It had rich petroleum reserves not far from tidewater, where oil tankers could easily get in, and well located in relation to other international markets. Unlike other Latin American countries, security for oil company investments was provided by the ironhanded military dictatorship of General Gomez, who ran the country to benefit himself, his family and friends. Gomez, unlike Cárdenas, did not allow labor to organize or outsiders to agitate. Any labor unrest was brutally crushed by the police. Its laws were the most favorable in

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Nationalization," Special Issue, *Hispanic American Report* (Stanford, 1963), 222.

[205] H. M. Larson, E. H. Knowlton, and C. S. Popple, *History of Standard Oil Company (New Jersey) 1927-1950, New Horizons* (New York: Harper and Row Publishers, 1971), p. 128.

Latin America to the oil industry.[206]

Venezuela had several other advantages as a place to do business for the multinational oil companies. First, it had "the best petroleum law in the world" providing for 40 year titles, 10% royalties, and custom exemptions for industry related imports.[207] Second, the oil companies had huge strikes there, which produced higher yields of light grade crude that gave higher gasoline ends than other heavier crudes.[208] These strikes had huge per well production volume and low transport costs because shallow-draft tankers could be used. Third, with the low political risk factor due to an all-powerful dictator and a docile labor force, Venezuela had an international cost advantage that elevated it to the world's leading exporter and second largest producer of oil.[209] Fourth, unlike Mexico, which had tremendous domestic needs for oil, Venezuela had to dispose of all of her output abroad.[210] By 1937, Standard Oil of New Jersey controlled 57% of Venezuela oil output.[211]

Prior to World War II, the oil cartel's pricing system, in effect, required uniform

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[206] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 132-135.

[207] J. D. Wirth, *Latin American Oil Companies and the Politics of Energy* (Lincoln: University of Nebraska Press, 1985), 195.

[208] J. C. Brown, "Why Foreign Oil Companies Shifted Production from Mexico to Venezuela during the 1920s," *American History Review* 90 (1985): 38-39.

[209] Wirth, *Latin American Oil Companies*, 195.

[210] Wirth, *Latin American Oil Companies*, 198.

[211] E. T. Penrose, *The Large International Firm in Developing Countries: The International Petroleum Industry* (London: Allen & Unwin, 1968), 58.

delivered prices to be quoted by all sellers. This insured that lower cost producers couldn't use lower costs to expand their share of the market by reducing prices.[212] Still, there was a worldwide oversupply of oil.[213]

Because supply exceeded demand and prices were fixed, every barrel of high-cost Mexican oil sold on the oil market was a barrel of lower cost oil from somewhere else in the world, especially Venezuelan oil, that didn't get sold. If this is measured in millions of barrels of oil, the conclusion is that there was a huge opportunity for profit that was lost by maintaining any Mexican oil production and a high cost saving to be had by discontinuing any payroll or other operating costs of trying to extract oil from Mexican properties. Unless things changed dramatically, continuing to operate in Mexico was economically bad business.

5-D. LATIN AMERICAN TRENDS TOWARDS EXPROPRIATION

In the 1930s there was a general trend in Latin America toward state-control of oil. In the 1920s Latin American governments saw the advantage of cooperation because of the amount of new capital moving into Latin America looking for opportunities. The 1930s, however, saw an international oil cartel with oversupply that only dealt with established exporters and wanted to hold back production while having little interest in new investment. With the depression, U.S. companies withdrew from Latin America

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[212] Penrose, *Large International Firm in Developing Countries*, 180-181.

[213] G. Philip, *Oil and Politics in Latin America: Nationalist Movements and State Companies* (Cambridge and London: Cambridge University Press, 1982), 182, 198; G. Baker, *Mexico's Petroleum Sector* (Tulsa, OK: PennWell Books, 1984), 141.

losing power and prestige at the expense of nationalist and even fascist influences.[214] Developing countries needed oil production and its revenues for continuing economic development along with security of oil supply for their transportation, military, power and other needs.[215] Further, the depression brought balance of payment crises so that governments wanted to save foreign exchange to avoid harsher austerity measures. Domestic oil production freed them from importing oil so that foreign exchange could be available for capital goods and other requirements of industrialization.[216]

To meet their developing oil needs and avoid currency exchange crises, Latin American governments set up competing state companies as well as expropriating the properties of the multinational oil companies. Argentina first attempted expropriation in 1929. While it didn't pass then, the noose tightened on the oil companies until there was full federalization in 1935. Concurrently, the government developed its own oil company. This condemned private oil companies to a slow, lingering, unprofitable, economic death for the productivity and profitability of their properties in Argentina.[217] Chile threatened expropriation and closed down all foreign oil exploration in 1933 and by 1936 was proposing a full state monopoly of oil. This effectively shut down most of oil company

[214] Philip, *Oil and Politics in Latin America*, 198.

[215] Fariborz Ghadar, *The Petroleum Industry in Oil-Importing Developing Countries* (Lexington, MA: Lexington Books, 1983), xxi.

[216] Philip, *Oil and Politics in Latin America*, 198.

[217] Philip, *Oil and Politics in Latin America*, 180-181.

production there.[218] In 1937, Uruguay conducted a partial nationalization while Bolivia expropriated all of Standard Oil's property.[219]

Latin America was not the only place oil companies faced these trends. By this time, it was apparent that a Russian expropriation of multinational oil properties had succeeded. Spain also nationalized its oil industry in 1927 and set up a state oil company to export its oil.[220]

Clearly, the dominoes of expropriation were falling in Latin America and the oil companies must have been trying to find a way to keep Venezuela from falling as well. Mexico was an ideal place to make an example. It had a prominent reputation as an oil producing country from the 1920s and was big enough and prominent enough in Latin America that whatever happened there would attract a lot of attention.

The oil companies were well positioned to make an example out of Mexico. They could control the sale of replacement parts and access to the technical expertise that was needed to keep Mexico's wells and refineries running.[221] They controlled the railroad tanker cars and the sea going tankers that would be needed to get oil from wells and refineries to any market.[222] And because of their tremendous influence over U.S. public officials and their relationship with the U.S. military through its great need for petroleum

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[218] Philip, *Oil and Politics in Latin America*, 187.

[219] Philip, *Oil and Politics in Latin America*, 193.

[220] Venn, *Oil Diplomacy*, 81.

[221] Cronon, *Josephus Daniels in Mexico*, 208.

[222] Daniels, *Shirt-Sleeve Diplomat*, 223-224.

products, they had control over major consumers, and were in a position to induce damaging U.S. sanctions.[223] Through their continuing high dollar investment in advertising and public relations along with their presence in every market, they were in a position to generate tremendous negative publicity against Mexico.[224] Further because of their potent business relationships, they were in a position to influence other international companies to withdraw funds from Mexican banks and induce other financial institutions and governments to withhold funds thereby creating an unparalleled capital crisis for the Mexican government.[225]

5-E. MEXICO'S OIL FUTURE AND THE EXPROPRIATION LAW

Given the above, future prospects for profit or recoupment of investment in Mexico were dim, at best. The oil companies knew they would have to operate under conditions of labor strife and hostile government attitude. If the companies used Jacoby's scale to analyze their investments at this point, they would find an undesirable picture. They saw the government expropriate the lands of foreign citizens in the 1930s without providing any compensation at all. The companies' properties were now at a high level of political risk (SD1c) and were having great difficulty negotiating government concessions and dealing with government regulation (SD3).

Second, the companies saw the rise of government supported unionism and

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[223] Ibid., 249.

[224] Ibid., 255-258; Cronon, *Josephus Daniels in Mexico*, 211.

[225] Baker, *Mexico's Petroleum Sector*, 141.

communism in 1934 and 1935 that took away virtual control and continuity of operations on these properties (SD2) while encouraging union demands that made cost and management unreasonable by international standards.[226] This increased the economic risk of having negative returns on their investments (SD1b). Third, Roosevelt's Good Neighbor Policy, as put into effect by its ambassador to Mexico, Josephus Daniels, offered no hope of any kind that the U.S. government would protect U.S. companies' investments or their employees from anything the militant, communist unions or the Mexican government wanted to do to them (SD2).[227]

These three factors combined with the problems that led Standard Oil to liquidate in 1927, such as high tariffs and taxes (SD3), pointed to a probable future of constantly difficult unprofitable operations in the midst of a period when Mexico's oil just flat wasn't needed outside of its own borders. Using Jacoby's analysis of the 4 factors, in summary, would lead any oil company, absent some other factor, to disinvest in Mexico. While Mexico clearly had feasible wells (SD1a) and high barriers to entry (SD4), its probable return on investment was low (SD1b), its political risk of expropriation, discrimination, currency devaluation and government sponsored competition was high if not certain (SD1c); its ability to offer continuity of operations was low in this very hostile communist union labor environment (SD2); and its probable ability to have favorable government regulation in concessions, licensing, royalties, duties, taxes, currency, prices and production rates was demonstrably low (SD3).

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[226] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 128.

[227] Daniels, *Shirt-Sleeve Diplomat*, 228; Cronon, *Josephus Daniels in Mexico*, 147.

Yet, even though the companies must have wanted to take their investment capital out of Mexico they did not appear to have any options to accomplish this goal. The companies could not use the liquidation option Standard Oil of New Jersey had used in 1927. First, the Mexican government, in grabbing foreign properties without compensation, was making it extremely difficult to transfer existing rights[228] and would undoubtedly make transfer to any third party extremely difficult if not impossible. Second, given probable future returns on investment, what company with the wherewithal to buy the companies' properties would look at or offer any fraction of their investment? Indiana had offered the properties to Shell and other companies in 1932 and Standard Oil of New Jersey had turned out to be the only one interested in adding production in a time of worldwide oil glut. Most companies already had too much production for their existing markets.[229]

Third, if the companies abandoned their properties to cut their losses without transferring them to another company, Mexico would surely take them for nothing.[230] This would create a bad precedent for any other foreign country that the companies might be doing business in or someday want to enter for exploration purposes. They could not leave the impression that their properties could be easily had by developing countries just by making life difficult for the companies. A tidal wave of problems would follow them all over the world! Thus, the companies were in the very unpleasant situation of not only

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[228] Daniels, *Shirt-Sleeve Diplomat*, 217-218.

[229] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 48.

[230] Daniels, *Shirt-Sleeve Diplomat*, 223-224.

not being able to salvage any value from their investments, but also having to continue to operate a losing situation.

In 1936, President Cárdenas gave the oil companies a way out of this dilemma through passage of an expropriation law that required the government to provide compensation in the event of an expropriation. This law provided the companies with the only way to salvage some value from an impossible situation because if the government expropriated, then it had to pay for the properties.[231] On this matter they could also conclude that even the Roosevelt government would support them in getting compensation required by Mexican law. Yet, even if the U.S. government didn't support them, they were still better off because they could stop operating without giving the appearance of abandoning Mexico and could use the event to stop the expropriation dominoes from falling into Venezuela.

5-F. THE PROVOCATION

It is the thesis in this View 5 that from 1936 onward, the oil companies conducted a carefully orchestrated strategy to simultaneously provoke President Cárdenas into expropriating their properties while appearing to be doing everything possible to avoid expropriation. In furtherance of these twin objectives in 1937 and early 1938, the oil companies publicly bought ads complaining about the government's treatment of them which only had the effect of polarizing the issue of the strikes at their production facilities. By openly attacking in these ads, the award of the Mexican Supreme Court personally appointed by Cárdenas, instead of quietly negotiating a way for him to save face, they crystallized Cárdenas' determination to ultimately take the properties.[232]

Secondly, when the oil companies met with Cárdenas just before he announced the expropriation, they asked him who would guarantee the court's protection of their interests. When Cárdenas answered, "I, the President of the Republic," the official sent to negotiate mockingly said, "You?" and Cárdenas then rose and answered dryly, "Gentlemen, we have finished."[233] This is surely not the way a party intent on reaching a negotiated settlement would handle the situation. It can only be interpreted as a final provocation meant to push Cárdenas over the edge.

Thirdly, the Ambassador to Mexico at the time, Josephus Daniels, noted after the expropriation that, "the oil companies virtually acted out a text book example on what not to do and how not to do it, all in the name of free enterprise and the sanctity of private property."[234] It seems unlikely to me that oil companies who had just suffered a series of expropriations in Latin America and had been negotiating with foreign countries for years would not know how to create a text book example of what to do instead of what *not* to do. I can only interpret this as they did what they meant to do — cause expropriation.

5-G. CONCLUSION OF VIEW 5

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[231] Cronon, *Josephus Daniels in Mexico*, 122.

[232] Wirth, *Latin American Oil Companies*, 223.

[233] H. O'Connor, *World Crisis in Oil* (New York: Monthly Review Press, 1962), 112.

[234] Daniels, *Shirt-Sleeve Diplomat*, 230.

Implicit in View 5 is the theory that the companies were successful in their main objective of stopping the wave of expropriations in Latin America, particularly Venezuela, but only minimally successful in getting any compensation for their properties. After expropriation the companies did exercise their powers to virtually stop Mexico's oil sales, prevent Mexico's oil operations from functioning technically or operationally, stopping other industries from investing in Mexico, destroying Mexico's tourist trade and its reputation and depriving Mexico of capital to meet its development needs. As a result of the punishment inflicted on Mexico, no more significant properties owned by private oil companies were expropriated in Latin America between 1938 and 1960.[235]

As far as their investments in Mexico, Standard Oil of New Jersey and Shell did receive some recovery of capital. Standard Oil of New Jersey's recovery of just over $22 million was only achieved through forced intervention by the U.S. government, which in anticipation of war, wanted good relations with Mexico. The valuation was achieved by not including Standard Oil of New Jersey's underground oil reserves, which, of course, was the majority of the value from Standard Oil of New Jersey's standpoint. Ironically, Mexico paid for Standard Oil of New Jersey's settlement through a loan from the U.S. export-import credits.[236] Shell waited until two years after the war ended and in 1947

[235] Philip, *Oil and Politics in Latin America,* 173. See generally, American Petroleum Institute, *Petroleum Facts and Figures*, 1961.

[236] Larson, Knowlton, and Popple, *History of Standard Oil Company,* 426.

received $130 million.[237]

Standard Oil of New Jersey benefited in one other significant way. Because Dutch and English companies represented 70% of the foreign petroleum interests in Mexico and American companies represented only 30%,[238] expropriation removed three barrels of Dutch and English companies supply to the world oil glut for every one-barrel of Standard Oil of New Jersey supply. Standard Oil of New Jersey would then benefit more in sales with its 57% of Venezuelan production to replace the sales loss than would the Dutch or English with their 40% interest.

VIEW 6:

CÁRDENAS AS ELITELORE KING ON THE MEXICAN CHESSBOARD

As noted in the introduction, President Cárdenas has been portrayed as a hero in Mexico for his role in the 1938 expropriation. The oil companies have represented him as having wanted expropriation all along and by admirers as having chosen to expropriate only when he finally determined toward the end of the struggle that it was in the best interest of his country. As noted in View 1, Cárdenas said it was a decision he neither sought nor wished to make had it depended on him alone. Was it his intention to have expropriation from the beginning of his political career or did he determine he wanted it at some point

[237] Daniel Yergen, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1992), 279.

[238] Baker, *Mexico's Petroleum Sector*, 141.

after he became president in 1934, such as after he passed the expropriation law in 1936, at the end of 1937 with the decision of the Federal Board of Conciliation and Arbitration, or in March 1938 with the decision of the Mexican Supreme Court? Or was he trapped in his own game and forced to make a decision, as he said, he wished he did not have to make? The answer to what Cárdenas intended to do with the oil companies can be found in the legacy of decision-making by other Mexican presidents and in the specifics of Cárdenas character and strategic style.

6-A. MEXICAN PRESIDENTIAL STRATEGIES

President Álvaro Obregón began the strategy that Cárdenas would later use to set Mexico's course for the next half century. In 1920, President Obregón was elected president after Carranza was assassinated. Obregón had imposed many of the radical elements of the constitution, such as land reform and workers' rights, leading to Obregón's tremendous popularity with the labor and peasant workers these provisions served. Brilliantly, Obregón used a strategy to help bring dissident powers under his control, which other presidents would use with much more sophistication later. Instead of militarily confronting his opponent, General Almazan, Obregón co-opted him into the regular army, where Almazan went into the construction business with contracts awarded by Obregón. In another strategy that other presidents would develop more fully later, Obregón neutralized the power of the dissident military by mobilizing armed peasant leagues against the dissidents, under the promise of more land reform.[239]

Obregón's chosen successor, Plutarco Elías Calles, further developed this strategy and set the framework within which the oil controversy would develop. At first he attempted to implement more of Article 27 of the constitution but ran into problems with U.S. oil companies. These companies aligned themselves with the U.S. government, which was concerned about subsoil petroleum rights provisions and with Catholics, foreign and domestic, who were angered over limits on the Church's power. Catholic priests demonstrated the power of the Church and its involvement in the religious, military and political fields by stopping administration of sacraments, leading to the Cristero War (1926-1929). Calles maintained power by calling on the peasant leagues to battle rebellious Cristero soldiers, toning down rhetoric on labor rights having precedence over capital, and developing close ties with the U.S. ambassador. In bringing in the U.S. ambassador, Calles agreed not to seek expropriation of more land for ejidos without compensation to the owners. U.S. support for his regime followed. Calles then entered into the Calles-Morrow U.S.-Mexico Agreement, which provided for the recognition of oil company interests under government concessions.

Calles began consolidation of Mexico's power after Obregón was assassinated for being re-elected to the presidency in violation of the constitution's no re-election clause. Calles, who had stood to gain the most politically if power was not given back to Obregón, made sure to characterize the assassination as religiously rather than politically

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[239] James W. Wilkie, *Society and Economy in Mexico* (Los Angeles: UCLA Latin America Center Publications, 1990), 5-6.

motivated. In a precursor to the master strategy later executed by President Cárdenas, Calles used a co-optation strategy to bring the remaining competing powers into the Official Party of the Revolution designed by Calles to represent all political wings among the revolutionary family. Then, having consolidated his power with the key constituencies, including the military, Calles avoided Obregón's mistake by announcing that he would not run again for the presidency.[240]

Calles' strategy, however, was not to give up power by not running again. He continued his co-optation strategy naming interim presidents he could control, first Portes Gil, and then another successor, Ortiz Rubio. When Calles realized after the economic depression that he would have to accommodate the left wing to keep power in 1932, he forced Rubio out of office after only two and a half years and named another interim president, Abelardo Rodríquez, to hold the office until 1934. Then Calles planned for his protégé and left wing choice for president, Lázaro Cárdenas, to be elected.[241] By getting the popular left-wing leader Cárdenas elected, Calles thought he could continue his domination of Mexican power by co-opting the left wing as well the right. Cárdenas, however, had something else in mind.

6-B. CÁRDENAS EXECUTES HIS STRATEGY

The attitudes Cárdenas brought to his election can be derived from his direct experience with oil companies. In 1925, President Calles appointed him Chief of Military Operations in the Huastecan region, where U.S. oil companies' operations were soon to

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[240] Wilkie, *Society and Economy*, 6.

[241] Wilkie, *Society and Economy*, 10.

be affected by the impending oil law. During that time, Cárdenas had numerous contacts with oil company managers who would boast of having powerful friends and operating on conquered territory. Cárdenas saw them beat the oil production tax system by using underground installations connected directly to port off-loading facilities. The oil company managers tried unsuccessfully to bribe Cárdenas and made him wait to see them.[242] Cárdenas, undoubtedly, carried significant resentment at these managers' arrogance.

From 1928 to 1932, Cárdenas was the governor of Michoacán, where he acquired a messianic image. He went to towns and villages to listen -- but never as a peasant himself. He wore a dark suit to convey his seriousness and his demand for respect. In Krauze's view, Cárdenas fit the mold of a benevolent priest or a missionary father, a master of both spiritual salvation and the material well being of a community.[243]

Yet, Cárdenas' paternalism carried within it a refusal to accept criticism, along with a swollen sense of pride. Cárdenas intervened in every matter under his authority and would often treat local legislators like common soldiers, instruments for carrying out his orders. What mattered to Cárdenas was the revolutionary and protective role of the state.[244] The new political structure he was creating would imitate the Church's: the state would be a counter-church in promoting Cárdenas' anti-Catholic socialistic views. He

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[242] Enrique Krauze, *Mexico: Biography of Power* (New York: Harper Collins Publishers, Inc., 1997), 439-444.

[243] Krauze, *Mexico: Biography of Power*, 447.

[244] Krauze, *Biography of Power*, 447.

devoted half the state's budget to promoting education. The teachers were to become agents of change, carriers of the new revolutionary ideology. Ideological training was central to their task.[245]

Following his term as governor, Cárdenas became president of the official political party, the National Revolutionary Party (PNR), and immediately began making it more efficient. During this and his subsequent tenure, he found his main task to be reconciling the positions of his mentor, Calles, with those of Calles' successor, President Pascual Ortiz Rubio. In June 1933, Calles chose Cárdenas as the next candidate for president.[246]

Because Calles had been Cárdenas' mentor, affectionately nurturing his growth and giving him direction for at least the previous 10 years, Calles had strong reason to believe that despite Cárdenas' leftist leanings,[247] Calles would remain the man behind and in control of the power. Articles explicitly implying Calles' control of the newspapers of the time even cruelly reflected this reality. Loyal Calles followers constituted a majority of Cárdenas' cabinet, the official party, the PNR, the congress, and the state governorships.[248]

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[245] Krauze, *Biography of Power*, 448 n. 29.

[246] Krauze, *Biography of Power*, 456.

[247] Cárdenas refused to obey Calles' order sent from Europe to stop distributing land to communal farms. See James Wilkie, "Ideological Conflict in the Time of Lázaro Cárdenas," Berkeley: M.A. thesis, University of California, 1959.

[248] Héctor Águilar Camín and Lorenzo Meyer, *In the Shadow of the Mexican Revolution* (Austin: University of Texas Press, 1996), 129-130.

6-C. CALLES STRUGGLE FOR POWER

As Calles had feared, Cárdenas was not a deferential president toward the power of the Jefe Máximo. Cárdenas immediately went against Calles' wishes once he had power. As will be discussed in more detail later, Cárdenas encouraged the labor unions to strike in 1934 and 1935 in the oil, electrical, textile, streetcar, telephone, and telegraph industries in order to overcome the vested interests of Calles, who controlled labor at the time. Calles publicly criticized the strike activity and made reference to how he previously forced Ortiz Rubio out of the presidency in 1932. Calles had noted at that time that factionalism within Congress between Callistas and Cárdenistas had to be suppressed because it would ultimately involve armed conflict.

Anticipating a possible conflict, Cárdenas had put two factors into place that would enable him to prevail. He moved into key positions those generals who were loyal to him and he supported "socialist" union leader Vicente Lombardo Toledano in unifying labor interests in the Federal District of Mexico City.

When Calles publicly criticized Cárdenas' activities in 1935, Cárdenas responded by calling a meeting of his cabinet, some of whom he saw as friendly toward Calles, and demanded their resignations. As several former cabinet members were traveling to Cuernavaca to report their firing to Calles, Cárdenas notified all governors and military commanders that the cabinet had resigned and that a new one would be appointed in four days. When no military action transpired against Cárdenas' actions —his support by the generals and labor loyalists would have made any revolt futile — all realized that a significant transfer of power had been affected without any violence. At this point Calles announced his retirement.

Cárdenas had co-opted significant elements of Calles' support in the military, government, and labor. The real issue had not been whether a left-wing faction should be formed in Congress or whether strikes should be allowed to disrupt the nation; instead, the question was whether Cárdenas or Calles would dominate Mexican politics and control the administration of public affairs.[249]

On the other hand, Calles' own strategy of co-optation, by making appointments from competing factions, had backfired when the appointed leader of one competing faction used his appointed power to co-opt key elements of Calles' support base. In effect, Calles was defeated with his own strategy.

While Cárdenas could co-opt key elements of Calles' support, he could not co-opt Calles himself or Calles' true loyalists. To solidify his power, Cárdenas systematically purged all unconverted Callistas from the military and government, rallying the labor interests and the peasants whenever he needed public support. Calles was even formally expelled from the official political party that he had started. Every time Calles would challenge him, even in the most diplomatic and tactful way, Cárdenas, in lightening strikes, would eliminate more power from the Callistas. In April 1936, Cárdenas finally had the Jefe Máximo, the former strong man of Mexico, arrested and flown to exile in Brownsville, Texas.[250] Calles apparently could not be dissuaded from interfering with

[249] Lyle Brown, *Lázaro Cárdenas and Presidential Politics, 1933-40* (Ph.D. diss., University of Texas, 1964), 63-78.

[250] Brown, *Lázaro Cárdenas*, 208-209.

Cárdenas' hopes to utilize the symbolic power of the state to consecrate his revolutionary ideology into Mexico's heart and structure.

6-D. IMPLEMENTATION OF THE CORPORATIST STRUCTURE THAT RULES MEXICO

To fully understand Cárdenas' approach, one must look at his means of controlling the key constituencies of the leaders who were significant players in Mexico. With the carrot and the stick, Cárdenas established clear boundaries on each constituency so that he controlled where each one's influence began and ceased. Then Cárdenas would punish them if they acted outside the limits he set. He made sure they understood that he was the only one who could satisfy their needs.

To help eliminate Calles' power in Mexico, Cárdenas established a system in which the most influential group's demands were made through channels Cárdenas controlled. By monitoring and mediating these requests, Cárdenas was able to control all of the groups. This system set his government up as the ultimate arbiter and kept any one group from becoming predominant.

Under this system, two channels arose for making political demands. The formal channel was used by state-established organizations. Individuals meeting criteria of a special interest like a peasant were required to belong to these organizations. Informal channels were used by those allowed to go outside formal government institutions.

Using this system, Cárdenas co-opted the military in a unique way for Latin America. Cárdenas became president as part of a generation that had participated in

Mexico's Revolutionary War. As a member of the military, Cárdenas recognized the necessity to subordinate the military to civilian rule. Instead of having the military function as a separate political actor, as it does elsewhere in Latin America, he co-opted it into the official government party, the PNR. Functioning as a separate party sector, yet still a part of the official party, the military had what it wanted: a political voice in the policies ultimately decided upon by government. At the same time, Cárdenas got what he wanted: a way of balancing the military against the agrarian and labor sectors within the party, thus lessening the military's overall political influence.[251] The result was that Mexico became the only country in Latin America where the military has not intervened politically since the 1930s.[252]

Cárdenas co-opted the church in a different way. From the colonial period until the time of Cárdenas, the Catholic Church had exercised extraordinary political influence in Mexico despite the restrictive provisions of the 1917 constitution and the Cristero War of 1926-1929. Using the constitution as justification, Cárdenas passed laws requiring all schools to be secularized and limiting the number of priests allowed in any province. Teachers were required to swear that they were socialists and that they were atheists. Official socialist textbooks and socialist teachings were required to be used in the schools. Clergy had no right to vote.[253] Thus, while the church operated as an institution

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[251] Boderic Ai Camp, *Politics In Mexico* (New York and Oxford: Oxford University Press, 1993), 115.

[252] Camp, *Politics In Mexico*, 114.

[253] Brown, *Lázaro Cárdenas*, 121-122.

fully independent and autonomous of the government, it was severely hampered by the anti-church rhetoric that was incorporated into the public education of each child. These official limitations on the church, combined with the decentralized level of the 69 dioceses operating autonomously of the Church hierarchy, led to a shattering of the Church's power to oppose the government.

To gain back its power to carry out spiritual and pastoral functions in Mexico, the church in 1938 agreed to either remain silent or to go along with Cárdenas on political and social issues. The bishop in Michoacán with whom Cárdenas had worked when he was governor mediated this agreement.[254] Even today, the church has no legal standing and remains in legal limbo in the corporatist arrangement set up by Cárdenas.

Another example of Cárdenas' use of labor as the core to co-opt was business. Cárdenas established quasi-governmental organizations, such as the National Chamber of Commerce. All groups of a certain size, business, or number of employees were required to join one of these organizations. These organizations, however, were purposely excluded from formal representation in the party because private sector interests did not coincide with the rhetoric of revolutionary leadership, even if, in reality, their interests had been shared. Members of these organizations through informal means most often expressed private sector demands. Businessmen needed to directly obtain an audience with the appropriate secretary rather than going through the legislative branch, as in the United States, to help establish favorable laws. The result was that the government's economic platform emerged more from the self-interests or preferences of government leaders than from the kind of private sector pressures that help shape and establish policy in the United States.[255] Government officials could easily get the support they needed from business because business could not get what it needed without government.

President Cárdenas co-opted labor by strengthening the Mexican Federation of Labor (CTM) as the umbrella organization for all labor unions in Mexico. Through his close relationship with Toledano and other union leaders, Cárdenas developed government control of incorporating the CTM as one of the three branches of the National Revolutionary Party. In return for its support of Cárdenas' policies, labor was given a formalized and visible role in his government. He co-opted government employees into the labor branch to get their support for his policies. One-third of the members of the labor branch were government employees, mostly federal. In contrast to the United States, Mexico had fewer purely industrial-based unions, such as those protecting miners, electricians, and petroleum workers. Cárdenas' government also kept unions under control by giving them subsidies rather than allowing their members to pay dues. Thus, unions remained weak and dependent upon Cárdenas' government.[256]

At one point early in 1936, the CTM union threatened to become too powerful under Lombardo Toledano. The CTM was attempting to incorporate the peasants into its union, which would give the CTM a substantial representation of interests important to power in Mexico. To forestall this, Cárdenas organized a peasants' union and

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[254] Camp, *Politics In Mexico*, 116-117.

[255] Camp, *Politics In Mexico*, 119-121.

[256] Camp, *Politics In Mexico*, 121-122.

incorporated this union as a separate branch of the official party while forbidding it from joining the Federation of Labor Unions. Cárdenas controlled the peasants by offering to nationalize more land into the *ejidatario* system in exchange for the peasants' support of his policies. Cárdenas then used the peasants to balance the military in the official party structure and by giving them guns to physically battle dissident military elements.[257]

Intellectuals were co-opted into the government as well through quasi-governmental colleges and employment in public life. Unlike intellectuals in the United States, Mexican intellectuals worked in the federal bureaucracy or accepted various political posts as party leaders, cabinet members, or governors. The majority intellectuals have been state employees since the 1920s. Because institutions that employ intellectuals are also dependent upon the largess of the state, these institutions must rely heavily upon the government to support their activities and recognize their merits. Thus, intellectuals act to legitimize government in the eyes of the educated Mexican.[258]

Using the state's economic resources, Cárdenas developed a system to disarm and co-opt dissidents, be they peasant leaders, lawyers, labor organizers, or intellectuals. He made the system by co-opting opponents into the government's ranks and maneuvering them, one against another, or by creating a new group to diminish the strength of another group. These interest groups were then mobilized for government purposes, rather than for the purpose of hearing any group demands. Ironically, the groups having the most institutionalized relationship with the government through incorporation into the party

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[257] Brown, *Lázaro Cárdenas*, 225-253.

[258] Camp, *Politics In Mexico*, 124-125.

structure have exercised the least influence on the decision-making process. Groups excluded from the party, such as business, the Church, and under later presidents, the military, have influenced the decision-making process the most heavily. In Mexico, the state became an actor in the decision-making process by operating in a semi-authoritarian manner and mediating the traditional competing interests. Mexico, thus, has pursued its own policies out of government agents' self-interests or those agents' own interpretations of societal interests.[259]

6-E. CÁRDENAS AND THE OIL COMPANIES

As noted above, Cárdenas had not had cordial relations with the oil companies ever since he was a military commander under Calles in charge of the oil zone. Even then, Cárdenas deplored the oil companies' treatment of workers and abhorred their lack of respect for his position and their attempts to bribe him.[260]

Nonetheless, Cárdenas did not want to expropriate the oil companies and did not even seriously consider the possibility before the beginning of 1938.[261] He did not have to expropriate to satisfy the requirements of the 1917 constitution. He needed the companies only to agree to operate under "concessionary" status so that it was clear the state owned

[259] Camp, *Politics In Mexico*, 126-127.

[260] Lorenzo Meyer, *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin: University of Texas Press, 1972), 152.

[261] Meyer, *Mexico and the United States*, 171.

the petroleum deposits.[262] He realized that it might be very difficult for Mexico to operate its oil industry if the oil companies were actively opposing Mexico internationally.

President Rodríguez's earlier attempt to follow Argentina's example of its state-created YPF (Yacimientos Petrolíferos Fiscales) had failed because adequate capital could not be attracted to Mexico for the operation and because Mexico lacked expertise in oil reserve management.[263] Cárdenas also knew the oil companies would make trouble if they were divested of their property and that, despite Josephus Daniels, the United States and Britain would likely level some sanctions against Mexico for a time. Some in Cárdenas' government even feared U.S. military intervention, despite assurances from Daniels against any military response.[264]

Cárdenas much preferred to try to co-opt the oil companies' expertise, contacts and financial resources into his system — just as he had co-opted the military, labor, the peasants, intellectuals, business, and the Church in Mexico. Foreign economic interests had a place in Cárdenas' conception of Mexico so long as foreigners abided by Mexico's laws and regulations and accepted the social and economic goals of the state. Cárdenas simply had to co-opt in a way that would not violate the terms of the Bucarelli and Calles-Morrow Agreements, which the oil companies could count on the United States to support.

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[262] J. C. Brown and A.Knight, eds., *The Mexican Petroleum Industry in the Twentieth Century* (Austin: University of Texas Press, 1992), 60.

[263] Meyer, *Mexico and the United States*, 146-147.

[264] Meyer, *Mexico and the United States*, 171.

6-F. LABOR: AN INSTRUMENT OF STRUGGLE

Cárdenas' instrument of struggle was the two-sided sword of the labor unions he had consolidated. Union actions, backed by his government and supported by the U.S. government through its New Deal-oriented ambassador, were used to give him the carrot and stick that would bring acceptance of "concessionary" status on the oil companies. With that status, the oil companies would seemingly have to stabilize their production to meet the revenue requirements, economic development standards, and oil supply needs of Mexico.[265] Little did he know that this strategy could backfire, allowing the unions to become unwitting instruments of struggle for the oil companies in their quest to recover their investment in Mexico, while stopping further expropriations in countries which mattered far more to them than Mexico as discussed in View 5.

In my opinion, Cárdenas' strategy to achieve co-optation was similar to what he did with other resistant agents and institutions in Mexico which had valuable capital he wanted: he gradually created or allowed such difficult labor conditions to develop that the oil companies had to come to him to get the relief they wanted, at which time their operations in Mexico would be subject to his control.

Cárdenas' first action in encouraging labor to strike was a double play in that he both unified labor behind him while simultaneously reinforcing his plan to defeat Calles. Strikes at the end of 1934 and 1935, with government encouragement replacing the discouragement the Calles' regime had given, seriously disrupted oil and other industries. Cárdenas' encouragement also moved union members away from the corrupt union leader, Morones, who supported Calles and who became wealthy by discouraging strikes.

Cárdenas allied himself with communist union leader Lombardo Toledano, who in turn unified the militant labor movement in the Federal District to reinforce Cárdenas' generals so that Calles' generals in the army could not dictate the outcome of a Calles-Cárdenas conflict.[266] Prior to Cárdenas' support for Lombardo Toledano in 1933, there were 13 strikes involving 1,084 workers. In 1934 strikes increased to 202 incidents involving 14,685 workers. By 1935, there were 642 strikes involving 145, 212 workers.[267] Given freedom and encouragement, strikers could paralyze any aspect of the country on very short notice.

Yet in changing the position of the oil companies within Mexico by undermining their operations with labor problems, Cárdenas, in my opinion, had to consider his and Mexico's position against the United States, which could undercut him. The sympathetic New Deal Administration of the United States naturally accepted his justifications. The oil workers could paralyze oil company operations almost at will and, given the oil companies' history with the workers, Cárdenas' deeper intentions could be legitimized as something he knew would be accepted by the New Deal Administration -- support of workers fighting unfair conditions imposed by big business.

In order to gain control of the oil companies, Cárdenas also tried the old strategies

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265 Meyer, *Mexico and the United States*, 158.

266 Wilkie and Michaels, eds., *Revolution in Mexico: Years of Upheaval, 1910-1940* (Tucson: University of Arizona Press, 1984), 215-216.

267 Wilkie and Michaels, *Revolution in Mexico*, 213.

used by previous presidents of passing new petroleum laws, suspending tax exemptions, imposing new taxes, and enforcing royalties.[268] The oil companies had experience with these methods, however, and could easily respond that these strategies were confiscatory and in violation of the Bucareli and Calles-Morrow agreements reached between Mexico and the United States under previous presidents.

Moreover, like the strong presidential predecessors he had worked under from the time of the Mexican Revolution, Cárdenas, knew that the United States could intervene and disrupt plans if not handled correctly. While the United States might support Cárdenas on issues to which it was sympathetic, as the dominant power it could not allow international law on contracts between nations to be violated, thereby undercutting one of the its main strategies for maintaining dominance in the world.[269] In 1937, this strategy led to the United States putting diplomatic pressure on Mexico to force the reversal of the royalty laws Cárdenas had passed.[270]

Cárdenas' new strategy was to encourage labor activities and then use the resulting power to threaten either a government or labor takeover of the industry. Cárdenas' method was important because its similarity to Roosevelt's positions lent it the support of the U.S. ambassador. This method left the oil companies virtually powerless to fight using the traditional method of getting U.S. help. In using this method, Cárdenas made same assumption made by all previous presidents of Mexico that the key oil

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[268] Meyer, *Mexico and the United States*, 153-155.

[269] Meyer, *Mexico and the United States*, 152.

[270] Meyer, *Mexico and the United States*, 156.

companies wanted to stay in Mexico.

The Oil Companies' Opening to Escape Mexico

In 1936, Cárdenas had two laws passed that were designed to further increase his powers. One reduced the terms of Mexican Supreme Court Justices from life to the tenures of the presidents who appointed them while the other authorized expropriation of private property of a public utility nature.[271] The law relating to Supreme Court Justices meant that Cárdenas would have much greater control over any decision of that court since he would officially be appointing his own judges to the court.[272] As discussed in View 5, the expropriation law gave Cárdenas power to take the properties if he so desired but also required compensation to the owners[273] which gave the oil companies a way to get money out that the U.S. government would support.

Cárdenas probably intended the expropriation law only as a subtle threat, since he more than likely had the power to take the properties without this legislation and had been doing so before. Of course, he denied that passing the expropriation law had anything to do with the oil companies since it was directed at the broader term of public utilities. The U.S. Ambassador Daniels was more than willing to accept this as a legitimate

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[271] Henrietta M. Larson, Evelyn H. Knowlton, and Charles S. Popple, *History of Standard Oil Company (New Jersey) 1927-1950, New Horizons* (New York: Harper and Row Publishers, 1971), 129.

[272] Wilkie and Michaels, eds., *Revolution in Mexico*, 210.

[273] E. David Cronon, *Josephus Daniels in Mexico* (Madison: University of Wisconsin Press, 1947), 122.

explanation.[274] Bourdieu would call it a misrecognition.

Soon after these laws were approved, on November 3, 1936, a consortium of oil workers' unions delivered a proposed contract to the oil companies. Among the terms demanded by the unions were a request for an additional 26 to 40 million pesos in wages and union control of supervisory and management positions, demands which Standard Oil of New Jersey's leaders in particular considered unacceptable.[275] The contract virtually eliminated the companies' rights to hire and fire and took away control of all but 110 supervisory positions in the entire industry. Because the agreement would turn almost total control of the industry over to union management, acceptance of this contract would amount to a takeover of the industry by the unions. The oil workers' unions demanded approval of the contract before a November 17 strike deadline. The oil companies refused. The resulting strike paralyzed the industry, with tankers leaving the ports almost empty because workers would not off-load oil.[276]

6-G. CÁRDENAS TWO-PRONGED APPROACH

While the oil companies contended that the union demands were unacceptable and that the oil companies would never agree to them, at this point, Cárdenas appeared to be in control. The oil companies faced an implied threat of legal expropriation under

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[274] Meyer, *Mexico and the United States*, 154.

[275] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 130.

[276] J. C. Brown, *Workers' Control in Latin America, 1930-1979* (Chapel Hill and London: University of North Carolina Press, 1997), 58-59.

Cárdenas' law or a threat of virtual expropriation under the union contract. In accordance with the strategy he had used to co-opt all other major constituencies in Mexico, Cárdenas let it be known that the solution to the companies' troubles lay with him and stopped the strike for state-sponsored talks. The oil companies did not follow Cárdenas' guidance, though, because these talks broke down at the end of May 1937.

Cárdenas let the oil companies suffer another brief strike before offering them a second reprieve. Cárdenas stopped the second strike but increased the pressure for the companies to give in by providing for a government-sponsored economic study that would determine whether the companies could afford the union contract. The authors of the study were to make recommendations to the purportedly independent Board of Conciliation and Arbitration, which was supposed to resolve the dispute.[277]

Meanwhile, Cárdenas sharpened the other prong of the fork with which he was prodding the oil companies by threatening to put the industry under the control of official government supervisors if the oil companies did not work out their labor problems.[278] However, through his ambassador to the United States in May 1937 and through his treasury ministers in July 1937, Cárdenas informed Washington that it was not his intention to take over the industry. Clearly, Cárdenas did not want the dominant United States interfering with Mexico's autonomy while he was pushing the oil companies toward the settlement he wanted. Ambassador Daniels and President Roosevelt were more than willing to go along with Cárdenas' actions in apparent support of labor because

[277] Brown, *Workers' Control in Latin America*, 59-60.

[278] Meyer, *Mexico and the United States*, 157.

these actions appeared to parallel Roosevelt's New Deal philosophy.

On August 14, 1937, the committee conducting the economic study submitted a 2700-page report with 40 conclusions. The authors of the study reported to no one's surprise, that the oil companies could afford the contract the workers wanted and that the oil companies had not been operating in accord with Mexico's needs.[279] Cárdenas sharpened the first prong of his oil company fork by stating that he was ready to push for full implementation of the report's recommendations.[280] While Cárdenas may have been prepared to pressure the oil companies into full and complete adoption of the contract, it is unlikely he believed the contract established the correct relationship between oil companies and workers.

Later, after the expropriation of the oil companies' properties, Mexico's state oil company took a position far different from the one the contract demanded and the independent study advocated. PEMEX took union workers out of management and supervisory positions, putting in government appointees instead. To try to stop worker strikes and the sabotage of oil facilities, the Mexican government went back before the Cárdenas-controlled Federal Board of Conciliation and Arbitration and the Mexican Supreme Court in order to reduce wages and benefits and lay off workers.[281]

The companies did not seize the opportunity that was held out of the Federal Board, given Cárdenas' influence, reaching conclusions different from the report's

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[279] Meyer, *Mexico and the United States*, 158.

[280] Meyer, *Mexico and the United States*, 159.

[281] Meyer, *Mexico and the United States*, 179, 312 n. 51.

recommendations. In response to Cárdenas' earlier threat to appoint official government supervisors for the industry, the companies threatened to halt production if the unions insisted on demands.[282] This threat incensed the rank-and-file workers, whose greatest desire over the years was not high wages but steady employment without layoffs.[283] It was also a thrust at one of Cárdenas' vulnerable spots because the government badly needed the revenues generated by oil production.

At the end of December 1937, the federal board handed down the expected decision that all of the study's recommendations should be followed. In his New Year's message to the people of Mexico, Cárdenas stated that he could not let companies investing continue to enjoy the position that they had before the Revolution.[284]

6-H. LABOR'S APPROACH

What had started out as a series of tactical moves designed to pressure the oil companies into a "concessionary" status agreement had now become a threat to Cárdenas' symbolic power. At this time, one of Cárdenas' Supreme Court Justices, Xavier Icaza, stated that if Mexico gave in to the oil interests, Mexico's sovereignty would be compromised once and for all.[285] Cárdenas was now beginning to be the one who was trapped in position.

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[282] Meyer, *Mexico and the United States*, 158.

[283] Brown, *Workers' Control in Latin America*, 66.

[284] Meyer, *Mexico and the United States*, 166.

[285] Meyer, *Mexico and the United States*, 171.

From the moment the national contract was offered to the companies, the oil workers applied unrelenting pressure on the companies and Cárdenas for its acceptance. The strike earlier in June not only suspended operations of the companies but also cost port cities losses in port fees and the federal government losses in customs duties. Other workers, like taxi drivers, who depended on gasoline for their work had blocked major thoroughfares in the city. When Cárdenas tried to stop the strike, rank-and-file oil workers began their own "wildcat strike" against the official union and voted members of Cárdenas' oil delegation out of office. Some workers struck at Huasteca in September and October 1937 in order to obtain their own local contracts in lieu of the national contract.[286]

When the Association of Petroleum Producers filed its appeal with the Mexican Supreme Court in the last days of December 1937, it knew what the court would have to rule. While Cárdenas had appointed all the judges and, therefore, could control the outcome, the association knew Mexico's sovereignty had been put on the line, as one Supreme Court Justice said, when the appeal was filed. Cárdenas had painted himself into a corner from which he could not escape with his symbolic capital intact unless something dramatic was either achieved with the oil companies or done to the oil companies.

6-I. CÁRDENAS TRIES TO ESCAPE THE DILEMMA POSED BY POWERFUL OIL AND POWERFUL LABOR

[286] Brown, *Workers' Control in Latin America*, 63.

By now, Cárdenas must have realized that if he took over the oil companies by introducing a government trustee over the oil company properties, then all the problems the oil workers had been creating for the oil companies would become his problems. The workers' expectations would be so high that the Mexican government couldn't possibly comply with them. Cárdenas would also be forced to confront the group that had been his biggest supporter. The consequence of such a confrontation could be a huge loss in his symbolic capital with all the other groups who had supported him and whose support he would then need more than ever. If he backed down on supporting the oil workers after inflaming their expectations so high, what would he do to the other industry unions, the peasants, the military, etc.?

Meanwhile, the labor unions National Congress in February suggested that all 5,000-labor delegates call on the president of the Supreme Court for a final decision. They did not want the government compromising their labor contract.[287] Cárdenas had to allow the Supreme Court to issue its expected confirmation of the labor board award on March 1, 1938. He had lost control of labor by raising its expectations too high through his unqualified support of labor's position.

On March 3 and 6, Cárdenas and oil company representatives met again without satisfactory results. On March 7, El Águila had a separate meeting with a Cárdenas minister and offered to work with Standard Oil of New Jersey to get the 26 million pesos. The Mexican government turned down the proposal because the additional four million did not represent real wages. On March 8, Cárdenas guaranteed the companies no more difficulties from the oil workers if the companies would just pay the 26 million pesos. The oil companies turned down the offer and told Daniels that they would rather lose their interests in Mexico than give in to Cárdenas.

With negotiations stopped, time worked against Cárdenas. He was being pressured from all sides to take dramatic action. Finally, on March 15, the stress forced Cárdenas to allow the federal board to direct the oil companies to comply with the order of the Supreme Court. Armstrong, as representative of the Association of the Petroleum Producers, immediately refused.[288] At this point, the oil union announced it would strike at midnight on March 18 with giant demonstrations. Independent of the union, the workers on their own started seizing control of the pipelines in El Águila and Huesteca.[289]

The Final Choice

On March 16, the companies met once more with Cárdenas, apparently offering the 26 million pesos but now adding other unacceptable demands.[290]

When the oil representatives met with Cárdenas one last time, they asked him how he would guarantee the assurances of no more labor trouble he was giving them if they paid what he asked.

He replied, "You have my word."

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[287] Brown, *Workers: Control in Latin America*, 65.

[288] Meyer, *Mexico and the United States*, 166.

[289] Brown, *Workers' Control in Latin America*, 65.

[290] Meyer, *Mexico and the United States*, 166.

The oilmen responded, "That is hardly sufficient."

Insulted, Cárdenas declared the meeting over and at 10:00 p.m. on the night of March 18th he went on the radio to announce expropriation of the oil companies.[291]

Workers immediately seized the rest of the oil facilities throughout the nation and union locals appointed their own officials to supervisory positions. The transition was particularly vindictive at Huasteca. Managers fled the fields. Two Huasteca officials in charge of dismissing workers during the depression were detained by the workers until Mexican government troops forced their release.[292]

6-J. CONCLUSION OF VIEW 6

Given the "corner" into which Cárdenas had been put, I believe that he saw his only choice, as follows. At least with expropriation, he could use the legitimate need to reestablish Mexico's sovereignty to gain support for his strategy and to ask his nation for

[291] Cronon, *Josephus Daniels in Mexico*, 184. Cronon was told of this exchange by Pierre Boal, a career U.S. diplomat in Mexico, who was at the meeting. Cárdenas Treasury Secretary, Eduardo Suárez, who was also at the meeting, disagrees that this conversation took place as cited in Knight, "The Politics of Expropriation," 122 n. 33. In my view, however, it sounds plausible. Suárez would have denied the exchange because it put Cárdenas in an emotional and macho light while Boal had no apparent motivation to distort what happened. In his *Obras: I Apuntes, 1913-1940 (* Tomo Uno: Mexico, DF: Universidad Nacional Autonoma de Mexico, 1972), 381-391, Lázaro Cárdenas discusses in his diary meetings with members of his cabinet in early 1938 about his concern that the oil companies would not obey the orders of the Supreme Court. Cárdenas does not, however, mention in this journal any meetings with representatives of the oil companies nor the date they informed him they would not obey the Supreme Court. (Readers should note that the journal has been expurgated by his son Cuauhtémoc Cárdenas, who has sought to protect his father's image.)

[292] Brown, *Workers' Control in Latin America*, 65.

patriotic sacrifices. He could then request the same of the oil workers and given what he suspected would happen when the oil workers pressed their demands against the government, Mexico would need help from the oil workers as well. The rest of Cárdenas' supporters would go along with a demand that the oil workers help, too.

On the other hand, if the properties still belonged to the oil companies, operated by a Cárdenas-appointed trustee, Cárdenas would have to give the workers all that had been awarded to them by the Supreme Court. Giving the workers what they demanded would be untenable for the nation's production, supply, and sale of oil given the lack of an export market for the oil and thus no hard currency with which to purchase goods. In addition, if the oil companies came back, Cárdenas would have to deal with governments which might be much stronger and more influential than his and which might cause more damage to his and Mexico's symbolic capital. If the oil companies did return, they would try to cut back their operations because of the limited extent to which they would be able to operate profitably under the wage, benefit, and management control decision of the Supreme Court. As a result, Mexico could be deprived of the benefits of their rich oil fields, which, under expropriation, the country could enjoy more fully.

So Cárdenas chose expropriation, asked the unions for patriotic sacrifices to reestablish Mexico's sovereignty, and obtained public support for his policy as well as that of the U.S. ambassador. Thus, despite being caught in his own trap and being forced into a decision he really did not want to make, Cárdenas was able to emerge as a king in folklore for having taken Mexico's sovereignty back from foreign interests.

VIEW 7:

MY ARTICULATION OF OIL COMPANIES AS PLAYERS ON THE WORLD CHESSBOARD OF ELITELORE: CÁRDENAS AS PAWN

From examining Views 5 and 6, several things are clear. First, Cárdenas emerged as a hero even though things did not go as he intended. So far his elitelore became the folklore that has survived through history. Second, the oil companies similarly achieved their objective of preventing any more expropriations in Latin America for the next 22 years, particularly in their crown jewel of Venezuela. Third, at least some of the companies received some compensation for their properties. But obviously since others did not, the expropriation worked out better for some companies than others. Such disparate results raise questions as to whether such results were planned or just coincidences.

Given that Mexico was just one country (that is, one square on a worldwide chess game board) of many countries, could different oil companies have had different interests in Mexico? Could those different worldwide interests lead to very different attitudes toward wanting to stay in or leave Mexico? How competitive were they and to what extent would they go in pursuit of that competition? What were the results of the expropriation to each of the participants in the expropriation controversy and how do these results compare to what their objectives were prior to the expropriation?

Let me answer these questions. The two most significant oil companies in Mexico were also the two biggest in the world: British backed Royal Dutch Shell and U.S.-based

Standard Oil of New Jersey. While these companies obviously had interests in common in dealing with the Mexican government, they also had a significant history of differing interests and competition for worldwide shares of oil producing reserves and markets. As noted earlier, the British and U.S. competition for preference in drilling for oil, among other things, led to the Vera Cruz invasion that caused Article 27 to change Mexican law on subsoil rights. As one can imagine this was not the only place in the world where the U.S.-backed Standard Oil was competing with the British backed Shell.

7-A. BOLSHEVIK REVOLUTION PRESAGES THE CRISIS

Issues brought up by the expropriation in Mexico were presaged by events that occurred in Russia toward the end of World War I. At the time, the allied countries and their oil companies were shocked by the nationalization of the Baku oil fields following the Bolshevik Revolution. The Bolsheviks faced the classic dilemma. They seized control of the oil companies' properties but lacked the necessary expertise, funds, and equipment to exploit the resources. By 1922 half of the oil wells stood idle, when in 1917 they had produced 15% of the world's oil. This was the first successful precedent for expropriation, nationalization, and exploitation of a national interest.[293]

Betting the Bolsheviks would fail, Standard Oil of New Jersey Standard had purchased the Nobel brothers' oil interests in 1920. Because Standard Oil of New Jersey Standard's claims postdated the revolution, only a reversal or denial of Bolshevik

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[293] Fiona Venn, *Oil Diplomacy in the Twentieth Century* (Houndsmills [Basingstoke, Hampshire] and London: The Macmillan Press, 1986), 74-75.

government ownership would restore Standard Oil of New Jersey Standard's claims. The British stood in a different position because they had producing wells that predated the revolution, operating prior to 1917. They were willing to acknowledge Bolshevik government ownership of the wells in return for operating concessions so they could continue to exploit this very rich source of crude. The result was that Britain and the United States took different stances at The Hague and Genoa Conferences in 1922 on the question of private property rights in Russia.[294] Because U.S. interests could not be satisfied, British interests were kept out as well.

Because no agreement satisfactory to Standard Oil of New Jersey, the British oil companies, and the Bolshevik government could be reached, the oil companies boycotted Russian oil in 1923. Because of worldwide demand, however, the boycott was unsuccessful. The Soviet Union, including Russia, eventually established its own marketing networks and acquired greater technical expertise. While the Western world refused to recognize the state operation of the Russian fields, effective action was not taken against the sale of Russian oil in Europe, the low cost of which rapidly undermined later cartel agreements by the multinationals. By 1939, the Union of Soviet Socialist Republics was second to the United States as a supplier of oil to Western Europe.[295]

7-B. THE SHIFT IN THE CONVERTIBILITY OF OIL AS CAPITAL

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[294] Venn, *Oil Diplomacy in the Twentieth Century*, 66.

[295] Daniel Yergen, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1992),.264.

After 1923, in something akin to the California gold rush, countries worldwide stepped up their efforts to find and develop new concessions. Each government backed its nationals so that by 1928, each country that was in the game had a share of the world's oil concessions proportionate to its position of dominance in the international field of power.

All of this development resulted in substantial oil production by the Middle East, Venezuela, Russia, and the United States. While obtaining concessions had been the thrust of the oil companies prior to this time, now it was competition and price wars. To end these mutually destructive acts, the oil companies entered into the Achnacarry Agreement or the "As Is Agreement of 1928." According to this agreement, the major oil companies accepted existing market divisions and shares, agreed to reduce production, and set a secret world cartel price. Their object was to forestall the diminishment of their oil reserves that were threatened by low oil prices. Cutting back would mean selling less oil for more money, thereby increasing economic capital without depleting oil reserves.[296]

Because of competition from companies not parties to the agreement, it soon washed away and the parties to the agreement started again attacking each other's markets. In response, they formulated new more effective, more refined, tighter controlled "As Is" agreements in 1930, 1932, and 1934.[297] Beyond controlling the effects of the oil glut and worldwide Depression, the "As Is" agreements also were meant to defend against the emergence of nationalistic and socialistic political forces. Their most important goal

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[296] William F. Engdahl, *A Century of War* (Concord, MA: Paul & Company Publishers Consortium, Inc., 1973), 87-88.

[297] Daniel Yergen, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1992), 264-267.

was to protect themselves from government intervention.[298]

7-C. STANDARD OIL OF NEW JERSEY'S POSITION FROM THE REVOLUTION THROUGH THE 1920s

Standard Oil of New Jersey Standard began operations in Mexico in 1917 through the purchase of Transcontinental, which resulted in an investment of more than $32.5 million by 1922. By 1919, when Royal Dutch Shell bought control of El Águila, approximately 150 different oil firms were operating in the Golden Lane.[299] As early as 1920, as a result of this rapid extraction and the discovery of salt water in the all of the Golden Lane wells, Standard Oil of New Jersey's President, Walter Teagle, felt great concern over whether Standard Oil of New Jersey would ever get its money back from its investments in Mexico.[300] This concern would continue as long as Standard Oil of New Jersey was in Mexico. As early as 1921, because of concerns over reductions in low-cost production and Mexican government actions, Transcontinental began to sever its obligations to deliver oil to customers along the east coast of the United States — the main markets for its Mexican oil. When those concerns continued, Standard Oil of New Jersey's inventory of Mexican oil was drastically reduced after 1926.[301]

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[298] Yergen, *The Prize*, 268-269.

[299] J. C. Brown, "Why Foreign Oil Companies Shifted Production from Mexico to Venezuela during the 1920s," *American History Review* 90, no. 2 (1985): 369.

[300] Brown, "Foreign Oil Companies," 370-371.

[301] Brown, "Foreign Oil Companies," 372.

Standard Oil of New Jersey's concerns with the Mexican government began in 1920, before Carranza's fall. U.S. Senator Fall proposed to Mexico excluding U.S. oil companies from the provisions of Article 27. When this was not accepted, the U.S. government formally proposed to Obregón in 1921 recognition of pre-1917 oil rights to U.S. citizens and guarantees against nationalization. Finally, under threat of U.S. military invasion, Obregón agreed, in 1923 that Article 27 would not affect oil properties on which crude had been extracted prior to 1917. This agreement was referred to as the Bucareli Agreement.[302] Despite Bucareli, Calles, upon becoming president, passed petroleum laws limiting oil rights to 50 years while further circumscribing which properties could qualify for foreign ownership.[303]

Standard Oil of New Jersey protested the Mexican Petroleum Law of 1925, which put time limits on what Teagle saw as inalienable private property rights, and disapproved of the Calles-Morrow Accord of 1928, which recognized the state's authority over oil resources and required converting all land titles to "concessions." Standard Oil of New Jersey was afraid of prejudicing its future position in Venezuelan production, for which Standard Oil of New Jersey had great hopes.[304] From Standard Oil of New Jersey's economic standpoint, recognition of the concessions required by the Morrow Agreement was under terms so drastic that the leases could not be operated profitably at anywhere

[302] Héctor Águilar Camín and Lorenzo Meyer, *In the Shadow of the Mexican Revolution* (Austin: University of Texas Press, 1996), 81-83.

[303] Camín and Meyer, *Shadow of the Mexican Revolution*, 89.

[304] Brown, "Foreign Oil Companies," 372.

near market value unless very low production costs could be established. Since production costs were only going up on properties with salt-water contamination, Standard Oil of New Jersey determined it would not spend good money after bad.[305] By 1928, Standard Oil of New Jersey began transferring machinery and pipelines to Venezuela and closed its Mexican refinery. By 1929, Standard Oil of New Jersey had virtually withdrawn from Mexico by turning over all of its production and transportation facilities to Indiana Standard's Huasteca Oil.[306]

An examination of Standard Oil of New Jersey's decision in light of the four structural determinants, makes it clear under the first factor that even though the Morrow Agreement reduced political risks of expropriation (1c), the technical risks of commercial well feasibility were high given salt water contamination (1a), while the economic risks were considerable given the minimal rate of return due to the worldwide surplus and consequent low prices (1b). The Morrow Agreement seemed to guarantee the second factor of continuity of operations in a steady flow of crude. The third factor, however, worked against Standard Oil of New Jersey because the complex government regulations setting the terms under which concessions could be operated were too drastic for Standard Oil of New Jersey. The fourth factor was particularly important for Standard Oil of New Jersey because the company had not reinvested since the early 1920s. Standard Oil of New Jersey's equipment did not meet the necessary ratio of efficiency in size and

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305 Henrietta M. Larson, Evelyn H. Knowlton, and Charles S. Popple, *History of Standard Oil Company (New Jersey) 1927-1950, New Horizons* (New York: Harper & Row Publishers, 1971), 128.

306 Brown, "Foreign Oil Companies," 372-373.

modernization to profitably extract the contaminated crude coming out of the wells and Standard Oil of New Jersey did not have any marketing and distribution facilities in place in Mexico to sell its production there, as did Shell and Indiana Standard. Thus, Standard Oil of New Jersey was below the threshold of investment necessary to profitably operate in the market at that time and could probably buy refined oil cheaper than it could produce it from these facilities. Given discoveries of oil in Venezuela and the Middle East, it was not likely Standard Oil of New Jersey's situation in Mexico would change for its existing investments.

7-D. TREATMENT OF WORKERS IN MEXICO

Given the political and operating problems oil companies had in Mexico and the fact that workers tried to use their constitutional strike power often, it is not surprising that the oil companies in Mexico treated workers poorly. Standard Oil affiliates operated to meet contractual and legal obligations with little concern for the general well being or aspirations of the workers.[307] Foreign supervisors got the best jobs, earned the biggest salaries, had the highest level of privileges, and lived in the best company housing (while Mexicans lived in the worst and least hygienic houses). At the same time, Standard supervisors treated Mexicans as racial inferiors.[308]

Oil company workers were not, as a group, an important part of the Mexican field

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[307] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 370.

[308] J. C. Brown, *Workers' Control in Latin America, 1930-1979* (Chapel Hill and London: University of North Carolina Press, 1997), 48-51.

of power prior to the 1930s because they were paid well when they worked and they had no unified voice. Their problem was that they were often laid off or had benefits cut back whenever there was an international supply and demand problem affecting the oil companies.

Mexican oil workers had long memories for wage and benefit cutbacks and layoffs. Prior to 1934, the oil companies refused to reinstate some of the benefits and wages taken away from the workers during the worst period of the depression.[309] In response to strike threats in 1934, Shell agreed to arbitration with the workers. When they got more benefits from the arbitration, American oil companies were enraged. In 1935, after Standard Oil of New Jersey had re-entered Mexico, it took a very hard line against organized labor, saying the company preferred to close its Tampico refinery rather than give in to workers' demands.[310] One commentator concluded that having moved on to Venezuela, the petroleum companies did not think the Mexican petroleum industry was worth the compromises asked for by workers.[311]

7-E. STANDARD OIL OF NEW JERSEY'S NEW WORLDWIDE STRATEGY

In the late 1920s and early 1930s, as I interpret the events, Standard Oil of New Jersey Standard defined the key interest that would drive its actions in the 1938 crisis. It pursued a general policy to focus less on individual markets like Mexico and more on its

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[309] Brown, *Workers' Control in Latin America*, 50.

[310] Brown, *Workers' Control in Latin America*, 55.

[311] Brown, *Workers' Control in Latin America*, 67.

relative strength around the globe compared to that of its leading competitor, Royal Dutch Shell.[312]

The "beat Shell" strategy often boiled to the surface in price wars despite the seemingly cooperative nature of the "As Is" agreements. For instance, in 1931, Standard Oil of New Jersey's head of production strongly advocated junking any semblance of cooperation, "Now is the best time to fight the Royal Dutch (Shell), as they are most vulnerable in the Far East and a price war would cost us almost nothing."[313]

One reason Shell had grown so strong was the breakup of the Standard Oil combination in 1911. The dissolution had divided Standard Oil geographically as well as functionally. For instance, Indiana Standard had large surplus production in Latin America with no appreciable markets outside of the United States, while Standard Oil of New Jersey Standard had large markets in Latin America and Europe, as well as in the United States, but had little production of its own and had been supplying these markets from purchased crude oil.[314]

In my view, the most interesting element of this general policy was Standard Oil of New Jersey's establishment of an overall industry specific goal of moving from its current position in marketing and production to a position of worldwide prominence above Shell. The policy did not refer to any specific market or source. Countries were not

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[312] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 45; William N. Greene, *Strategies of the Major Oil Companies* (Ann Arbor: UMI Research Press, 1985), 74, 87, 209.

[313] Yergen, *The Prize, 266.*

[314] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 45.

important — just worldwide market position. Further, since the goal was one of relative position (being bigger than Shell), it could be achieved by strategies of either augmentation or subversion; it could be reached if both companies increased their marketing and production but Standard Oil of New Jersey's increased more, or if both companies actually decreased their marketing and production but Standard Oil of New Jersey's decreased less than Shell's.

Standard Oil of New Jersey's expectations were highest for properties in Venezuela. In contrast to its treatment of Mexican workers, in 1929, Standard Oil of New Jersey worked on raising the quality and morale of employee organizations when it purchased companies operating in Venezuela.[315] Standard Oil of New Jersey found its first successful well there in 1928 and several more in the early 1930s. The purchase of Standard Indiana greatly extended Standard Oil of New Jersey's reserves in Venezuela.[316]

Standard Oil of New Jersey bought the properties of Standard Indiana in 1932 as part of its new worldwide policy of exceeding Shell in production and sales of oil. Indiana had a Venezuelan subsidiary called Pan American that disposed of all of its crude oil in the United States. However, because of the oversupply of oil in 1931 from the new Texas fields, and the demands from domestic producers for import tariffs or embargoes on foreign oil, and the possibility that Indiana's oil properties in Mexico might be nationalized, the directors of Indiana decided to sell their foreign operations.[317]

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[315] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 135.

[316] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 141.

[317] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 47-48.

Venezuelan production was so voluminous that it markedly raised Standard Oil of New Jersey's worldwide position in production of oil. The Venezuelan properties alone included reserves of 550,000,000 barrels producing 88,000 barrels a day in 1931. Standard Oil of New Jersey's analysts believed the Venezuelan properties were priced well below their actual value, while the Mexican properties were believed priced well above their actual value. Ultimately, Standard Oil of New Jersey paid 87.15% of Indiana's book value or $140,453,000 for Pan American Petroleum in Aruba, Huasteca Petroleum in Mexico, and other properties in Latin America and Europe.[318]

Indiana's Mexican properties came with strong disadvantages and advantages in the deal. First, Indiana Standard's operations had a poor reputation and bad relations with the Mexican government.[319] Second, in 1930 and 1931, the subjects of nationalization, oil production and marketing were being openly discussed in connection with the establishment of a state-owned oil company in Mexico.[320] Third, Indiana's Mexican production was only 16,000 barrels a day from insubstantial reserves.[321] Nonetheless, the purchase of Indiana had one major advantage. It included a marketing organization that controlled one quarter of the retail petroleum market in Mexico □ a valuable factor in a

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[318] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 49.

[319] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 48.

[320] Lorenzo Meyer, *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin: University of Texas Press, 1972), 146.

[321] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 49.

time of worldwide production excesses and diminishing markets.[322]

At this point, one must question why Standard Oil of New Jersey returned to Mexico after it had pulled out in 1929. Of course, the major factor was that in order to get Venezuela, Standard Oil of New Jersey had to take Mexico as well. Yet, using Jacoby's structural analysis shows an investment in Mexico could stand on its own. Mexico had potential for profit if only for the reason that if Mexican production of oil could be sold profitably in Mexico then the worldwide surplus of oil production with limited markets in which to sell the oil would not restrict profit opportunities in Mexico (SD1b and SD4). While there were continuing risks of expropriation, the apparent stability of Calles' power at the time of the purchase would weigh against that political risk (SD1c) as well as extremely strict governmental regulations (SD3). Calles' approach to labor as well would indicate that Mexican labor would not interrupt continuity of operations (SD2). Since it looked like Calles would be the power behind the scenes for a long time, Standard Oil of New Jersey probably saw going back into Mexico as a reasonable risk. Standard Oil of New Jersey even increased its investment after the purchase.

Another reason for Standard Oil of New Jersey to be in Mexico in light of its worldwide objective to dominate Shell was that Shell was a major player in Mexico. If new reserves came available or the Mexican government raised major policy questions, Standard Oil of New Jersey could only have the opportunity to participate in a significant way if it had a significant investment. Without a significant investment, Standard Oil of New Jersey would have been ceding potential reserves and potentially critical policy

[322] Brown, "Foreign Oil Companies," 375.

decisions that could have ramifications all over the world to its greatest rival — Royal Dutch Shell.

7-F. COMPETITIVE POSITION INSECURITY

By combining this purchase with some other company purchases in Venezuela and Aruba, Standard Oil of New Jersey showed total low-cost oil reserves equal to those known to be owned by its main British competitors. Nonetheless, in 1934, Standard Oil of New Jersey's highest levels of management still anticipated a fight for supremacy with Royal Dutch Shell and wanted more improvement of Standard Oil of New Jersey's worldwide position. One key director was convinced Standard Oil of New Jersey's position was still inferior to that of Royal Dutch Shell despite the objective analysis.[323]

Standard Oil of New Jersey's inferior position was certainly true in the Mexican niche of the oil industry. Despite salt water contamination and deteriorating production in the Golden Lane wells, Royal Dutch Shell's El Águila subsidiary had tremendous production from its new Mexican well located away from Tampico at Poza Rica in 1932, allowing Shell to oust North American companies from the dominant position in the Mexican industry that the Americans had occupied since the 1920s. Thanks to Águila's crude oil refining capacity, Shell controlled both the internal supply of the Mexican market needs for oil and gas and export from the Mexican market. By 1936, Poza Rica was producing one third of all Mexican oil and was considered the only real long-term reserve in the country. By 1937, this oil field had the second highest production in the world, after the Richfield oil field in Texas.[324]

7-G. STANDARD OIL OF NEW JERSEY'S POSITION AFTER CÁRDENAS

The shift of power from the stability of Calles to the volatility of Cárdenas created a major change in the dynamics of Mexico's industry, society and politics. Under Cárdenas, the Mexican field of power shifted its direction toward socialism and started to respond to different interests, such as labor, than those of Calles, who was more interested in capital investment. Because the overlapping United States had shifted interests in a similar manner under Roosevelt, it only made sense that the intersecting oil industry would find itself in a radically altered position in Mexico because of the interdependence of the oil industry, Mexico's politics and U.S. politics toward Mexico.

Despite their veneer of cooperation, Shell and Standard Oil of New Jersey never forgot their aggressive competition. They plotted new attacks even as they talked of peace. Collaborative efforts were always shadowed by deep-seated rivalry, wariness and distrust. There was constant conflict over both implementing agreements and what had been agreed to. Shell invaded the East Coast U.S. markets of Standard Oil of New Jersey and expanded very rapidly. Meanwhile, Standard Oil of New Jersey discussed merger and sale of properties with parties not part of the "As Is" agreements to gain advantage over

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[323] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 50.

[324] Alberto J. Olvera, "The Rise and Rall of Union Democracy at Poza Rica, 1931-1940," in *The Mexican Petroleum Industry in the Twentieth Century*, ed. J. C. Brown and A. Knight (Austin: University of Texas Press, 1992), 64.

Shell.[325]

Standard Oil of New Jersey, as a minor player in the Mexico niche of the oil industry, particularly felt its position threatened. Standard Oil of New Jersey's goal of dominating the Mexican market, starting with its takeover of Indiana's position, now had little chance of being attained because Standard Oil of New Jersey found itself the target of a subversive strategy from within Mexico and had little political capital with the U.S. government to counteract attacks on its Mexican position. Looking at Standard Oil of New Jersey's position in the worldwide oil industry as it fit into international power changes while being involved in many different countries, Standard Oil of New Jersey clearly needed a shift in strategy to become the largest oil company in the world.

Standard Oil of New Jersey's purchase of Indiana's properties in 1932 re-involved Standard Oil of New Jersey in Mexican oil operations, which by 1936 were less profitable than when Standard Oil of New Jersey withdrew from Mexico earlier.[326] Cárdenas' establishment of a labor-oriented government in 1934 combined with the America's New Deal Administration from 1933, led to the rupture of compromises and agreements previously reached between the government of Mexico and the oil companies. Cárdenas' consolidation of power, through co-opting all the subfields in Mexico into his government and supporting communist union leader Lombardo Toledano's hold on Mexican labor, put Cárdenas into a position to try to force the oil companies into compliance with the constitution and Mexico's needs as a developing country.

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[325] Yergen, *The Prize*, 267.

[326] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 128.

To apply the Jacoby analysis that was introduced in View 5 to Standard Oil of New Jersey, I see Standard Oil of New Jersey finding itself in a difficult position in an environment of labor strife, hostile government, and expropriation of foreign lands. While the parties to the purchase of Indiana's properties had foreseen and factored the possibility of expropriation into the purchase, they had probably discounted it as unlikely given Calles' apparent power and the Calles-Morrow agreements. Political risk was now high (SD1c) and obtaining government concessions and helpful regulation was very difficult (SD3). Second, government-supported unionism and communism could eliminate control and continuity of operations (SD2).

Third, the distribution and marketing opportunity that may have allowed Standard Oil of New Jersey to satisfy the requirement of investment feasibility (SD1b) and thus decide to reenter Mexico, deteriorated when Standard Oil of New Jersey closed most of its remodeled service stations in response to a Mexican government order reducing the price of gasoline from 20 centavos to 18 centavos, literally making Standard Oil of New Jersey's service station operations unprofitable.[327] This closing left the Mexican railroads as Huasteca's major customer. But then, in 1936, the government potentially eliminating even that market expropriated the railroads. This loss of marketing opportunities in Mexico meant Standard Oil of New Jersey would then be able to buy refined crude on the world market for sale to the world market cheaper than it could produce it in Mexico, once again Standard Oil of New Jersey went below the threshold necessary to maintain any investment in Mexico.

Fourth, Roosevelt's Good Neighbor Policy deprived Standard Oil of New Jersey of any protection from the unions or government.[328] Standard Oil of New Jersey, thus, faced a bleak future of wasting its management and its economic, social, and political capital to maintain operations that would only become less profitable while lowering the company's reputation around the world, in particular, Venezuela.

Yet, Standard Oil of New Jersey could not use the liquidation option it had in 1929. First, the Mexican government, in seizing foreign properties without compensation, was making it extremely difficult to transfer existing rights to extract oil[329] and would, undoubtedly, make transfer to any third party extremely difficult, if not impossible. Second, given probable future returns on investment and the excess of oil in the world, what company with the capital to buy Standard Oil of New Jersey's properties would consider any portion of Standard Oil of New Jersey's investment in Mexico? Indiana had offered the properties to Shell and other companies. However, even with the attractiveness of the Venezuelan properties, no company but Standard Oil of New Jersey was interested in acquiring more properties because most companies already had too much production for their existing markets.[330]

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[327] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 328.

[328] Josephus Daniels, *Shirt-Sleeve Diplomat* (Chapel Hill: University of North Carolina Press, 1947), 228; E. David Cronon, *Josephus Daniels in Mexico* (Madison: University of Wisconsin Press, 1960), 147.

[329] Daniels, *Shirt-Sleeve Diplomat*, 217-218.

[330] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 48.

7-H. VENEZUELA: A DIFFERENT STRATEGY

Before examining the specific strategies of Standard Oil of New Jersey and Cárdenas in the conflict in Mexico, it is important to look at Standard Oil of New Jersey's behavior after it faced some comparable problems in Venezuela to see what the company was capable of when the potential for continuing profitable operations was present. Standard Oil of New Jersey had an entirely different attitude towards workers in Venezuela than it did in Mexico.

When Venezuelan dictator Juan Vicente Gómez (president 1903-1935) died in December 1935, the political mix changed dramatically in Venezuela as it had in Mexico. Radicals and reformers flocked to Venezuela in 1935 to help air the aspirations and grievances of long-suppressed workers. So that the country could avoid pandemonium, martial law was declared by the Congress and an unexpectedly liberal General Eleazar López Contreras was made president. Contreras immediately restored suppressed civil rights, such as freedom of speech, and actively encouraged labor to organize and pursue collective agreements. Strikes began in December 1936 and created chaos. The lives of Standard Oil of New Jersey supervisors were threatened and several foremen were severely beaten. Yet through the cooperation of the oil companies, the strikes were settled under presidential decree.[331]

Unlike in Mexico where Standard Oil of New Jersey was stonewalling unions, it took extensive measures to improve employee relations in Venezuela immediately after Gomez's death, offering representation in operating units, life insurance, health and benefit packages, and voluntary profit-sharing plans. Foremen spoke Spanish and were taught to act more as schoolmasters than bosses. By the time Mexican labor legislation was imported by Venezuelan liberals in 1936, Standard Oil of New Jersey was already in advance of legislative requirements for housing, schooling, scholarships and training. While in Mexico Standard Oil of New Jersey was absolutely opposed to local management, in Venezuela Standard Oil of New Jersey actively put Venezuelan nationals in supervisory and management positions.

T. R. Armstrong, the representative for Petroleum Producers of Mexico in talks with the Mexican government and, coincidentally, also the vice president of Standard Oil of New Jersey's Venezuelan operations beginning in 1928,[332] emphasized in letters to Venezuelan management that good employee relations might be the decisive factor in determining whether Standard Oil of New Jersey could continue operating in Venezuela.[333] In dealing with the strikes in Mexico, however, Standard Oil of New Jersey took action that could only be designed to irritate the individual workers, the unions, and a self-righteous president who sought to co-opt all control and, failing that, ruthlessly eliminated those who would not support his policies.

7-I. STANDARD OIL OF NEW JERSEY'S AGENT TAKES THE LEAD

While Standard Oil of New Jersey spoke for all the oil companies in rejecting the

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[331] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 141.

[332] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 135.

[333] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 142-143.

contract, Shell was the dominant producer and marketer of oil in Mexico, the Achnacarry Agreement and its successor "As Is" agreements had divided up responsibility for the world's oil markets and reserves among the seven major multinational oil companies. Responsibility for Mexico was given to Standard Oil of New Jersey.[334] Standard Oil of New Jersey, under T. R. Armstrong, took the lead for the Association of Petroleum Producers in Mexico in negotiations involving union demands. Armstrong was an attorney who was fluent in Spanish and second-in-command of Standard Oil of New Jersey's producing department, which had been in charge of all producing subsidiaries in the world, such as Mexico and Venezuela, since 1927. This department was also the key liaison to the executive committee of Standard Oil of New Jersey.[335] In addition to overseeing problems in Venezuela, Armstrong had been dealing with Standard Oil of New Jersey's difficulties in Argentina[336] and Bolivia.[337] Armstrong contended that the union demands were absolutely unacceptable and that Standard Oil of New Jersey would never agree to them.

In discussing Armstrong's appointment as the representative to handle the negotiations, David Cronon in *Josephus Daniels in Mexico* states, "Armstrong proved to be a rather inept choice to conduct the companies' last-ditch negotiations. Either he did not have the complete freedom to act on or he lacked the imagination and broad outlook

[334] Niblo, *War Diplomacy and Development*, 57 n. 6.

[335] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 68.

[336] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 70.

[337] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 124.

needed at this stage of the dispute."[338] In my opinion, with his experience in Argentina's national oil company, Bolivia's actual expropriation the previous year, and in saving Standard Oil of New Jersey's position in Venezuela two years before, Armstrong had a broader outlook and more imagination than anyone else in the controversy. He saw how to secure Standard Oil of New Jersey's worldwide goals and dramatically improve its position and profitability compared to Shell in a way that was completely under the radar of all the other parties.

7-J. SHELL BREAKS RANKS

Cárdenas finally got what he wanted from the oil company that had the most to lose when Shell's El Águila subsidiary agreed to joint exploitation of Poza Rica, with 15-35% of the output going to Mexico from this 500-million-barrel reserve property. Cárdenas then had one of his ministers tell the U.S. charge d'affaires that if the U.S. oil companies would also accept Mexico as a partner in oil exploitation, the labor problem and other issues could be facilitated. The treasury minister repeated this offer in December 1937.[339] Standard Oil of New Jersey's only response was that it would close down its operations if Mexico forced the contract. Standard Oil of New Jersey also taunted Cárdenas by passing the message through Ambassador Josephus Daniels to say that Cárdenas' government would have to back down as the Mexican government always

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[338] Cronon, *Josephus Daniels in Mexico*, 179.

[339] Meyer, *Mexico and the United States*, 161.

had before.[340]

What had started out as a series of tactical moves designed to pressure the oil companies into the kind of agreement that Cárdenas had worked out with Shell Oil Company had now become a threat to Cárdenas' symbolic power. At this time, one of Cárdenas' Supreme Court Justices, Xavier Icaza, stated that if Mexico gave in to the oil interests, Mexico's sovereignty would be compromised once and for all.[341] Cárdenas was now beginning to be the one who was trapped in position.

7-K. STANDARD OIL OF NEW JERSEY'S RESPONSE

Unlike in Venezuela where Standard Oil of New Jersey's patience in working with workers and the president ultimately earned the workers trust, Standard Oil of New Jersey seemingly did everything it could in Mexico to further aggravate Cárdenas and to further irritate the workers and make them feel insecure about their future. Huasteca closed 23 wells and moved all oil stored in the oil field to its terminal at Tampico. In each pay envelope of December 1937, every worker received a letter saying that the company would not comply with the Federal Board's decision. The result of these oil company actions was that there were more than 90 unauthorized strikes in the petroleum industry in Mexico during the last six months of 1937.[342]

Sympathetic workers at Poza Rica defied not only the government but also their

[340] Meyer, *Mexico and the United States*, 160.

[341] Meyer, *Mexico and the United States*, 171.

[342] Brown, *Workers' Control in Latin America*, 63.

own national oil union. They shut down the crucial flow of oil to Mexico City with wildcat strikes through the summer and the fall of 1937. Cárdenas even went so far as to criticize the oil union's lack of discipline and to suggest the workers might be supporting capitalist interests. Shell's Poza Rica workers finally stopped their strike not because the president requested it, but rather because Shell agreed to pay 75% of the workers' salaries and to give 25,000 pesos directly to the their union.[343]

7-L. STANDARD OIL OF NEW JERSEY VERSUS SHELL

The positions of Shell and Standard Oil of New Jersey were extremely different at this point. Shell was actively working with Cárdenas and with the workers to try to resolve the situation and come to some agreement. Standard Oil of New Jersey, on the other hand, was aggravating both the president and the workers. Shell had the second most valuable oil field in the world at Poza Rica and a clearly dominant position in the Mexican market. Standard Oil of New Jersey only had old wells with little productive life left and a market in Mexico, which had deteriorated greatly and could only decline further. Standard Oil of New Jersey had far richer production with a history of good employee relations and good government relations in Venezuela, where it had a clearly dominant position as Standard Oil of New Jersey wanted to be clearly dominant in the world over Shell. Shell had a substantial position in Venezuela but one clearly inferior to Standard Oil of New Jersey's. Thus, Shell had far more motivation to work with the workers, the unions and Cárdenas than Standard Oil of New Jersey.

343 Brown, *Workers' Control in Latin America*, 64.

7-M. STANDARD OIL OF NEW JERSEY'S PROVOCATION STRATEGY

Outside of the negotiations, Standard Oil of New Jersey worked hard to anger and provoke Cárdenas. The alternative of having Cárdenas appoint a supervisor for Standard Oil of New Jersey's operations was as bad as the slow economic death the company had suffered in Argentina. Forcing expropriation was a far better strategy because it gave Standard Oil of New Jersey an opportunity to get out of Mexico completely, to eliminate major assets of its rival, Shell, with only a small loss to Standard Oil of New Jersey itself, and to re-establish symbolic capital lost in Russia's expropriation so that Standard Oil of New Jersey could deter future expropriations.

Obstruction and sabotage of the economy and the Cárdenista reform projects were undertaken with full vigor. Standard Oil of New Jersey stopped credit sales to Mexico and had liquid assets taken out of the country to create an economic crisis. In addition, Standard Oil of New Jersey colluded with the mining industry to stop operations of the silver mines, which were crucial to exporting goods, earning foreign exchange, maintaining the peso, and bolstering government revenue.[344] Standard Oil of New Jersey also organized and financed public protests against Cárdenas and took out full-page ads against him in newspapers. In a symbolic slap to Cárdenas face, Standard Oil of New Jersey even publicly brought in Calles' cronies for their opinions and supposed assistance.

In January 1938, Cárdenas himself negotiated directly with the Association of

[344] Alan Knight, "The Politics of the Expropriation," in *The Mexican Petroleum Industry in the Twentieth Century*, ed. J. C. Brown and A. Knight (Austin: University of

Petroleum Producers' representative from Standard Oil of New Jersey, Vice President Thomas Armstrong. When the two men could not reach an agreement, Cárdenas referred Armstrong to his subordinates. Without speaking to them, Armstrong left town, saying that the oil companies would not agree to pay the wage increase recommendations. In February 1939, Cárdenas had one of his ministers ask Armstrong to come back, offering to concede the other points in the controversy if the oil companies would pay the 26 million pesos in wage increases. Armstrong refused to renew negotiations.[345]

On March 7, El Águila had a separate meeting with a Cárdenas minister and offered to work with Standard Oil of New Jersey to get the 26 million pesos. It was Standard Oil of New Jersey's representative on behalf of the oil companies who turned down the offer and told Daniels that they would rather lose their interests in Mexico than give in to Cárdenas.

7-N. THE FINAL CHOICE

On March 16, Cárdenas made a compromise proposal to the British minister. Shell was prepared to accept the Mexican government's terms but was persuaded not to give in by Standard Oil of New Jersey, which assured them of strong backing from Washington.[346]

That day the companies met once more with Cárdenas, apparently offering the 26

Texas Press, 1992), 101.

[345] Meyer, *Mexico and the United States*, 166.

[346] Cronon, *Josephus Daniels in Mexico*, 184.

million pesos but now adding other demands the Mexican government could not accept. When Cárdenas did not accept, Armstrong left town again.[347] Later that day a Standard Oil of New Jersey representative in Washington told a State Department representative that the Mexican government lacked the nerve even to enforce the decisions of its own Supreme Court.[348] On March 17, Armstrong directly taunted Cárdenas through the Mexican ambassador by telling him "Cárdenas wouldn't dare expropriate us."[349]

When the oil representatives met with Cárdenas one last time, they asked him how he would guarantee his assurances of no more labor trouble. He replied, "You have my word." The oilmen responded, "That is hardly sufficient." Cárdenas declared the meeting over and announced expropriation of the companies' properties at 10:00 p.m. that night.[350]

7-O. RECOGNITION

Many prominent people recognized that oil company actions provoked the expropriation. Josephus Daniels, the U.S. ambassador, said the oil companies acted out a textbook example of what not to do and how not to do it, all in the name of free enterprise

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347 Meyer, *Mexico and the United States*, 166.

348 Cronon, *Josephus Daniels in Mexico*, 184.

349 Meyer, *Mexico and the United States*, 166.

350 Cronon, *Josephus Daniels in Mexico*, 184. But see also Knight, "The Politics of Expropriation," 122, note 33.

and the sanctity of private property.[351] Cárdenas believed that the oil companies were responsible for forcing expropriation.[352] In an explanation to Daniels, Cárdenas said he had to expropriate because of the oil companies' rebellious attitude, their withdrawal of funds from Mexico, their propaganda against his government, and their efforts to hurt Mexico economically.[353] Mexican Supreme Court Judge Icara argued that with a little goodwill from the oil companies, the conflict could have been avoided.[354]

The expropriation gave Standard Oil of New Jersey, with the British's willing help, an opportunity to set a better precedent than had been set with Russia's expropriation. Standard Oil of New Jersey denied Mexico replacement parts for oil refining and production facilities and denied access to the technical expertise needed to keep the older wells operating effectively.[355] Standard Oil of New Jersey prevented Mexico railroad tankers and seagoing tankers from getting oil to foreign markets.[356] Through its influence, Standard Oil of New Jersey stopped the U.S. military and other major consumers from buying Mexican oil. Additionally, the company induced damaging sanctions.[357] Through its presence in every market, Standard Oil of New Jersey used

351 Daniels, *Shirt-Sleeve Diplomat*, 230.

352 Knight, "The Politics of Expropriation," 130.

353 According to Niblo, *War Diplomacy and Development*, 40.

354 Knight, "The Politics of Expropriation," 108.

355 Cronon, *Josephus Daniels in Mexico*, 208.

356 Daniels, *Shirt-Sleeve Diplomat*, 223-224.

357 Daniels, *Shirt-Sleeve Diplomat*, 249.

existing advertising and public relations networks to generate negative publicity about Mexico's image in the world, affecting tourism as well as business.[358] Moreover, Standard Oil of New Jersey began withdrawing funds from Mexican banks while compelling, through its weighty connections, financial institutions and governments to withhold funds, creating an unparalleled capital crisis in Mexico for the Mexican government.[359]

Standard Oil of New Jersey was in a "win-win" position from the standpoint of its strategy to win the symbolic capital necessary to stop further expropriations from developing countries. Either Mexico would publicly suffer so much and so long that no country would want to repeat such a disaster or it would give the oil properties back to Standard Oil of New Jersey as Bolivia finally did in 1944[360] and other countries would realize that oil companies would not tolerate the expropriation of their assets. Mexico was big enough that the lesson would be profound to developing countries. At the same time, Mexico was not as powerful a country as the Union of Soviet Socialist Republics (U.S.S.R.), meaning that it could not become a dominant enough player internationally to be able to effectively counteract Standard Oil of New Jersey's punishment. Mexico's limitations were particularly apparent given the country's proximity to the United States,

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[358] Daniels, *Shirt-Sleeve Diplomat*, 255-258; Cronon, *Josephus Daniels in Mexico*, 211.

[359] George Baker, "Conclusion: A Cost Benefit Analysis of the Oil Sector in Mexican Society," in *The Mexican Petroleum Industry in the Twentieth Century*, ed. J. C. Brown and A. Knight (Austin: University of Texas Press, 1992), 141.

[360] Meyer, *Mexico and the United States*, 315 n. 96.

a dominant power that would never allow U.S.S.R.-like activities to flourish in its hemisphere.

As a result, no more significant oil properties in Latin America were expropriated from 1938 to 1960[361] Standard Oil of New Jersey's target for the symbolic capital lesson was Venezuelan officials who made it clear after the expropriation that they considered Cárdenas' action an unwise move.[362]

7-P. MISRECOGNITION

Even though many, like Daniels, recognized that the oil companies, specifically, Standard Oil of New Jersey, provoked the expropriations, the clear economic and strategic reasons for Standard Oil of New Jersey's provocation were not recognized. The facts surrounding this controversy became lost as various parties assigned blame for the oil companies' losses or argued that the oil companies got what they deserved. It was hard for people to see the expropriation as Standard Oil of New Jersey getting what it wanted because oil companies just did not want such things. And, of course, Standard Oil of New Jersey complained as loudly as Shell to make it appear that Standard Oil of New Jersey really had been injured incalculably. Since many historians have assumed that the expropriation was a loss rather than a gain, they have unanimously asserted that the crisis was a great event for Mexico, evoking profound emotions, elevating presidential prestige,

[361] George Philip, "The Expropriation in Comparative Perspective," in *The Mexican Petroleum Industry in the Twentieth Century*, ed. J. C. Brown and A. Knight (Austin: University of Texas Press, 1992), 173.

[362] Philip, "Expropriation in Comparative Perspective," 174.

dealing a blow to imperialism, and marking a fresh revolutionary conquest for Mexico. Precisely because of its mythic status, however, the expropriation has remained cloaked in nebulosity.[363]

7-Q. IRONIC RESULTS WITHIN EACH FIELD

International Oil

Despite having all its Mexican assets taken away by the Mexican Government, Standard Oil of New Jersey emerged a huge winner over the biggest loser, Shell Oil. In the chess game it was playing on the world's game board, Standard Oil of New Jersey had sacrificed a pawn on the Mexico spaces, in order to take Shell's queen off the board. For while Standard Oil of New Jersey lost oil production of 5.8 million barrels per year from wells rapidly becoming unproductive,[364] its main competitor, Royal Dutch Shell, lost the second largest concession in the world, Poza Rica, which had been producing by itself 19 million barrels of oil per year in 1937 before the expropriation and 28 million barrels per year by 1940 on reserves of 500 million barrels.[365]

Meanwhile, in Venezuela, Standard Oil of New Jersey was producing 100 million barrels per year (accounting for two-thirds of its foreign production and two-fifths of its total production) on reserves of 2.5 billion barrels by 1939.[366] Standard Oil of New Jersey

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[363] Knight, "The Politics of Expropriation," 103.

[364] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 115.

[365] Olvera, "Union Democracy at Poza Rica," 79.

[366] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 144.

gave up a market in which its share of production was 30% compared to its competitors' 70%[367] — a ratio that could only get worse because of Poza Rica — in order to secure a market in which it controlled 57% of production compared to its competitors' 40%. Standard Oil of New Jersey also eliminated, with little loss for itself, over 10% of Shell's worldwide reserves and what would have been more than 10% of Shell's worldwide production had Shell retained Poza Rica.

In a world awash in too much oil production, this equation meant that for every Mexican export loss of 10 million barrels, Standard Oil of New Jersey would lose sales of 3 million while Shell lost 7 million. If Venezuela sales picked up the 10 million barrel deficit, Standard Oil of New Jersey would sell 6 million barrels (a net gain of 3 million) while its biggest competitor, Shell, would sell only 4 million (a net loss of 3 million). This arrangement was not a bad deal for Standard Oil of New Jersey, considering that the cost of producing the extra 6 million barrels in Venezuela was probably substantially less than the cost would have been of producing the 3 million lost by Standard Oil of New Jersey in Mexico. If one takes into account the fact that Shell also lost a big Mexican market for its production when Standard Oil of New Jersey really had little market left in Mexico, the gain for Standard Oil of New Jersey is far more magnified.

What happened to Shell as a result of the position taken by Standard Oil of New Jersey after the Bolshevik expropriation had happened to Shell again, only this time the consequences were much more severe. In Mexico, Shell had lost some of its most valuable properties in the world, which, like the Baku oil fields, could have continued to

[367] Baker, "Cost Benefit Analysis," 141.

operate under concessions acceptable to Shell had it not been for Standard Oil of New Jersey's insistence on private property rights. By 1939, Standard Oil of New Jersey was the world's leading oil producer, clearly surpassing its British rival for dominance of the entire industry, with worldwide reserves of 6 billion barrels producing 225 million barrels annually.[368]

The Mexican Field of Power

Cárdenas may have won the battle for whose folklore would go down in history, with him being revered in Mexico for taking back Mexico's sovereignty from foreign interests. Within Mexico during the remainder of his term in office though, the expropriation backfired on Cárdenas, costing him his symbolic capital. Socioeconomic problems of capital flight, rapid peso devaluation, an instant slump in import sales, a faltering tourism industry, and the government's inability to meet payroll expenses, and cutbacks in costly social reforms quickly turned Cárdenas from a patriotic hero into a lame duck. Clerics, conservatives, Callistas, fascists, and moderates all mobilized against his leftist programs. As a result, Cárdenas had to promise fair indemnity to the oil companies and guarantee that there would be no more expropriations.[369]

Further, in seeking to establish economic stability, Cárdenas had to confront his oldest and best ally, organized labor. Strikes were postponed, contract talks were put off, and hard work was encouraged. Oil workers, miners, and railway men were on the

[368] Larson, Knowlton, and Popple, *History of Standard Oil Company*, 148-149.

[369] Knight, "The Politics of Expropriation," 116-117.

defensive. Nationalization, ironically, had divided radical forces, pitting unions against politicos to the advantage of the conservative opponents of both.[370] Class struggle gave way to unity, patriotism, sacrifice, and serenity. Order and legality had to prevail. Religion, commerce, industry, and property would have to be protected.[371] By 1940, workers could no longer intervene in management. Government took the place of foreign oil company bosses.[372]

Additionally, during his life, Cárdenas had to watch as the ideals he had strived so hard for drowned under other forces. The Cárdenista experiment had run its course. The administration had to demand syndical restraint, curtail the redistribution of lands into communal farms, drop socialist education, espouse bland patriotism, and promote moderate politicians in the machine.[373]

In the 1940 elections, Avila Camacho took over the seat of power Cárdenas had so carefully built. The government that formally incorporated liberal opposition into the official party was forced to serve the interests of the moderate and conservative elite. Because of its efficient power, the official party government machine was more easily manipulated away from meeting the needs and interests of the workers and peasants than it ever could have been had Cárdenas not built it so strong under the philosophy of serving them. The surviving corporatist structure, for the most part, benefited the interests

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[370] Knight, "The Politics of Expropriation," 119.

[371] Knight, "The Politics of Expropriation,' 119.

[372] Olvera, "Union Democracy at Poza Rica," 86.

[373] Knight, "The Politics of Expropriation,' 120.

of the middle class and the wealthy.[374] Cárdenas' revolutionary PRI structure of the Mexican field of power effectively blocked any challenge to its self-serving appointed leadership for almost 50 years.

International Political Power

In the arena of international power and influence, the United States increased its dominance by following the Good Neighbor Policy and allowing Mexico to expropriate so that dominant British interests were extinguished in Mexico. At the same time, the United States and Great Britain supported sanctions so that control of U.S. oil interests in the rest of Latin America was solidified through the stoppage of additional expropriations. Ironically, Josephus Daniels and President Roosevelt completed the mission for which they had reluctantly sent troops to Vera Cruz in 1912 for President Wilson.

By 1938, all of Huerta's intended concessions to the British were gone. Three British Foreign Office missions in May, July, and August 1938 could not persuade Roosevelt to join in their proposed Anglo-American policy against the expropriation.[375] Latin America, impressed by the Good Neighbor behavior, supported joint action against aggressor nations in the fall of 1938 and called for an unequivocal declaration of inter-

[374] Boderic Ai Camp, *Politics In Mexico* (New York and Oxford: Oxford University Press, 1993), 113.

[375] Meyer, *Mexico and the United States*, 156.

American solidarity[376] at the Lima Conference in December 1938.

7-R. CONCLUSION TO VIEW 7

We have seen how several different elitelores competed to become the folklore of the Mexican Expropriation of 1938 and how Cárdenas view won. However, one of the interesting things about this and other studies of elitelore is how the various parties used their eliteloric positions to cover up objectives they did not want to become folklore.

The US government did not want the public to believe they knowingly allowed US based assets to be taken by a foreign government or that there was anything they could have done about it, so they let the public believe they were completely surprised by an irreversible Expropriation. The oil companies did not want the public to believe they acted in a provocative manner in Mexico. They needed the public to bring pressure to bear on the US government and other US corporations to help punish Mexico so Venezuela and other Latin American governments would work with them instead of nationalizing their assets. They did not want the public to believe Mexico treated the oil companies unreasonably in setting up so many difficulties and financial impediments for them to operate there. He needed the US government to desist from harsh action and the Mexican public, particularly the oil workers, to make sacrifices necessary for him to continue his programs.

View 7 brings to light one of the most hidden objectives in the expropriation by

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[376] Cole Blasier, *The Hovering Giant: U.S. Responses to Revolutionary Change in Latin America* (Pittsburgh: University of Pittsburgh Press, 1976), 126.

putting together clues obtained from the other six views to be analyzed from a business rather than an academic point of view. Looked at from this vantage point, Standard Oil of New Jersey did not want the public or the governments or the other oil companies to see the objective of its provocative actions. Mexico's expropriation enabled Standard Oil of New Jersey to accomplish its worldwide goal of beating Shell as well as increasing its profits significantly over what they would have been if it still had to operate deteriorating equipment on deteriorating reserves in Mexico while Shell poured ever increasing amounts of Mexican oil from the richest reserves into the world market. If any evidence contrary to this analysis exists, perhaps parties opposed to this analysis will now reveal it.

Will an eighth view emerge in the future?.........

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1. Archives of Standard Oil of New Jersey - Destroyed

2. The Josephus Daniels Archive, Manuscript Reading Room, Library of Congress, Washington, D.C.

B. Archives Housed in Mexico

Biblioteca e Archivos de PEMEX

a. Hemeroteca, PEMEX Building "A", Mexico City

b. Microfilm Holdings, PEMEX Building "A", Mexico City

c. Archivo Histórico de Petróleos Mexicanos, Ex Refinería, "18 de Marzo", Mexico City

A. ARCHIVES HOUSED IN THE UNITED STATES

1. Archives of Standard Oil of New Jersey - Destroyed

To fill in the circumstantial gaps in the memoirs of the participants (either as told in the first person or in oral interviews) and/or in the interpretive historical literature, I set out to *disprove* my hypothesis that Standard Oil of New Jersey Standard "forced" the expropriation to reduce the importance of Shell as competitor for world market share.[377]

In bringing into play the scientific method to find documents against my argument, I took a number of steps to find any "Smoking Gun" that could counter my hypothesis or prove it. A major key here involved finding one or more documents that could allow me to see directly Standard Oil of New Jersey's motivation through the words of its chief negotiator in the Mexican case--Thomas Armstrong. The search for direct evidence to back up my circumstantial case led me early in my research into what I term as "An Historian's Odyssey In Search Of Original Sources."

First, to find Standard Oil of New Jersey's internal memoranda, letters, and preparatory briefs for meetings, and planning documents for negotiations at the time of the expropriation, I began with a friendly letter to Exxon (still Standard Oil of New Jersey, but with a name change), to which I received no response—even though I insisted several more times.

Second, to gain Exxon's attention, I bought a small amount of stock, the idea being that as a stockholder, I would have a right to examine the old Standard Oil of New Jersey Archives to find documents, internal memoranda, plans, etc. Unfortunately, small stockholders do not count at Exxon— letters and calls led to nowhere useful.

Third, having heard that Professor Jonathan Brown (University of Texas at

[377] In my research for the work, I did not examine the archives of Standard of California because it was merely a small player in the drama of 1937-1938. Cal Standard had no relationship to Standard of New Jersey other than sharing the Standard name. There were many Standard Companies after the breakup in 1909, and they were neither friends nor partners in any sense other than the "collegial" relationship shared by all oil companies against the backdrop of serious competition.

Austin) had had special access to some Standard Oil of New Jersey documents while conducting his research cited in the Bibliography below, I contacted him. He told me that while the archives I was seeking had been destroyed — as described in the Introduction of this work — he had Henrietta Larson's notes and rough drafts of the "official" *History of Standard Oil Company (New Jersey), 1927-1950,* which she had published in 1971 with co-authors Evelyn H. Knowlton and Charles S. Popple. Professor Brown collegially loaned me these papers, but my exhaustive analysis did not lead me to any references to the internal documents that could offer direct evidence to disprove my hypothesis.

Fourth, when I reexamined Larson's book, I focused on the fact that the footnotes to the section on the expropriation in Mexico cited only documents that were available as public records and that much of the information was taken from secondary sources.[378] While footnotes on other matters involving Thomas R. Armstrong quoted various internal documents to or from him, none were cited in reference to the events surrounding the expropriation. Yet, because Armstrong was the key player for Standard Oil of New Jersey as well as the association of all the oil companies in Mexico during the conflict, he must have written many memoranda to other managers and board members on what was happening. Certainly he did on other less important matters as seen in Larson's footnotes. This made me wonder if Larson as well had not seen these documents in her research of Standard Oil of New Jersey's archives.

Fifth, my next approach was to consider doing an oral history interview with

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[378] See Larson, Knowlton, and Popple, *History of Standard Oil Company,* 129-130.

Armstrong, if he were still alive, or with someone who knew Armstrong well enough that he would have told me a first-hand account of the events of 1938. I first searched for any record of Armstrong in New York City, where Standard Oil of New Jersey's offices were located. Because he was a lawyer I searched records of the various bar associations, state and national. To no avail also I consulted organizations that dealt with oil, such as the American Petroleum Institute and the Cambridge Energy Research Association.

Sixth, my next move in the search for Armstrong was to hire a private detective—a partner in the investigative firm, GBI and Associates, which employed former FBI and Secret Service personnel. GBI found Armstrong's records in the Princeton Alumni Organization and determined that he had retired from Standard Oil of New Jersey in 1941 to move to his Ranch in Texas. There he pursued his favorite vocation, which was breeding prize bulls. GBI reported that he had died at his ranch on March 3, 1986. The bad news was that most of his other relatives had either died or were suffering with dementia. The good news was that he was survived by a nephew, then in his mid-seventies. Not only had he taken over the ranch, but also he had worked with Armstrong for many years.

Seventh, when I called Armstrong's nephew, Tobin Armstrong, he agreed to meet with me. But just as we were settling the details of my trip, Hurricane Iniki came ashore. As I watched the news concerning the hurricane, I worried that my last chance to do an oral history might be lost. When I called again, though, he said he was fine but would need a month to clean up the ranch.

Also compare footnotes 76-84 with footnotes 33-37 and footnotes 95-97.

I visited the ranch in October of 1999, only to find out that Uncle Tom, as Armstrong was called, had never talked to his nephew about the expropriation controversy. My lists of questions were rendered useless.

However, I was given access to an old trunk of Uncle Tom's papers. Looking through the old deeds, letters, and articles, I was excited to find a file of papers that appeared to be copies of Standard Oil of New Jersey's internal documents. Eventually, in the interest of history, his nephew allowed copies to be made. After going through them, though, I was disappointed to find they were documents that Uncle Tom had received in relation to positions taken by attorney Donald Richberg in negotiating with the Mexican government on behalf of *all* the affected oil companies. None of these documents were dated before the expropriation. There were no statements in them about what happened before the expropriation, nor was there anything in them that could be used to infer that Standard Oil of New Jersey had taken a separate position.

In conclusion, I found no "Smoking Gun" that disproves my hypothesis. In the field of law, however, the destruction of records is always suspicious, and indeed, in the case of Standard Oil of New Jersey supports my circumstantial case that the Company wanted to keep its past a secret.

2. The Josephus Daniels Archive, Manuscript Reading Room, Library of Congress, Washington, D.C.

Background

Despite his vast experience, Ambassador to Mexico Josephus Daniels was young for his age (only 70) when he played one of the key roles in the negotiations between US oil companies' and the Mexican government, both before and after Mexico's expropriation of foreign-owned oil properties. Daniel's unique position in the hierarchy of the US government as an elder statesman of the Democratic party and former US official to whom Franklin D. Roosevelt reported, put him not only at the center of the US response but also made him privy to a large part of the information flow. Daniels had been active in national party affairs since 1890, had worked in the U.S. Interior Department, was owner and editor in Raleigh of the *News and Observer* newspaper, served as Secretary of the Navy under President Wilson, and had been a major supporter of Roosevelt in his campaign for President.

Thus, when Daniels was Ambassador, U.S. oil companies and the Mexican government both recognized that Daniels was more than Ambassador—he was a close friend of the US President and a supportive friend of the Mexican President. Negotiators for both the companies and the government sought to use to use his services as a channel of communication to other key parties.

On the possibility that at the time of the expropriation Daniels may have expressed in his private papers views or information that would support or undermine my argument that Standard Oil of New Jersey had provoked the expropriation to serve its own purposes, I explored the Daniel archives for the key years (1935 – 1938) of the struggle between the private oil companies and President Lázaro Cárdenas.

The Library of Congress in Washington D.C. maintains originals of Josephus Daniels collected papers written from 1913 through 1948 in the Josephus Daniels Collection through the Manuscript Reading Room. His collection comprises 934 boxes of original documents covering his many careers and personal life. These include his diaries, family papers, Navy documents, Democratic Party documents, invitations, requests, speeches, society correspondence, newspaper clippings, autographs, etc. I examined19 boxes which covered the time when he was active in his role as U.S. Ambassador to Mexico and involved in the events leading up to the 1938 expropriation. The papers examined covered three years of his life as seen in his personal diaries, correspondence with Department of State personnel, Embassy employees, consuls in Mexico and officials of the Mexican Government which appeared to have any possibility of discussing events or individuals who might have been involved or had an effect on the process leading up to the expropriation.

I did not explore the Archives of the U.S. Embassy in Mexico (some microfilmed and most all have been sent to the U.S. Federal Records Center in Suitland, Maryland) because they only offer great detail on mundane things. For example they would cover (a) observations of local laws (for example on fishing and hunting) by lower-level officials far below the policy level; and (b) on the administration of the Embassy itself (including personnel records, leaves, purchase of supplies, etc.

Whatever the problems with Stephen R. Niblo's 1999 book on Mexico,[379] in

[379] See James W. Wilkie, "Review of *Mexico in the 1940s: Modernity, Politics, and Corruption,* by Stephen R. Niblo (Wilmington, DE, Scholarly Resources, 1999),

Mexico in the 1940s: Modernity, Politics, and Corruption he unwittingly reveals the utter banality of most of the messages sent between the U.S. Embassy in Mexico City and the U.S. Department of State in Washington, D.C. Indeed, self-respecting elites do no put potentially embarrassing information and plotting into documents that are subject to be leaked to the press, either selectively to discredit someone or by accident.

Much like careful leaders anywhere in the world, elites in the United States and Mexico protect themselves by communicating orally—preferable not by phone. In Mexico, Lázaro Cárdenas is famous for the fact that in archives such as those of Francisco J. Múgica, his closest friend, one finds messages such as the following: "This note introduces you to Capitan Ramírez, who will give you a verbal report. Please respond verbally to him."

The age of e-mail since the mid-1990s may have changed the equation of communicating verbally, with executives writing memos that they later find have been easily "forwarded" to friends and/or foes. Too, e-mails are subject to subpoena, as many have discovered since the collapse of so many U.S. companies. But I now see executives reverting to verbal communications, the "records" of which vanish in the wind.[380]

In the Daniels documents, I found some interesting things that weren't emphasized in Daniels' own book or in Cronon's book (based on the Archive) about Daniels.

American Historical Review 107:2 (April 2002), pp. 581-582.

[380] Many careful executives around the world now wear a "silent alarm" which alerts

My Findings

A. Daniels knew Armstrong well and had several conversations with him about the situation with the Mexican government. In his diaries, Daniels comments that oil company executives were making a big mistake in being so open at their clubs and hotels in their criticism of the Mexican government officials because the criticism could get back to Cárdenas. As a result, Daniels wrote, the executive could close the doors to profitable investments. (Container 7, Reel 6, Dec. 11, 1937) In a memorandum written in March of 1938, Cardenas told Daniels the oil companies had embarrassed the Mexican government. (Box 649, Embassy File, March 4, 1938, p.2.) These kinds of things were obviously of concern to Daniels and formed the basis for his comments after the expropriation that the companies had performed a textbook example of what not to do to avoid expropriation.

B. Although later many observers believed that Daniels had taken the side of Mexico, his archive reveals that he had not been completely blinded by his admiration of Cárdenas. Daniels did think that the unions and the Mexican government were being unreasonable in depriving the oil companies of management control necessary to success (Container 7, Reel 6, Jan. 8, 1938).

C. Despite Armstrong telling him that expropriation was imminent, Daniels could not conceive that his friend Cárdenas would ever expropriate the oil. (Container 7, Reel 6, Jan 22, 1938) This was probably because Cardenas had told Daniels in a meeting December 15, 1936, that, even though he had the right under the then *new* expropriation

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them to any "open microphone" that might be recording them.

law to seize the oil companies, he would not do so. (Box 649, Embassy File, Dec. 15, 1936, Memorandum of Conversation, p.5 on Expropriation Law)

D. In his diaries, Daniels reveals a continuing sense of humor—the kind that elites use to relieve pressure and keep their mental balance. In a November 14, 1938 entry, made almost eight months after the expropriation, Daniels recounted one of his favorite jokes, as told him by his friend the Danish ambassador, who told him:

> "There is always something rotten in Denmark…. A Danish lady, taking an ocean voyage, made these entries in her diary:
>
> "First day out [to sea]: It is glorious and wonderful, the sea and the refreshing air.
>
> "Second day out: I am thrilled. The Captain asked me to sit at his table.
>
> "Third day out: Went on deck with the Captain at night. Under the stars, he made an improper proposal to me, which outraged me, and I clearly let him understand my sense of insult.
>
> "Fourth day out: The Captain told me that unless I acceded to his proposal that had insulted me, he would sink the ship and all on board would be drowned.
>
> "Fifth day out: I saved six hundred lives!" mental balance during difficult times."

Daniel's sense of humor aside, however, the journalist's mentality and analysis of events was limited by the overwhelming pressures on his time.

Conclusion

My reading of Daniels' schedule books and files makes it clear that Daniels was incredibly busy. Between his diplomatic duties, travels, and social calendar he had almost every minute booked. He carried on an incredible pace for a septuagenarian, leaving a leader of any age little time for analysis of events, let alone to engage in probing discussions with key people. Because Daniels was so pressed for time, then, it is no wonder that he missed the "big picture" in his private and public writings. In short, in the drama of oil expropriation that had unfolded before him, there is no sense that he could have been aware of the invisible hand of Standard Oil of New Jersey, which wanted to provoke an expropriation, not prevent one.

B. ARCHIVES HOUSED IN MEXICO

There are two important scholarly resource bases for study of PEMEX, one of which is largely "forgotten" (if even known by many) and the other is so "new" as to be relatively unknown. The two key sources that help us understand the underpinnings of Mexico's most important economic resource over the last 100 years are the (1) PEMEX Library and Archives (including its newspaper archive, files of companies records, records microfilmed in England, the Netherlands, and United States in the "archives" of the former owners of oil companies in Mexico as well as book collection on oil in Mexico and the world); and (2) the relatively new Archivo Histórico de Petróleos Mexicanos.

In addition to PEMEX's own materials, there are several minor archives (at least in relation to PEMEX materials), and these archives are not of concern here. One is the Mexican National Archive.[381] The other is the Archive of the Mexican Secretary of Foreign Relations.[382]

BIBLIOTECA E ARCHIVOS DE PEMEX

There is no explicit "Smoking Gun" to prove or disprove my hypothesis, but there is an implicit one that backs my view that Standard Oil of New Jersey wanted the expropriation to take place.

My Major Finding

What emerges is an important news article entitled "El Jefe de la Standard Aún Tiene Esperanzas [de] Restablecer Actividades Normales; Niega Estuverion Esperando Oportunidad de Reirarse," *El Siglo de Torreón*, May 21, 1938 (Hemeroteca Series, Vol.

[381] The Archivo General de la Nación has hundreds of boxes of files related to the operations of the oil companies in Mexico. Records cover the first four decades of the twentieth century. The nature of the documentation primarily concerns the requests for, and handling of, permits for oil-company operations. There does not appear to be any documentation about the nature of corporate strategy.

[382] The Archive of the Secretary of Foreign Relations contains extensive documentation for the period from 1920 to 1950 dealing with the government's attempt to negotiate with a succession of governments in Great Britain and the United States. The negotiations cover the successive oil controversies Mexico faced with other countries, the last of which was the indemnification of oil companies for their expropriated properties. The nature of the documentation was therefore official communications, and nothing of the character of internal company records.

II. p. 75). This news article articulates the idea that Standard Oil of New Jersey was pleased with the expropriation. From New York, Standard Oil of New Jersey's President, William S. Farish, sought not only to protect its claims against Mexico by denying that the Company "had been hoping for the expropriation to give it the opportunity to withdraw from Mexico" but also to protect its position as a "friend" of Shell united against the Mexican Government's expropriation. Thus, Farish, stated that he thought the Company could return, once the Mexican government realized that (a) it could not operate the oil production and distribution process, and (b) it would have to invite Standard to return and on Standard's terms.

This newspaper article quoted above is in the PEMEX "Hemeroteca" (collection of bound-newspaper clippings), within the PEMEX Library and Archives.

One enters the PEMEX Library and Archives at the PEMEX Building "A," Avenida Marina Nacional 329, piso uno,[383] Colonia Huasteca, in Mexico City, and is always surprised to find it empty of researchers, the books of news clippings waiting for scholars to examine a multitude of topics.[384]

A. Hemeroteca, PEMEX Building "A", Mexico City

[383] Present any credential when signing at the Registration Desk on the ground floor, and ask directions to the Library—one floor up. Another alternative is to telephone ahead to the Director of the Library and Archives, (55) 19 44 25 00, ext 59295.

[384] Also waiting for researchers are the library stacks, which hold an incredible array of books on all aspects of oil industry in Mexico and around the world, many seemingly never touched.

The reading room of the Hemeroteca has a glass bookshelf in which, among other volumes, are ten volumes of newspaper articles from throughout Mexico and the United States covering the period from January to June 1938, thus focusing on events leading to the expropriation of March 18, 1938, the propaganda campaign to "unite" Mexico behind the act, and the problems of seizing control of the production and distribution system throughout the Nation.

Special notice is paid in some of the articles to the fact that Cárdenas neglected to expropriate the oil company ships anchored in Mexico, which left Mexico without transport in order to send its oil to the world. This factor aided the boycott against Mexican oil led by the former owners of the nationalized companies.

All of the newspaper articles are pasted into bound pages in each of the ten volumes. To facilitate consultation of this invaluable collection of contemporary materials, the U.S. oil scholar George Baker has encouraged the development of an index of titles, sources and dates of the articles in the volumes. This work has been carried on by persons working under the direction of the director of the Hemeroteca. At present, however, only the first two volumes have been indexed.

B. Microfilm Holdings, PEMEX Building "A", Mexico City

The microfilm collection holds some 2,000 reels that; taken together, contain images of more than 2.5 million documents that date from the early 1900s to the early 1940s. The documents concern the daily operations of the expropriated companies. One feature of the documentation is that the topic of a possible expropriation never appears: the documents portray day-to-day operations as if each company's place in Mexico would last indefinitely.

These documents in their physical form were microfilmed by the Mexican Petroleum Institute (IMP) in the mid-1980s, teams of researchers traveling to locate original documents in company archives in England, Holland and the United States. The microfilmed rolls that are housed—in some thirty cardboard boxes, of the type found at grocery stores—on the shelves with warehoused periodicals (not in the reading room itself).

Consultation of the microfilm is slow and difficult for two very different reasons: The index to the reels is generic, identifying typically only the name of the oil company and the general nature of the records (such as legal, land titles, personnel). The second reason has to do with the one microfilm reader available in the reading room. It is of a 1970s vintage, with poor-quality optical resolution, a faulty mechanism for placing and aligning an image projected from the film, and an unpredictable printing function (The printer sometimes prints a complete page, sometimes only a random section of a page). On many of the reels, one finds the microfilm "dissolving" with age. Some reels are inoperable.

The nature of the records seems to involve topics only related to the administration of the foreign-owned companies.

Amid this routine information, there are no documents in the microfilmed material that seem to deal at all with company strategy related either to the Mexican market or for the country as a whole.

C. Archivo Histórico de Petróleos Mexicanos, Ex Refinería, "18 de Marzo", Mexico City

This PEMEX archive is a modern facility located in the former site of the Azcapozalco Refinery in Mexico City. (The refinery was closed by presidential order in 1991 to end its pollution of the valley of Mexico.) The address is ExRefinería "18 de Marzo," Calle 5 de Mayo s/n (Puerta 5), Colonia Ángel Zimbrón, Delegación Miguel Hidalgo, Mexico City, telephone (55) 57 22 25 00 ext 21440.

Almost all of the materials are from the Archive of the El Águila Petroleum Company. Although the AHP is well organized with the documents of the oil companies carefully stored under appropriate conditions of temperature and humidity in documentary-style folders indexed for ready access, few scholars have the funding or fortitude to seal themselves off from the outside world to attack issues document-by-document.

The AHP staff has a sophisticated system for examining and preserving documents, and its goal is to make available a full index of holdings online. At the present rate of classification, they estimate that 5-7 years of additional work is ahead. To search for words indexed, go to: <www.archivohistorico.pemex.com>.

The nature of the documentation is mainly of the type that concerned a) the daily operations of the plant and b) communications with, or about, property owners, and c) communications with local, state and federal authorities. El Águila records include labor movements; strike notices, and Board Meeting records.

From the Archive Index, no information emerges about any plan by Standard Oil of New Jersey to push the Mexican Government into expropriation.

The AHP remains largely unknown and unvisited, except for few scholars who soon become overwhelmed by the magnitude of themes to examine. The AHP hold more than 100,000 files of which some 70,000 have been catalogued under international archival standards. The material covers the period 1850-1950, although the bulk of it covers 1900-1930.

Fortunately the AHP is publishing a sample of the documents in its *Boletín del Archivo Histórico de Petróleos Mexicanos,* and perhaps these samplings will spur scholars to enter the archive to conduct systemic research.

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