

THE RECONQUEST
OF MEXICO

The Years of Lázaro Cárdenas

BY

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Undersecretary of State Beteta predicted that the oil corporations would almost certainly resort to world-wide boycott action. He pointed out that Cárdenas was pitting Mexico against what is probably the most powerful international business alliance on the face of the earth. He asked what Mexico would do if all world markets were closed.

The President had already answered that question. 'If the richest oil fields in the world stood in the way of maintaining our national dignity,' he had informed American Ambassador Josephus Daniels, ' . . . we would burn the oil fields to the ground rather than sacrifice our honor.'¹

The matter was settled. At six o'clock on March 18, a formal meeting of the full cabinet was called. Cárdenas read in his colorless voice the hastily drafted expropriation decree, so hurriedly drawn up that in the general turmoil a few companies had been omitted. The meeting was ceremonial. There was no discussion.

The difference of opinion within the Mexican Government had been between two groups: those who knew the outside world, and those who knew Mexico.

To those conversant with the trend in world economic conditions, expropriation appeared badly timed. The precipitous decline in raw material prices, which had begun in the spring of 1937, was stretching Mexico's trade balance on a rack. Machine imports, absolutely essential if the downward trend of food production was to be reversed, if vitally needed highways were to be finished, and if the worker-operated factories that were the apple of Lázaro Cárdenas' eye were to be equipped, were becoming more and more costly in terms of Mexico's exports. Moreover, panic-stricken landlords and businessmen struck at the Government by shipping their funds abroad in increasing quantities. It was feared that oil expropriation would turn this exodus into a

torrent that would exhaust the Bank of Mexico reserves and shatter the dollar-peso exchange rate. Had not Secretary of the Treasury Morgenthau been obliged to ride to the rescue of Cárdenas and the peso at the end of 1937? And while Morgenthau's emergency purchases of silver had eased the situation, they had not eradicated its causes. The Cabinet had in fact been obliged to inform Cárdenas that government expenditure must be kept within the budget.

These were not the decisive considerations for Cárdenas. The fundamental question to him was who was running Mexico. Cárdenas knew his people and felt sure that they would make sacrifices to achieve what he was to call 'our economic emancipation.' He realized that the peasant backbone of the country, living in remote villages and operating on a quasi-barter basis, is relatively unperturbed by the fluctuations of exchange rates and industrial prices. Mexico's poverty and backwardness made her invulnerable to the more civilized types of economic torment.

'We shall, should it be necessary, sacrifice all those constructive activities undertaken by the nation during the present administration,' Cárdenas announced in his expropriation speech.

In a bitter arraignment of the oil companies, he declared:

In how many of the villages bordering the oil fields is there a hospital, a school, a social center, a sanitary water system, an athletic field, or even a light plant to utilize the millions of cubic feet of gas allowed to go to waste?

What center of oil production, on the other hand, does not have its private police force for the protection of particular, selfish and often illegal interests. These organizations . . . are guilty of innumerable outrages, abuses and murders, always on behalf of the companies that employ them.

The tolerance the companies have abused was born, it is true, in the shadow of the ignorance, betrayals, and weakness of the country's rulers, but . . . even at the present time, the oil

companies fan the ambitions of elements discontented with the country's government every time their interests are affected . . . They have had money, arms, and munitions for rebellion; money for the unpatriotic press which defends them; money with which to enrich their unconditional defenders. But for the progress of the country . . . money has never been forthcoming.²

To understand the vehemence of this speech, we must go back ten years. A high official of a certain oil company came to Cárdenas' headquarters in Villa Cuauhtemoc, Vera Cruz, with a servant who carried a case of champagne and an unaddressed envelope. Major-General Cárdenas opened the envelope and a check for \$50,000 fluttered to the ground.

'This doesn't mean that we are asking anything special of you,' the oil man explained urbanely. 'We only ask that you permit us to maintain our guards in the oil fields as the other zone commanders have.'

White with rage, Cárdenas tore the check into fragments and tossed the pieces at the feet of the astonished official.

'The manner in which you ask for my aid shows that you are devoid of honor,' he declared stiffly. 'I shall commence dissolving the white guards immediately.'³

He carried out his threat. Within a few months, the company guards were disarmed and disbanded throughout the Huasteca zone.

Long before Pearson and Doheny began their struggle for control of Mexico's oil, the bituminous outcroppings along the Gulf Coast had been discovered and utilized. Sahagun wrote half a century after the Spanish Conquest:

Chapuputli is a bitumen which comes from the sea, and it is like the pitch of Castille which easily melts, and the sea makes waves in it, and on certain and specified days in conformity with the waxing of the moon, it becomes broad and fat like butter and it sticks to the ears of those who live close to the sea.⁴

According to Y. Ximénez, another colonial historian:

It sells at a most cheap price, for it is much in abundance on the coasts of New Spain; the Mexican women buy it to chew and carry in their mouths with especial pleasure, for it cleans and comforts the teeth and makes them white.

Both the Aztec and the Totonac civilizations used petroleum for medicinal purposes and as fuel for their temple fires. It was not, however, until four centuries later that oil became commercially important. The sperm whale population had been decimated by the ravages of New England fishermen, and kerosene was sought as a cheap substitute for whale oil. In 1876, seventeen years after Drake drilled the world's first commercial oil well, an American ship's captain bought some Mexican bitumen, interested Boston capitalists, and organized a company. He drilled a few shallow wells and built a small refinery in the Tuxpan area, but business failed to prosper, the Bostonians refused to put up additional capital, and the ship's captain committed suicide. Cecil Rhodes next entered the field, but was unsuccessful in incorporating Mexico's oil into his far-flung imperialist ventures. Pimentel and Enrique C. Creel, two of Porfirio Díaz' most eminent *científicos*, invested 200,000 pesos in exploration and drilling, but also failed.

Edward L. Doheny, later to win notoriety in the Teapot Dome scandal, systematically scoured the Tampico region, found oil prospects good, and acquired concessions and drilling rights on over 600,000 acres of land, most of it bought for a song, much of it obtained with the connivance of corrupt local officials. His drills struck rich, porous structures that had been broken, or bent into rainbow formations, by the intrusion of huge, irregular cones of basalt. The oil trapped under terrific pressure gushed up to spatter the derrick tops. While Doheny was feverishly drilling wells in the semi-jungle lands near Tampico, Weetman Pearson, British

railroad concessionaire, discovered surface outcroppings in Tehuantepec. After five years of failure to find oil in large quantities, the persevering British promoter struck the Potrero de Llano well which spurted 150,000 barrels of petroleum a day into open sumps and storage tanks. Doheny's success was no less spectacular. His Cerro Azul No.4 broke all previous records, earning upwards of \$120,000 daily.

Petroleum was now being used to move merchant ships, increase the striking power of navies, and provide fuel oil and lubricants for industrial machinery. When the *S.S. Olympic* changed over from coal to oil, 60 wipers replaced the 246 stokers who had worked day and night in the engine room under such terrific heat that ten fell ill every twenty-four hours. By 1914, the chief navies had shifted from coal to fuel oil, and *chapupulli* took its place among the four main strategic minerals of the world.

These trends in technology and industry shifted the struggle for economic supremacy to areas which had previously been neglected by world history. The fact that billions of tiny marine animals had died and been decomposed on the Mexican shoreline, finally to be trapped against basaltic up-thrusts caused by obscure subterranean processes, assumed enormous significance in terms of the internal combustion engine and the Diesel. If Cortés and Nuño de Guzmán had fought for control of the sierras where gold and silver lay buried, Doheny and Pearson were to struggle for miasmic, tropical Atlantic coastland where plankton and diatoms had disintegrated to form petroleum.

Porfirio Díaz showered favors and concessions on his friend, Weetman Pearson, and a grateful home government dubbed the British promoter Lord Cowdray. Doña Carmen, wife of the Mexican dictator, sold Lord Cowdray her Tehuantepec lands at staggering prices. Villagers who were thus disinherited of their communal fields and pastures at-

tempted disorganized rebellion, only to be ridden down and butchered by the dictator's fierce *rurales*.

Worried over Porfirio's flirtation with Cowdray, Doheny interests allegedly backed the liberal revolution led by Francisco Madero. For the next decade, the oil war between Britain and the United States was to be fought with Mexican cannon fodder on Mexican battlefields. 'The Americans even hired bands of Mexican brigands who destroyed Pearson's [Lord Cowdray's] oilpipes and set his wells on fire,' charged the Norwegian student, Anton Mohr, in his classic work, *The Oil War*. When General Huerta had Madero murdered, Britain promptly recognized the usurper and Cowdray interests floated a loan, which provided him with sorely needed funds. The control and monopoly of the petroleum properties is not only the objective of the Cowdray interests, but also that of the British Government, exclaimed the outraged American envoy, John Lind.

Doheny gave Venustiano Carranza \$100,000 in cash and \$685,000 in fuel credits to be used against Huerta, while in Washington Secretary of State Bryan told the British envoy, Sir William Tyrell, 'The Foreign Office had simply handed its Mexican policy over to the oil barons for predatory purposes.' Tyrell retorted caustically that the Great Commoner was 'talking just like a Standard Oil man' and 'pursuing a policy which they have decided on.'⁵

Germany too made her play for Mexican petroleum. Admiral von Hintze offered President Huerta military aid against the revolutionary forces, provided the dictator would establish a government pipe line monopoly and cut off oil supplies to the British Navy in the event of war. A few years later, the Zimmerman letters exploded like a time bomb in the American press. An astounded public was informed that in 1915 Germany had offered to back a Mexican war of *revanche* for the recovery of Texas and California. The stakes of German intrigue in Mexico were strategic positions in the

expanding European War, investment penetration, and the seemingly inexhaustible oil fields of the Huasteca.

In his eagerness to make Mexico a haven for foreign capitalists, Porfirio Díaz had refused to impose taxes on oil production. When Venustiano Carranza reversed this policy and ordered registration of all petroleum leases, the Wilson administration had no hesitation about again interfering in the internal affairs of Mexico. On July 3, 1917, Secretary of State Lansing ordered Ambassador Fletcher to avert or break a threatened oil strike in Tampico. The governor of Tamaulipas promptly arrested three labor leaders, and the indignant workers countered with the threat of a general strike in the oil fields. Simultaneously, an inspired press campaign was started in the United States and Mexico, which charged that the I.W.W. was working hand in glove with Moscow to blow up the oil wells and establish a Soviet Republic in Tampico. Spurious pressure organizations were formed in the United States, to engineer the highly partisan Senate investigation of United States-Mexican relations. Presided over by the Teapot Dome senator, Albert B. Fall, the committee expressed its indignation at Mexico's lawlessness and disrespect for private property. It recommended that the United States resort to military occupation and conquest of Mexican soil unless the country's Constitution be adjusted to suit the interests of American business.

The issue that brought the United States to the brink of armed invasion of Mexico was Carranza's economic nationalism. Article 27 of the Mexican Constitution had reasserted the traditional Spanish and Latin-American legal doctrine that all subsoil wealth is the property of the state and subject to its regulation. As tens of millions of dollars worth of oil concessions lay within the fifty-kilometre prohibited zone, the petroleum lords were the most strident advocates of military intervention.

One of the chief weapons of the State Department was its

discretionary power to permit or disallow arms shipments to Mexican factions. William English Walling thus summarized a semi-official despatch sent by the *New York Times* correspondent after a visit to the South Dakota Summer White House:

Pressure was ready for use and would be sufficient to set up in Mexico a President (as in Nicaragua) who would be satisfactory to Mr. Coolidge . . . General Obregón, we were told, would be elected President of Mexico in 1928 'if the elections are peaceful and free from riots and revolution.' But 'if the Government should consent to the exportation of arms to Mexico, it could bring about the election of any faction, and such a course would assure the settlement of long-standing disputes with Mexico.'⁶

Defended by the State Department in Mexico City, the oil companies used less diplomatic measures to control the producing regions. They subsidized bandits and recruited their so-called white guards to terrorize the oil fields. A typical report of the alleged atrocities of these 'white guards' is significant as indicating what is generally believed in Mexico. It was published in *Universal Grafico* of April 6, 1938, and *La Prensa* of October 3, 1939—both conservative newspapers—and has not, to the writers' knowledge, ever been denied by the American corporation that was branded by name.

Summarizing these articles:

Hilario Jacinto owned a small ranch which was coveted by a certain American company because it overlay immensely valuable petroleum reserves. This humble Indian loved the land where he and his fathers had worked, and refused the company's most tempting offers. He was shot in the back during a village dance. However, this obstacle to industrial progress recovered rapidly under treatment by a local doctor. The company physician, Francisco Rivera, then appeared on the scene, explained that the oil corporation was most anxious to have Hilario recover, and administered

an injection. Two days later, Hilario Jacinto was carried out of his little hut feet first. Daniel Gomez, a collateral heir, objected strenuously to dealing with the company. He was shot down in Tuxpan by the oil company guard, José Fajardo, who then committed the imprudence of driving off in an official Cerro Azul car.

The writers do not vouch for the truth of these newspaper accounts. But when it is remembered that the Juan Casiano lease, also allegedly safeguarded by a series of killings, yielded its owners more than \$10,000,000 in black gold, it is plain that the temptation to murder humble and obscure Indians who stood in the way of production may have been great indeed. Corporations which had acquired many of their most valuable leases by fraudulent methods lived in constant fear that enterprising Mexico City lawyers would sue for reclamation in the alleged interests of illiterate Indian heirs.* 'There is no earthly way of distinguishing honestly acquired from stolen leases,' a high American official sadly confessed to the writers. 'In fact, the more unassailable a lease appears to be, the more certain it is that Mexican officials were bribed to concoct the proper documents.'

By the time Cárdenas assumed the presidency, Mexico had practically given up her struggle to clip the claws of the oil corporations. To be sure, the Six Year Plan provided that: 'the development of national oil concerns shall be stimulated, and a semi-official enterprise for aid and regulation of the oil industry shall be created,' but this was gen-

* When the Calles Government in 1925 passed an enabling law to the Constitution, compelling foreign companies to 'confirm' their titles to oil property in order to exchange outright ownership for fifty-year leases, the State Department protested that the exchange was confiscatory, despite the well-known fact that Mexican oil fields are depleted in considerably less than fifty years.

What the oil men really objected to was the provision that they prove their lands had been legitimately acquired. Unfortunately for them, however, the State Department could hardly challenge Mexico's right to annul fraudulent purchases.

erally regarded as sheer rhetoric. The Plan also promised that undefined 'measures' would be taken to raise oil production 'to the volume that it should reasonably attain, account being taken of the reserves that probably exist.' All of which was so vague as to be virtually meaningless.

Like a good soldier, Cárdenas tried to carry out the Six Year Plan even when it spoke with the ambiguity of the Delphic Oracle. In 1935, the President fathered a semi-official oil company, christened it *Petróleos de Mexico, S.A.*, and empowered it to compete with private companies in production and marketing. The government entity flourished, and in 1937, it was reorganized and given undefined powers to regulate the domestic and export markets in the interests of the nation. When the oil companies expressed alarm over the fact that the public corporation was to absorb all leases and concessions as they expired, Cárdenas promptly reassured them. 'Our reorganization of the industry is merely for the purpose of working our big national reserves,' he declared on March 15, 1937. 'There will be no expropriation.'

The industry on which this regulation was imposed had been shrinking steadily for a decade. Oil production had climbed to the dizzy height of 193,000,000 barrels in 1921, and then in 1932 declined to a low point of 33,000,000 barrels. This drop in output was a reflection of the oil companies' fear that their property rights would be restricted or abolished.

The ancient Spanish and Mexican legal principle that the subsoil wealth of the country belongs to the state had been reaffirmed by the 1917 Mexican Constitution. When Obregón and Calles attempted to force the companies to exchange absolute land titles for fifty-year leases, the State Department in Washington protested vociferously. Undersecretary of State Olds requested the newspapers to print tendentious articles to the effect that 'a steady stream of

Bolshevist propaganda . . . was filtering from Mexico down through Central America . . . designed to undermine society.' Bring in the menace to the Panama Canal, Mr. Olds had counselled, but don't quote the State Department.⁷

President Calles was obdurate. 'The Government over which I preside,' he told his friends, 'has meditated the consequences of its conduct, and it is ready to fall, but never to compromise with the forces historically hostile to our Fatherland . . .'

The State Department abandoned its excursion into Bismarckian methods, and sent Mr. Dwight Morrow to Mexico to arrange matters amicably. Harmony was established by unconventional methods. Lombardo Toledano recounted:

One day—I shall never forget it as long as I live—the then President of the Supreme Court was called to the Ministry of Industry, Commerce, and Labor, and Morones transmitted to him the order of General Calles: 'Mr. President of the Court, the Government is in danger, and before external pressure obliges us to submit, it is necessary that the Supreme Court declare the Petroleum Law unconstitutional and decide in favor of the oil companies.'⁸

But the exasperated oil corporations had meanwhile turned to Venezuela where sound, moral government was enthroned in the person of Juan Vicente Gomez, a semi-literate dictator who chained his liberal critics in submarine dungeons. Petroleum production in Venezuela soared, while Mexican output plunged downward. World economic revival and completion of the Laredo-Mexico City highway increased Mexican output 14,000,000 barrels above the 1932 minimum, but most of the increase was absorbed domestically.

Exploration and drilling meant the hazard of large quantities of capital, which the corporations were unwilling to put at the mercy of radical and pro-labor governments.

Lethargic in their quest for new oil fields, the companies were equally slothful in exploiting promising areas already tested by the drill. The total number of wells drilled decreased from 2,308 in the 1924-26 triennium to 192 in the 1935-37 period.

The oil situation changed with the 1930 discovery of the Poza Rica field, reputedly the second largest in the world. In 1937, Cárdenas gave the mammoth concession to British-owned Águila Oil Company, which agreed to invest £5,000,000 in production and pipe-line construction. New wells were being spudded in. The field's production was to be increased to 200,000 barrels daily, with the Government taking up to 35 per cent in royalties and still more in taxes. The invalid oil industry faced a new boom of gigantic proportions. With a continuously expanding budget, Mexico would be able to carry the Six Year Plan to a triumphant conclusion.

This possibility was destroyed by a bitter labor conflict which served as the overture to oil expropriation. In 1935, Cárdenas instructed the Secretary of Labor to hand down decisions providing for more uniform conditions in the oil fields. One of the most powerful sources of labor discontent was that the companies refused to apply the principle of equal pay for equal work. To remedy this condition, the Labor Department called twenty-one independent petroleum workers' organizations together and welded them into a single industrial organization.

In 1936, the new union presented the oil companies with a proposed industry-wide contract, involving wage increases and additional social services totalling 114,600,000 pesos. Even the union admitted that these demands would increase labor costs 133 per cent, and by every economic standard they were arbitrary and unreasonable. The companies were asked to furnish the workers with first-class railroad transportation to any place where they desired to spend their

vacations. The proposed overtime rates were excessive, and the stipulation that annual vacations vary from 25 to 60 days was preposterous in terms of the prevailing standards of Mexican—or, for that matter, American—industry.

The oil companies rejected these proposals, and the union decided on a general strike. Cárdenas then stepped into the breach and persuaded both parties to agree to a series of worker-employer conferences on the 250 items of the proposed contract. Interminable meetings were held in Mexico City. Winter came and went. By May 1937, only 21 clauses had been approved.

The workers launched a general strike on May 28. A prolonged shutdown of the oil industry would have crippled Mexican economic life, but when a committee of labor leaders asked Cárdenas whether the interests of the nation required that the strike be called off, the President replied: 'That decision is up to you. The labor law of Mexico is my Bible.'

The union decided to end the strike and resorted to arbitration. The Government declared the conflict was 'of an economic order,' and appointed a committee of experts to make a thorough study of the economic ailments of the industry and reorganize labor conditions in the light of its findings. The experts' commission was headed by Dr. Jesús Silva Herzog, one of Mexico's most eminent economists.*

The conclusions of this commission revealed a startling disparity between wages and profits: Between 1934 and June, 1937, the cost of the typical food basket for a working-class family in the oil zones increased by 89 per cent. Real wages had fallen between 16 and 22 per cent with the brunt of the reduction affecting the lowest paid groups. This decline had taken place in a period of world economic revival

* In an effort to discredit the findings of the experts' commission, the oil corporations and their defenders have charged that Silva Herzog is a communist. As far as we can ascertain, this is completely false.

and substantial increases in oil prices. By contrast, the real wages of American oil workers had advanced 7.8 per cent in an equivalent period. While the oil workers were undoubtedly members of Mexico's impecunious 'labor aristocracy,' the commission found that miners and railway men earned higher real wages.

The experts alleged that the companies charged 193.4 per cent more for gasoline in the Mexican market than abroad, and declared that: 'the prices for petroleum derivatives charged by the oil companies in Mexico are so exorbitant as to constitute an evident obstacle to the economic development of the country.'

