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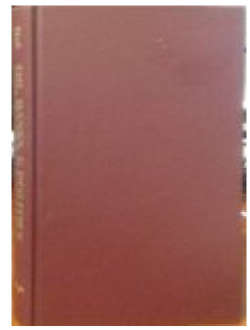

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Foreign Oil Companies in the Mexican Revolution

In *Oil, Banks, and Politics,* Linda Hall explores the relationship between the foreign oil industry (mostly owned by British or U.S. citizens), the role of external debt, and the problem of international recognition of post-revolutionary Mexican governments. Focusing on the period from 1917 to 1924, she argues that the shape of the Mexican state's "reinstitutionalization" after the revolution was strongly influenced by the role of the oil companies and involvement of foreign governments on the companies' behalf in Mexico. Faced with a rapid increase in world-wide demand for oil and changing international power relations after World War I, the United States confronted Mexico in a struggle for control of Mexico's petroleum resources. Hall explores the relationships between these two very unequal actors–the United States, which solidified its ascent to international power after the war, and Mexico, which was trying to recover from a revolution that devastated its economy and caused tremendous social dislocation. Within a dependency analysis framework, Hall looks at the ways post-revolutionary Mexican governments attempted to resist U.S. government and oil company pressures to extract petroleum with minimum pay to Mexico. The constraints faced by the Mexican governments because of their almost exclusive dependence on taxes and fees from the oil industry are also explored. Hall proposes to look beyond ideology, to study the actions and results of the Carranza and Obregon regimes in their attempt to increase revenues and diplomatic recognition for their governments. She argues that, although the post-revolutionary governments were forced to yield to the demands of the big oil companies, both Carranza and Obregon were effective in influencing and winning some concessions from the oil companies and the U.S. government.

In constructing her argument, Hall lays out the background for the hard-line anti-Mexican policies of the U.S. government and the oil companies toward the post-revolutionary Mexican governments. The example of U.S. Senator Albert Fall shows the relationship between the U.S. government and U.S. business interests in Mexico. Fall, a good friend of Ed Doheny, owner of the huge Huasteca Company, spent a tremendous amount of time advocating for increasing U.S. control of Mexican oil, even if it meant another military intervention in the oil zone. Fall's hard line toward post-revolutionary Mexican governments allowed the U.S. State Department to follow a more rigid diplomatic policy with Mexico than President Woodrow Wilson desired. Congressional hearings in 1919, along with pressure from the APPM, influenced U.S. domestic sentiment about Mexico. Hall effectively proves that President Warren Harding believed Senator Fall's hard-line policies, and refused to recognize Obregon's government. In this, she offers a clear explanation for the impact of U.S. domestic issues on foreign policy.

Her argument about the ability of the U.S. government and the oil companies to control the oil industry in spite of attempts by Carranza and the Constitutionalists to regain control over the oil industry is weaker. From the start of the revolution in 1910 to 1917, she argues that the oil companies basically exploited Mexican oil resources without any residual benefit to Mexico. Because of the United States's rising demand for oil and its paranoia about maintaining access to supplies, the United States acted with increasing aggression to insure control of the vital Mexican oil fields. Faced with the need to present a united front against Article 27 of the new constitution, which claimed that subsoil rights (including oil) belonged to the nation and not to the owner of the surface land, the British essentially followed the U.S. policy of hostility to Carranza. From Carranza's first threats to apply Article 27 to the oil companies, to Obregon's attempts to assess more taxes against them in 1921, Hall argues that the oil companies defiantly refused to comply with Mexican laws. Yet throughout chapter 4, she shows how the British company El Aguila, one of the largest petroleum companies in Mexico, operated on a more conciliatory policy with the Mexican government than did the U.S. companies. El Aguila would be the first company to renegotiate its oil contracts with the Obregon government, much to the dismay of the American companies, who thought the British were trying to maneuver for an unfair advantage. British negotiations caused a break within the Association of Petroleum Producers in Mexico, (APPM) a mostly U.S. and British group that sought to protect foreign companies working in Mexico. While El Aguila's concessions to Obregon came about because of increasing economic pressure on the British company, the fact that they broke the unity of the APPM and cooperated with Obregon seems to counter Hall's claim that the oil companies presented a united front against Mexican government policy.

The real strength of this book lies in Hall's discussion of the constraints of various actors who tried to enact particular policies. Hall lays out the relationship between the oil companies, the banks, and the Mexican government by analyzing the negotiations between the International Banking Committee (IBC) and the Mexican government over loan repayments in the summer of 1921. The banking industry sought to revive and stabilize the Mexican economy, conditions it felt were necessary to create long term political stability which would allow Mexico to repay its foreign loan. This conflicted with the desires of the oil companies and U.S. policy to deny formal recognition of Obregon's government. In her careful evaluation of the negotiations, Hall shows the absolute ineptness of the Mexican Minister of Finance, Adolfo de la Huerta. He tried to negotiate a foreign loan, a reasonable repayment schedule, and the recognition of Obregon's government. In spite of her clear documentation of de la Huerta's failure (including his outright lying to Obregon about the negotiations of a new foreign loan), she concludes that it was the intransigence of the international banking community that created the difficult financial position of Mexico's repayment schedule and lack of a new loan. In light of de la Huerta's incompetence, it seems unrealistic to expect the IBC to have negotiated a more favorable deal. Obregon seems to have realized this when he tried to recall de la Huerta to Mexico during the negotiations (p. 99). Hall also shows the weakness of the IBC in asserting its interest in obtaining democratic recognition for Mexico. Thomas Lamont, the main U.S. banker who worked with de la Huerta, continually pressured the State Department to grant recognition to Obregon in order to open the way for international loans to Mexico. Lamont rightly surmised that the failure to give Mexico new loans would lead to further destabilization in Mexico. By showing the constraints of the banking industry, Hall demonstrates the strength of the hard-liners in the State Department who were willing to risk destabilization rather than "give in" to Mexico's assertion of national sovereignty over its subsoil. Recognition would wait until 1923, when the hard-liners realized that their policy was a failure–Obregon would never be able to revoke Article 27 because Mexican public sentiment would never permit it.

In another strong section that shows the constraints of the various participants in the oil debate, Hall discusses the problems facing the Obregon government and small oil companies who tried to keep control of disputed land claims. One example from the multiple conflicts over the Juan Felipe oil field illuminates these limitations. Joseph Guffey, owner of AGWI, a small, independent U.S. oil company, complied with Obregon's government regulations and openly condemned the attempts of APPM to sidestep the laws. Guffey held disputed rights to the extremely profitable Juan Felipe field. The other claimant was the Huasteca company, Doheny's giant corporation. Obregon wanted to give Guffey rights to the land and feared that to deny these rights would not only cause a political uproar, but would also show "friendly" companies that they gained nothing by complying with Mexican laws. However, Huasteca held out the possibility of developing joint ventures with the Mexican government and more important, the possibility of a sizable loan. Obregon desperately needed the money to meet Mexico's debt payments, and he was ultimately forced by economic constraints to grant exclusive rights to the Juan Felipe field to Doheny in exchange for the loan. As Hall points out, though, "the association was highly uncomfortable" (p. 120).

In the final chapter, Hall analyzes the Adolfo de la Huerta rebellion and resurrects the role of the oil companies and the U.S. government in creating the rebellion. Here, her argument seems to run contrary to her evidence. She depicts the de la Huerta rebellion as an internal affair over the question of Calles as Obregon's successor, but argues that without the U.S. "support" of de la Huerta during the bank negotiations, he never would have rebelled. In this view, Lamont's rather friendly relations with de la Huerta, along with the IBC's working with de la Huerta, gave him the impression that the United States would support him if he rebelled. In fact, the opposite happened and the United States gave its full support to the Obregon government. Though it is clear that de la Huerta was ready to challenge Obregon and Calles, Hall fails to argue convincingly that the oil companies or the U.S. government played a strong role in the uprising.

Hall draws two main conclusions. First, she asserts that "Mexico's ability to protect itself [from foreign exploitation] was surprisingly effective" (p. 174). In spite of U.S. attempts to protect the oil companies, Mexican governments raised and collected taxes, while refusing to yield on the principles of Article 27 of the Constitution. Although she seems to ignore this conclusion in parts of the book, she does prove this assertion. Second, the interaction between the Mexican governments, the oil companies, and U.S. policies helped shape the presidency as the key source of power in Mexico. Obregon used the struggle over oil as a way to develop strong popular support for the presidency. The need for strong executive action to protect Mexican sovereignty in the face of U.S. abuses further concentrated power in the presidency by reinforcing "the connection between the president and the image and reality of the nation" (p. 176). Though this argument could have been more thoroughly developed throughout the text, it is also a reasonable assertion.

Hall carries the discussion of state development further by arguing that foreign control of an extractive industry may actually increase the strength of a weak, dependent state. As the extractive industry develops and becomes more profitable at the expense of the nation, the state becomes increasingly insistent on claiming a share of the profits. Following Peter Evan's ideas on economic dependency, Hall raises his point that "the early exploitive relations in which the foreign firms receive the lion's share of benefits and profits yield to a period of 'symbiotic relations in which the state receives both a larger share of the returns and a larger share of the control over local production facilities' " (p. 179). While she argues that a discussion of these issues is beyond the course of her study of Mexico, she raises an interesting issue. Who holds the power in the relationship between the Mexican government and the oil companies? In Hall's book, the oil companies have the upper hand and the best that the post-revolutionary governments could do was resist their control as much as possible.

Another trend in the literature on the oil industry acknowledges the frequently exploitive relationship among Mexico, the companies, and the Western diplomats, but emphasizes the ability of Mexican governments to control its political and economic interests by extracting concessions from the other actors. Instead of arguing that the oil companies hold most of the power in their relationship with the Mexican government, this view balances power more equally among the actors. It often sees the post-revolutionary governments as having the upper hand, with the oil companies resisting government control. *Oil and Revolution in Mexico*, by Jonathan Brown, is an example of this interpretation. A brief comparison of how these two authors treat the same events will clarify their differences.

Hall gives a detailed analysis of the Albert Fall's 1919 Senate committee hearings on the petroleum industry in Mexico. She convincingly shows Fall's attempt to influence U.S. foreign policy by creating a very negative picture of relations between the Mexican government and the oil industry. She uses Doheny's testimony to show the oil industry's contempt for the Mexican government and its refusal to respect Mexican law. These hearings were influential in turning public opinion against the post-revolutionary government and helped prevent both U.S. diplomatic recognition and foreign loans. In her view, the Mexican government (especially Obregon) continually battled against the companies who extracted their oil, defied their laws, and tried to prevent economic and political reconstruction of the country. Clearly, the companies hold the power.

Brown also looks at the Fall hearings but with a different interpretation. He argues that the big oil companies were divided on the issue of Fall's hearings and that many of the oilmen distanced themselves from Fall because they were concerned about worsening relations between the oil companies and the Mexican government. While he agrees with Hall that relations between the Carranza government and the oil companies were poor, his perception of the companies' treading softly around the issue of the Mexican government shows that the companies believed Carranza could and would further harass them or even expropriate their holdings. Doheny himself criticizes the other oilmen for refusing to testify before the Fall committee, claiming, "No man connected with the oil business who lives in Mexico ... has testified and taken any risk except myself" (p. 243). The fact that the oil companies were reluctant to further anger Carranza shows a respect for Carranza's power. Even though the oilmen may have despised the Mexican government, they could not act against the government because the risk of reprisal was too dangerous. Doheny was the exception to this position. He certainly disregarded Carranza's power, but, isolated by the refusal of the other oil companies to challenge the Mexican government, he could not force concessions from the Mexicans. Carranza maintained control of the companies. In this interpretation, which is solidly supported by archival research, the Mexican government holds the power, and the companies are the ones who resist.

This is more than just a question of semantics. For Brown, locating power in the government undermines the dependency analysis traditionally applied to the Mexican oil industry. If Hall wants her readers to accept her argument that the U.S. government and the oil industries maintained the balance of power in their favor over those of the post-revolutionary governments, she should address the opposite interpretation and explain why hers is more convincing. Brown and Hall eventually come to similar conclusions–the post-revolutionary state consolidated its power by becoming increasingly involved in the economy in order gain money from its most valuable source of revenue, oil. But they reach that position through different reasonings. Brown emphasizes internal Mexican issues and sees the state as having the power to control a foreign-owned industry in order to gain the resources needed to reconstruct social order between conflicting social groups. Hall focuses on an international context in which foreign-owned industry controls the resources of the country and the state consolidates its power by attempting to challenge foreign control.

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