From a 1930s macroeconomic perspective, Cárdenas's development policy showed encouraging results. Despite increased labor agitation, government support for unions, and more radical social policies, the economic barometer in Mexico remained optimistic. Although almost no foreign investment was flowing into Mexico to finance development projects, the economy was expanding, diversifying, and moving toward a more integrated national economic unit. Compared to the continuing serious economic troubles in the United States, Britain, and France, Mexico was weathering the time after 1935 with much greater optimism. Mexican developmentalists were using the global economic crisis to realize significant structural economic reforms.

In 1936, the available indicators suggested that it would be desirable to move ahead with the reorganization of some of Mexico's commercial sector based on communal concepts of property. The ejido program required even more government revenue to finance necessary tractors, seeds, and fertilizers. At the same time, Cárdenas's *sexenío* (six-year term) would end in four years, which gave barely enough time to make the ejido program a political, social, and commercial success. Thus, the minister of hacienda decided to force extra loans unsupported by collateral on the accounts of the Bank of Mexico. In theory, an expected good harvest would repay the loan before the end of the fiscal year, and the government's budget would close the year with an appropriate balance.

According to this ministerial developer's vision, the following year German-Mexican petroleum joint ventures and increased production and sales of petroleum from state-owned oil fields would generate more than enough new money to provide a more solid financial base for years to come. Then Mexico would collect direct income from raw-material exports, not just taxes on exports. It was reasonable to assume that this would provide enough money for continuous financing of highways, railroads, and the expansion of the ejido system. Of equal importance, Mexican developers could evade the pressure of unions to expropriate the foreign petroleum and mining companies, a step that would have assured the continued absence of private foreign investment from Mexico for years.

But suddenly, between May and December of 1937, these optimistic developmental plans and Mexico's foreign economic relations experienced a dramatic collapse. When the country recovered, in 1939, the domestic and international situations had changed so radically that this domestically based developmental strategy from the 1930s had to be abandoned.

President Lázaro Cárdenas nationalized the foreign oil companies on March 18, 1938. The oil companies' refusal to adhere to a Supreme Court ruling in favor of the workers provoked his action. Here the president meets with a group of oil workers during his inspection of the nationalized oil fields in Tamaulipas.

In retrospect, it is easy to identify the first snowball that, half a year later, would grow into the devastating avalanche that destroyed so much of what had been created in the previous years. As planned, in early 1937, Minister of Hacienda Eduardo Suárez forced new loans on the Bank of Mexico to finance the expanding ejido program. He suggested using the expected harvest at the end of the year as collateral. Its sale on European markets would, he argued, make enough money before the end of the fiscal year to balance the Bank of Mexico's books. A hypothetical bountiful harvest was now securing Mexico's state-sponsored program of agricultural commercialization. From the perspective of May 1937, Suárez's action was a reasonable calculated risk. By the end of the year it proved to traditional, anti-Cárdenas forces that state-sponsored agricultural commercialization with a communal base could work.

By coincidence, Mexico's oil workers began a highly symbolic emotional strike against the British- and Dutch-owned El Aguila petroleum company in May. Most Mexican union members did not take into consideration the forces of macroeconomics. Instead, they saw Cardenismo's support for labor unions as an opportunity to force the government to support their nationalistic, long-term traditional fight against the arrogant and imperialistic British-Dutch petroleum multinational. This strike was as much about wages as it was a demonstration of popular national economic self-determination and an assertion of the growing political role of the leftist political union, outside of the political control that President Calles had previously woven around Mexico's union movement. The symbolism of this strike was understood by all social groups within Mexico. In particular, private banks, midsize companies' owners, and small merchants interpreted it as a potential watershed for Mexico's economy. Several years of increasing labor agitation and a political atmosphere full of expropriation rumors, along with their cultural conservatism, led them to a paranoid interpretation that Communism was advancing inside Mexico. From that perspective, only a wait-and-see attitude was wise economic behavior. Overnight, psychological factors began to exert a strong influence on decision making in Mexico's private economic sector.

Next, the infusion of large amounts of ejido funds into the Mexican financial system triggered unprecedented inflationary surges that expressed themselves in rising prices of everyday food items and other basic consumer goods. This time, average Mexican consumers understood that something was changing in the economy. Now, their experiences, too, counseled caution in the near future. Consumption and therefore overall retail business began to slow. In the petroleum-producing regions the continuing oil strike led to a more immediate dramatic economic decline. First, fuel shortages suggested to regional manufacturers that the strike might affect their enterprises even more seriously. The basis for private industrial production might be endangered if the strike was not resolved in the immediate future. A destructive economic-psychological cycle was forming that steadily changed public and private perception of the economic viability of Cardenismo. This tension among domestic developmental policy, the perceptions of private business and consumers, and the reverberations of the petroleum strike were beginning to challenge the economic base of Cardenismo.

The crisis deepened when foreign-owned companies moved their international currency reserves out of Mexico to prevent their potential loss in case of a possible expropriation. Now Mexico's exchange rate came under pressure, thus changing the costs of production and sale prices in Mexico's private industry. Merchants, entrepreneurs, and bankers decided to play it safe and called in their outstanding loans. As a result, domestic private investment in Mexico's economy became a trickle. In the near future, this combination of lack of investment, fuel shortages, and inflation would make it impossible to have a growing, developing economy. Thus the necessary tax income to finance development would decrease, and the Cárdenas administration would have to cut its infrastructure programs. Everybody understood that Mexico's economic ship was in very troubled waters. All social groups were beginning to rethink their political and social relationships with the administration, further fueling the existing tensions between the postrevolutionary state and the extreme right- and left-wing alternatives.

Cárdenas's political opponents welcomed this crisis. A demand for immediate political and economic change was heard increasingly in popular discussions. Left-wing unions advocated class struggle, while right-wing private business owners pointed to Franco's civil war in Spain and debated the exclusion of peasants and workers from the political system. The conservatives' preferred model was to return to the hierarchical social and gender values of the early 19th century. Mexico's unresolved historical debate about the form and purpose of an independent nation was resuming. Unlike before, opposition forces now found willing listeners among European fascist and orthodox Catholic circles in Spain.

Cárdenas's economic planners tried to reverse this trend by hurrying Mexico's state-owned petroleum reserves into earlier production. This they hoped would again produce fuel for domestic industry, earn new foreign exchange to support the fledgling peso exchange rate, and produce new government income to jump-start the shrinking economy. Cárdenas even went so far as to offer extensive production increases to the British-Dutch oil company, which continued to humiliate Mexican workers.

But nothing helped. The German-Mexican petroleum joint venture negotiations had not yet progressed far enough. Mexican state petroleum reserves could not be rushed into production, because the government had run out of money. Minister of Hacienda Suárez refused to burden the Bank of Mexico with more bad debt. In London, private financiers refused to finance a joint venture that would have created a Mexican tanker fleet for the sale of Mexican petroleum independently of the multinational tanker fleets. And Japanese interest in Mexican oil proved to be only lukewarm, as long as cheaper U.S. oil could reach Japan without going through the costly Panama Canal route. Certainly, the multinational companies were committed to obstructing Mexico's economic nationalism every step of the way. Even though the spread of nationalism could not be prevented in Mexico, the Mexican case could serve as a warning to politicians in Latin America and the Near East.

Cárdenas's situation became desperate when nature conspired against his government and the projected ejido harvest fell far behind expectations. The forced loan of early 1937 could not be repaid. From the 1930s perspective of limited experience with deficit spending Mexico's domestically driven development was racing toward a public crash. By the end of 1938, the Mexican government had to admit that its financial reserves were not enough to continue the previous development course. For the first time government-sponsored infrastructure projects had to stop construction. Government accounts for contractors and the salaries of public workers went unpaid for the first time in a generation. Some ejido farmers recognized that there would be no credit in 1938 to plant the next harvest. Soldiers in the military learned that the lack of money endangered the promised social security system for the professionalizing army. The precarious political coalition of army, workers, and peasants that had supported Cárdenas politically from 1934 on began to unravel. The loss of its economic base was threatening Cardenismo's political collapse.

Minister of Hacienda Suárez tried to forestall the pending emergency with a plea for help to the pro-Mexico group in the U.S. Treasury. Indeed, Secretary Morgenthau and the White House helped Suárez and Cárdenas with special silver purchases and access to U.S.-dollar stabilization funds. In Mexico City, this unprecedented show of U.S. support for Mexico failed to impress. Private Mexican banks refused point blank to cooperate with Suárez. Urban and rural

Mexican extremists on the right and left organized during the 1930s. Here Mexican communists battle mounted Mexican fascists known as the "Gold Shirts." This confrontation in the Zócalo, November 22, 1938, resulted in two deaths and 47 injured persons.

Mexicans suffered from skyrocketing prices and food shortages. Workers' wages went unpaid; unemployment increased. Ejido peasants had no money to buy seed for the new planting season. In San Diego, California, conservative Mexican exile groups conspired with anti-Communist domestic Mexican entrepreneurs against Cárdenas. Warlord Saturnino Cedillo from San Luis Potosí courted foreign oil companies, foreign fascist groups, and Mexican small-property agricultural owners to support a coup against Cárdenas. In Mexico's western states orthodox Catholic communities, influenced by pro-fascist Catholic interests, marched against Cárdenas's agricultural government. A multitude of voices demanded that the Cardenistas publicly recognize the failure of their policies. The prospect of civil war in Mexico was within sight.

The nationalization of foreign oil property in March 1938 was Cárdenas's way out of this emergency. Overnight it ended the oil worker labor issue and strengthened this vital bond of the oil industry with the Mexican government, while assuring that the state would control the workers in the future. The resumption of oil production brought new fuel to an industry revitalizing its domestic production. Domestic entrepreneurs knew where they stood overnight and resumed economic activity. The revival of retail business was now in sight. Most important, the nationalization served as a smoke screen for the necessary peso devaluation that made Mexican goods cheaper and more attractive for future exports. Government control over the petroleum sector meant immediate guaranteed income for the administration without having to rely on taxes or foreign middlemen. The unprecedented amount of popular nationalism that resulted from the expropriation temporarily covered the serious divisions that had emerged between Cardenismo and all social sectors during the previous nine months. It bought enough time until macroeconomic changes could produce enough positive economic results for Cárdenas to finish his term in office. Most significant for the government's development planners, nationalization was the only way to resume a corrected development course.

Mexican diplomatic observers and the Mexican Foreign Ministry had told the government that nationalization would be a calculated risk. Reports from London predicted that the British government's representatives would care mostly about Hitler's military threat in Europe, not multinational petroleum reserves in Mexico. The British ambassador in Mexico City was disliked among the British citizens and companies in Mexico and lacked any real power. U.S. Ambassador Josephus Daniels was pro-Cárdenas and was willing, in principle, to defend the expropriation, with compensation for the oil multinationals. Enough independent oil merchants and shipping company owners existed in 1938 to make the reasonable assumption that Mexico would be able to market its oil after expropriation in spite of the multinational boycott efforts. Finally, there was the spread of war on all continents, promising foreign petroleum orders for the international war machine regardless of the economic principles of the multinational companies. The Mexican decision to expropriate the property of the industry thus marked a desperate rescue attempt but also provided proof that the emerging world war was once again changing the international context of Mexico's economic development. Only for foreigners was the oil nationalization an unimaginably daring step.

The integration of the nationalized petroleum sector into Mexico's economy between 1938 and 1940 proved this point to all those involved. Immediately following the expropriation, government officials and Cárdenas supporters from all political and social spheres offered petroleum reserves to foreign buyers. Hopes that Republican Spain would help were frustrated because of the Spanish Civil War. The French declined Mexican oil purchases because they feared that doing so might see them cut off from British oil supplies in a future German-French war. And initially Germany refused to buy Mexican oil because Shell and Standard Oil were promising to supply Germany in case of a future war. The first, and only, breakthrough for the Cardenista oil merchants came in the fall of 1938 when the German navy experienced inexplicable petroleum delivery problems during the German conquest of the Czech Sudety region. German navy circles recognized then that, in times of real crisis, the petroleum multinationals might side with the Allied powers.

From then on, German government bureaucrats no longer objected to an expanding importation of expropriated Mexican petroleum products through the independent U.S. oil man William Rhodes Davis. Subsequently, middleman

Davis and his independent oil company sold enough expropriated petroleum for Mexico to survive the economic boycott of the petroleum multinationals. Ironically, some of the Mexican oil was used in the Spanish Civil War on the side of Franco. Once Germany provoked war against Britain and France in 1939, Mexican oil flowed to Mussolini's navy. Suddenly the Japanese navy purchased increasing amounts of Mexican petroleum to strengthen its fuel situation. The growth of regional wars in Asia and Europe helped Cárdenas hold out against the oil multinationals.

Cárdenas exploited the relationship with Davis by ending Britain's diplomatic presence in Mexico. As a result little direct British pressure against the Mexican government could be applied from within Mexico. At the same time, he offered U.S. president Roosevelt Mexican oil and diplomatic cooperation against the Axis powers. It was becoming obvious that in the not too distant future U.S. companies would become the major foreign technological group to help Mexicans operate their nationalized industrial sector.

In early 1940, an agreement between the small U.S. oil company Sinclair and the Mexican government broke the united front of expropriated companies and proved that Mexico was willing and able to pay compensation. By then the regional conflicts in Europe had become one European war and multinational companies had to confront how their "profits above nationalism" strategy was only helping the rise of world fascism. In 1941, the other U.S. oil multinationals reached an agreement concerning compensation with the newly elected Manuel Avila Camacho administration.

Finally, Mexican oil was allowed to flow again into the United States and help the democratic defense against the Axis powers. Just as Cárdenas had promised for years, oil deliveries to Germany, Italy, and Japan stopped and Mexico's four-year-old economic offer to the cause of the democratic powers was now taken seriously. British oil interests continued to hold out against Mexico until after World War II. By then, U.S. oil companies had established themselves as Mexico's future partner in developing the nationalized properties.